

# COLORADO STATE LAND BOARD

## Oil and Gas Lease Terms and Royalty Rate Revisions

January 14, 2016



**COLORADO**  
State Land Board  
Department of Natural Resources

Oil and Gas Lease Terms and Royalty  
Rate Revisions

# OG Lease Terms and Royalty Rate Revisions

1. Process - Recommendation Formulation
2. Approved Modifications
3. Surface Use Agreement & Other Issues
4. Questions and Discussion



# Process

## Mid 2015:

- Board expressed desire to raise the standard oil and gas royalty rate
- Reviewed current market rates include a survey of seven other western state land management agencies regarding their royalty and annual rental rates
- Previously tracked issues with oil and gas lease terms and conditions since the lease was last revised in 2011, e.g., LT flaring.
- Crafted lease language to address these issues
- Solicited review/comment by the Colorado AG's Office
- Engaged the Colorado Oil and Gas Association (COGA) and industry on the changes that were under consideration.



# Workshop Proposal

## October 2015 Workshop

- **Lease Terms**  
Accepted pending re-engagement with COGA and Industry
- **Royalty Rate**
  - 16.67% Statewide (since May 2011 - previously 12.5% )  
New leases and lease extensions
  - Special Offerings: 20%  
Lowry and 70 Ranch / National Hog Farm Leases
  - **2015 Royalty Rate Proposal:**  
Core Production Area - 20%  
Non-Core Area - 16.67%



# Recommendation Formulation

## Western States Royalty Rates

US Federal On shore	12.5%					
Wyoming		16.67%				
Utah		16.67%				
Montana		16.67%				
North Dakota		16.67%	18.75%			
New Mexico	12.5%	16.67%	18.75%			
Oklahoma			18.75%			
Colorado		16.67%		20%		
Texas				20%	22.5%	25%



