



KOGA Annual Meeting June 2018

WHAT IS HOUSE GAS AND WHY SHOULD YOU CARE AS AN OPERATOR OR LANDMAN WORKING IN THE APPALACHIAN BASIN ?

MODERATED BY:

RICHARD D. ADKINS, CPL ADKINS & ASSOCIATES LAND SERVICES, LLC

PANEL MEMBERS:

A. GEORGE MASON, JR., RPL GEORGE MASON LAW FIRM

MICHAEL J. POTTER, PLS VP LAND NYTIS EXPLORATION

CRAIG BLACKBURN, RPL CORE APPALACHIA

JOSH COCHRAN, EQT CORPORATION

MARK J. HUGHES, RPL, HUGHES LAND, LLC





-Issues with historical oil and gas leases that granted domestic house gas rights

- How to mitigate that exposure and risk now as a successor in interest
- Does domestic house gas usage alone perpetuate and effectively hold an oil and gas lease absent other production?
- What might a new modern lease look like addressing these provisions?
- Do you need a standalone ROW for the house gas line? Should you require or even allow the landowner to make the connections to your well or midstream assets?
- What should a landman do/say/not do in these negotiations?
- Recent Kentucky and Federal regulation updates regarding farm taps and their effect



Typical House Gas Use Lease Provision Language Examples:

“Lessors may, at Lessors expense, lay a line to Lessee's gas well on the leased premise and take their proportionate share of the 200,000 cubic feet of the gas produced from said well for Lessors use on said land at Lessors own risk, subject to the use and right of abandonment of the well by Lessee. The first 200,000 cubic feet taken in any year shall be free as their proportionate share bears, but all gas in excess of 200,000 cubic feet taken in each year shall be paid for by Lessors at the average well head price. Lessee shall have the right to off set any delinquent amounts due for gas used hereunder from any amounts due Lessors by Lessee. Lessee shall install and maintain a meter for measurement of gas taken by Lessors.”



“HOUSE GAS. Except to the extent that Lessee uses Gas for its operations as provided herein, Lessor may take for personal use up to 250,000 cubic feet of Gas per Lease year from any one well located on the Leased Premises for ordinary residential use in the principal dwelling house located on the Leased Premises (**“House Gas”**). Lessor will establish and maintain its own connection with the well at its sole risk and expense in a manner acceptable to the Lessor and in compliance with all applicable local and state regulations and any requirement of Lessee (the **“Connection”**).

Lessor agrees to and does hereby indemnify and hold Lessee harmless from and against any and all claims, damages or liability related to or arising (directly or indirectly) out of the Connection or Lessor’s receipt or use of House Gas, including but not limited to, property damage, personal injury or death, including reasonable attorneys fees. **If the Leased Premises should be subdivided, only the principal dwelling house on the original Leased Premises shall be entitled to House Gas.**

If the Leased Premises are owned by more than one Lessor and not all of the Lessors live in the residence receiving House Gas, Lessee shall have no liability to the other Lessors for the use of House Gas on the Leased Premises.”



*"If Lessor is the **owner of the surface of the leased premises**, Lessee agrees to provide to Lessor gas free of cost from any one producing well drilled on the leased premises in reasonable amounts for **normal domestic, noncommercial use** in any single dwelling located on said land. Lessor agrees to indemnify and hold harmless Lessee for and against all actions, claims, demands and lawsuits for damages to property and personal injury, including Lessee's employees, agents, contractors, or representatives, arising out of Lessor's receipt and use of such gas."*



“FREE GAS: Upon approval of Lessor's written request for free gas and his execution of an Agreement for Delivery of Free Gas and Overburn Gas, one Lessor may lay a line to any producing gas well on the leased premises and take two hundred thousand (200,000) cubic feet of gas per year free of cost for domestic use in one dwelling on said lands at Lessor's own risk and expense, and subject to the use and right of abandonment of the well by the Lessee. All overburn gas shall be paid for by said Lessor at the current established retail rate in the area.”



“FREE GAS- Lessor is to have a maximum of 150,000 cubic feet of gas per year free of cost from the lease for all stoves, furnaces, and inside lights in the principal dwelling on said land during the same time by making Lessors own connections to the well, at Lessors own Risk and Expense, subject to the use and right of abandonment of the well by the Lessee. **Said connection to be constructed and maintained to the specifications of the Public Service Commission or other regulatory agency.**

Should gas usage exceed 150,000 cubic feet per year, lessor agrees to pay Lessee for the excess gas amount **at a rate commensurate with that charged by surrounding utility districts.** This excess amount will be deducted from any rental or royalty payments due to lessor or may be billed to Lessor on a monthly or quarterly basis at Lessee's discretion. Lessor agrees to hold Lessee harmless from any damages arising from the use of Free Gas.

It is further understood that if the Lessor's land is part of a unit for a vertical or horizontal well and the actual wellhead is not located on the Lessor's property, then Lessor has no right to Free Gas. Lessor may only have Free Gas if the physical wellhead is locate on Lessors acreage.”

