



## INFORMATION SHEET: POOLING MINERAL INTERESTS

### Why am I receiving this information?

A review of public property records indicates you may own unleased minerals that an oil and gas operator has asked the Colorado Oil & Gas Conservation Commission (“COGCC”) to “pool.” The COGCC prepared this brochure to help inform mineral owners about “pooling” of mineral interests in Colorado and the State’s administrative process.

### What is pooling, why pool minerals, and why does Colorado have a pooling law?

Pooling is the joining together of various mineral interests into one large “drilling and spacing unit” in order to drill a single well to drain a large area of oil and gas, with each person who owns a mineral interest (“mineral owner”) in the unit receiving a share of the proceeds.

In the early days of oil and gas production, before pooling laws, mineral owners were required to each drill a well to receive proceeds from the minerals they owned. Owners competed with their neighbors to pump as much oil as possible, as quickly as possible. Consequently, oil and gas operators drilled as many wells as they could on the properties they owned or leased to maximize production, which led to some areas with numerous wells scattered across neighborhoods. This resulted in unnecessary development of the surface land, many more wells than necessary, and wasted oil and gas resources.

Pooling provides controlled and far less disruptive drilling. Limiting the number of wells within a resource area reduces impacts on the environment, lowers costs, and boosts efficiency. Pooling allows each owner to proportionately

share in the costs and proceeds from oil and gas development from a pooled unit, without requiring each mineral owner to drill their own well. Pooling also ensures that a mineral owner who refuses to enter into a lease does not prevent the development and production of oil and gas minerals owned by others.

Colorado adopted its “pooling law” over fifty years ago in order to ensure each mineral interest owner pays his or her proportionate share of the costs of oil and gas development and receives a proportionate share of the revenues once production is established. The COGCC establishes “drilling and spacing units” determining the number of oil and gas wells that may be drilled in the unit to efficiently and effectively capture all available mineral resources. After a drilling and spacing unit is established, any mineral owner in the unit that owns, or has secured the consent of, more than 45% of the mineral interests to be pooled, can begin pooling the interests of the remaining mineral owners within the unit. The pooling process can be done voluntarily through private contract by those who own or lease minerals. Pooling can also be accomplished through a COGCC administrative hearing process, often called “statutory pooling” or “forced pooling.”

### What is the process to pool minerals in Colorado?

At least 90 days before the COGCC hearing to pool the minerals, an owner (who has secured 45% of the minerals in the unit) takes two steps:

(1) submit an application to the COGCC requesting to pool the unit’s mineral owners; and,

(2) send all unleased mineral owners the pooling application, an offer to lease, an offer to participate in the drilling, completion, and operation of the proposed wells, and this brochure.

Each unleased mineral owner has 60 days to decide whether to lease, participate, or take no action. Regardless of your choice, you are not required to participate in the pooling hearing before the COGCC. As an unleased mineral owner, you may engage in the COGCC's pooling process by filing a formal petition prior to the hearing (see Commission Rule 507), or by submitting a public comment, which COGCC refers to as a "512 statement."

### **What are my options?**

With this brochure, you also should have received information from the oil and gas operator regarding leasing your minerals or participating in the well. You have several options:

1. Lease your minerals, pursuant to an Offer to Lease, which is a private agreement between you and the operator that entitles you to reasonable royalties on oil and gas production from the unit. You may lease your minerals to any person, not just the operator that sent you this information.
2. Elect to participate in the drilling, completion, and operation of the wells proposed by the operator. In this case, you will be expected to pay your proportionate share of the costs of drilling, completion, and operation, and will receive a greater proportionate share of the proceeds.
3. Take no action. Your minerals will be pooled and you will be deemed a "nonconsenting party" through COGCC process and rules. The proceed percentages differ slightly depending on whether the well produces primarily gas or oil. As a

nonconsenting party, Colorado statute dictates you will receive 13% of your proportionate proceeds from the unit for a gas well, and the remaining 87% of your proceeds will be applied to offset your share of 200% of the drilling costs and 100% of the surface costs. As a nonconsenting party, Colorado statute dictates you will receive 16% of your proportionate proceeds from the unit for an oil well, and the remaining 84% of your proceeds will be applied to offset your share of 200% of the drilling costs and 100% of the surface costs. Once these costs are paid, you will receive 100% of your proceeds.

### **What if I don't consent to the development of my minerals?**

If you do not sign a lease offer and do not elect to participate, the operator will ask the COGCC to deem you a "nonconsenting party" as part of the pooling process. As a nonconsenting party, you will be unable to participate as an owner in the drilling of the well and will not have an opportunity to negotiate a lease. Your minerals will then be pooled.

As a nonconsenting owner, Colorado statute provides that you will receive 13% of your proportionate proceeds from the unit for a gas well, based on your mineral acres compared to all mineral acres in the drilling unit. The remaining 87% of your proceeds will reimburse those mineral owners who opted to participate in the well - providing 200% of drilling costs and 100% of surface equipment costs attributable to your mineral interest. In the case of an oil well, Colorado statute provides that you will receive 16% of your proportionate proceeds from the unit, based on your mineral acres compared to all mineral acres in the drilling unit. The remaining 84% of your proceeds will reimburse those mineral owners who opted to participate in the well - providing 200% of drilling costs and 100% of

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surface equipment costs attributable to your mineral interest. You reimburse participating mineral owners 200% of your proportionate drilling costs, instead of 100%, as a “risk penalty” to compensate participating mineral owners for the risk they accepted as part of the agreement for drilling a well. Once your 87% (for gas) or 84% (for oil) of production revenue covers 200% of drilling costs and 100% of surface equipment costs, the well “pays out” and you will then receive 100% of your proportionate share of proceeds and also be responsible for your share of costs going forward.

If the operator files an application with the COGCC to deem you a nonconsenting party, you have the opportunity to petition that application. You must file that petition directly with the COGCC as required under COGCC Rule 507.

By law, nonconsenting parties are immune from liability for costs arising from spills, releases, damage, or injury resulting from oil and gas operations on a unit.

**Where can I get additional information?**

For more information about the COGCC administrative hearing process and deadlines, please refer to the COGCC website at <http://cogcc.state.co.us>. You may also contact the COGCC at [dnr.ogcc@state.co.us](mailto:dnr.ogcc@state.co.us) or 303-894-2100. Please note, COGCC staff are not available to provide legal advice. COGCC recommends that you engage an attorney with knowledge of oil and gas matters to assist you with reviewing any offers you receive from an oil and gas operator or other person.