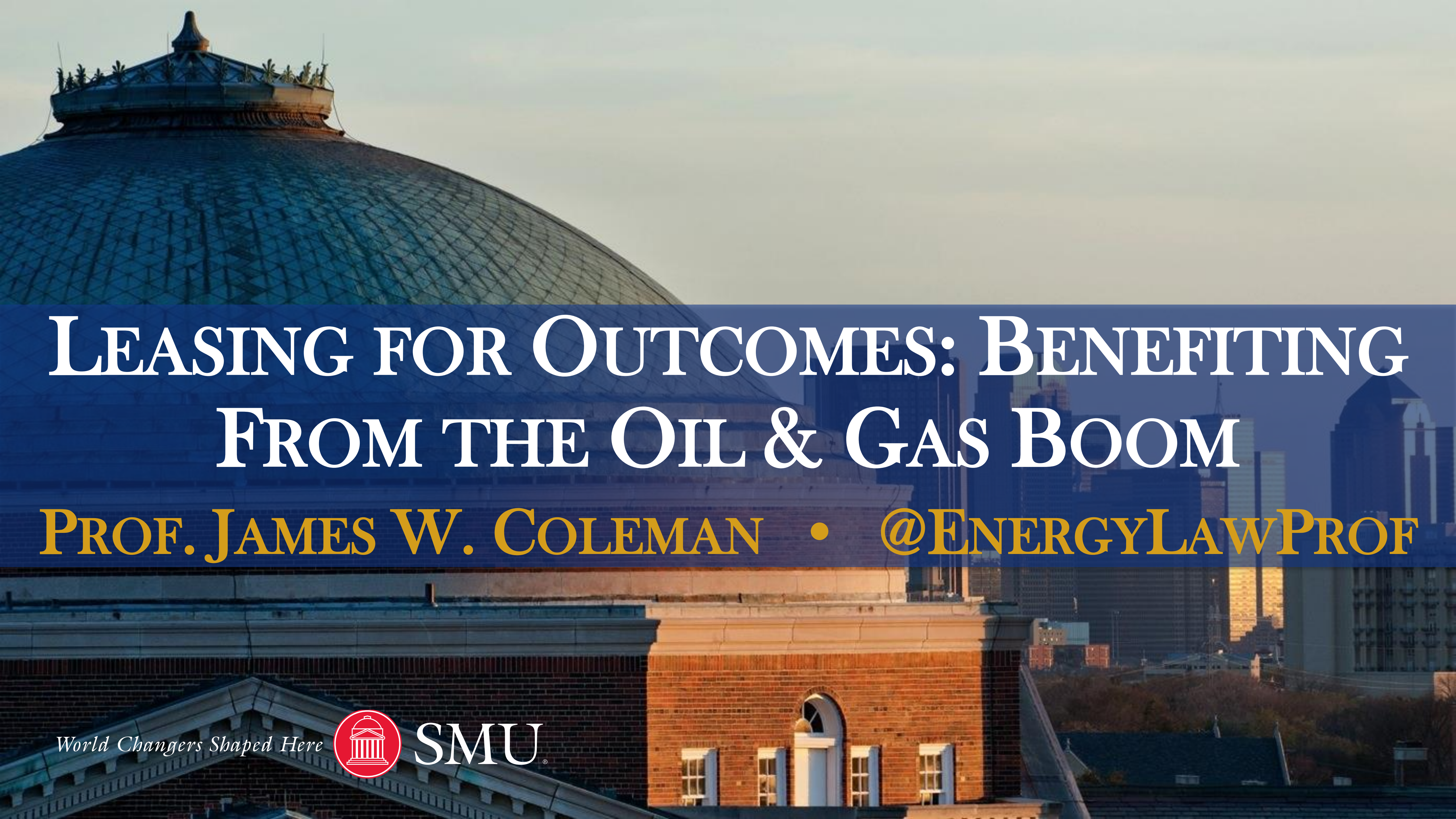
Leasing for Outcomes: Benefiting from the Oil and Gas Boom

- Introduction:
  - **Alyse Taylor-Anyikire, PhD,** Senior Policy Analyst, NGA
- Speaker
  - **James W. Coleman**, Associate Professor, Southern Methodist University, Dedman School of Law



Leasing for Outcomes: Benefiting From the Oil & Gas Boom

Prof. James W. Coleman • @EnergyLawProf

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Today

The Third Age of Oil & Gas Law, 95 INDIANA L.J. __

Available here: http://bit.ly/ThirdAgeofOil

- The First Age:
  The Lease, Born in the U.S.A., Conquers the World
- The Second Age:
  Winning a Larger Share of Oil & Gas Profits
- The Third Age:
  Simpler Ways to Earn a Greater Share

The First Age of Oil and Gas Law: The Lease, Born in the U.S.A, Conquers the World

