

From the Star-Telegram, Oct. 17, 2008

XTO, Chesapeake, others rescind high-bonus gas-drilling offers

By JIM FUQUAY

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Gas producers are suspending leasing efforts and slashing bonus offers in several parts of the Barnett Shale, as the industry grapples with lower natural gas prices and turmoil in the financial markets. Representatives of two big neighborhood groups said XTO Energy contacted them to say the company would stop signing new leases. Three other groups said Chesapeake Energy did the same, while other groups reported that Chesapeake agents have said the company is interested in signing new leases, but with a signing bonus of \$5,000 an acre rather than the \$25,000 or more previously seen.

Among the disappointed landowners is Rorie Cowden, whose Hidden Valley miniature golf course on 5.5 acres bordering Jacksboro Highway is part of a Lake Worth negotiating group that signed the richest reported lease in the county: a \$30,000-an-acre offer from Chesapeake. "I was waiting for them to send me my lease packet," Cowden said Thursday, but he got nervous when he heard producers were cutting back. When he walked into the Vance Godbey's restaurant, where signings were under way, he was told that the new bonus figure was \$5,000. The difference: \$137,500. "I did not sign," he said. "I never thought it would hit like this. The bubble has burst."

The bursting started Tuesday, when Vantage Energy suspended lease signings with the big Southwest Fort Worth Alliance homeowners group. The company said it hoped to resume leasing when the energy and financial markets cool off but expects to offer lower terms that reflect the lower price of natural gas. Tolli Thomas, who heads the Alliance group, said her officers expected to meet next week to discuss what options unsigned members might have. But she said she understands that all producers leasing locally "are pulling out or pulling back at this time."

Jim Whelan, co-chairman of the Glade Road Neighborhood Association in Hurst and Colleyville, said Holland Acquisition, agent for XTO, conducted a signing party Wednesday afternoon but later that day told residents there would be no further signings. On Thursday morning, Whelan received an e-mail stating that "XTO Energy regretfully rescinds the offer to GRNA immediately." The company later said that "anyone who has signed a lease that Holland has in its possession as of last night will be paid." Whelan estimated that perhaps half his members have signed leases. The group reached its agreement with XTO about a month ago.

Ron Melton of South East Arlington Communities said Permian Land Co., which had been steadily leasing the area for XTO since coming to terms in April, also told organizers that the company had called a halt. "I can't believe they'd walk," Melton said. "I know they've signed at least a couple of thousand people" at \$26,000 an acre, he said. Representatives at Permian referred all questions to XTO, which did not comment.

The Ridglea North, Ridglea Hills and Crestwood neighborhoods reported that Chesapeake informed them Thursday that the company was revoking its previous lease offers. Scott Bauer, an attorney who has a leasing company and who has represented several neighborhood groups in negotiations, said the Ridglea North Negotiating Group was disappointed in Chesapeake's decision because the company had agreed to contribute \$25,000 to the neighborhood association if at least 70 percent of residents signed with the company, and \$45,000 if 85 percent signed. Bob Bashein, who headed leasing efforts for Ridglea Hills, said his group had a similar clause. "There were people trying to get a proper lease," he said. "We need to get this resolved."

The North Bureson and Beyond Gas Lease Holdouts Group got the same news. "I heard directly from Chesapeake. It's completely halted," said Karol Del Real, a representative of the 360-member group. Bauer said he is working with a Flower Mound group that just received a new offer from Titan Operating, which in recent months has won the endorsement of several neighborhood groups with top-dollar offers. But the latest lease, he said, offers a signing bonus of \$5,000 and a royalty rate of 22.5 percent.

Julie Wilson, Chesapeake's top executive in the Barnett Shale, said Thursday that the company is "still very much active but at lower rates and in selected areas. Unless you have executed and delivered a lease to us or our agents, we're not accepting them at the old rates. "I suspect \$5,000 is going to be the new top, not the new bottom," Wilson said. Stephen Gebren, whose Wedgwood East neighborhood is in the Southwest Fort Worth Alliance, said he had not yet signed with Vantage but still had a lease offer that Dale Property recently sent him on behalf of Chesapeake. That offer included a \$22,000 signing bonus, he said, but when he called, "They said they would no longer offer at that price, and today's rate is \$5,000 an acre." Gebren said: "I'm going to hold off. There's no way I'm going to sign that."

From the Star-Telegram, Oct. 21, 2008

Another big neighborhood group sees its gas leasing put on hold

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Titan Operating became the latest natural gas company to suspend its leasing activities, putting contract signings with the big Bedford-Colleyville Mineral Rights Coalition on hold — but not before signing an additional 550 property owners Saturday. Chesapeake Energy, Vantage Energy and XTO Energy last week either called a halt to Barnett Shale leasing or said they would proceed only under sharply reduced financial terms. The moves follow a 50 percent decline in natural gas prices since July and a tight credit market. "I held on as long as I could. It's a new world," said Mark Schumacher, president of Fort Worth-based Titan, a relatively new player in the Barnett Shale. "We did not rescind or revise our terms. All we did was suspend signings. I want to talk to the neighborhood leadership, and that, hopefully, will come this week."

In late September, the Bedford-Colleyville group had endorsed Titan's mineral-rights offer of a \$25,000-an-acre bonus and 25.5 percent royalty. Rick Wollin, a spokesman for the big homeowners group, estimated that 10 percent to 15 percent of its 10,000 members signed leases at those terms. Saturday's signing session represented the biggest of four lease meetings conducted by agent Caffey Group on Titan's behalf, Wollin said. He said the group has told Titan that it believes that it had an agreement with Titan to sign all of its property owners.

Two area lawyers who have represented mineral-rights owners in leasing deals said they doubt that the producers have enforceable agreements with the homeowner groups, although the terms of each agreement are different. But generally, the only enforceable contract is a signed lease between producer and mineral owner, said both lawyers, who asked that their names not be used because they are involved in ongoing deals. Titan, like the other producers, has said it will honor leases that were signed and returned to the company or its agents. "It's hard to tell someone that something's worth less than it was yesterday," Schumacher said. "It's a lot like the stock market, and that's what we're going through right now."

XTO told several neighborhood groups last week that it is suspending lease signings, while Vantage suspended signings with the Southwest Fort Worth Alliance but said it might resume at lower rates. Chesapeake, meanwhile, has stopped leasing in some areas and has told others that it will sign new leases, but only at a \$5,000-an-acre bonus. At a meeting with financial analysts last week at Chesapeake's Oklahoma City headquarters, Chairman Aubrey McClendon said he expects lease payments to "plummet" in the nation's shale-gas plays, including the Barnett and Louisiana's Haynesville. "The days of \$20,000- and \$25,000-an-acre values in the Barnett and Haynesville are gone, and I think probably gone forever," McClendon said.

The Bedford-Colleyville coalition's boundaries are generally Colleyville Boulevard/Brown Trail to the west, Hall-Johnson Road to the north, Texas 121 to the east and Harwood Road to the south. The neighborhoods are in Bedford, Colleyville and Grapevine.