MODIFICATION AND RATIFICATION OF OIL AND GAS LEASE

This Modification and Ratification of Oil and Gas Lease ("Agreement") made this _____ day of _____, 20____, by and between _____, hereinafter collectively called "Grantor", having an address at _____, and BIG DADDY OIL CO, LLC, hereinafter called "Grantee", having an address at 1021 Majestic Drive, Suite 310, Lexington, KY 40513.

WHEREAS, on or about _____, 20____, _____ entered into that certain unrecorded Oil and Gas Lease (the "Lease") by and between _____, as Lessor, and BIG DADDY OIL CO, LLC, as Lessee, leasing unto Lessee certain lands containing _____ acres, more or less, located in _____ County, Kentucky;

WHEREAS, said Lease contained a Free Gas clause as set forth below:

Free Gas: Upon approval of Lessor's written request for free gas and his execution of an Agreement for Delivery of Free Gas or Overburn Gas, one Lessor may lay a line to any producing gas well on the leased premises and take two hundred thousand (200,000) cubic feet of gas per year free of cost for domestic use in one dwelling on said lands at Lessor's own risk and subject to the use and right of abandonment of the well by the Lessee. All overburn gas shall be paid for by said Lessor at the current established retail rate in the area.

WHEREAS, Grantor wishes to sell, assign, transfer and convey to Grantee and Grantee wishes to purchase and acquire said Free Gas rights as set forth in the Lease.

NOW THEREFORE, for and in consideration of Ten Dollars (\$10.00) and other good and valuable consideration cash in hand paid, the receipt and sufficiency of which are hereby acknowledged, Grantor has SOLD, ASSIGNED, TRANSFERRED AND CONVEYED, and by these presents does hereby SELL, ASSIGN, TRANSFER AND CONVEY unto Grantee, its successors and assigns, all of its right, title and interest in and to Free Gas (two hundred thousand (200,000) cubic feet of gas per year) as provided for in the Lease.

This Agreement shall remain in full force and effect according to the terms and conditions set forth in the Lease, which said Lease shall remain in full force and effect excepting only the terms set forth in this Agreement. The Grantors (Lessors) do hereby adopt, ratify and confirm that all the terms and conditions of the Lease are in full force and effect, except as modified by this Agreement.

IN WITNESS WHEREOF, this Ratification is entered into this the day and year first above written.

GRANTOR/LESSOR:

GRANTOR/LESSOR:

Free Gas Clause

If, and only if, Lessor is entitled to receive free gas, whether by virtue of the ownership of the surface of the leased premises and either all the oil and gas underlying the same, an undivided interest in the oil and gas underlying the same, or the express record right to receive free gas, then upon approval of Lessor's written request for free gas, Lessor obtaining 100% written consent from all owners with a right to receive revenue from the leased premises, and Lessor's execution of Lessee's Delivery of Free Gas and Overburn Gas Agreement, one (1) Lessor may lay a line to any one (1) producing gas well on the leased premises and take up to two hundred thousand (200,000) cubic feet of gas during any single twelve (12) month period for domestic use in one currently existing primary dwelling owned at all times by Lessor and located within a one thousand (1,000') foot radius from said well on the leased premises; subject, however to such well being capable of producing in commercial quantities and of commercial quality suitable for domestic use; the existence and availability of a local distribution company willing to administer, control, monitor, and service such free gas usage to the specifications and requirements of Lessee; and subject further to the use, maintenance, operation, production, limited deliverability, and right of shut in and/or plugging and abandonment by Lessee of its well(s), equipment and pipelines on the leased premises. Lessor shall secure such gas by service line laid to and connected to such well on said leased premises in accordance with all applicable laws, rules and regulations, the point of connection to be designated by Lessee and Lessor shall assume the entire risk and all expenses associated with securing and using such gas and agrees, to the fullest extent of applicable law, to release and indemnify Lessee from and against any and all claims or causes of action arising therefrom or relating thereto. If Lessor in any year uses gas in excess of the quantity provided for herein, Lessor shall pay for all overburn gas at the current established retail rate in the area or at the rate charged by the local distribution company administering the free gas usage, but Lessee assumes no obligation to furnish Lessor with gas in excess of the quantity provided herein. The measurement and regulation of such gas shall be by meter regulators furnished by Lessor, subject to Lessee's approval, and set at the tap on the well. Notwithstanding the foregoing provisions, in the event the leased premises are made a part of a unit or pooled with other acreage and the well(s) has been drilled on another lease, the Lessor hereunder will not be entitled to use wellhead gas, free or otherwise. The rights granted herein related to free gas are not assignable or transferable to a party not currently owning an interest in the leasehold premises. Notwithstanding the foregoing, the specific terms and conditions of free gas use shall be governed and controlled by the Agreement for Delivery of Free Gas and Overburn Gas. Lessee shall be fully relieved of any further obligation to provide free gas or alternative payment to Lessor if any of the conditions provided hereinabove are not satisfied. At the time application is made for free gas, Lessee shall have the option to make an annual cash payment to the qualified applicant(s) of One Thousand and 00/100 Dollars (\$1,000.00) in lieu of providing free gas and said sum shall thereafter permanently discharge Lessee's obligation under this lease to provide gas free of cost to Lessor, his successors, heirs and assigns