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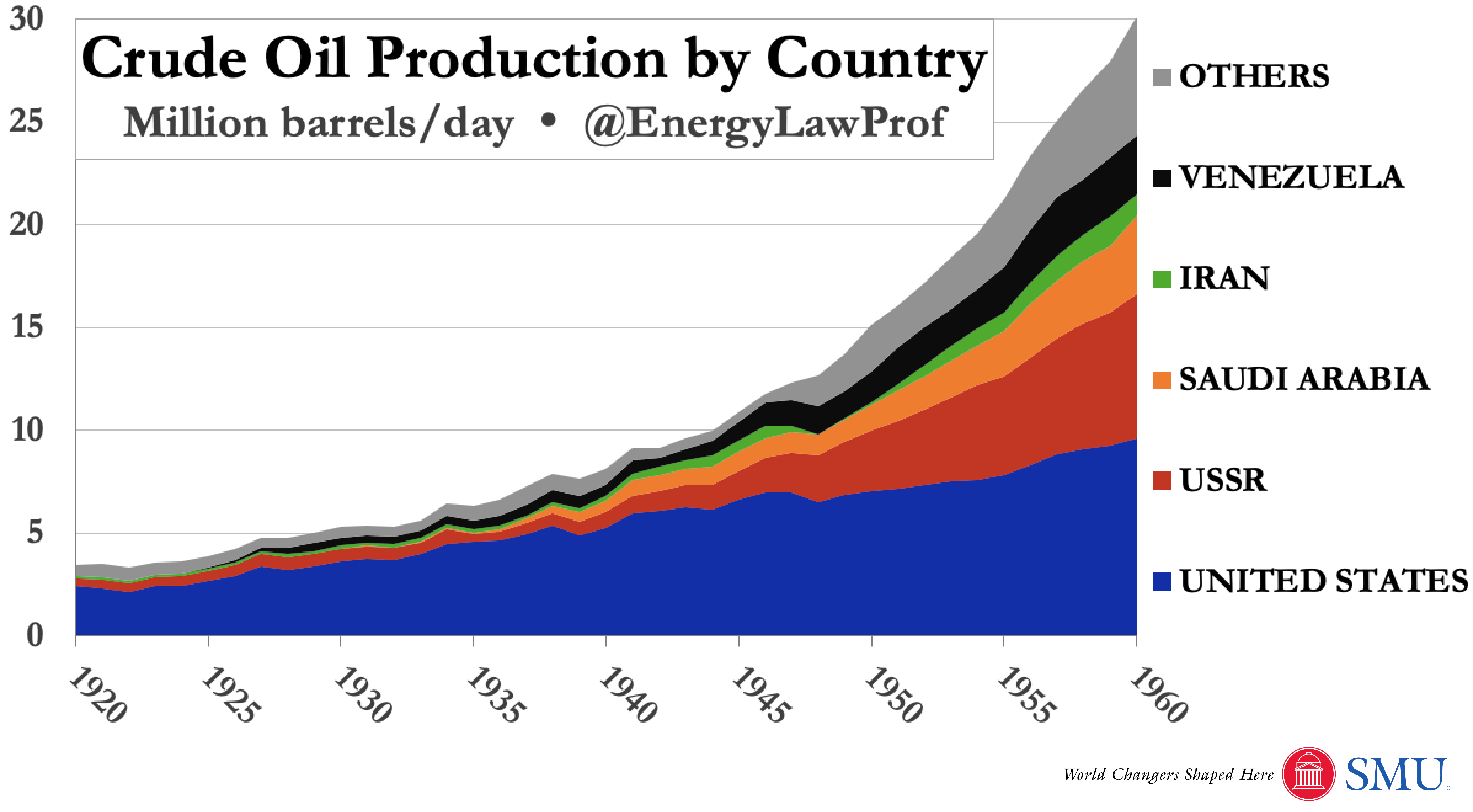

Crude Oil Production by Country
Million barrels/day • @EnergyLawProf
30
25
20
15
10
5
0
1920
1925
1930
1935
1940
1945
1950
1955
1960
OTHERS
VENEZUELA
IRAN
SAUDI ARABIA
USSR
UNITED STATES
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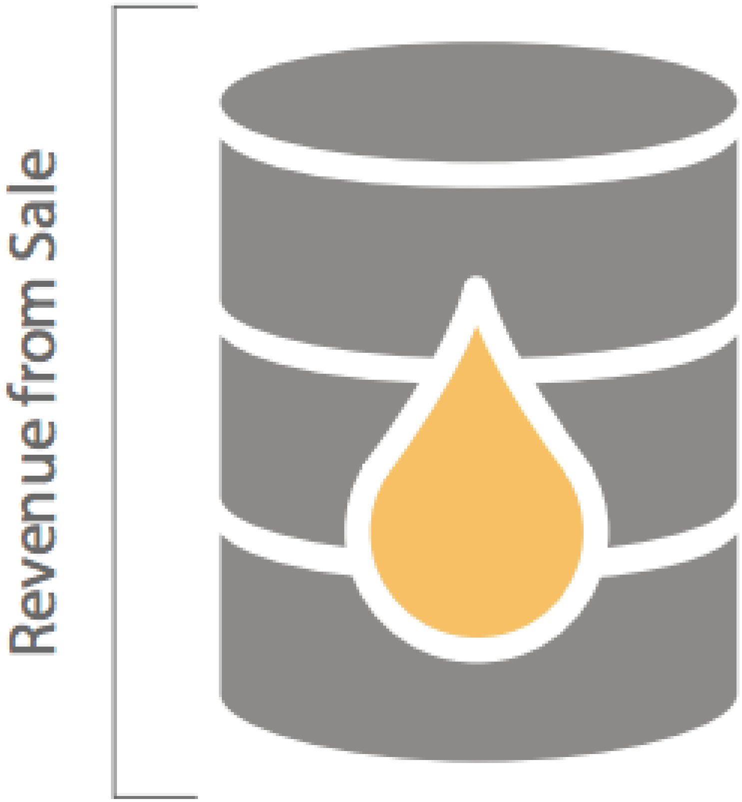
Where Value of Oil Barrel Goes

