



Legislation Text

File #: ID-289-19, **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
Marv Falconburg, Acting City Manager

Prepared By: Matthew Sura, Esq.

Date Prepared: September 6, 2019

PURPOSE

Consider an ordinance to lease City-owned minerals in Section 1 in Township 1 South, Range 67 and in Section 6, Township 1 South, Range 66 West of the 6th p.m. in Adams County, Colorado to Great Western Oil and Gas Company ("Operator"). This ordinance will allow the Mayor to execute two leases on behalf of the City and the Acting City Manager to execute other documents and take other actions necessary for the implementation of the leases.

STRATEGIC FOCUS AREA

Recognizable and Well-Planned Community
Financially Responsible
Supportive, Sustainable Infrastructure
Strong Regional Relationships and Partnerships

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 Operator to lease City-owned minerals in Section 1 in Township 1 South, Range 67 and in Section 6, Township 1 South, Range 66 West of the 6th p.m. in Adams County, Colorado.
6. City staff has been meeting with Operator to better understand its development plans. Staff determined that Operator had a reasonable surface location that would allow it to access the minerals while maintaining a sufficient distance from homes and Brighton's water infrastructure. The surface location is outside the City limits within unincorporated Adams County. Operator has received a permit from Adams County and from the COGCC for its well pad.
7. The total acreage requested is a combined +/-34.113 net mineral acres for bonus payments totaling payment of \$221,734.50. Details are below.

<u>Legal</u>	<u>Acreage</u>	<u>Operator</u>	<u>Bonus</u>	<u>Bonus Total</u>	<u>Royalty</u>
Section 1, T1S, R67W	34.479	GWOG	\$6,500 / acre	\$217,613.50	22%
Section 6, T1S, R66W	.634	GWOG	\$6,500 / acre	\$4,121.00	22%

TOTAL OF +/-34.113 NET MINERAL ACRES

TOTAL OF \$221,734.50 BONUS PAYMENT

8. 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).

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 \$6,500 / acre totaling \$221,734.50 for the bonus payment alone. This is a very high bonus payment for the area.
2. The royalty rate of 22% 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.

STAFF RECOMMENDATION

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

OPTIONS FOR 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 Acting City Manager to execute and implement the leases.
2. Reject the proposed ordinance.
3. Postpone consideration of the proposed ordinance.

ATTACHMENTS

Attachment A: Proposed leases and order for payments between the City of Brighton and Great Western Oil and Gas

Attachment B: City of Brighton leasing policy