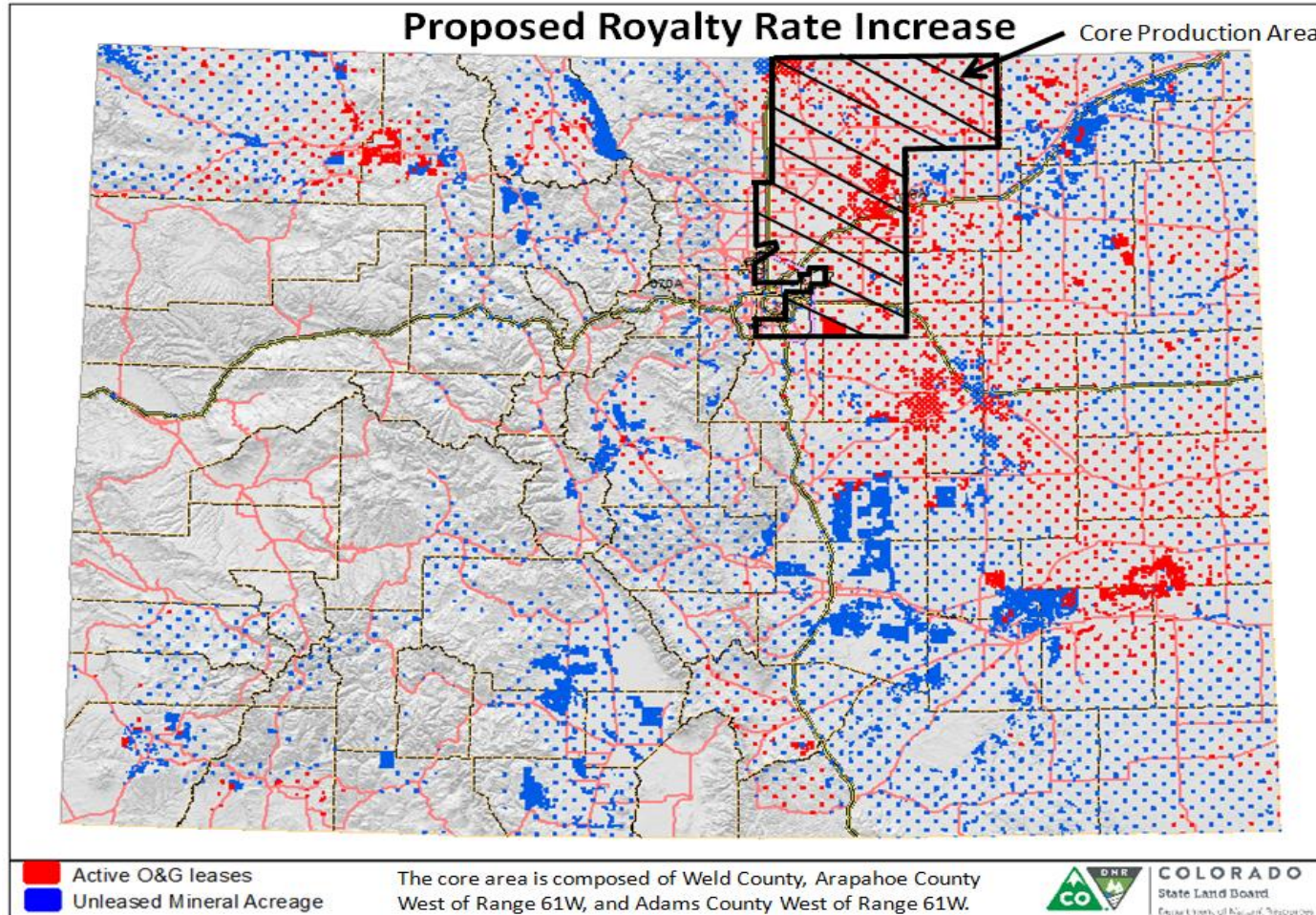
# Recommendation Formulation

## Royalty Rates and CPA

- New Mexico
  - variable rate structure based on geographic location
  - Higher rates for higher potential
- North Dakota
  - Similar to Colorado - Niobrara Shale Play
  - Variable 16.67% to 18.75%.
- Texas General Land Office
  - 25% royalty rate.
  - 20% if drilling occurs within two years of the lease's effective date.



# Project Location Core Production Area



# Recommendation Formulation

## Royalty Rates and CPU

### Core Production Area:

- Weld County, Western Arapahoe and Adams Counties
  - Private royalty rates of 20% common
  - 90% of fiscal 2015 oil and gas royalty
  - Includes the Lowry Ranch and 70 Ranch 20% RR leases
- 
- Core Production Area concept rejected by Board
  - Increase to 20% should apply state-wide





# Approved Lease Term Modifications

Approved January 2016 effective 5/19/16

- **Access Rights:** added State Land Board rights to require a surface use agreement
- **Term:** added Lessor right to raise the royalty rate on lease extensions as per policy
- **Flared Gas Royalty** - limited royalty-free flared and loss gas allowance
- **Payments and Reports** - clarified first payment due dates
- **Pooling, Communitization, Unitization:** added requirement for a Surface Use Agreement
- **Shut-in Wells:** raised shut-in royalty rate, required notification, and limited term
- **Penalties and Interest:** modified to align with Payments and Reports section changes
- **Notice:** notice allowed electronically



# Lease Terms

- **Gas production exempt from royalty:**

Royalties on the full value of Gas including fuel, line loss, flaring, etc.  
Exempt from royalty.

**Limited the allowance for royalty free flaring and other losses:**

- (I) gas flared, vented, or otherwise lost during the well completion process,
- (II) gas flared or vented during the first six months subsequent to initial production unless such gas is captured and sold;
- (III) recycled gas used for injection and enhanced recovery until such gas is produced and sold, and,
- (IV) Gas Unavoidably Lost - gas vapors which are released from production equipment and storage tanks or other low-pressure production vessels and (ii) gas which is lost because of isolated line or equipment failures.



# Lease Terms

- Shut-in Leases

- mechanical condition beyond Lessee's reasonable control, or the lack of suitable market
- \$5 per acre of the per annum in addition to the annual rental
- Three years from next anniversary date following shut-in, then a lessor discretion
- Notification within 180 days of shut-in - \$5 per acre penalty



# Approved Royalty Rate Revision

## Royalty Rate

- Increase the standard state-wide royalty rate to 20%
  - Allow lower (or higher) rates with Board approval.
  - Effective with the May 2016 auction
    - outreach and notification during the nomination phase

## Policy:

- Set the royalty rate on one-year lease extensions at 16.67% for two years or until the oil price index exceeds \$50 per barrel for three consecutive months.



# Recommendation Formulation

## Financial Analysis:

### Typical HZ Niobrara well

First year production - 55,000 Bbls

Estimated Ultimate Recovery - 150,000 bbls

Price - \$50 bbl

Increase royalty rate from 16.67% to 20%

Additional first year royalty - \$90,000.

