

## How to Make Compulsory Integration Work for You By Sue Smith-Heavenrich

If a landowner does not sign a lease and part of his property ends up in a drilling unit, he will be notified that he has a limited amount of time to make an election of choice before a hearing of compulsory integration. There are a number of options for a landowner:

- He may elect to do nothing, in which case he will receive a royalty that reflects the lowest royalty paid to landowners in the unit, but no lower than 12.5 percent for the resources extracted from his share of the unit. There is zero risk in this choice, but fixed gain.
- He may choose to become a participating owner. Landowners choosing this option must pay up front a portion of the investment needed for drilling a well. If you strike gas, you receive 100 percent of the royalty for your share. If you strike a dry hole, you lose your investment. This is a high risk, high gain option for those who don't mind a gamble.
- For those preferring a "middle ground" there is the option of becoming a non-participating owner. Landowners pay nothing up front, but do pay a risk penalty that is equal to three times the cost of their share for drilling the well. This "recoupment" cost is deducted from royalties before the landowner receives anything. After that you will receive your full share of production and be treated as a participating owner.
- Form an LLC, lease your land to yourself, and begin collecting royalties (though reduced) from the first year. By year three you receive 12.5 percent and the fourth year you begin receiving your full share of production royalties.

For more information on Compulsory Integration check out the DEC website at <http://www.dec.ny.gov/energy/1590.html>