

CITY COUNCIL STUDY SESSION MINUTES
November 5, 2013

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a Study Session at 5:35 p.m. in the Municipal Building Conference Room on the 5th day of November, 2013, and notice and agenda of the meeting were posted at the Municipal Building at 201 West Gray, and the Norman Public Library at 225 North Webster 24 hours prior to the beginning of the meeting.

PRESENT:	Councilmembers Castleberry, Griffith, Heiple, Holman, Jungman, Kovach, Miller, Williams, Mayor Rosenthal
ABSENT:	None

DISCUSSION REGARDING A PROPOSED OIL AND GAS LEASE WITH BARON EXPLORATION COMPANY FOR PROPERTY LOCATED SOUTH OF HIGHWAY 9 AND EAST OF JENKINS AVENUE.

Ms. Leah Messner, Assistant City Attorney, said Council met on October 22, 2013, at a Council Conference to discuss the possibility of entering into a lease with Baron Exploration Company (Baron) for an oil and gas well to be located on City property near Highway 9 and Jenkins Avenue. She said Staff has information to several Council questions from the meeting, but first she highlighted an interactive fracturing (fracking) diagram from Halliburton's website which she felt would be very helpful in understanding the fracturing process.

Will Baron Exploration use "fracking" when drilling this well?

Yes, Baron intends to drill this proposed well to approximately 7,000 to 9,000 feet. Currently, there are 163 wells in the city limits of Norman; of those wells, one has been horizontally drilled and almost all the wells have been "fracked". While fracturing is not new to Oklahoma, horizontal drilling is relatively new, and it has dramatically changed how quickly and successfully oil well companies can remove oil and gas from well sites. As of right now, Baron does not intend to drill the proposed well horizontally. According to the Oklahoma Corporation Commission (OCC) the "base of treatable water" in the area of the well is 520 feet. The City ordinance requires steel and concrete casing to extend 200 feet below the base of treatable water. "Fracking" is regulated by the OCC and Mr. David Woods, Oil and Gas Inspector for the City of Norman, will be responsible for enforcing the City's Oil and Gas Ordinance. The Oil and Gas Ordinance requirements include:

- \$3,000 drilling permit;
- Annual inspections of the well site;
- Copy of the approved drilling permit from the OCC;
- Information about the well including the location, equipment and plan of operation;
- Blanket bond or irrevocable letter of credit for at least \$25,000 to restore the site if not plugged in accordance with the Ordinance; and
- Insurance policy with at least \$1,000,000 in coverage that includes coverage for environmental contamination.

Will there be any impact on the Canadian River and City facilities?

The proposed well site is approximately 3,000 feet from the Canadian River and Baron has received a Floodplain Permit for the proposed well site. The permit requires that the well head and tank batteries be constructed in the base flood elevation. In addition, Baron, will be installing a containment system around the tank at the well site. This type of containment system is designed to ensure that, in the event of a leak or tank rupture, no oil would contaminate the environment. Baron has agreed to access the proposed site via Jenkins Avenue, Bratcher-Miner Road, and the City of Norman Compost Facility. Jenkins Avenue is currently in good condition and taking access off of Jenkins, instead of Chautauqua Avenue, prevents the oil company trucks from sharing Chautauqua Avenue with residents living to the west of Chautauqua Avenue. Baron estimates that 10 to 20 trucks will be entering the site daily during the initial drilling phase, and one truck every two weeks after the well goes into production. Currently, the City of Norman has approximately 72 large Sanitation and/or Water Reclamation vehicles using Bratcher-Miner Road daily.

What is the estimated revenue to the City from this proposed lease?

According to Baron, the wells to the east of this site have not been substantial producers; however, the wells to the north have been excellent producers. The wells to the north are located on the "oil creek formation" which is very difficult to locate, but when located, provides prolific production. Baron does not believe the well on the City site

will hit the “oil creek formation” and poses a very low risk of a dry hole. Baron is hoping to double their investment with the City well site. The City can calculate a projected oil royalty payment from the following formula:

$(\text{Price of Oil} \times \text{Barrels per Day} \times 320 \text{ Days of Annual Production}) \times 3/16 \text{ Royalty} = \text{Projected Revenue to City for Oil Production.}$

Mr. Woods, Oil and Gas Inspector, reviewed the production records for two wells near the proposed well site and compared those barrel/day figures using the above formula for calculating revenue to the City from the proposed well for a single year of production. Ms. Messner said according to the estimates and based on a conservative \$90.00 price of oil per barrel, the City could have annual revenue of \$162,000 (30 barrels per day), \$54,000 (10 barrels per day), or \$27,000 (five (5) barrels per day).

Will Baron agree to increase the bonus payment?

