CITY OF COFFEYVILLE
BOARD OF COMMISSIONERS AGENDA ITEM

MEETING DATE	May 10, 2016	
RESOLUTION OR ORDINANCE NUMBER	R-16-70	
AGENDA TITLE	Resolution to authorize the execution of an amendment to the oil and gas lease between the City of Coffeyville and M.B. Holdings, LLC.	
REQUESTING DEPARTMENT	City Manager/Legal	
PRESENTER	Kendal Francis or Paul Kritz	
FISCAL INFORMATION	Cost as recommended:	None
	Budget Line Item:	N/A
	Balance Available	N/A
	New Appropriation Required:	[ ] Yes [X] No
PURPOSE	Authorize execution of oil and gas lease amendment	

BACKGROUND / ANALYSIS	An oil and gas lease between the City and M.B. Holdings, LLC, was approved at the September 8, 2015 meeting. Shortly after the lease was executed, Bryan Allen and Levi Holt started working on the lease and have met or exceeded staff's performance expectations. However, after commencing work, the company came to realize that they inadvertently excluded some old wells from the leased premises that they intended to rehabilitate. Therefore, MB has requested to amend the lease. Staff is supportive, subject to the following conditions: 1) That MB Holdings, LLC release the W/2 of the NW/4 of the NE/4 from the current lease. This area abuts Perl Schmid Drive and is the most likely area to be commercially developed. 2) The following lands would be added to the lease: the E/2 of the SW/4 of the NE/4; the W/2 of the SE/4 of the NE/4; and the N/2 of the NW/4 of the SE/4. 3) MB Holdings, LLC would be permitted to rehabilitate existing wells on the additional lands but not drill any new wells without the City's written approval.
SPECIAL NOTES	
PUBLIC INFORMATION PROCESS	No special public information procedures are required for this item.
BOARD OR COMMISSION RECOMMENDATION	
STAFF RECOMMENDATION	Approve Ordinance No. R-16-70
REFERENCE DOCUMENTS ATTACHED	Current Lease; Proposed Lease Amendment; Partial Release; Aerial Map

RESOLUTION NO. R-16-70

A RESOLUTION TO AUTHORIZE THE EXECUTION OF AN AMENDMENT TO OIL AND GAS LEASE BY AND BETWEEN THE CITY OF COFFEYVILLE AND M. B. HOLDINGS, L.L.C.

BE IT RESOLVED by the Board of Commissioners of the City of Coffeyville, Kansas that the Mayor be and is hereby authorized and directed to execute an Amendment to Oil and Gas Lease by and between the City of Coffeyville, Kansas and M. B. Holdings, L.L.C.

ADOPTED THIS 10th DAY OF MAY 2016.

_____
Craig C. Powell, Mayor

ATTEST:

_____
Cindy Price, City Clerk

APPROVED AS TO FORM AND LEGALITY:

_____
Paul Kritz, City Attorney

AMENDMENT TO OIL AND GAS LEASE
BY AND BETWEEN THE CITY OF COFFEYVILLE, LESSOR,
AND M.B. HOLDINGS, LLC, LESSEE.

This Amendment to Oil and Gas Lease dated September 8, 2015, and recorded in Book 642, Records, Pages 1345-1348, by and between The City of Coffeyville, a Municipal Corporation, Lessor, and M.B. Holdings, LLC, Lessee, modifies the legal description of the leasehold premises by elimination of certain acreage and addition of certain acreage, and supplements the terms and provisions of said Oil and Gas Lease with respect to the additional acreage added to the lease.

In consideration of the mutual covenants and agreements of the parties set forth in said Oil and Gas Lease, and other good and valuable consideration, it is further agreed by and between Lessor and Lessee as follows:

1. M.B. Holdings, LLC will release the W/2 NW/4 NE/4 from the current Oil and Gas Lease.

2. By this Amendment, the following lands are added to the leasehold premises:

The E/2 SW/4 NE/4; the W/2 SE/4 NE/4, and the N/2 NW/4 SE/4 of Section 8, Township 34 South, Range 17 East, Montgomery County, Kansas.

