

Functions of a Petroleum Landman

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GENERAL FACTS

The United States and the individual states have followed a legal system based on Roman law, which allows private ownership of oil and gas interests. Nevertheless, the federal and state governments control the leasing of about one-third of the oil and gas interests underlying the onshore landmass of the United States (estimated at 2.2 billion acres). They also control 100% (97% federal and 3% state) of the offshore areas of the United States (estimated at 885.6 million acres). In addition, 54 million acres of Indian lands are subject to U.S. government leasing control, and leasing rights to 44 million acres in Alaska are controlled by Alaskan natives (Mineral Management Service, 1989; Petroleum Independent, 1991).

FUNCTIONS OF A TYPICAL PETROLEUM LANDMAN

The functions of a petroleum landman, who should be a highly skilled negotiator, vary from company to company. In the case of an independent landman, the functions vary depending upon his or her area of specialization. Generally, these functions can be divided into three (sometimes overlapping) phases (Burke, 1983; Kimball, 1982; American Association of Petroleum Landmen, 1984):

- Acquisition
- Maintenance
- Disposition

Acquisition Phase

The acquisition phase involves the following functions:

1. The landman must obtain the rights to explore and produce oil and gas interests underlying lands deemed prospective for exploratory or developmental purposes (including producing properties). These rights may be obtained by purchasing oil and gas leases, permits, options, contracts (farm-outs), lease trades, well trades, joint venture agreements, creation of partnerships, and/or acquisition of entities.
2. Preliminary to obtaining such rights, the landman must determine the availability of the desired acreage by (a) examining the public records, (b) reviewing notices of lease sales, (c) making local inquiries, and (d) observing the activity (if any) of competitors. Also, costs must be

determined along with the terms and willingness of the owners to either lease or trade their interests.

Upon supporting the recommendations to acquire interests, obtaining the funding, and setting the terms of the trade(s), the next functions in the acquisition phase include the following: (1) select personnel; (2) make detailed ownership checks; (3) negotiate with the interest owners on costs and terms; (4) cause or prepare the necessary documents; (5) pay the seller either by cash, check, or customer's draft, or by contract to perform the drilling or services promised; (6) obtain execution and recording of the affected documents; (7) process the documents, financial records, and data necessary to maintain the interests acquired; and finally, (8) perform the necessary "due diligence" or title curative.

Maintenance Phase

The maintenance phase during the ownership period involves lease administration related to the following functions:

1. Processing payments of delay rentals, royalties, and shut-in royalties, as well as landowner relation activities
2. Title curative work involving ownership changes affecting various payments; obtaining pooling and unitization agreements; confirming good or defensible title prior to drilling by obtaining documents for title examination; and preparing and getting execution of curative documents to satisfy the "requirements" made by title examiners (attorneys) in their title opinions
3. Promotional and/or contract negotiation and preparation with outsiders or investors on deals such as farm-outs, farm-ins, bottom hole contributions, seismic options, easements, joint operating agreements, bidding agreements, unitization, and other contracts
4. Keeping track of lease and contract obligations (receivable and payable), and maintaining land statistical records

Disposition Phase

The disposition phase involves the following functions:

1. Release or surrender of interests in leases or contracts as they expire
2. Farm-out, sale, or disposal of oil and gas interests
3. Keeping land records for federal and state tax purposes