After additional discussions, Baron has agreed to two (2) different lease options. The first lease option, Baron is willing to increase the one-time bonus payment to \$150 per acre or \$24,000 total and keep the 3/16 royalty payment resulting in additional estimated annual revenue, i.e., \$162,000, \$54,000, or \$27,000.

The second lease option, Baron would be willing to accept a lease for the well site for a one-time bonus payment of \$250 per acre or \$40,000 total with a lower 1/8 royalty payment resulting in the following estimated annual revenue based on production:

- \$108,000 - \$54,000 decrease in royalty;
- \$36,000 - \$18,000 decrease in royalty; or
- \$18,000 - \$9,000 decrease in royalty.

Councilmember Castleberry asked if the \$300 per month damages was included in each of the scenarios and Staff said yes. Councilmember Jungman asked Staff to explain the damage payment and Ms. Messner said Baron will pay \$300 per month, \$2600 per year, to use the City’s property surface to install the well site and pipeline.

How much water will the proposed well use?

Baron estimates the proposed well will use approximately 200,000 gallons of water over the life of the well and would like to purchase that water from the Norman Utilities Authority (NUA). The NUA would install a construction meter at the well site (at a charge of \$25 per month) and also charge \$2.50 per thousand gallons of water. If 200,000 gallons are used, Baron would owe the City \$500 in water costs over the life of the well plus \$25 per month for the construction meter. Baron is willing to explore using effluent instead of City water if access to and chemical composition of the effluent are workable.

Will Baron Exploration fence the well site?

Yes, Baron installs an eight (8) foot chain link fence with three (3) barb wire along the top around all of their well sites. Both the tank batteries and the well head will be fenced.

Ms. Messner said Council has the option to select the preferred lease rate and the lease can be scheduled for Council consideration at the November 12, 2013, City Council meeting. If approved, Baron is working towards completing the well before the end of the calendar year; however, Baron will have one year to drill the well.

Councilmember Jungman asked how long the contract would be ongoing and Ms. Messner said the lease continues as long as the well produces.

Councilmember Kovach asked Staff to provide more information regarding Baron’s willingness to use effluent versus potable water and Mr. Ken Komiske, Director of Utilities, said for amount/volume of water estimated, he felt Baron would likely not choose that particular option because of regulations and required permits.

Councilmember Miller asked what Baron’s record was in regard to accidents, environmental issues, etc., and Mr. Jack Dake, Baron Land Manager, said Baron has been drilling wells in the Oklahoma City metropolitan area since 1958 and he has been with the company since 1989; to date Baron has had no spills and only one freak accident approximately three years ago. He said Occupation Safety and Health Association (OSHA), as well as the Oklahoma

Department of Labor investigated the accident and determined Baron was not at fault and that it was truly an unusual freak accident.

Councilmember Castleberry felt 1/8 royalty was low and asked if Baron would consider 1/4 royalty? Mr. Dake respectively disagreed that 1/8 royalty is low and said a vast majority of Baron's gas and oil leases, have been and are, 1/8 royalty. He said the royalty amount determined has to do with the quality of the rock. Mr. Dake said Baron feels there may be enough remnants of the oil and gas remaining in the rock for the proposed property. He said Baron feels there is a good probability of producing oil, but whether the well will be an economically viable producing well is very much a great risk financially for Baron. Mr. Dake said Baron would not be interested in anything higher than 3/16 royalty because there is too much risk.

Mr. Jeff Bryant, City Attorney, added that the City published the proposed oil and gas lease as a notice in the newspaper for competitive bidding accordance with the statute and Baron was the only bid received. He felt Baron was kind enough to discuss the proposal, increase the royalty payment, and offer Council two additional lease options to increase the bonus payment thus minimizing the City's risk.

Mayor Rosenthal asked for Council input regarding which lease option was preferred and it was the consensus of the Council to go with lease option one, increasing the one-time bonus to \$150 per acre (\$24,000 total) with a 3/16 royalty. Councilmember Jungman said he is not sure the revenue is worth the long term commitment.

Mayor Rosenthal said the proposed oil and gas lease will be on the November 12, 2013, Council agenda for Council consideration.

Items submitted for the record

1. Memorandum dated November 1, 2013, from Leah Messner, Assistant City Attorney, through Jeff Bryant, City Attorney, to Mayor and City Councilmembers
2. Pertinent excerpts from City Council Conference minutes dated October 22, 2013, with attached memorandum dated October 17, 2013, from Leah Messner, Assistant City Attorney, through Jeff Bryant, City Attorney, to Mayor and Councilmembers, with attached location map
3. PowerPoint presentation entitled, "Proposed Oil and Gas Lease with Baron Exploration, City of Norman, City Council Study Session," dated November 5, 2013

The meeting adjourned at 6:10 p.m.

ATTEST:

City Clerk

Mayor