

After the Lease – Now What?

Maximizing Your Oil and Gas Lease

John Taylor & Tim Raetz
PlainsCapital Bank Wealth Management

**Your lease has (finally) been negotiated.
You received the lease bonus.**

**Are you through?
Can you sit back and relax?**

Unfortunately, **NO!**

- Remember, there are TWO key items of financial benefit from your lease:
 1. Upfront lease bonus payment
 2. Ongoing royalties from the well(s) drilled on the lease
- Royalties can be substantial and continue for many years!

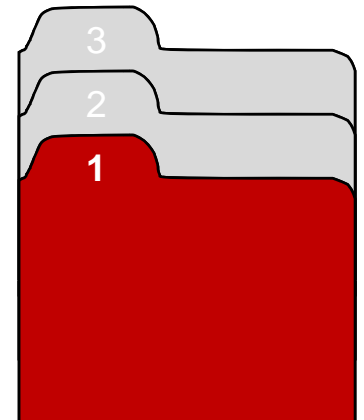
- Three Main Files
- Drilling and Development
- Division Orders
- Checks
- Surface Issues
- Texas Railroad Commission



Three Main Files

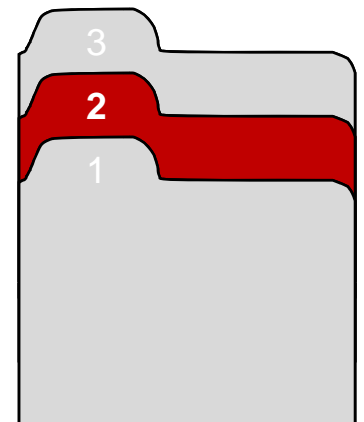
Three Main Files

- Property File:
 - Contains the deed(s), any estate records, etc., showing the actual title of the property owned
 - The base document shows how you got your ownership in the minerals and what percent you own
 - Once you establish this file, it will not change unless you sell your interest



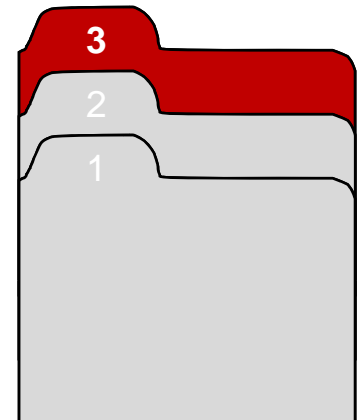
Three Main Files

- Lease File:
 - You should have one file for each lease
 - In each lease file, include a summary sheet at the front indicating:
 - Effective date
 - Lessee name and contact information
 - Primary term
 - Expiration date
 - Number of acres in the lease
 - If possible, include a map showing tract of land covered by the lease



Three Main Files

- Well File:
 - Once a well is platted and drilled, set up a well file - one for each well
 - Maintain Division Orders in each file
 - Include the plat or spacing unit for the well, which the operator filed with the Railroad Commission of Texas (for Texas wells)
 - Include check stubs or production records in this file





Drilling & Development

- A well must be started within the primary term
 - Watch the dates!
 - Check with the operator about drilling plans
 - Look for activity on the lease itself
- Subsequent well timing is according to lease terms
 - Continuous development clause
 - Protects against offset production

- Releasing acreage post-development with Pugh clauses
 - A Horizontal Pugh clause releases acreage below drilled or producing zone
 - A Vertical Pugh clause releases acreage not assigned to a producing unit

Drilling & Development

- As lessor, work to have drilling units on your lease *only* (to the extent you have acreage available)
 - Do not allow units to include part of your lease along with another lease, unless you do not have enough acreage for the well or unless your lease allows for this and you cannot prevent it



Division Orders

- Legal requirements of division orders under Texas law
 - Effective date of division order or transfer order
 - Description of the property
 - Owners interest in production
 - Authorization to suspend for title or adverse claims
 - Provisions for valuation and timing of settlement of oil and gas production to payee
 - Notification that other statutory rights may be available to payee

- Timing of payments under Texas law
 - First payment is due 120 days after end of month when first production is sold
 - Thereafter, payment is due 60 days after month of production for oil OR 90 days after month of production for gas (unless otherwise specified in the lease – you should specify 30 days for oil and 60 days for gas)

- DO NOT sign division orders that go beyond statute without careful review or consulting an oil & gas professional or an attorney
 - Watch out for language that ratifies the lease, extends the lease, etc.
- “First Purchaser” vs. Operator division orders
 - Credit worthiness
 - Timeliness of payment



Checks

- Checks contain a wealth of data about the well and production
- Checks typically include:
 - Month of production
 - Volumes produced
 - Relate back to production reports filed with Railroad Commission of Texas
 - Products (oil, gas, liquids, etc.)