Life of Lease royalty increase: \$250,000



# Other Issues

- **Minimum Bids - No Action**

At staff discretion to recommend on case by case basis - revisit in one year

- **Annual Rent - No Action**

Remains at \$2.50/acre/year - LOL

- **Leasing Moratorium - No Action**

- **Lease Extension Bonus**

1 yr extension at 25% of original



# Surface Use Agreement

	Tier 1	Tier 2	Tier 3
Fee Category	State has a mineral interest of greater than or equal to 50% but less than 100% <sup>5</sup>	State has a mineral interest of greater than 10% but less than 50%	State has a mineral interest of less than or equal to 10% <sup>4</sup>
Initial Damage Payment: Initial well pad or facility payment per acre	\$5,000	\$7,500	TBD
Well Payments: Well payment per well <sup>1</sup>	\$5,000 one-time	\$7,500 one-time	TBD <sup>6</sup>
Annual Payment: Rental due per year	10% of initial well pad or facility payment	10% of initial well pad or facility payment	TBD
Access Corridor Payment: Access roads, pipeline and powerline easements, and other off-pad disturbances	\$5,000 per acre or ROW pricing <sup>2</sup> , one-time payment	\$5,000 per acre or ROW pricing <sup>2</sup> , one-time payment	TBD
Production Facilities Payment: Off-property wells producing through an onsite Production Facility <sup>3</sup>	\$5,000 per well, one-time payment	\$7,500 per well, one-time payment	TBD

(1) Payment is due on or before the next annual anniversary date after the spud of a well.

(2) \$5,000 per acre or the Standard State ROW rates, whichever is greater; may be subject to either the SUA or a separate ROW agreement.

(3) Requires prior written approval by the State Land Board and payment before any construction may begin. Please refer to the COGCC Rules and Regulations for the definition of Production Facility.

(4) All applications that fall into the Tier 3 category require that the proposed fee structure be submitted to the Board for approval.

(5) SUAs are not required when the state has 100% mineral ownership or when wellbores are contained entirely within state minerals.

(6) Well Payments will be \$10,000 when the Initial Damage Payment falls into Tier 1 or Tier 2.



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# Western State Information

Western State Oil and Gas Lease Terms	1/6/2016								
	Colorado	Federal (on shore)	Utah	Oklahoma	Montana	New Mexico	Texas GLO	North Dakota	Wyoming
Oil and Gas Royalty Rate	16.67%	12.50%	16.67%	16.67%	16.67%	12.5, 16.67, 18.75, 20%	25.00%	16.67, 18.75%	12.5% / 16.67%
Primary Lease Term (years)	5	10	5	3	10	5 or 10	5	5	5
Extension Term	1 yr increments	No	Yes	Yes	Yes (with cause)	1 year	No	2 x 180 days	5 yrs - in 1 yr increments
Extension Term Rental	\$10 or mrkt w RR increase	N/A	Yes	50% of bonus	Year 6 \$1.25 Years 7-10 \$2.50	\$1.25 acre	N/A	\$10 and \$20 / acre	No
Current Annual (Delay) Rental	2.50/acre	1.50/2.00 per acre	\$2 acre	Primary Term \$1 acre Secondary Term \$4	\$1.50	\$.25, \$.50, or \$1 per acre	\$10 / acre	\$1 per acre	\$1 - Non-Producing \$2 - Producing
Delay Rental for Life of Lease	Yes	No	No	No	Yes	Yes	No	Yes	Yes
Shut-in Royalty Rate	\$4 acre	N/A	\$2 acre	\$1 / \$3	\$400 per lease or Annual Rental	2X/4X rental	Dbl Rental	\$1,600	\$2 to \$50 acre
Maximum Shut-in Term (years)	5	None	5	Primary Term	No Max	No Max	4 yrs	3 yrs	No Max
Auction Process - (S)Sealed Bid, (O)Open Bid	S / O	O	S	S	O	S / O	S	O	O
Minimum Lease Auction Bonus Bids -- (in addition to first year's annual rental) Note 1	No	No	No	No	No	\$30 to \$40 per acre	\$100's to 1000's per acre	\$1	No
Oil and Gas Taxes									
Severance Tax - Oil	1.86% to 5%		5%	2 to 7%	.76 to 12.76%	3.75%	4.60%	11.50%	6.00%
Severance Tax - Gas	1.86% to 5%		5%	2 to 7%	.76 to 12.76%	3.75%	7.50%	\$.0982 / mcf	6.00%
Conservation Tax	.7 to 1.5%		0.02%		na	.19 to .24%			0.04%
Ad Valorem Property Tax	4 - 15% (4.87%)		1%		3%				
Ad Valorem Production Tax						1 to 1.5%	2.12%		6.20%
School Tax					na	3.15 to 4%			
Effective Rate	6.80%	na	6% (est.)	3.30%	7.60%	6.85%	6.70%	10 to 11.5%	11.70%
Oil and Gas Tax Revenue Distribution	State - 8%		Unknown	State - 65%	State 35%	State 80%	State - 64%	State - 40%	State - 54%
	Local Gov't 85%			Local - 35%	Local Gov't - 65%	Local Gov't 15%	Local - 32%	Local Gov't - 15%	Local - 27%
	Trust Funds - 7%					Trust Fund - 5%	School Trust Fund - 4%	Trust Funds - 45%	Trust Fund - 19%





# Discussion / Questions / Comments



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