



CITY COUNCIL COMMUNICATION

September 22, 2009

SUBJECT: Authorize the Mayor to negotiate and execute a Surface Use Agreement with XTO Energy related to gas well drilling and production on city owned property referred to as the Ollie Parker tract (Kitty House Survey, A-678).

SUBMITTED BY: Gary L. McKamie, City Manager

REFERENCE NO:

ACTION REQUESTED:

Consider authorizing the Mayor to negotiate and execute a Surface Use Agreement with XTO related to gas drilling and production on city owned property referred to as the Ollie Parker tract (Kitty House Survey, A-678).

ALTERNATIVES:

1. Approve the request – *simple majority*
2. Approve the request with modifications – *simple majority*
3. Deny the request – *simple majority*

SUMMARY OF SUBJECT:

The City of Euless purchased the 10.4 acre Ollie Parker tract in November 2007. The property is located between Trinity Blvd. and S. Pipeline Rd. on the west side of the 15th hole of the Texas Star golf course. There is an approximately twelve foot (12') tall berm with trees and vegetation that runs north/south on the east side of the Parker tract. This landscaped berm serves as a visual buffer when looking from the golf course towards the Parker tract. Currently, the City of Euless has no plans to utilize this property for any purposes other than to maintain this visual buffer.

The City of Euless awarded a gas lease in June 2006 to XTO Energy, Inc. for the 338 acres referred to as the Texas Star lease (which includes the golf course) for subsurface rights only. The lease contained the following terms:

- 1) a two (2) year primary term during which drilling activity must commence; and,
- 2) twenty seven and one-half percent (27.5%) royalty from the proceeds of the sale of the natural gas, with the lessee bearing one hundred percent (100%) of the costs associated with producing and delivering the natural gas

As XTO Energy developed its gas drilling plans related to the Texas Star lease, they realized that the Ollie Parker tract could serve effectively as a gas pad site with multiple

wells. The Parker tract site would enable pooled drilling units to be created that contain properties located in the west and north areas of the Texas Star lease.

The proposed Surface Use Agreement contains the following major terms and conditions:

- Utilize 2.4 acres (fronting Trinity Boulevard) for gas pad site
- Overriding Royalty Interest (ORRI) of 2.25% as applicable for wells drilled from the Parker tract whose pooled units include properties that are not included in the Texas Star lease;
- Overriding Royalty Interest (ORRI) of 1.25% as applicable for wells drilled from the Parker tract whose pooled units include properties that are included in the Texas Star lease;
- Onetime payment of \$100,000 for surface damage when the pad is constructed;
- Onetime payment of \$35,000 when the pad is constructed for the city to use at its discretion for additional screening and landscaping on the east side of the Parker tract. (Pad site construction to begin within three (3) months of signing Surface Use Agreement)
- Placement of low profile tank batteries and equipment whose height will be below the eight foot (8') perimeter screening.

The City and the operator will agree before any surface operations are conducted on the locations(s) of wells, roads, pits, pipelines and any other surface obstruction. Multiple provisions are established dealing with specific operational activities, including: the operator is prohibited from disposing of drilling mud or saltwater in, under, or upon the Leased Premises; operator must maintain the operations site in a neat and orderly fashion; operator must remove all casing, tubing, pipe, equipment and other materials within one hundred eighty (180) days of the cessation of its active use in connection with operations; operator shall remove from the operations site everything but permanent equipment within 180 days after well is producing; and, all permanent structures and equipment located on the operations site is to be maintained in good repair and must be painted to blend in with the surrounding landscape.

Staff is recommending that the City Council approve the agreement and authorize the Mayor to enter into a Surface Use Agreement with XTO Energy. Staff believes that the company is highly qualified and has established extensive drilling experience in the Barnett Shale play. In addition, XTO controls access to a gas pipeline that ensures gas produced from the city's tract can be gathered and distributed into a major trunk line.

SUPPORTING DOCUMENTS:

- Exhibit: Gas Pad Site Plan

APPROVED BY:

_____ **LG** _____

City Manager's Office

_____ **SC** _____

City Secretary's Office