



Legislation Text

File #: ID-52-18, Version: 1

City Attorney
STAFF REPORT

Reference: Ordinance to approve the leasing of City-owned mineral rights in Section 10, Township 1 South, Range 66 West. (Adams County)

To: Mayor Ken Kreutzer and Members of City Council
Through: Philip Rodriguez, 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: February 09, 2018

PURPOSE

Consider an ordinance to lease City-owned minerals in Section 10 Township 1 South, Range 66 West (Adams County) to Petro-Operating Company, LLC. Ordinance will allow the Mayor to execute the lease on behalf of the City and the City Manager to execute other documents and take other actions necessary for the implementation of the lease.

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. In June of 2015, Petro Operating Company, LLC met with City staff to request to develop oil and gas resources from within the city limits of Brighton.

4. Over the next year, Petro Operating submitted an application to the City of Brighton and negotiated a Memorandum of Understanding as allowed under Brighton Code Section 17-64. The City of Brighton and Petro Operating entered into the Memorandum of Understanding on March 1st, 2017 and received permits to conduct oil and gas operations within the city limits of Brighton from a well pad in Section 34, Township 1 North, Range 66 West (Homestead Pad). The MOU was recorded at the Weld County Clerk and Recorder on 3/15/2017 Rec# 4285765.
5. 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, and so long as the terms of the lease are consistent with the City's policy for considering such offers.
6. The oil and gas industry is having good success in drilling and developing oil and gas wells in and around Brighton.
7. Over a year ago, Brighton received an offer from Petro Operating Company, LLC ("Petro Operating") to lease City-owned minerals in Section 10 Township 1 South, Range 66 West (Adams County). The City-owned minerals are proposed to be developed from Petro Operating's Homestead pad.
8. After several rounds of negotiations, Petro Operating has offered a 21% royalty rate and \$5,000 / acre bonus payment.
9. The total acreage requested is 61.1902 net mineral acres for a bonus payment of \$305,951. Details are below.

Township 1 South, Range 66 West of the 6th P.M. Adams County Section 10: Part of the N/2, and SW/4.

Gross Acres: **61.1902**

Percentage Owned: **100%**

Net Acres: **61.1902**

Consideration: **\$305,951**

TOTAL OF 61.1902 NET MINERAL ACRES

TOTAL OF \$305,951 BONUS PAYMENT

10. The lease that has been negotiated is fair to the City. The lease terms are above the average rate in the area and the lease was written to ensure that there will be no drilling on the City property (no-surface occupancy).
11. The surface location chosen by Petro Operating 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 61.1902 net mineral acres and will receive \$5,000 / acre totaling \$305,951 for the bonus payment alone.
2. The royalty rate is 21% which should bring a good return to the City, depending on the number of wells drilled and the production from those wells. 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 lease 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. The Staff believes that it is in the best interests of the City to prevent its minerals from being forced pooled by entering into a lease agreement. Staff finds the terms of the lease fair and acceptable.

ATTACHMENTS

- Ordinance
- Proposed lease between the City of Brighton and Petro Operating
- Order of Payment for acreage requested for lease
- City of Brighton Leasing Policy
- City of Brighton and Petro Operating Memorandum of Understanding dated March 1, 2017.