- Checks typically include (cont.):
 - Decimal interest
 - Should equal your royalty interest under the lease multiplied by your ownership percentage in the total minerals under the well
 - For example, if your lease is for $\frac{1}{4}$ royalty interest (i.e. 25%) and you own 10% of the minerals, your interest in the well is $25\% \times 10\% = 2.5\%$
 - Gross value of the product
 - Allows you to calculate price, if not reflected on check stub
 - Price = total gross proceeds divided by volume

- Checks typically include (cont.):
 - Deductions, including production taxes and any other costs
 - Be very careful with respect to other deductions and make sure these are allowable under your lease
 - In many cases, the lease may not allow for transportation, marketing charges, etc., but these may be deducted from your check!

Checks

LCX Energy, LLC
 110 N Marienfeld
 Suite 200 Midland TX 79701
 Ph: 432.687.1575

Check Number 000000000

Prod Date	Product	Int Type	Price	Deck Dcml Dist Dcml	Gross Volume Owner Volume	Gross Value Owner Value	Gross Taxes Owner Taxes	Gross Deducts Owner Deducts	Gross Net Owner Net
Property: 8001.001									
Bradford A #1201									
03/2009	GAS	R1	1.68	0.01258680	1,268.89	2,136.99	161.12	0.00	1,975.87
				0.01258680	15.97	26.90	2.03	0.00	24.87
03/2009	NGL	R1	0.00	0.01258680	0.00	996.47	74.74	0.00	921.73
				0.01258680	0.00	12.54	0.94	0.00	11.60
03/2009	NGL	R1	0.00	0.01258680	0.00	3,791.60	251.11	443.49	3,097.00
				0.01258680	0.00	47.72	3.16	5.58	38.98
04/2009	OIL	R1	47.64	0.01258680	253.48	12,075.66	557.54	0.00	11,518.12
				0.01258680	3.19	151.99	7.02	0.00	144.97
Property: 8002.001									
Bradford B #1202									
03/2009	GAS	R1	1.68	0.01167535	854.64	1,439.33	108.52	0.00	1,330.81
				0.01167535	9.98	16.80	1.27	0.00	15.53
03/2009	NGL	R1	0.00	0.01167535	0.00	2,563.73	169.13	298.69	2,085.91
				0.01167535	0.00	29.82	1.97	3.49	24.36
03/2009	NGL	R1	0.00	0.01167535	0.00	671.15	50.34	0.00	620.81
				0.01167535	0.00	7.84	0.59	0.00	7.25
04/2009	OIL	R1	47.64	0.01167535	211.74	10,087.19	465.73	0.00	9,621.46
				0.01167535	2.47	117.77	5.44	0.00	112.33
Property: 8003.001									
Bradford C #2201									
03/2009	GAS	R1	1.61	0.01809897	283.54	456.39	34.42	0.00	421.97
				0.01809897	5.13	8.26	0.62	0.00	7.64
03/2009	NGL	R1	0.00	0.01809897	0.00	192.87	14.47	0.00	178.40
				0.01809897	0.00	3.49	0.26	0.00	3.23
03/2009	NGL	R1	0.00	0.01809897	0.00	886.32	58.93	100.53	726.86
				0.01809897	0.00	16.04	1.07	1.82	13.15
04/2009	OIL	R1	47.64	0.01809897	86.09	4,101.28	189.36	0.00	3,911.92
				0.01809897	1.56	74.23	3.43	0.00	70.80
Property: 8121.001									
Wilkinson "16" #1									
03/2009	GAS	R1	5.70	0.00130208	352.92	2,010.22	151.01	0.00	1,859.21
				0.00130208	0.46	2.62	0.20	0.00	2.42
03/2009	OIL	R1	42.30	0.00130208	230.27	9,740.05	449.92	0.00	9,290.13
				0.00130208	0.30	12.68	0.59	0.00	12.09
Property: 8121.002									
Wilkinson "16" #2									
03/2009	GAS	R1	5.70	0.00130208	175.96	1,002.23	75.29	0.00	926.94
				0.00130208	0.23	1.30	0.10	0.00	1.20
03/2009	OIL	R1	42.30	0.00130208	80.52	3,405.87	157.33	0.00	3,248.54
				0.00130208	0.10	4.43	0.20	0.00	4.23
Gross Totals:					3,798.05	55,547.35	2,968.96	842.71	51,735.68
Net Totals:					39.39	534.43	28.89	10.89	494.65

← Owner

Check Date: 05/22/2009

Check Amount →

494.65

Checks

P.O. Box 5090
 Sugar Land, TX 77487-5090
 Owner Name
 YOUR TRUST

Owner Number: 0000000000
 Tax ID: 000000000
 Payment Date: 05-22-2009
 Payment Number:
 Control Number:

