PLANNING SESSION COMMUNICATION

Meeting Date:	Agenda Item:	Agenda Location:	
January 7, 2025	{{section.number}}F	BRIEFINGS	____ 1st Reading ____ 2nd Reading

Subject:	
Leasing oil and gas mineral rights owned by the City of Thornton in Weld County.	

Department Head Review:	Approved by:	Ordinance previously introduced by:
Brett Henry, Executive Director of Utilities and Infrastructure **Presenter(s):** Scott Twombly, Real Property Manager	Tansy Hayward, City Manager	____________

SYNOPSIS:

The City owns oil and gas mineral rights (Mineral Rights) on Farm 66/107 in Weld County and recently received a lease offer for these Mineral Rights from Bayswater Exploration and Production, LLC (Bayswater). Per Colorado Statute, when presented with a lease offer a mineral owner has the option to lease the minerals, participate in the wells, or take no action. If the mineral owner takes no action, the minerals will be statutorily pooled resulting in the mineral owner participating in the well as a non-consenting mineral owner. By leasing the Mineral Rights, the City will be able to receive a lease bonus and royalty income from the well.

RECOMMENDATION:

For informational purposes only.

BUDGET/STAFF IMPLICATIONS:

The City would receive a lease bonus of $122,500 and royalty income from the well of approximately $400,000, over the next five years.

ALTERNATIVES:

For informational purposes only.

BACKGROUND (ANALYSIS/NEXT STEPS/HISTORY): (includes previous City Council action)

On March 22, 2011, the City declared the oil and gas mineral rights it owned in Weld and Larimer County as surplus property and authorized their disposition by the City Manager (C.D. No. 2011-030).

Since 2011, the City has entered into 63 Leases with eight different oil companies. Over 200 oil and gas wells have been drilled on Thornton leased lands. Thornton has received over $110 million in oil and gas revenue from mineral sales, easements, lease bonuses, surface use agreements, and royalties.

Under a lease, the City would receive revenue from a lease bonus in the amount of $2,500 per mineral acre, and royalties at a 20% rate from a well once it is producing. If the City chooses to participate in the well, the City would receive its proportional revenue from the well after deducting expenses. If the City is statutorily pooled, the City will receive a royalty rate of 13% for gas wells, and 16% for oil wells until such time the operator recovers 200% of the drilling costs and 100% of the surface facilities cost. These rates reflect the language in Senate Bill 19-181. The royalty rate and cost recovery structure is intended to be punitive in nature to discourage statutory pooling.

ATTACHMENTS:

PowerPoint Presentation