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Colorado Oil and Gas Leasing: The Moffat County Boom

Leasing and drilling activity begin are really starting to increase in Northeastern Colorado. [Moffat County Natural Resources Director Jeff Comstock](#) said energy companies are hoping to lease a half-million or more mineral acres in a place far from the usual natural gas production areas of northern Moffat County. As I mentioned in my [previous post](#), I want to go through some basic oil and gas leasing concepts to give you an overview of what exactly makes up an oil and gas lease.

In the typical lease transaction two parties are involved, the landowner and the “[landman](#).” To confess, I am originally from Texas, and have many close friends that are petroleum landmen. Basically a landman is a representative from an oil or other energy company. Landmen will search title records in a given area for unleased mineral interest in the hopes of finding and approaching the mineral owner to sign a lease. In my experience Landmen are honorable people who always receive a warm reception due to their good nature and the size of the checks they hand out.

An oil and gas lease is basically a two part contract. The first part is called the “[primary term](#).” This concept refers to the period where the oil company has leased the right to drill on the property, but has not yet begun drilling and/or discovered minerals in paying quantities. The “secondary term” is the period in which the lease is held in force after expiration of the primary term. Production, operations, continuous drilling and/or shut-in royalty payments are often used to extend an oil and gas lease into its secondary term. Put another way, the secondary term begins once minerals are discovered and produced in paying quantities. Payment under the lease is different with each term as well. In the primary term, the lessor is usually paid a per acre “[bonus](#)” which gives the operator a set term in which they have the right to drill on the property. According to my landman buddies, Moffat County landowners are currently receiving bonuses as high as \$250 to \$300 per acre. These leases (in northeastern Colorado) generally grant a three year primary term with an option to extend an additional two years for a second bonus payment. Should the operator find oil or gas during the primary term then the landowner will begin to receive royalty payments from the minerals being produced from their land. I have been told that the highest royalty offered to Moffat County mineral owners by oil companies is 3/16th’s of the production. The oil company keeps the other 13/16th’s for their part in drilling and producing the well, and bearing all the costs of doing so.

I hope this coming boom brings prosperity and (as we say in Texas) “mailbox money” to many in northeastern Colorado. Landowners should be smart and research all alternatives before signing with the first oil company to come along. Bonus and royalty prices can fluctuate rapidly based on a myriad of conditions, and land owners would be well advised to stay aware of leasing market around them. Posted by [Michael Brownlee](#)