Legislation Text

File #: ID-438-18, **Version:** 1

City Manager's Office

Reference: Oil and Gas Leases

To: **Mayor Kenneth J. Kreutzer and Members of City Council**

Through: **Jack Bajorek, Esq. - City Attorney**

Philip A. Rodriguez - City Manager

Marv Falconburg, AICP - Assistant City Manager

Prepared By: **Matthew Sura, Esq.**

Date Prepared: **December 10, 2018**

PURPOSE

Consider three ordinances to lease City-owned minerals in Sections 13 and 35 in Township 1 South, Range 67 and in Sections 2, 17 and 20 in Township 1 South, Range 66 West of the 6th p.m. in Adams County, Colorado to Great Western Oil and Gas Company, PetroShare Corporation, and Petro Operating Company, LLC ("Operators"). These ordinances will allow the Mayor to execute the leases on behalf of the City and the City Manager to execute other documents and take other actions necessary for the implementation of the leases.

STRATEGIC FOCUS AREA

Financially Responsible

BACKGROUND

1. The City owns an estimated 1,400 acres of surface lands within and near the City of Brighton. For most of these lands, the City owns at least some portion of the mineral rights.
2. In March 2015, the City passed amendments to its Municipal Code that would facilitate the development of oil and gas resources within the City of Brighton, while mitigating potential impacts to the City's groundwater resources as well as potential land use conflicts between such development and other land uses.
3. It has always been the objective of the City of Brighton to be open to leasing of its minerals and responsible development of resources, once the amendments to the City Code were in place.
4. The oil and gas industry is having good success in drilling and developing oil and gas wells in and around Brighton.
5. Over the past six months, Brighton received offers from the above listed Operators to lease City-

owned minerals in minerals in Sections 13 and 35 in Township 1 South, Range 67 and in Sections 2, 17 and 20 in Township 1 South, Range 66 West of the 6th p.m. in Adams County, Colorado.

6. City staff has been meeting with Operators to better understand its development plans. Staff determined that all three Operators had reasonable surface locations that would allow them access the minerals while maintaining a sufficient distance from homes and Brighton's water infrastructure.
7. The initial offer was considerably lower than the parameters set forth by the City Council in its leasing policy guidelines. Therefore, Brighton advertised that the minerals were available for lease and entertained several other competitive offers to lease some of the minerals.
8. After several rounds of negotiations, and competitive bidding, the offers were greatly improved as listed below.
9. The total acreage requested is a combined +/-126.8896 net mineral acres for bonus payments totaling payment of $743,485.40. Details are below.

Legal	Acreage	Operator	Bonus	Bonus Total	Royalty
Section 13, T1S, R67W	10.657	GWOG	$6,500 / acre	$69,270.50	23%
Section 17, T1S, R66W	17	GWOG	$6,500 / acre	$110,500.00	22%
Section 35, T1S, R67W	36.1296	GWOG	$6,500 / acre	$234,842.40	22%
Sections 17 and 20, T1S, R66W	8.905	PetroShare	$6,500 / acre	$57,882.50	21%
Section 2, T1S, R66W	54.198	Petro Operating	$5,000 / Acre	$270,990.00	21%

TOTAL OF +/-126.8896 NET MINERAL ACRES

TOTAL OF $743,485.40 BONUS PAYMENT

10. The leases that have been negotiated are fair to the City. The lease terms are above the average rate in the area and the leases were written to ensure that there will be no drilling on the City property (no-surface occupancy).
11. The surface location chosen by Operators to access the leased minerals should not adversely impact City residents.

FINANCIAL IMPACT

1. The fiscal impact to the City will be positive. The City will receive $5,000 - $6,500 / acre totaling $743,485.40 for the bonus payment alone. This is a very high bonus payment relative to other offers the City has received.
2. The royalty rate is 21% - 23% is higher than most leases in the state. These leases should bring a good return to the City - depending on the number of wells drilled, the production from those wells, and the price of oil and gas. The production will likely be greatest in the first three years, and then will start declining rapidly.

OPTIONS FOR CITY COUNCIL CONSIDERATION

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The Council may take any of the following actions:

1. Pass one or more of the ordinances by finding that entering into the leases is in the best interests of the City and authorize actions of the Mayor and City Manager to execute and implement the leases.
2. Reject one or more of the proposed ordinances.
3. Postpone consideration of one or more of the proposed ordinance.

STAFF RECOMMENDATION

Staff recommends approval of all of the attached ordinances. Staff finds the terms of the leases fair and acceptable.

ATTACHMENTS

Attachment A: Offer letter, Order for Payment and proposed leases between the City of Brighton and Great Western Oil and Gas

Attachment B: Offer letter and proposed lease between the City of Brighton and PetroShare Corporation

Attachment C: Offer letter, proposed lease and Order for Payment between the City of Brighton and Petro Operating Company, LLC

Attachment D: City of Brighton leasing policy

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