DIVIDING UP THE BARREL

Value Components as a Fraction of Revenue

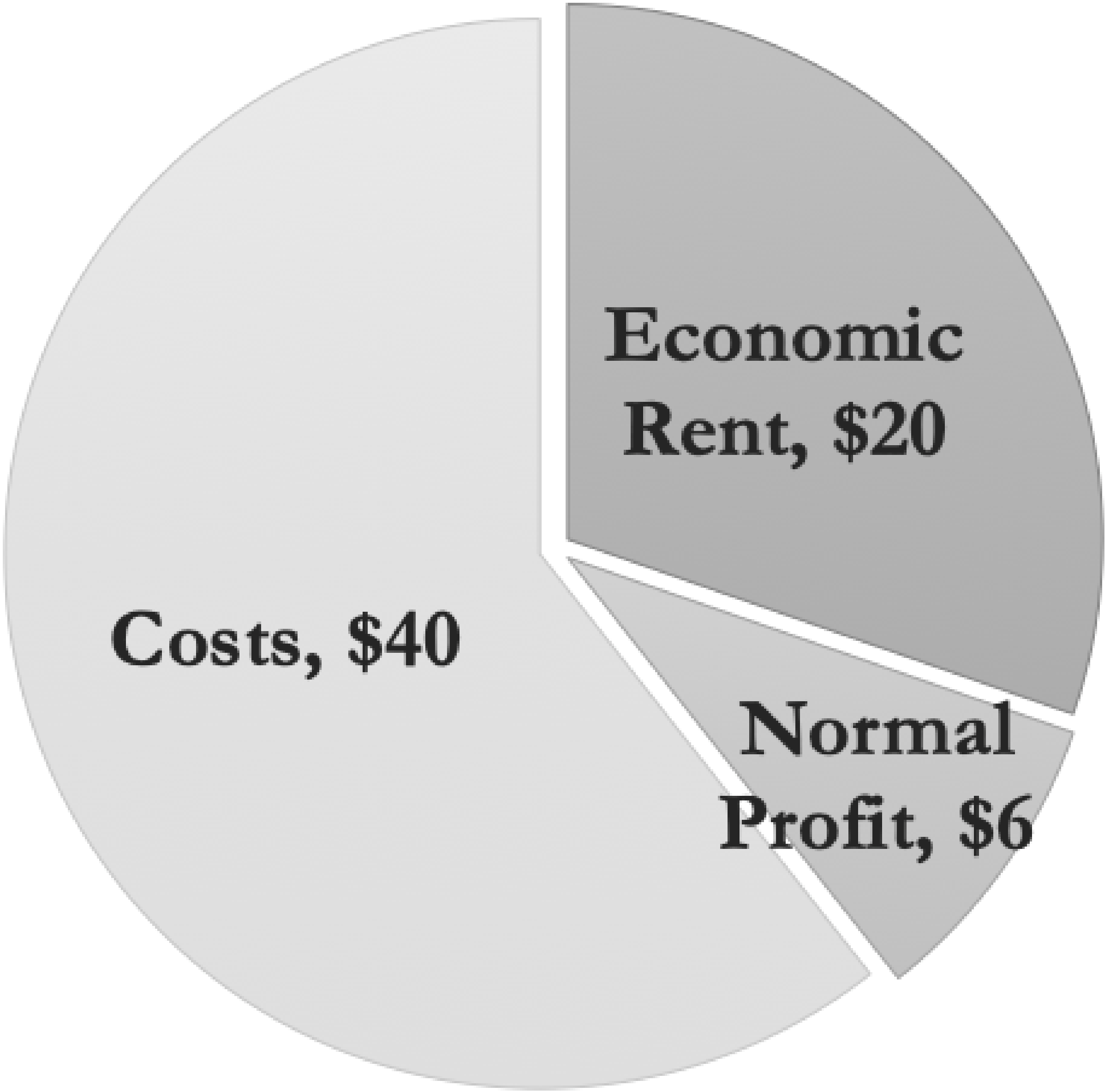


- **Royalties**
- **Company's Expected Return on Investment**
- **Other Rents and Fees**
- **State/Provincial, Federal, & Municipal Taxes**
- **Operating Costs of Production**
- **Company's Capital Investment**

Laura gets a $20 million lump sum

Chart 1: Economic Rent

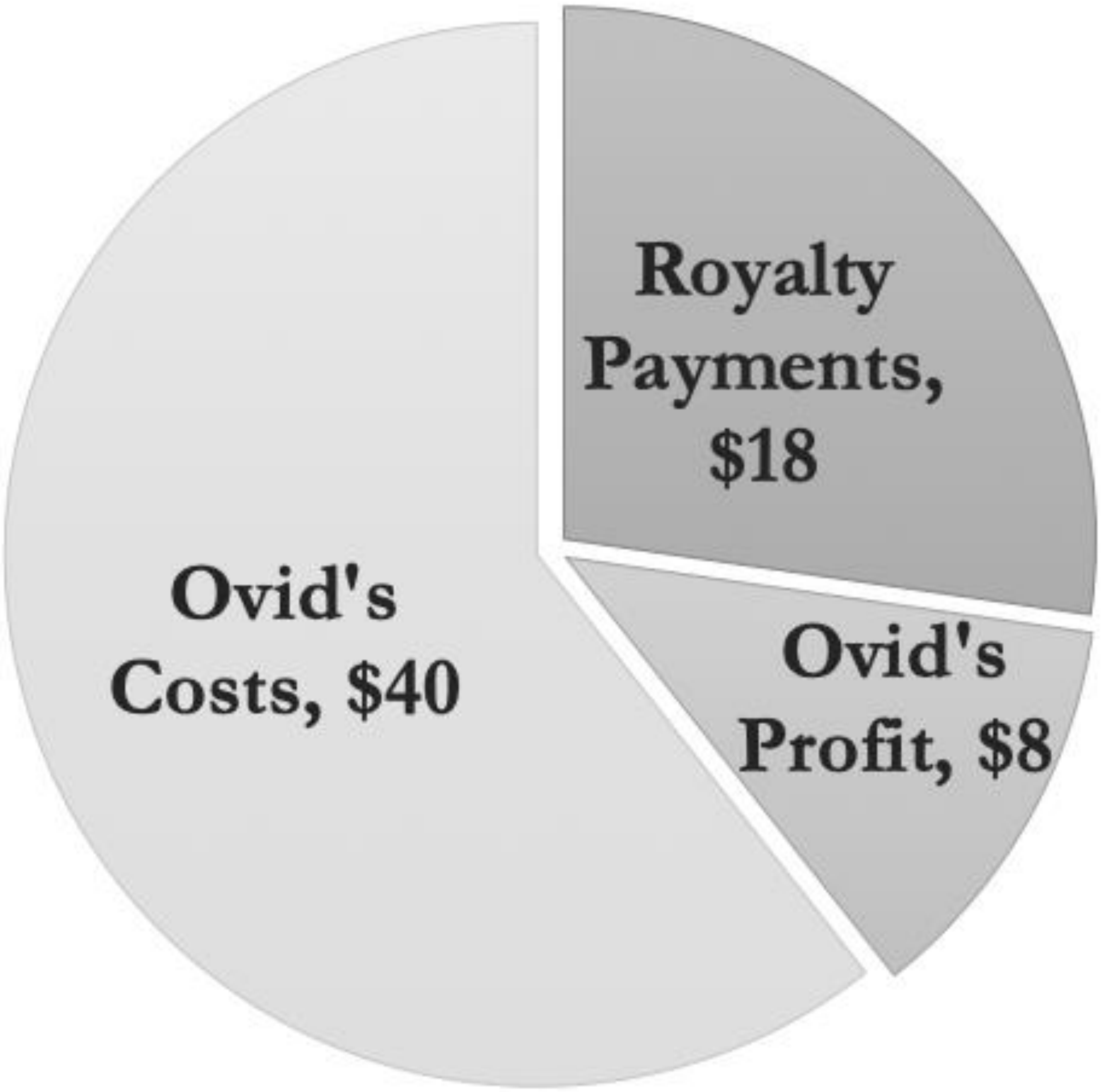
(dividing $66 million of oil production)