3. With respect to the lands added to the leasehold premises, Lessee, M.B. Holdings, LLC is permitted to re-enter, re-work and rehabilitate existing wells on the additional lands, but M.B. Holdings, LLC shall not drill any new wells on the additional lands without the prior written approval of the Lessor, the City of Coffeyville, Kansas.

In witness whereof, the parties have executed this Amendment to Oil and Gas Lease this _____ day of _____, 2016.

City of Coffeyville, Kansas

_____

Craig C. Powell, Mayor, Lessor

Attest:

_____
Cindy Price, City Clerk

STATE OF KANSAS)
)SS
COUNTY OF MONTGOMERY)

The foregoing instrument was acknowledged before me this _____ day of _____, 2016 by Craig C. Powell, as Mayor of the City of Coffeyville, Kansas.

_____
Notary Public

My Commission Expires: _____

M.B. Holdings, LLC

_____
Bryan Allen, Managing Member, Lessee

STATE OF KANSAS)
)SS
COUNTY OF MONTGOMERY)

The foregoing instrument was acknowledged before me this _____ day of _____, 2016 by Bryan Allan, Managing Member of M.B. Holdings, LLC, a Kansas Limited Liability Company.

_____
Notary Public

My Commission Expires: _____

CA - 3080

OIL AND GAS LEASE

THIS AGREEMENT, entered into this 8 day of Sept, 2015, between the City of Coffeyville, a municipal corporation, (hereinafter called lessor) and M. B. Holdings, LLC, (hereinafter called lessee), does witness:

1. That lessor, for and in consideration of the sum of One Dollar ($1.00) in hand paid and of the covenants and agreements hereinafter contained to be performed by the lessee, has this day granted, leased, and let, and by these presents does hereby grant, lease, and let exclusively unto the lessee the hereinafter described land, for the purpose of carrying on geological, geophysical, and other exploratory work, including core drilling, and the drilling, mining, and operating for, producing, and saving all of the oil, gas, casinghead gas, casinghead gasoline, including all associated hydrocarbons produced in a liquid or gaseous form and including gas found in and produced from coal formations or coal seams and all zones in communication therewith, which gas is sometimes referred to as coal bed methane, coal seam gas or occluded gas and all other gases and their respective constituent vapors, (including coalbed methane gas, helium, and all other constituents and substances produced therewith), including the dewatering for production of coalbed methane gas, and for constructing roads, laying pipe lines, building tanks, storing oil, and erecting other structures thereon which are necessary or convenient for the economical operation of said land to produce, save, take care of, and manufacture all of such substances, said tract of land with any reversionary rights therein being situated in the county of Montgomery, state of Kansas, and described as follows:

The North Half of the Northeast Quarter (N/2 NE/4) of Section 8, Township 34 South, Range 17 East, Except Lots 7 and 8, Airport Industrial Park Addition No. 1 to the City of Coffeyville, Kansas,

containing 67.3 acres, more or less.

2. This lease shall remain in force for a term of eighteen (18) months from the date hereof, and as long thereafter as oil, gas, casinghead gas, casinghead gasoline, or any of the products covered by this lease are or can be produced.

3. The lessee shall deliver to lessor as royalty, free of cost, on the lease, or into the pipe line to which lessee may connect its wells, the equal three-sixteenths (3/16ths) part of all oil produced and saved from the leased premises, or at the lessee's option may pay to the lessor for such three-sixteenths (3/16ths) royalty the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipe line or into storage tanks.

