

Questions & Answers pertaining to oil and gas development in Adams County

Questions from the community after the Aug. 16 Board of Education Meeting

Q1. Can you articulate the financial impact to the District under the two potential scenarios, namely a lease arrangement vs a forced pooling arrangement. I realize some estimates, assumptions and projections may be necessary, but I assume Great Western and/or your consultant can each offer insights to use for this analysis. Specifically what would the projected revenues (and costs if any) be for the District over the extraction period under each scenario. It would be useful to document your assumptions for all to see.

A1. Unfortunately not. There are far too many variables to make an accurate prediction. There is no way for the District to estimate how productive the wells are likely to be, when the wells will be drilled, the price of oil and gas when they are drilled, and how quickly the wells will cover their costs.

Forced pooling statutes only allow for non-consenting parties to receive 12.5% of their proportionate share of the revenue. The non-consenting mineral owners will only receive their full share of the revenue after the well has brought in revenue equaling double the cost of drilling and completing the well. According to Great Western, the cost of drilling and completing each well will be \$4.9 - \$5.3 million. So any party that is forced pooled will only receive 12.5% of their proportionate share of production until each well makes at least \$10 million. That could take years.

The lease offer that Adams 12 is considering will bring in immediate revenue for the District. The District has been offered a \$5,000 / net mineral acre as a signing bonus. That is \$195,150 for our 39.03 acres. We have also been offered a 21% royalty rate (without post production cost deductions). We understand that a 21% royalty rate is high for the area.

Q2. If the lease option were to be pursued, what are the kinds of negotiation items that could be pursued with Great Western, specifically can you identify potential safety-related clauses that could be pursued to protect our students, staff and property, such as set-backs, capping of old wells, noise and air pollution criteria, insurance set-aside/reserve for any adverse impacts, long term contingency against ground settling, ongoing testing, etc.

A2. The proposed surface location (Tower LD) will be more than one mile away from Adams 12 Schools and will be more than 1,000 feet from the closest home. State law allows wells to be as close as 500 feet from a home and 1,000 feet from a school building.

Adams 12 does not have enough acreage to be able to make demands of the oil and gas industry with respect to its surface location. The proposed wells are accessing two square miles (1,280 acres). The District only owns 39 acres or 3% of the minerals that are being developed.

That said, Adams 12 has requested that a plugged and abandoned well near the Horizon High School will be inspected before and after drilling and that Great Western commit to using pipelines, rather than oil trucks, to transport oil. We have also asked Great Western to commit to a greater setback distance from Adams 12 schools than the state-mandated 1,000 feet.

Q3. What are the implications and options if the District does not pursue a lease arrangement? Namely from the presentation it sounds like there are only 2 options: lease or be force pooled. Is that correct?

A3. Correct. State law allows for the oil and gas operator to force pool minerals that are not leased. As described above, forced pooling is similar to a condemnation proceeding. If Adams 12 is forced pooled, the minerals would be taken from the school without its permission. Adams 12 would not only forgo a bonus payment, it would also ultimately become a part-owner in the oil and gas wells and would therefore be potentially liable in the event of an accident. Leasing its minerals eliminates any potential liability to the school.

Q4. Acknowledging the request of the neighbors who spoke at the BOE meeting for the district to somehow "protest" Great Western's request, is that even a viable option? If so what shape would it take? What could be the implications (risks and benefits) to the District if they were to pursue such a direction?

A4. No it is not a viable option. At this point, protesting the pooling application would require the School District to request that the Colorado Oil Gas Conservation Commission (COGCC) deny Great Western's forced pooling application. The only basis the COGCC has for denying a forced pooling application is if Great Western did not make the District a "fair offer to lease." As described above, Great Western did make the District a fair offer to lease in this case.

Q5. What were the specifics of the prior lease arrangement made several years ago (2015?) and how did they play out vs projections?

A5. [See two attached leases from 2015](#). No drilling has occurred to date. The proposed drilling by Great Western is part of the mineral rights leased in 2015.