Laura gets a 27.3% royalty

Chart 2: Lease with Royalty

(dividing $66 million of oil production)



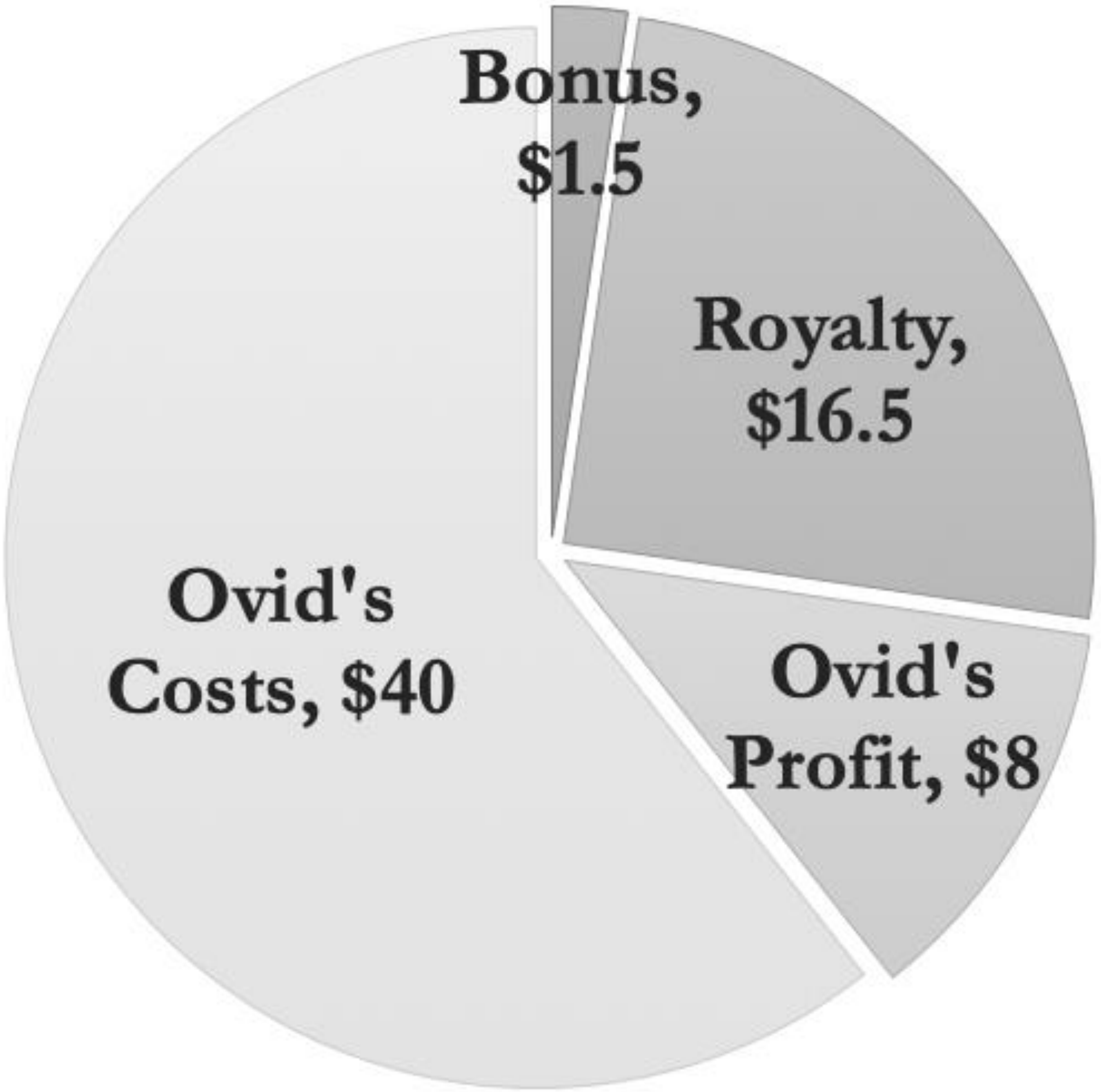
Stereotypical Texas Lease

- Lessee (oil company) gets:
  - exclusive right to produce oil & gas for five years +
  - "as long thereafter as oil or gas is produced"
- Lessor (landowner) gets:
  - Bonus up front - $
  - Royalty (fraction of production) over time - $$$$$
    - Traditionally 1/8, now more

Laura gets a $1.5 million bonus plus a 25% royalty

Chart 3: Lease with Bonus

(dividing $66 million of oil production)



