



City of Norman, OK

Municipal Building Council
Chambers
201 West Gray Street
Norman, OK 73069

Master

File Number: K-1314-93

File ID: K-1314-93

Type: Contract

Status: Consent Item

Version: 2

Reference: Item No. 43

In Control: City Council

Department: Legal Department

Cost:

File Created: 11/06/2013

File Name: Oil and Gas Lease with Baron Exploration

Final Action:

Title: CONTRACT K-1314-93: A CONTRACT BY AND BETWEEN THE CITY OF NORMAN, OKLAHOMA, AND BARON EXPLORATION COMPANY FOR THE LEASE OF 160 ACRES OF MINERAL RIGHTS TO ALLOW DRILLING OPERATIONS ON PROPERTY LOCATED IN SECTION 18, TOWNSHIP 8 NORTH, RANGE 2 WEST OF CLEVELAND COUNTY OKLAHOMA, SOUTHWEST OF THE WASTEWATER TREATMENT PLANT ALONG THE SOUTH CANADIAN RIVER FOR A PERIOD OF THREE YEARS.

Notes: ACTION NEEDED: Motion to approve or reject Contract No. K-1314-93 with Baron Exploration Company for a period of three years; and, if approved, authorize the execution thereof.

ACTION TAKEN: _____

Agenda Date: 11/12/2013

Agenda Number: 43

Attachments: Oil and Gas Lease-Baron Exploration

Project Manager: Leah Messner, Assistant City Attorney

Entered by: jayme.rowe@normanok.gov

Effective Date:

History of Legislative File

Version:	Acting Body:	Date:	Action:	Sent To:	Due Date:	Return Date:	Result:

Text of Legislative File K-1314-93

Body

BACKGROUND: The City of Norman owns 340 acres, more or less depending on the alignment of the Canadian River, South of State Highway 9 and East of Jenkins Avenue. The City also owns all of the mineral rights for this property. Currently, the City of Norman leases a portion of the property for the operation of a sand mine and the City uses a portion for the City's compost facility.

In July 2006, the City of Norman entered into a lease for drilling of an oil and gas well on this property. That lease was with Hughes Oil Company ("Hughes"). Though the City had a lease with Hughes, Hughes never drilled a well, and the lease expired. The term of the lease with Hughes was for three years with Hughes agreeing to pay a 3/16 royalty to the City of Norman.

Subsequent to the expiration of the lease with Hughes, City staff began to take steps to determine if there was any interest among oil and gas companies to lease the same area for a well. David Woods, Oil and Gas Inspector for the City of Norman, spoke with several oil companies operating in the Oklahoma City Metro Area

about the possibility of leasing the City property. After determining that there was interest, the City of Norman advertised for lease proposals in the *Norman Transcript* on October 5th and 12th, 2013. The Baron Exploration Company ("Baron") submitted the only proposal. The bid documents included a lease prepared with help from the Oklahoma City law firm of Elias, Books, Brown and Nelson who specialize in oil and gas law. The City Council met on October 22, 2013 and November 5, 2013 to discuss Baron Exploration's proposal.

The item now coming before Council is consideration of the Lease between the City and Baron for Oil and Gas exploration purposes, as discussed in Council's prior conferences.

DISCUSSION: Baron proposes to lease 160 acres of mineral rights from the City of Norman within the 340 acres owned by the City of Norman for a primary term of three years. Baron agrees to a first year drilling obligation - meaning that if a well is not drilled within the first year of the lease term, the lease will terminate. In addition, after the three year primary term, the lease will expire as to all land not included within the producing area. The lease will continue for the producing areas until production is exhausted. Baron will pay a royalty of 3/16 to the City of Norman; a one-time bonus payment of \$150.00/acre for a total bonus payment of \$24,000; and payment for surface damages of \$300.00/month for the term of the lease.

In exchange, the City of Norman would be granting exclusive a drilling and productions operation site within the leased premises, and access thereto. This includes the right to lay a natural gas gathering pipeline on City property to pipe the gas from the well site.

The locations of the proposed well and natural gas pipeline are shown on a map attached to the proposed Lease Agreement. Under the terms of the Lease, the City may specify how Baron shall access the well site.

The City of Norman requires a permit to drill an oil well within the City of Norman. If the lease is approved, Baron will have to apply for and receive a permit. There are locational criteria in order to receive a permit, and this proposed location meets those criteria. First, an oil well cannot be drilled on land zoned parkland or Planned Unit Development or contained within a final plat. The area for the Baron well site is zoned A-2. In addition, the nearest houses are over 2,000 feet away from the proposed well location.

The area for the proposed well site is within a floodplain. Baron made application to the City of Norman Floodplain Permit Committee and on October 7, 2013, the Floodplain Permit Committee reviewed the application; approved the well site location; and granted a floodplain permit. The permit requires that the well head and the tank batteries be constructed at the base flood elevation.

RECOMMENDATION: The City Attorney's Office has reviewed the Baron Proposal. In addition, the Oklahoma City firm of Elias, Books, Brown, and Nelson, who specialize in oil and gas law, has assisted the City Attorney's Office in this matter. The City Attorney's Office and Elias, Books, Brown, and Nelson firm believe the terms of this lease are fair to the City of Norman and are standard within the oil and gas industry. If City Council wishes to lease the subject property to Baron Exploration to drill an oil and gas well, City Staff recommends approval of the subject lease.