

Role of the Division of Oil & Gas

The Division of Oil & Gas does not regulate private agreements between landowners and operators. The division does require that a well owner or operator have a valid lease on all acres within a proposed drilling unit before it will issue a permit. The division also conducts hearings and makes determinations on all forced-pooling and well-spacing petitions submitted by operators.

The Division of Oil & Gas administers Indiana's laws governing the production of oil and natural gas. These laws regulate exploration and production operations, including well spacing, exploration, permitting, drilling, well completion, production, plugging, and abandonment operations; underground injection of fluids for enhanced oil recovery or production-fluid disposal; and the underground storage of natural gas or other petroleum products in underground formations.

Staff reviews well-drilling permits, witnesses all well-plugging operations, conducts inspections throughout the life of a well, responds to citizen complaints, and investigates all oil- and gas-produced water spills.

For more information on the Division of Oil & Gas or the oil and gas industry in Indiana, see:

dnr.IN.gov/dnroil



Oil and Gas Fields of Indiana

(Gas wells shown in red, oil wells in green, gas-storage wells in yellow.)

Source: Indiana Geological and Water Survey

INDIANA DEPARTMENT OF NATURAL RESOURCES

Division of Oil & Gas

Indianapolis Office
402 W. Washington St., W293
Indianapolis, IN 46204
Phone: 317-232-4055

Rusty Retherford, Director
rretherford@dnr.IN.gov

Jim AmRhein, Asst. Director, Compliance and Enforcement
jamrhein@dnr.IN.gov

Beth Hernly, Assistant Director of Technical Services
bhernly@dnr.IN.gov

Evansville Office

8215 Pollack Ave.
Evansville, IN 47715
Phone: 812-853-8640 Fax: 812-853-8648

Kevin York, Field Inspection Manager, kyork@dnr.IN.gov

Our Mission: Encouraging the responsible development of Indiana's oil and gas in a manner that is protective of public health and safety, and the environment

LANDOWNER'S GUIDE TO OIL AND GAS LEASING



A 40-foot oil drilling rig near Terre Haute

DNR
Indiana Department
of Natural Resources

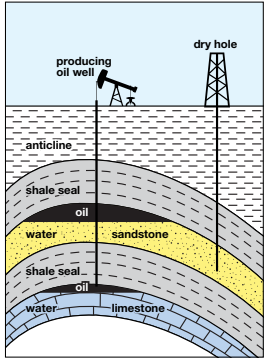


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Introduction

Oil and natural gas are valuable commodities. Their presence beneath your land could mean extra income for you if you choose to grant a lease to an exploration company for development.



Geologic cross-section

Exploration companies employ or contract with a professional called a “landman” to acquire leases of mineral rights to land with potential reserves of oil and natural gas. Not all landmen work for exploration companies.

You may have already been approached by a landman who has asked you to sign a lease that allows a company to drill in your property. If you are

approached, it is important for you to consider not only the potential income you could receive as the owner of leased land, but also the risks and inconveniences you may encounter.

What is a Lease?

A lease is a legal document or contract between a landowner (lessor) and a company or individual (lessee) that grants exploration and development rights to subsurface oil and gas deposits.

Companies will usually present you with a preprinted or standard lease form that is commonly used throughout the oil and gas industry. You should review it carefully and consult with an attorney or other professional who is experienced with oil and gas leases.

If there are terms or phrases that you do not understand or if you have questions regarding lease payments, the nature of the proposed operations, any impacts they may have on your property, or any other matters relating to the lease, be sure to get answers before signing the document. You should get all agreements and conditions in writing.

Entering into a lease agreement does not necessarily mean that a well will be drilled on your property.

Key Lease Terms

Cash Bonus-An up-front payment or bonus that may be computed on a per-acre basis for signing the lease. It is considered to be the first year’s rental.

Primary Term-The period of time during which the lease will be in effect, in the absence of drilling, production or other operations specified in the lease. The lease may be perpetuated beyond the primary term by production in paying quantities or by payment of Shut-In Royalty if specified in the lease. The primary term can be from one to 10 years or more.

Delay Rental-Annual rental payments paid to the lessor after the first year of the primary term and before production in paying quantities, usually on a per-acre basis.

Secondary Term-The term of the lease in which the lease is held in force after expiration of the primary term. Production operations, continuous drilling, or shut-in payments are often used to extend the lease into its secondary term.

Royalty-A percentage share of the production or equivalent value derived from the production that is granted to the lessor in the lease (usually 1/8th). Lessor royalty is free of the costs for drilling or production.

Shut-In Royalty-A payment usually stipulated in the oil and gas lease that royalty owners receive in lieu of actual production when a well is shut-in due to lack of a suitable market, a lack of facilities to produce the product, or other cases defined within the shut-in provisions contained in the lease.

Termination-Occurs when the primary term expires or when economic production or shut-in royalty payments cease during the secondary term.

Other Things to Consider

Land disturbance from roads, drilling sites, and production facilities. The actual drilling of a well is a temporary activity involving a large amount of equipment that is similar to equipment used for other construction projects. Be sure to consider how much of your land and which portions might be used for access, drilling, production, pipelines, tanks, compressors, and short- or long-term storage of equipment. Damages to timber, crops, fences, buildings and other personal property should also be considered. Doing so will help ensure that you are appropriately compensated from any such impacts to your property.

Oil or gas or both? Some companies may be primarily interested in drilling for oil. Others may be looking for natural gas. Others may develop both, if found on your property. These factors will determine which type of facilities you can expect to be associated with the operations.

Forced pooling-This is a provision in Indiana law that allows for the compulsory inclusion of an unleased tract in a unit agreement when the acreage is needed to complete the unit. The purpose is to avoid the drilling of unnecessary and uneconomic wells, which will result in physical and economic waste, and to protect the correlative rights of all property owners within the drilling unit. Operators seeking the forced pooling of unleased properties must have made a diligent and reasonable attempt to negotiate lease terms with the unleased owner and have successfully leased a “substantial majority” of the acreage within the proposed drilling unit. Forced pooling does not grant any right to use or disturb land of the unleased owner. Force-pooled owners are not required to receive annual lease rentals or bonus considerations that usually accompany a standard lease agreement. Force-pooled owners must decide whether they wish to share the costs (and risks) of drilling, operating, and abandoning the well, or only to receive a royalty from the production. Most decide for royalty interest only.



Oil storage tanks



A working oil pump