



Gas Leasing Scams and Rip-Offs: Ways to Separate You from Your Property Rights and Money

Who is knocking on your door asking you to lease them your gas rights?

It is important to understand who is trying to lease your natural gas rights. A land broker (also called a land man) will not be drilling the gas well on your property. In all likelihood, the land broker will sell your lease to a gas company that will conduct the drilling. If you sign a lease with a land broker, you should understand that you may not be working with this person through very much of the drilling process. In fact, you may not deal with this person at all after the lease is signed. Land brokers are not regulated by the state, so you should ask for references and be careful to investigate them before you sign the lease. The names of gas companies and their contact information can be found at naturalgas.psu.edu.

What is the term of your lease? Is it the number of years stated or is it as long as there is a producing well?

The length of your lease can vary, so it is important that you read carefully and understand your lease before signing. Many leases have an initial term of five years, but the lease may also provide for the initial term to be shorter or longer

than five years. Beware of the “right to extend,” which could then tie up your oil and gas rights for longer than the initial stated period at the same amount of money. Beware of a production clause such as “or as long as there is a viable well.” This can extend the lease almost indefinitely without additional compensation to the landowner.

What if you sign a contract to lease your land, but the deadline passes and they do not pay you for the right to explore for natural gas on your property?

The terms of the lease agreement will state whether or not, and under what terms, a gas company can back out of the deal. Since the gas companies generally write the agreements, you can expect the terms of the agreement to grant them some protections. If the agreement does not provide the gas company with the legal ability to terminate the agreement, then the landowner may want to consider filing suit to enforce the agreement (to receive payment). The landowner also may decide that the best course of action is to walk away. In all cases of nonpayment, however, the landowner needs to consider whether any action must be taken to terminate the agreement. In most cases, the lease will not termi-



nate solely because of nonpayment. To terminate the agreement, the landowner must comply with any notice requirements specified in the lease agreement. In some situations, the gas company may agree to execute a release or similar document. Additionally, it may be advisable for the landowner to record some type of document demonstrating that the agreement has been terminated.

Leasing

It is important that you understand all the terms in the lease agreement. Standard lease agreements are written to favor the gas companies and are difficult to understand. Addenda (changes) are added to protect the landowner. Many leases have over thirty addenda or changes. Consult an attorney with knowledge of natural gas leases. You will need to pay for this service, but beware of attorneys who want a percentage of your royalties (payment for your gas taken from a well on your property).

Separate Compensation

The up-front payment received for the right to explore for natural gas is one amount. A second amount is the royalty, a percentage paid to you for any gas that is extracted from the land. The required royalty payment is 12.5 percent. A higher royalty percentage is negotiable. Also, additional compensation can be negotiated if the land will be used for storage or pipelines. Look out for companies that try to include use of your land for pipelines and storage in your lease for oil and gas rights without providing you additional money for them.

Don't Be Hurried

Those interested in your oil and gas rights will try to get you to hurry and give you short time deadlines to make a decision. In reality if the gas companies have just come to your area, the price will normally go up. Take time to learn about gas leasing and how to protect your interests.

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Put Our Experience to Work for Your Community

The Penn State Extension Marcellus Education Team strives to bring you accurate, up-to-date information on natural gas exploration and drilling in Pennsylvania. Learn about your rights and choices as a landowner, a businessperson, a local official, or a concerned citizen. Discover the resources available to you.

Visit naturalgas.psu.edu.

Penn State Extension

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The Agricultural Law Resource and Reference Center

The Agricultural Law Resource and Reference Center is a collaboration between Penn State's Dickinson School of Law and Penn State's College of Agricultural Sciences. Located at both the University Park and Carlisle facilities and funded in part by the Pennsylvania Department of Agriculture, the center is designed to provide the highest-quality educational programs, information, and materials to those involved or interested in agricultural law and policy.

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