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A Layman's Guide to Lease Terms

Lawyers and consumer advocates say that leases often contain or lack fine print that landowners should not overlook in signing leases. Here are some examples of key clauses that landowners have come to regret:

Key Clauses in Many Leases

FORCE MAJEURE Typically refers to natural disasters or other events that are beyond a company's control and can delay drilling plans. In New York, gas companies have used it to argue that leases should be extended beyond their original terms because of the state's moratorium on certain types of gas drilling.

ASSIGNMENT CLAUSE Allows a company to sell or transfer a lease to another company. Some landowners have complained that their leases have been sold to companies that are financially unstable or have poor environmental records.

ON-SITE STORAGE Some leases allow the energy company to use land for underground storage of gas or drilling waste, sometimes from another property.

PITS Many leases allow companies to place drilling waste into pits on the landowners' property. Some lawyers say that leases should explicitly prohibit waste pits.

EXTENSION OF LEASE Leases are typically for three to five years, but they often include clauses that allow the drilling company to extend the leases even if landowners want to renegotiate or cancel them.

POST-PRODUCTION COSTS Some leases include language that allows the company to deduct certain costs of producing the gas before paying royalties.

Key Clauses Often Omitted

WATER TESTING CLAUSE Some lawyers say that landowners should add language requiring energy companies to pay for independent testing of the landowners' drinking

supply before they drill so that investigators can determine the origin of any contamination that might occur.

PUGH CLAUSE Protects landowners from gas companies indefinitely holding rights to an entire parcel, even if only a small part of it is being used for gas drilling.

INDEMNIFICATION CLAUSE Lawyers recommend that leases contain language exempting the landowner from all forms of liabilities stemming from the company's activities.

FACILITIES CLAUSE Often establishes the "setbacks," or the distances that are required between drilling activity and houses, roads, wells or other structures on the property. Without them, the lease may violate mortgage rules that dictate how certain properties can be used.