

## Issues to look for in leases

1. Is this an oil and gas lease or does it include other minerals?  
What other minerals?
2. Does the lease give the lessee the right to add in other lands that you own at a later date? If the lease contains underground storage rights, are you paid for these?
3. Is the royalty based on gross or net income? May the lessee deduct any costs from your royalty? If so, what costs? How are those costs calculated?
4. Are roadways, pipelines, storage tanks and the like allowed? Where, exactly? How is the landowner paid for this use? May these facilities be used in connection with oil/gas/minerals removed from other lands?
5. Is seismic exploration permitted? How will any damages caused by seismic exploration be handled?
6. What is the primary term? Are there annual rental payments? When are such payments to be paid?
7. What constitutes “commencement” of drilling? What effect does a dry hole have on the lease? Is there a royalty payment required for a shut in well?
8. How are you paid for lands damaged by lessee’s activities? When are you paid and how are the damages calculated? To what condition must the site be restored?
9. May the lessee use water or other materials from the site? Is there a charge for such use?
10. May lessee inject brine or anything else into wells drilled pursuant to the lease? If so, what? May materials from other sites be injected into wells on the lease site? Is there a fee for such use?
11. If there are pooling provisions, how many acres are allowed in the pool? Can pooling exceed the acreage required for a drilling permit?
12. If the lease can be assigned, are you notified to whom it has been assigned?

## For more information visit:

[www.msue.msu.edu/oilandgas](http://www.msue.msu.edu/oilandgas)

[www.michfb.com/ecology/minerals](http://www.michfb.com/ecology/minerals)

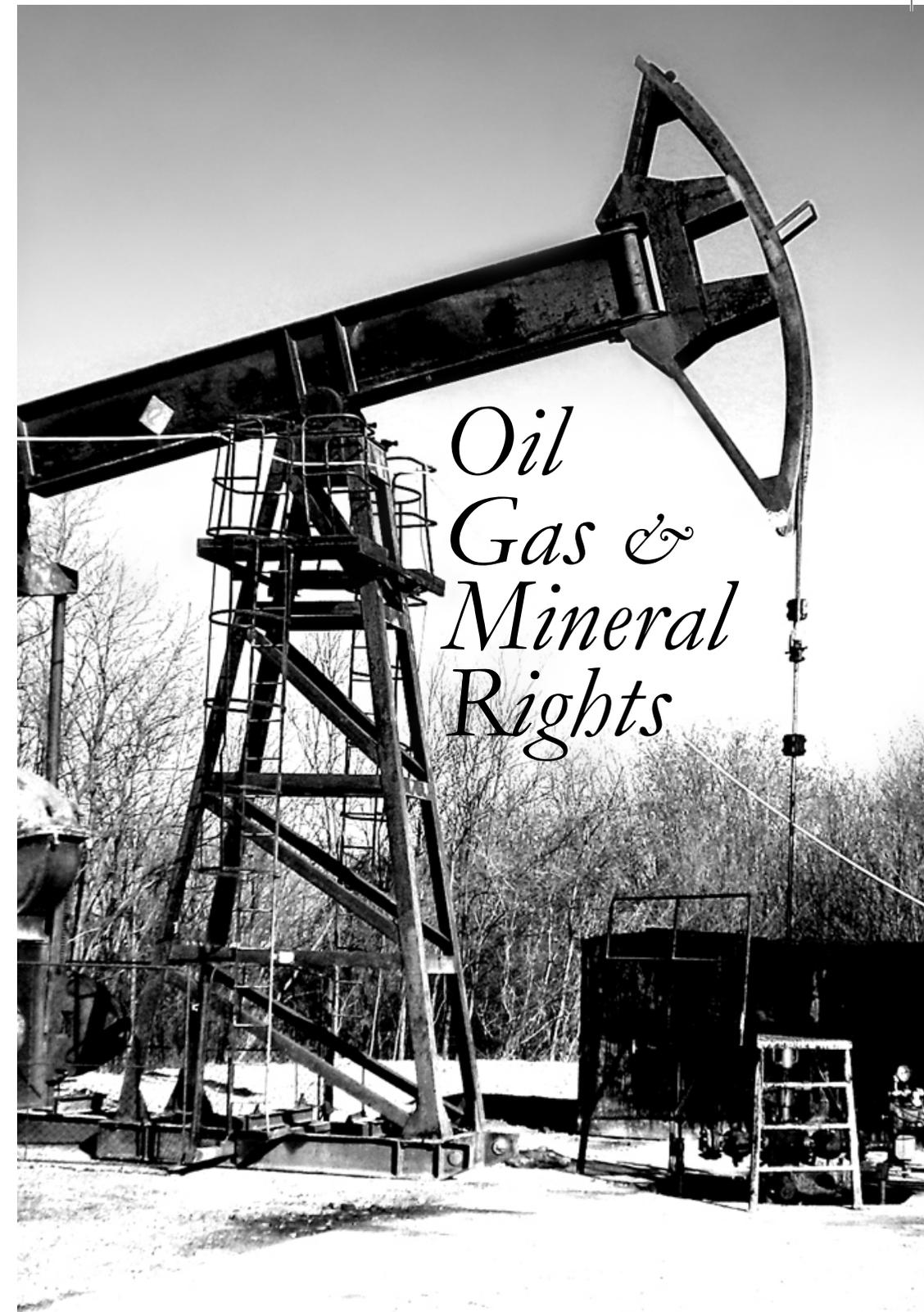
[www.extension.psu.edu/naturalgas](http://www.extension.psu.edu/naturalgas)



