

# Introduction to Minerals

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What does it mean to own minerals? There are several ways to look at mineral ownership and what a landowner might be able to do with them. For starters, mineral interests are real-property interests that are typically perpetual and grant ownership of the oil, natural gas, and/or natural gas liquids under a tract of land. With ownership, you will have the right to lease development rights to a third party.

The mineral estate is dominant to the surface estate, and subsurface rights extend to the center of the earth but may have different ownership by depth. Mineral owners have the legal ability to explore, extract, and develop naturally occurring deposits found beneath the land's surface. Mineral ownership extends in perpetuity, and like surface rights, mineral rights can be freely acquired and sold.

Once the mineral rights have been leased, typically for a three-year primary term, the mineral owner will usually receive an upfront cash payment known as a lease bonus. Along with this bonus, the mineral owner retains a mineral royalty, which entitles the owner to a percentage of production revenue.

There are varying types of interest related to mineral ownership. The first being Mineral Interests that were previously noted. The other types of interest come into play once a tract of minerals has been developed. Once a well is drilled, all or a portion of the minerals that were leased are converted into a Royalty Interest, which gives the mineral owner a proportionate share of the production revenue.

Another type of interest is an Overriding Royalty Interest (ORRI). This is different from a normal Royalty Interest as an ORRI is carved out of the lessee's leasehold interest. The burden of an ORRI falls on the operator and not the mineral owner. This interest type will expire with the underlying lease from which it is carved out of.

Lastly, Working Interests (WI) gives the owner the right to participate in drilling activities, including income and costs from production. There is a proportionate burden of drilling capital costs and lease operating expenses based on the WI ownership, as well as a share in the cost of plugging and abandonment of a well. A Working Interest also expires with the underlying lease from which it is carved out of.

Understanding minerals and royalties can be quite daunting, which is why it is important that you have a professional assisting with management. At Peoples Company, our Energy Management division is a premier one-stop shop for all your oil, gas, and renewable energy management needs. If you would like to learn more about our services, or if you are just interested in learning more about the energy industry, please feel free to reach out to us.