



Legislation Text

File #: ID-235-17, Version: 1

City Attorney

STAFF REPORT

Reference: Ordinance to approve the leasing of City-owned mineral rights in Sections 7, 8, 11 and 12 (Adams County) to Great Western Oil and Gas Company

To: Mayor Richard N. McLean and Members of City Council
Through: Clint Blackhurst, Acting City Manager

☐ Study Session Date: _____

☒ City Attorney Approval: _____

☒ Finance Director Approval: _____

☐ Regular Council Agenda Date: _____

☒ City Manager Approval: _____

Prepared By: Matthew Sura Esq., Oil and Gas Special Counsel

Date Prepared: June 06, 2017

PURPOSE

Consider an ordinance to lease City-owned minerals in Sections 11 and 12 Township 1 South, Range 67 and in Sections 7 and 8 Township 1 South, Range 66 West of the 6th p.m. in Adams County to Great Western Oil and Gas Company. Ordinance 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.

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. Three months ago, Brighton received an offer from Great Western Oil and Gas Company ("Great Western") to lease City-owned minerals in Sections 11 and 12 Township 1 South, Range 67 and in Sections 7 and 8 Township 1 South, Range 66 West of the 6th p.m. in Adams County.
6. City staff met with Great Western to better understand its development plans. Staff determined that Great Western had a reasonable surface location outside of the Brighton City limits to access the minerals that was 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, Great Western has offered a 23% royalty rate and \$6,500 / acre bonus payment.
9. The total acreage requested is +/-358.0541 net mineral acres for a bonus payment of \$2,327,351.65. Details are below.

Township 1 South, Range 67 West of the 6th P.M. Section 11:

| | |
|--------------------------|------------------|
| <u>Gross Acres:</u> | 21.23 |
| <u>Percentage Owned:</u> | 100% |
| <u>Net Acres:</u> | 21.23 |
| <u>Consideration:</u> | \$137,995 |

Township 1 South, Range 67 West of the 6th P.M. Section 12:

| | |
|--------------------------|--------------------|
| <u>Gross Acres:</u> | 264.57 |
| <u>Percentage Owned:</u> | 100% |
| <u>Net Acres:</u> | 264.57 |
| <u>Consideration:</u> | \$1,719,705 |

Township 1 South, Range 66 West of the 6th P.M. Section 7:

| | |
|--------------------------|---------------------|
| <u>Gross Acres:</u> | 22.3169 |
| <u>Percentage Owned:</u> | 100% |
| <u>Net Acres:</u> | 22.3169 |
| <u>Consideration:</u> | \$145,059.85 |

Township 1 South, Range 66 West of the 6th P.M. Section 8:

| | |
|--------------------------|---------------------|
| <u>Gross Acres:</u> | 49.9372 |
| <u>Percentage Owned:</u> | 100% |
| <u>Net Acres:</u> | 49.9372 |
| <u>Consideration:</u> | \$324,591.80 |

TOTAL OF +/-358.0541 NET MINERAL ACRES

TOTAL OF \$2,327,351.65 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 Great Western 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 owns +/-358.0541 net mineral acres in the four sections and will receive \$6,500 / acre totaling \$2,327,351.65 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 23% is higher than most leases in the state. This lease 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

The Council may take any of the following actions:

1. Pass the ordinance 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 the proposed Ordinance
3. Postpone consideration of the proposed ordinance

STAFF RECOMMENDATION

Staff recommends approval of the attached ordinance. Staff finds the terms of the lease fair and acceptable.

ATTACHMENTS

- Proposed leases between the City of Brighton and Great Western Oil and Gas Company
- Order of Payment for each section requested for lease
- City of Brighton leasing policy