

pressconnects.com

Windsor group finalizes huge gas lease deal

Written by

Steve Reilly

10:41 PM, May. 24, 2011

WINDSOR -- After a brief hiccup, a group of 40 Windsor landowners and a Denver-based energy company have finalized the area's largest gas lease deal in more than a year.

The \$8.25 million lease agreement for drilling rights on 3,000 acres of land was struck in January, but became snared when Inflection Energy asked an Albany-based lawyer to review the legal documents before the company signed off on them.

After the details were ironed out, the basic terms of the deal remain the same: Landowners will net \$2,750 per acre in bonus payments, and an 18 percent royalty payment on any natural gas extracted from their land.

Inflection CEO Mark Sexton said the four-month delay was a result of "a difference of opinion among (legal) counsel about what was required in the state of New York."

"Since we were spending several million for the acreage we wanted to make sure we got it right," he said.

Landowners signed onto the deal May 18, and started to receive checks on Tuesday after the conclusion of a wait period.

Elmira-based lawyer Richard Gerard, who represented the group, said the agreement represents a thaw in the leasing environment in the state.

"This is the first market-rate transaction in New York since the moratorium went into effect three years ago," he said. "Finally, after three years, you've got an at-market transaction with an excellent lease."

Leasing activity in the state has been stymied in New York since 2008, when a de facto moratorium on high-volume, horizontal hydraulic fracturing -- the technique used to extract natural gas from the Marcellus Shale -- went into effect.

The group's lease agreements, which last four years with an option to renew, address

the regulatory delays with a two-year "rubber period" where the lease is automatically extended if the moratorium continues.

"Under the lease terms, the landowners agreed to share in the risk of the current regulatory environment by allowing the leases to be extended to accommodate the current moratorium on drilling and completing shale gas wells," the company said in a statement Tuesday.

Most landowners included in the deal were once members of the Windsor & Colesville Oil and Gas Lease Coalition, which includes about 80,000 acres and is one of largest landowner groups in Broome County.

Gerard drew a contrast between the group's deal and the last major leasing agreement in the Southern Tier, reached between Inflection and 115 landowners in the South Maine Millennium Coalition in early 2010.

In that deal, the \$6,000 per acre bonus payments were staggered over six years and landowners received 20 percent royalties "subject to certain deductions."

"This is a traditional oil and gas lease

format," Gerard said of the Windsor group's lease. "The money is substantial up front."

Jim Roberts, one of the leaders of the group, said he hoped the deal would be a "stepping stone" for other lease agreements in the state.

"All of the landowners who have stuck it out with us truly believe this is just a new beginning for our area," he said.

Inflection has been one of the few companies willing to conduct gas leasing business in the state during the moratorium, and twice made offers to lease Broome County-owned land in 2010. The company controls approximately 15,000 acres in New York and is currently developing 6,000 acres in Pennsylvania, the company said in a statement Tuesday.