4. The lessee shall pay to lessor for gas produced from any oil well and used by the lessee for the manufacture of gasoline or any other product as royalty three-sixteenths (3/16ths) of the market value of such gas at the mouth of the well. The lessee shall pay to lessor for gas of whatsoever nature or kind (with all of its constituents) and all other substances covered hereby sold by lessee, a royalty of three-sixteenths (3/16ths) of the net proceeds realized by lessee from the sale thereof, less a proportionate part of the ad valorem, production, severance and other excise taxes and any costs incurred by lessee in delivering, processing, compressing, transporting, dehydrating, or otherwise making gas or other substances merchantable with said payments to be made monthly, not more than sixty (60) days following the last day of the month in which gas is delivered into the pipeline and credited to lessee's

State of Kansas, Montgomery County
This instrument was filed for
Record on October 05, 2015 09:26:00 AM
Recorded in Book 642 Page 1345-1348
Fee: $36.00 201503441
Marilyn Calhoun
Marilyn Calhoun, Register of Deeds

REGISTER OF DEEDS MONTGOMERY COUNTY KANSAS

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account by the gas purchaser.

5. If Lessee shall commence to drill a well or commence reworking operations on an existing well within the term of this lease or any extension thereof, the Lessee shall have the right to drill such well to completion or complete reworking operations with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the term of years first mentioned. Drilling operations or mining operations shall be deemed to be commenced when the first material is placed on the leased premises or when the first work, other than surveying or staking the location, is done thereon which is necessary for such operations.

6. The lessee shall have the right to use gas, oil, and water found on said land for its operations thereon, except water from the wells or ponds of the lessor. The lessee shall bury its pipe lines below plow depth and shall pay for damage caused by its operations to growing crops on said land. No well shall be drilled nearer than 200 feet to any existing commercial building now on said premises, nor within 200 feet of Perl Schmid Drive without the prior written consent of the lessor. Lessee shall have the right at any time during, and within six (6) months after the termination or expiration of this lease, to remove all machinery, fixtures, houses, buildings, and other structures placed on said premises, including the right to draw and remove all casing. Lessee shall grade to the original level and restore the surface to its original condition, as nearly as practicable, within six (6) months after the termination or expiration of this lease. All abandoned wells shall be plugged in accordance with state statutes and the rules and regulations of the Kansas Corporation.

7. Inasmuch as the leased premises are adjacent to Lessor's municipal airport, the Lessee shall comply with all Federal Aviation Administration regulations applicable to the leased premises; e.g., maximum height restrictions for equipment, spacing of equipment, etc.; and to all applicable zoning regulations.

8. On any well drilled by Lessee and completed as a dry hole, Lessee shall plug said well and shall restore the surface as nearly as practicable to its original condition, or better.

9. Lessee shall maintain its equipment and all access roads in good condition and repair. The location of all access roads shall be subject to the approval of the Coffeyville City Manager or his designee.

10. Lessee agrees to notify the City's farm tenant when Lessee intends to undertake any work on the leasehold premises, other than routine day-to-day pumping. Lessor will furnish Lessee with the contact information for its farm tenant.

11. Lessee acknowledges the existence of an underground natural gas storage area under or near the leased premises. Lessee agrees to comply with K.A.R. 82-3-311, and to take proper precautions so as not to cause the Lessor or Lessee to be in violation of the terms and conditions of Lessor's existing natural gas storage agreement, and shall indemnify and hold Lessor harmless from any claims, counts, actions, causes of action, damages, obligations, and/or suits, related to the underground natural gas storage area, and which are in any way related to or associated with Lessee's activities under the terms of this Lease.

12. Lessee agrees to clean up and remove any existing, abandoned oil and gas lease equipment upon the premises, and to backfill the existing surface pits thereon, within six (6) months of the date hereof.

13. In case said lessor owns a less interest in the above-described land, other than the entire and undivided fee simple estate therein, then the royalties and rentals herein provided shall be paid to said lessor only in the proportion which his interest bears to the whole and undivided fee. However, such rental shall be increased at the next succeeding rental anniversary after any reversion occurs to cover the interest so acquired.

