



(Travis Morisse/The Hutchinson News) Nearly 20 landmen looking for land leases fill the Register of Deeds office and hallway Wednesday at the Kingman County Courthouse.

## Gushing oil rights

### Kan.-Okla. border area fuels hope of big payoffs

By Ken Stephens - The Hutchinson News - [kstephens@hutchnews.com](mailto:kstephens@hutchnews.com)

Just a few months ago, Eric Gates was making a living selling crop insurance in Anthony. As clients came in, they mentioned they were getting some attractive offers for the oil rights on their land.

Gates, who had 80 acres of his own where a 3-year-old oil lease was about to expire, thought that if they put all their acres together, they might get an even better offer. At a time when leases were going for as much as \$1,200 an acre and a 20 percent royalty, a group put together by Gates and Pratt attorney Gordon Stull got bids from three oil companies and leased 3,200 acres in May. Gates said they got a near top-of-the-market price, though he wouldn't say how much.

After that, a group of landowners put together 30,000 acres in northeast Harper County and asked Gates and Stull to see what they could get from the oil companies. The result was another top-of-the-market deal, worth more than the land itself was valued at a couple of years ago, Gates said.

"Those guys are going to get some really, really fantastic, life-changing checks in some cases," he said, noting that some landowners had leased 1,000 acres or more.

"When you say wow, there's a million-dollar check and that's more than the ground was worth two years ago, then that's significant. That's the kind of money you'll pass along to the grandkids, hopefully, not including if we get any oil off the stupid thing."

These days, Gates is too busy working on oil deals to sell crop insurance. His father, owner of the Jim Gates Agency, is handling that end of their business, while Eric is working out of their office with Stull on a 32,000-acre oil lease including land from Sumner County on the east to Barber County on the west and as far north as Sedgwick and Kingman counties and as far south as Kay County in Oklahoma.

He is not alone. Landmen - some working for major oil drilling companies, some independents hoping to strike a deal and then flip their leases for a profit to the oil companies - are swarming over an area

spanning 160 miles from east to west and 100 miles from north to south along the Kansas-Oklahoma border known as the horizontal Mississippian oil play.

"It's really put a burden on all the courthouses," said Harper County Register of Deeds Rhonda Berry.

Barber County Register of Deeds Betty Jo Swayden said the boom started about a year and a half ago, and it has grown.

Kingman County Register of Deeds Susan Hubbell said her office used to record 400 documents a week. Now it is recording 400 documents a day.

On one recent Thursday morning, Hubbell said she had "probably 16 guys" collecting data in her office. At times, she said, there have been three times that many landmen working at the courthouse.

"There's definitely an oil-leasing boom, but there's not many new wells," said Dick Schremmer, president of Bear Petroleum and chairman of the Kansas Independent Oil and Gas Association. "They're leasing all the ground they can get hold of."

Stull said it's the biggest boom he's seen in the more than 35 years he has had a law practice, a significant part of which involves oil and gas.

"I've seen some booms, but nothing as extensive and as driven as this," he said.

Just two or three years ago, Stull said, it was common to sell an oil lease for \$10 to \$15 an acre, or \$50 in some exceptional cases, with a 1/8 royalty. Now the top of the market is getting \$1,000 to \$1,200 and royalties ranging 3/16 to 1/5.

Stull said increased leasing activity is taking place from central Kansas to the western border and northwest Kansas. But the best prices are being paid for land in Comanche, Barber, Harper and Sumner counties along the Oklahoma border.

"There are companies that are leasing in Reno County," he said. "The offers are significantly less, and there are significantly fewer companies looking there."

Kevin White, senior vice president of SandRidge Energy, said the land rush along the border has been driven by two factors: the price of oil and horizontal drilling technology.

The Mississippian formation is well-known to oilmen and has been extensively explored by vertical drilling. So oil companies have a good idea where the oil is. But in the 1980s and 1990s, many oil producers abandoned the area when the price of oil dropped as low as \$20 a barrel, White said.

But with oil now consistently over \$80 a barrel and as high as \$100 at times, oil producers are looking at a more lucrative rate of return, especially with horizontal drilling.

With vertical drilling, White said, they might go down into an oil-bearing formation 200 feet thick. But with horizontal drilling, they go down to the formation and then turn and drill across the formation for several thousand feet, exponentially increasing the reserves the well can access, he said.

"You just expose the well bore to a lot more if you go laterally rather than straight through it," White said.

An industry website said the cost of drilling a horizontal well may be twice that of a vertical well, but production can be 15 to 20 times as great and the rate of return in excess of three times that for a vertical well.

SandRidge and Chesapeake Energy, both based in Oklahoma City, are placing big bets on horizontal drilling in the Mississippian formation.

White said that SandRidge, one of the first companies to get into the game, had about 100,000 acres under lease in the Mississippian formation in March 2010 but now has about 1 million acres, about 40 percent of them in Kansas.

"SandRidge has drilled about 100 horizontal wells," he said. "The majority of the drilling so far is south of the Kansas border."

An investor presentation shows that SandRidge has one horizontal well in Comanche County that is producing about 330 barrels a day. SandRidge's 2010 annual report said the company has identified 3,400 potential locations for horizontal wells in the Mississippian formation.

Chesapeake's 2011 first-quarter report says it has 1.1 million acres under lease in the Mississippian formation of Oklahoma and Kansas. It has already drilled 53 operated wells in the area but believes the lease holdings can support up to 6,000 more wells.

"Since we have not yet had an opportunity to drill a horizontal Mississippi well in southwest Kansas, it is not possible to speak definitively about our future plans, since drilling is the only way to generate actionable data about the extent of a reservoir and its quality," Sondra Allen, media relations coordinator for Chesapeake, said. "For this reason and for competitive reasons surrounding the leasing process, this is about all we can say at this time."

The Kansas Corporation Commission's Internet database shows that in the last 365 days, SandRidge, which had no presence in the state before 2010, has filed "notices of intent" to drill six wells in Harper County and two more in Comanche County. Chesapeake, which has had steadily declining Kansas oil production since 2005 and doesn't rank among the state's top 50 producers today, has filed notice to drill one horizontal well in Barber County and another in Sumner County.

But Gates and Stull said they expect SandRidge, Chesapeake and other companies to pick up the pace of drilling quickly. Most of the leases the companies have been purchasing are for three years, with a company option to extend the lease for two to three more years at the same price per acre. How productive new wells are will affect whether the companies exercise those options.

"Both of them are planning on bringing a lot of rigs into the area," Gates said.

Gates said that SandRidge and Chesapeake have been the biggest players in buying leases directly from landowners. But he said some small Kansas companies that already owned leases have sold out to larger companies, such as Shell Oil.

"There's just a lot of players and a lot of them you don't even know who they are, and by the time they pick up the acres, they've already sold them to somebody else," Gates said.

"The thing I'd be looking out for most closely is for the people to realize that by leasing to somebody who's not a major player, they're most likely going to flip that and make more money off you. But that

being said, they're speculating. They could end up losing money and you could be the one who ends up winning on that deal. I don't know the right answer in those situations. Money in hand is worth quite a bit. It might never be worth any more. It just depends on how some of these wells come in."