The Second Age of Oil and Gas Law: Winning a Larger Share of Oil Profits

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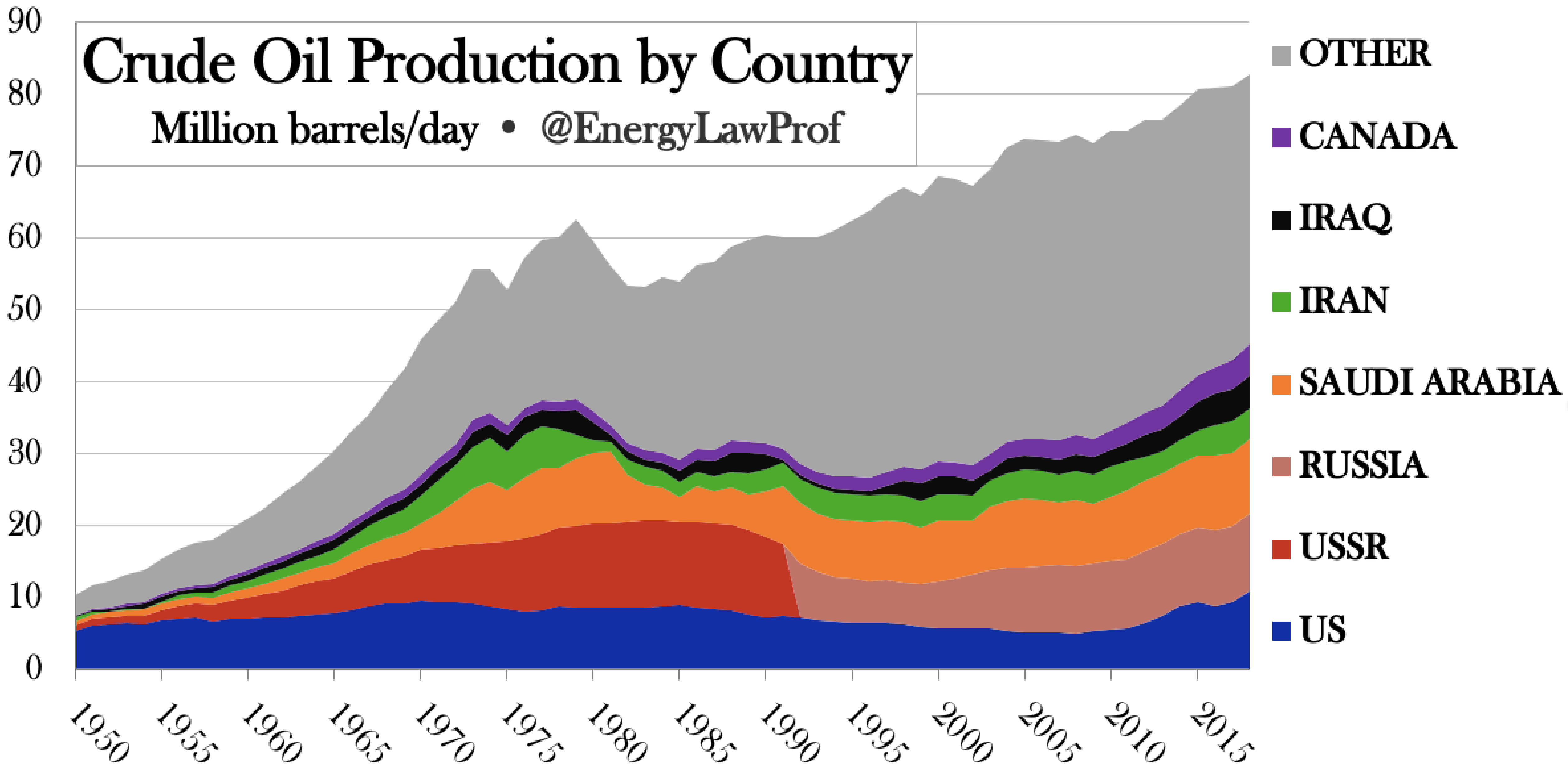

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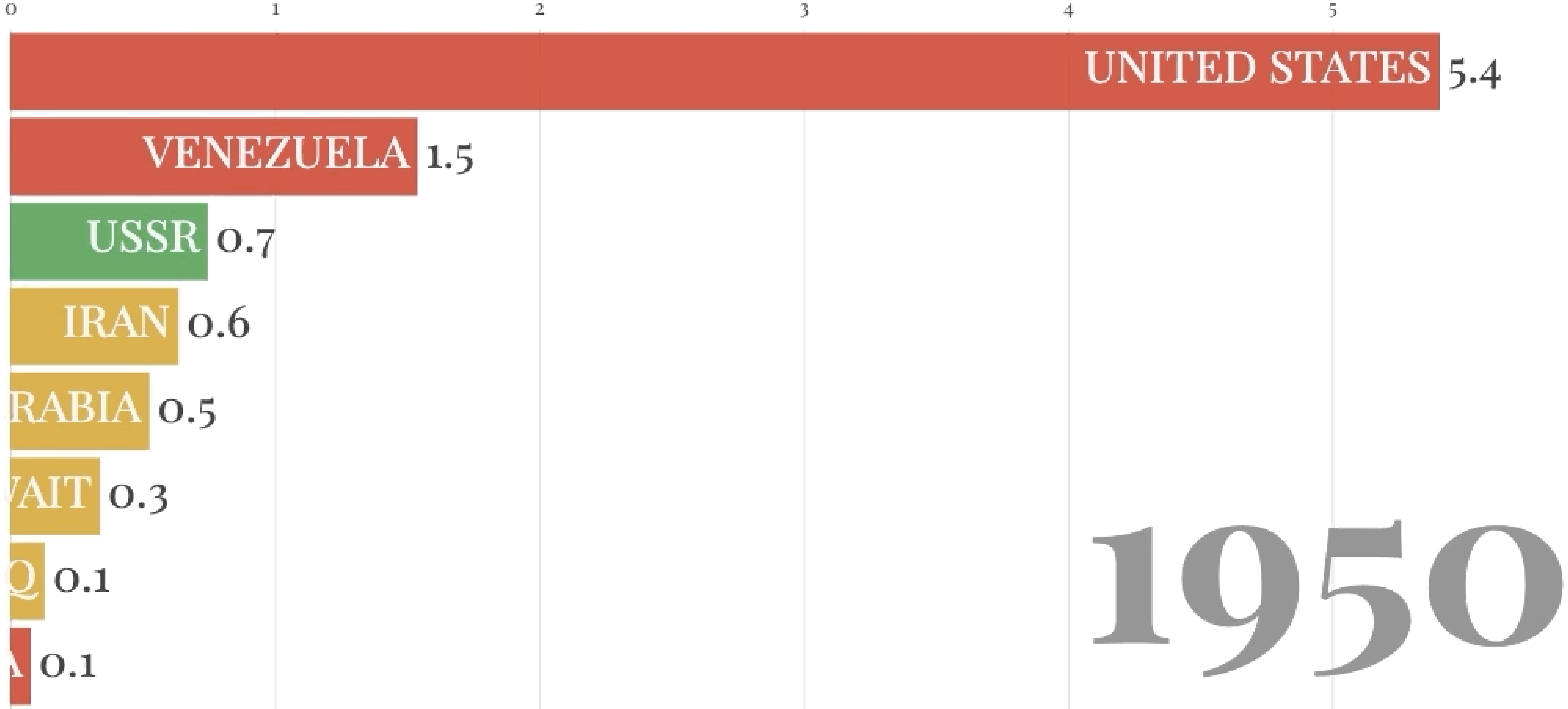
Oil Production by Country | @EnergyLawProf