14. If the estate of either party hereof is assigned (and the privilege of assigning in whole or in part is expressly allowed), the covenants hereof shall extend to the heirs, devisees, executors, administrators, successors, and assigns, but no change of ownership in the land or in the rentals or royalties or any sum due under this lease shall be binding on the lessee until it has been furnished with either the original recorded instrument of conveyance or a duly certified copy thereof or a certified copy of the will of any deceased owner and of the probate thereof, or certified copy of the proceedings showing appointment of an administrator for the estate of any deceased owner, whichever is appropriate, together with all original recorded instruments of conveyance or duly certified copies thereof necessary in showing a complete chain of title back to lessor to the full interest claimed, and all advance payments of rentals made hereunder before receipt of said documents shall be binding on any direct or indirect assignee, grantee, devisee, administrator, executor, or heir of lessor.

15. If the leased premises are now or shall hereafter be owned in severalty or in separate tracts, the premises nevertheless shall be developed and operated as one lease, and all royalties accruing hereunder shall be treated as an entirety and shall be divided among and paid to such separate owners in the proportion that the acreage owned by each separate owner bears to the entire leased acreage.

16. Lessor hereby warrants and agrees to defend the title to the land herein-described and agrees that the lessee, at its option, may pay and discharge in whole or in part any taxes, mortgages, or other liens existing, levied, or assessed on or against the above-described lands and, in the event it exercises such option, it shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying to the discharge of any such mortgage, tax, or other lien, any royalty or rentals accruing hereunder.

17. If, after the expiration of the primary term of this lease, production on the leased premises shall cease from any cause, this lease shall not terminate, provided lessee (a) resumes production, (b) initiates operations for recompleting an existing well within sixty (60) days from such cessation or (c) initiates operations for drilling a new well within sixty (60) days from such cessation, and this lease shall remain in force during the diligent prosecution of such operations and, if production results therefrom, then as long as production continues.

18. Lessee may at any time surrender or cancel this lease in whole or in part by delivering or mailing such release to the lessor, or by placing same of record in the proper county. In case said lease is surrendered and canceled as to only a portion of the acreage covered thereby, then all payments and liabilities thereafter accruing under the terms of said lease as to the portion canceled, shall cease and determine and any rentals thereafter paid may be apportioned on an acreage basis, but as to the portion of the acreage not released the terms and provisions of this lease shall continue and remain in full force

and effect for all purposes.

19. All provisions hereof, express or implied, shall be subject to all federal and state laws and the orders, rules, or regulations (and interpretations thereof) of all governmental agencies administering the same, and this lease, shall not be in any way terminated wholly or partially, nor shall the lessee be liable in damages for failure to comply with, any of the express or implied provisions hereof if such failure accords with any such laws, orders, rules, or regulations (or interpretations thereof). If, during the last six months of the primary term hereof, lessee should be prevented from drilling a well hereunder by the order of any constituted authority having jurisdiction there over, the primary term of this lease shall continue until six months after said order is suspended.

20. Lessee may not assign any interest in this lease without the prior written consent of Lessor, which consent will not be unreasonably withheld.

21. This lease and all its terms, conditions, and stipulations shall extend to and be binding on all successors of said lessor and lessee.

IN WITNESS WHEREOF, the undersigned signs the day and year first above written.

City of Coffeyville, Kansas

Christopher V. Williams, Mayor, Lessor

Attest:

Cindy Price, City Clerk

CITY OF COFFEYVILLE SEAL MONTGOMERY COUNTY, KANSAS

STATE OF KANSAS)
)
COUNTY OF MONTGOMERY)

The foregoing instrument was acknowledged before me this 22 day of Sept, 2015, by Christopher V. Williams, as Mayor of the City of Coffeyville, Kansas.

NOTARY PUBLIC

My Appointment Expires:

CINDY PRICE
Notary Public - State of Kansas
My Appt. Expires 9/26/17

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