Lease Name	Lease Number	Sales Date mmyy	PR CD	Property Interest					Owner Interest								
				Quantity	Avg. Price	Gross Value	State Tax	Net Value	Decimal Interest	TI AJ	Gross Value	State Tax	Net Value				
ANDREWS	TX																
ARMSTRONG #1 (21035)	0218670000	04090		9946	48933	486691	22469	464222	00679218RI			3306	152	3154			
ARMSTRONG 2 (25870)	0423620000	04090		8137	48933	398171	18382	379789	00679218RI			2704	124	2580			
MEANS/SAN ANDRES EXE	0425780001	03090		470190	45808	21538664	994598	20544066	00113196RI			24380	1127	23253			
									1Z LATE TICKET								
MEANS/SAN ANDRES EXE	0425780001	04090		440629	47688	21012841	970171	20042670	00113196RI			23789	1098	22691			
									1Z LATE TICKET								
MEANS/SAN ANDRES/UT	0425780002	03090		131929	45808	6043466	279072	5764394	00033960RI			2053	94	1959			
									1Z LATE TICKET								
MEANS/SAN ANDRES/UT	0425780002	04090		123514	47688	5890181	271952	5618229	00033960RI			2000	91	1909			
									1Z LATE TICKET								
MEANS/SAN ANDRES EXE	0425780201	03090		5484	45806	251201	11600	239601	00113196RI9A			284		284			
MEANS/SAN ANDRES EXE	0425780201	04090		4706	47685	224410	10361	214049	00113196RI9A			253		253			
Owner Total											58769	2686	56083				



Surface Issues

- Goal is to minimize impact of drilling on the surface uses of the land:
 - Ranching, hunting, grazing, farming and development
- Remember, the mineral lessor has the right to use as much of the surface as is reasonably necessary to produce the minerals!

- Lessee's surface use can be modified by language in the lease
 - If there is specific surface language in the lease:
 - The lessor likely retains some say in the use of the land, damages, ingress and egress, etc.
 - This is the ideal case and positions the lessee much better to look after the surface
 - If there is not specific surface language in the lease:
 - The lessee cannot *require* all things but can *request* them
 - Lessee should show the operator the advantages of working together instead of against each other

- Think Win-Win!
 - The lessee and the operator both want to maximize production
 - Always try to keep the lines of communication open
 - Understand their position
 - Ask them to try and understand your position
 - Be prepared to negotiate
 - Make it worth their while to accommodate your desires
 - Do you want a “pound of flesh” or a barrel of oil??

- Ingress and Egress
 - Locked gates or cattle guards
 - No firearms or hunting
- Locations
 - As small as possible
 - Clean and fenced if you have ranch operations

- Roads
 - Create as few as possible
 - Use as many existing roads as possible
 - Main road with feeder roads to locations vs. direct roads to each location
- Flowlines
 - Run along side roads not all across pastures
 - Easier to detect leaks
 - Does not diminish the surface use

- Easements/Pipelines
 - Single-use easement with abandonment clause
 - Look at working size vs. permanent size as well as line size and pressure of line
 - Different price if used for carrying *your* oil & gas vs. other leases' production
- Water Rights
 - Surface-owner rights to creeks and streams, tanks, surface water, and water wells
 - Operator must negotiate for any water use
 - May agree to drill a water well for water use



Railroad Commission of Texas

Railroad Commission of Texas

- The RRC is the regulatory body for oil & gas in Texas
- And, a great resource!

<http://www.rrc.state.tx.us/>



Railroad Commission of Texas

- RRC Requirements:
 - Signage on the lease denoting the name of the lease, number of acres and operator of the lease
 - Signage at each well denoting RRC well number, well name, and operator



Railroad Commission of Texas

- Operator Requirements:
 - Operator must file for permit to drill, show well locations and plats, file drilling reports and completion reports
 - Operator must file monthly production reports
- Purchaser Requirements:
 - Purchaser must file monthly reports showing amounts purchased from the lease



Questions?

Our Team



John Taylor
President
Wealth & Investment Management Group



Bill Cranz
President
Fort Worth/Weatherford Wealth Management



Ed Fritz
Senior Vice President
Senior Wealth Management Administrator



Tom Lang
Senior Vice President
Senior Wealth Management Administrator



Linda Metcalf
Senior Vice President
Senior Wealth Management Administrator



Rich Wyatt
Senior Vice President
Chief Investment Officer



Tim Raetz
Senior Vice President
Senior Oil and Gas Manager



Linda Maria Martinez
Bank Officer
Wealth Management Administrator



Tasha Tschoepe
Bank Officer
Wealth Management Administrator

Tim Raetz

Senior Vice President

PlainsCapital Wealth Management

Senior Oil and Gas Manager

817.258.3764

tim.raetz@plainscapital.com

John Taylor

President

PlainsCapital Bank Wealth and
Investment Management Group

214.252.4162

jtaylor@plainscapital.com



Thank you

www.plainscapital.com