Million Barrels Per Day, 1950–2018



Net Profits Get Norland More from a Bonanza Well

Chart 4: Bonanza with Royalty

(dividing $200 million of oil production)

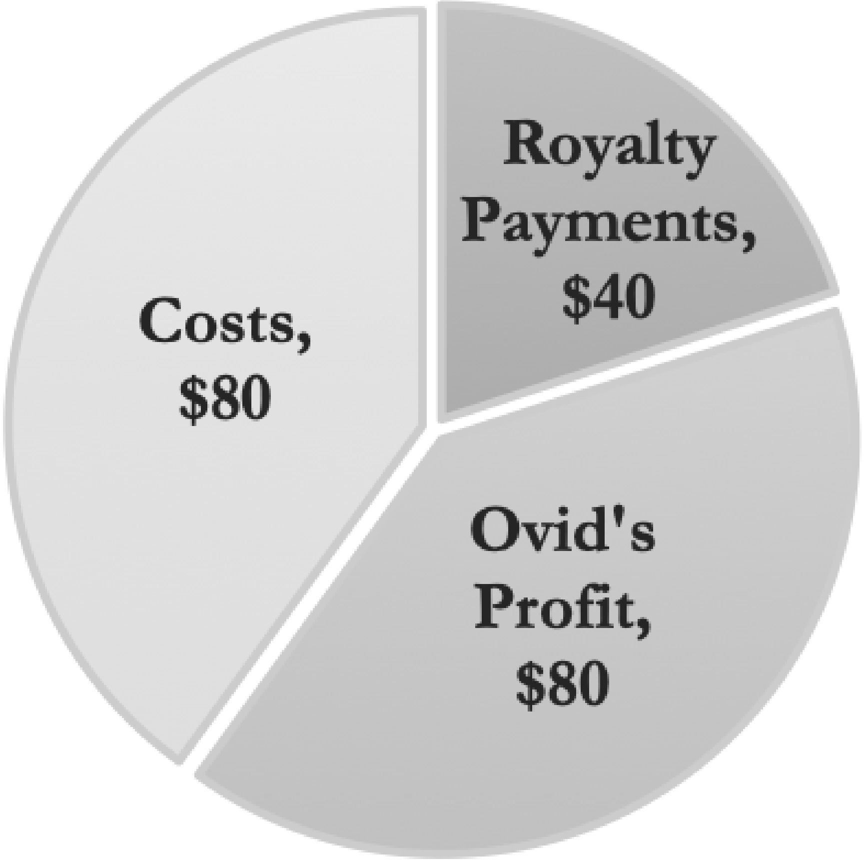
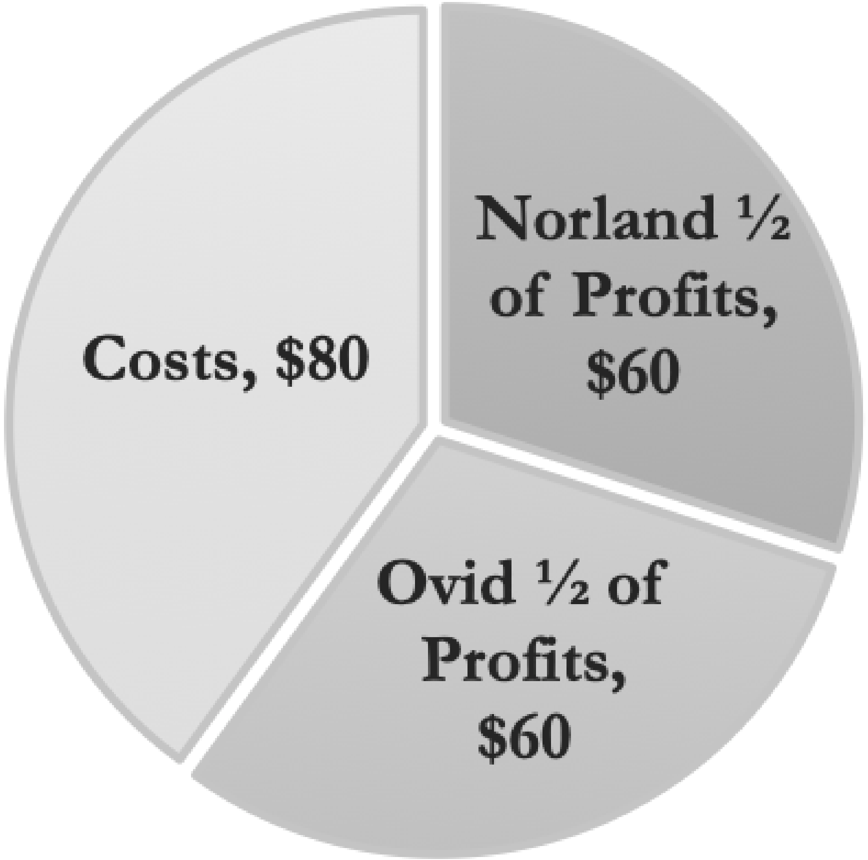


Chart 5: Bonanza with Profit Split

(dividing $200 million of oil production)



Net Profits Get Norland Something from Marginal Wells

Chart 6: Marginal with Royalty
(dividing $120 million of oil production)