*Information provided by:*



MICHIGAN STATE  
UNIVERSITY  
EXTENSION



# Leasing Gas, Oil and Mineral Rights

## What is a lease?

- An oil/gas/mineral lease is an important legal document that defines the relationship between the lessor – the landowner (or the owner of the mineral rights) and the lessee – the party interested in producing/extracting the oil, gas or other minerals.
- The lease defines the rights, privileges and responsibilities of the parties.
- Landowners should seek legal assistance from someone with oil and gas leasing experience prior to signing a lease.
- Provisions contained in leases offered by lessees may be unfamiliar and will not necessarily be in the best interest of lessor.



## Who owns the rights to minerals on my land?

- As the landowner, you own both your land and the minerals. Therefore you have the right to negotiate an acceptable lease or to refuse an offer. Unless the mineral rights are owned by a previous owner.
- Regardless of what you are told, all contracts are negotiable.

## Learning more about leases...

### How to negotiate

A helpful article about negotiating an oil and gas lease has been prepared by the Oil and Gas Committee of the American Agricultural Law Association and published in the Agricultural Law Update. A portion of this article is reprinted below with the permission of the American Agricultural Law Association. For the complete article, visit [www.michfb.com/ecology/minerals](http://www.michfb.com/ecology/minerals).

*Landowners are experiencing a welcome upsurge in the exploration for oil and gas. Properties once considered marginal or doubtful now are being sought for potential commercial production.*

*Before any exploration can begin, the landowner (lessor) and the oil company (lessee) must agree to certain terms regarding the rights, privileges and obligations of the respective parties throughout the exploration and possible production stages. Negotiation of these terms may be a landowner's first exposure to an oil and gas lease. Because of the complex legal nature of the leasing arrangement, landowners may be at a disadvantage when dealing with an experienced landman or oil company.*

*No standard lease form is universally recognized and used by the oil and gas industry. Instead, each company (or independent lessee) has a predrafted agreement that has proven favorable to them in the past. These agreements may not necessarily be in the best interest of the landowner.*

*Landowners should remember that all provisions of a lease are negotiable within reason. Even though the oil company representative or landman soliciting the lease may not have the authority to make changes, this does not mean certain clauses, or the complete lease itself, may not be altered. However, one's ability to negotiate more favorable terms will vary in each situation. Naturally landowners in areas considered "hot" will have more negotiating power than landowners in areas with unproven reserves or in "wildcat" areas.*

### Pooling

*Most leases will contain some provision giving the lessee the right to consolidate the leased premises with adjoining leased tracts. The area thus formed is called a "pool" or sometimes a "unit." The rationale for establishing such pools is to unite under one operator all the landowners having an interest in a common underground reservoir. By doing so, the lessee avoids unnecessary drilling, protects the rights of the landowners in the common reservoir and prevents waste. Sometimes pooling arrangements are necessary to meet the minimum acreage requirement for a drilling permit under state regulations. However, pooling can also be used to keep land in the lease that has no well located on the lessor's property. The way leases are commonly written, this can lead to extension of the primary term.*



### To sum it up

Negotiating an oil and gas lease requires legal knowledge, foresight and common sense. Even so, the information contained herein will enlighten the landowner as to some possible alternatives, and if nothing else, foster frank discussion between the landowner and the lessee prior to signing any agreements.