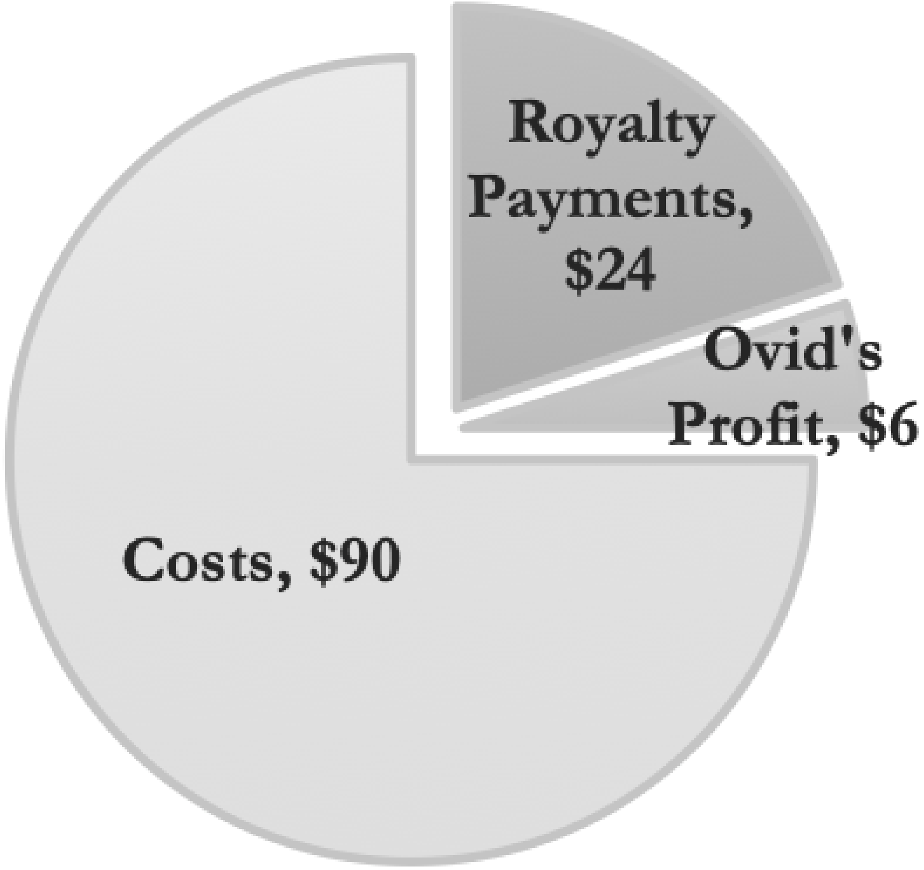
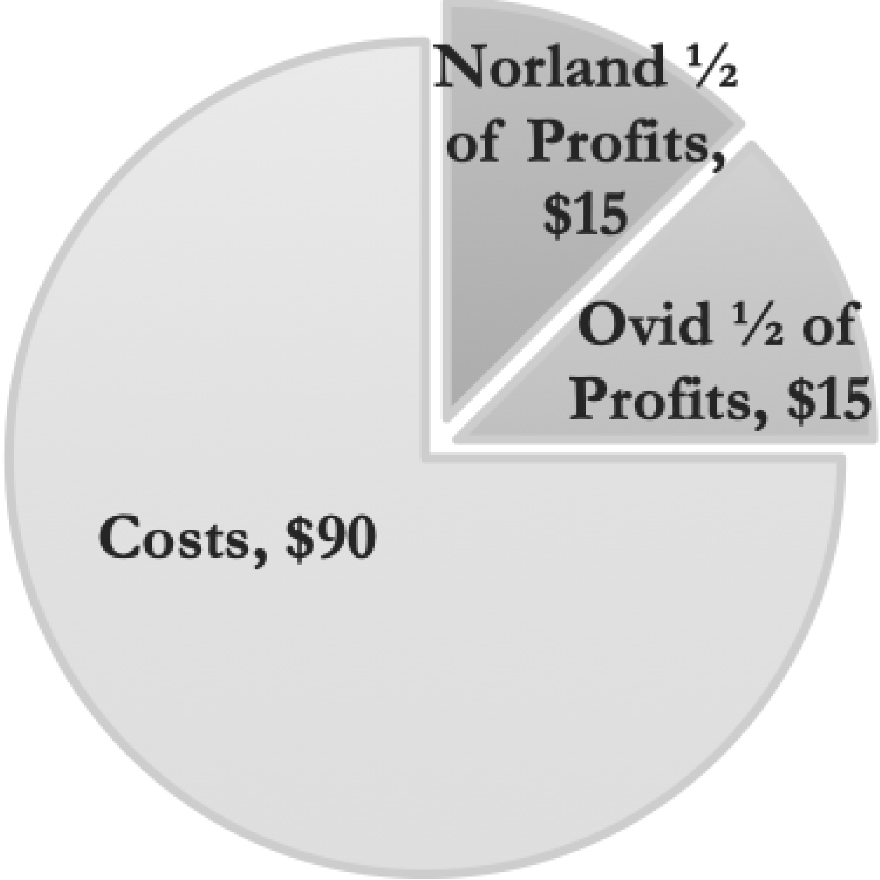
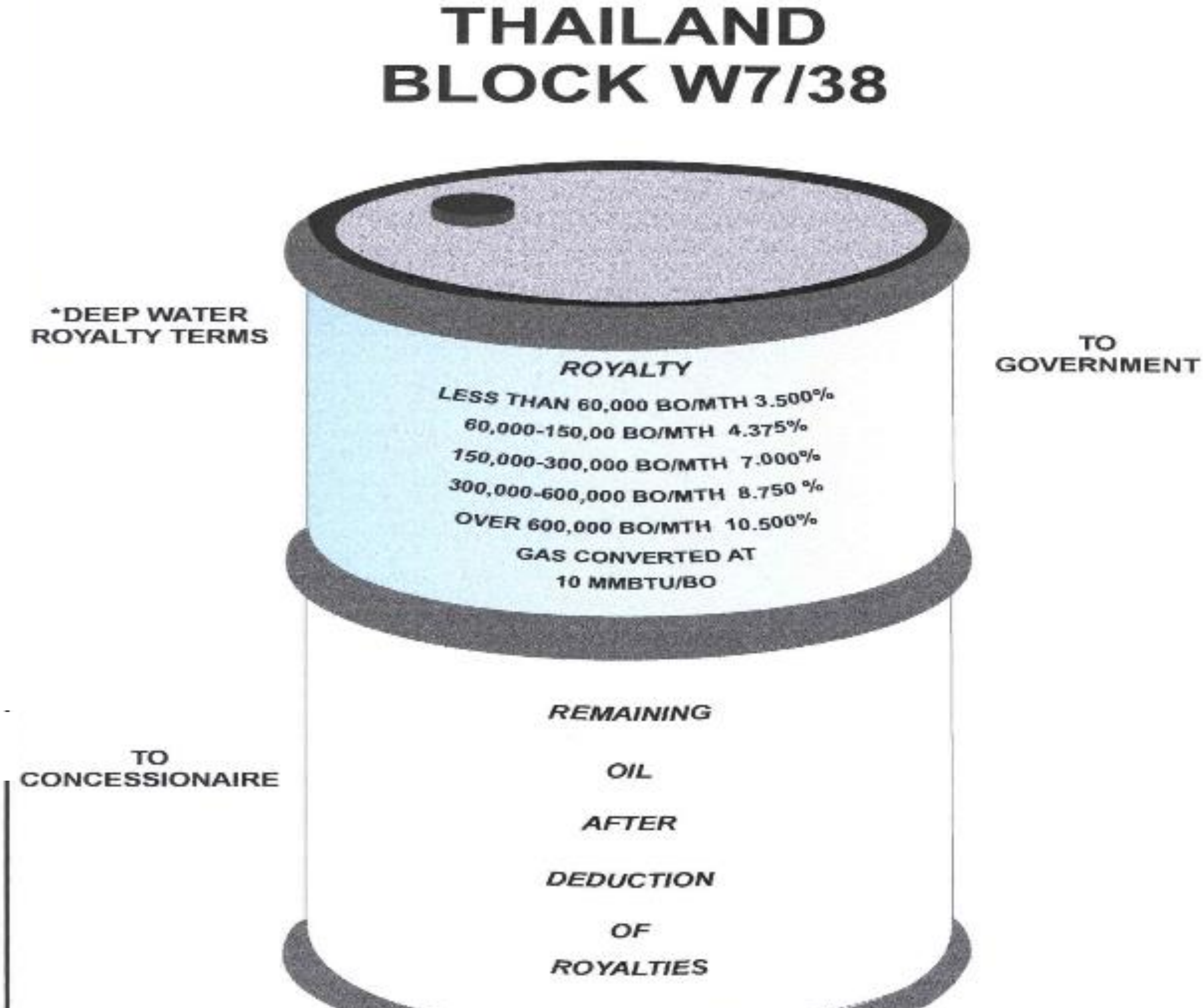


Chart 7: Marginal with Profit Split
(dividing $120 million of oil production)



Approximating Net Profit

A real world sliding scale royalty

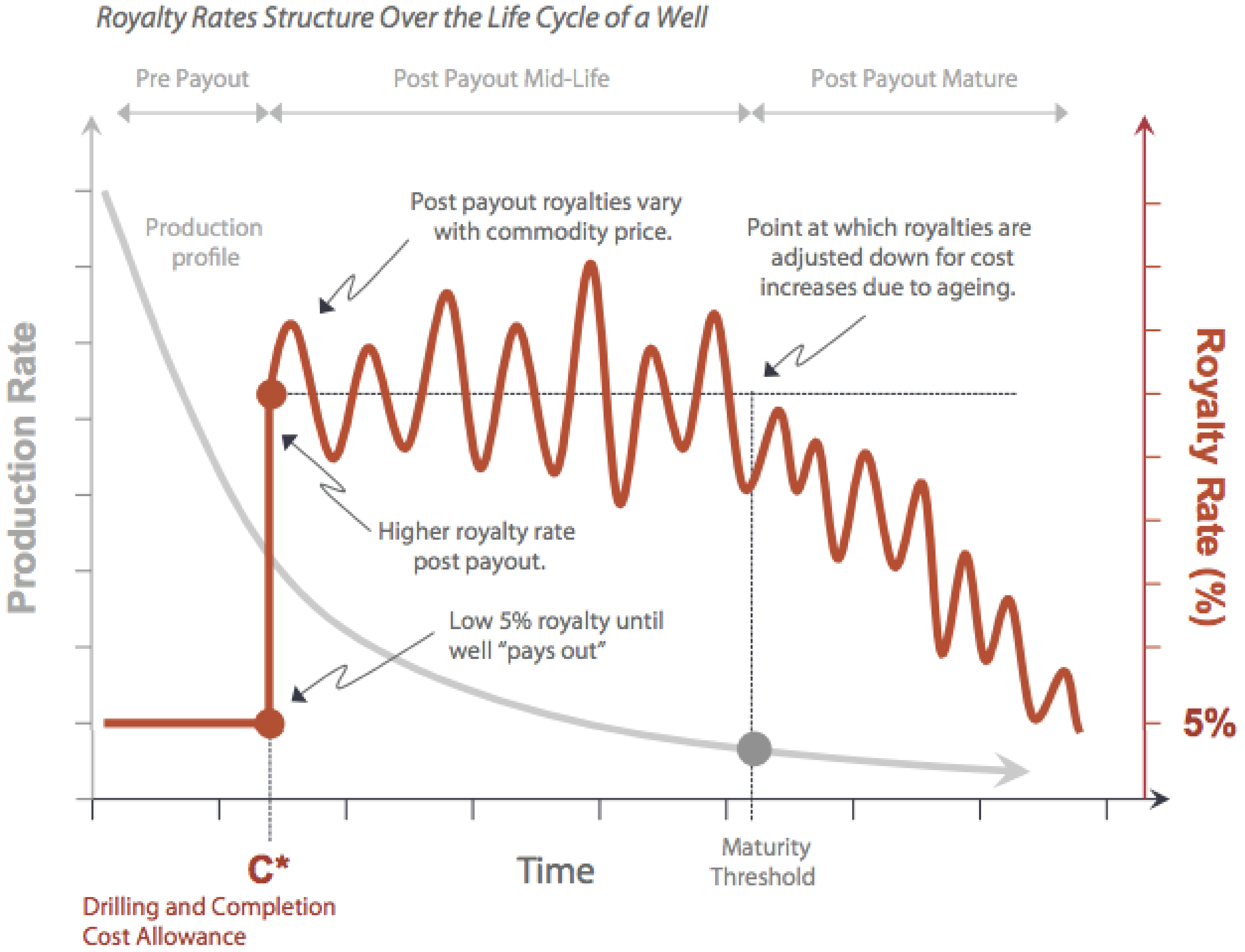


The Third Age of Oil and Gas Law: Perfecting the Lease for U.S. Landowners

Alberta's New Royalty System

Low rate until oil company recovers cost of average well.

After "payout" higher royalty rate that depends on price.



Alberta Lessons for State Oil Revenues

- Opportunity to negotiate for a rate that bumps up once oil company has produced a fixed amount
    - Doesn't require accounting for oil company costs
    - Bigger bump if willing to take lower rate up front
- Note: tie bumped up rates to value not volume
    - Volume particularly tricky with mix of oil & gas
- Bumped up rate could increase further as more and more value is pulled out of well

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