



Issue Date: December, 2011

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This newsletter is intended for landowners and other members of the public with interest in the oil and gas industry. Each newsletter is also posted on our website at www.msue.msu.edu/oilandgas. If you would like to be added to the e-mail list to receive this newsletter, please contact the editor. You can also contact your local MSU Extension Office to obtain copies of the newsletter and other free oil and gas leasing information.

Information in this Issue

1. Upcoming landowner educational meetings
2. Natural Gas Development- Perspectives from Pennsylvania
3. Learning Too Late of the Perils in Gas Well Leases
4. Gladwin County holds most interest in State of Michigan October lease auction
5. FracFocus the hydraulic fracturing chemical registry website
6. Is an oil and gas lease right for me?
7. Michigan Ag Commodities Educational Expo (Oil and Gas Leasing Presentation)

Upcoming Landowner Educational Meetings:

Michigan Ag Commodities Educational Expo

Thursday, January 26, 2012

Lansing Center, 333 East Michigan Avenue, Lansing, Michigan

9:00 a.m. to 3:30 p.m.

Lunch provided

Registration fee \$75, or after January 5, 2012 \$90.

Register online at <http://web2.msue.msu.edu/macee/registration.cfm>, or by contacting Meghan Honke at honkemeg@msu.edu or 517-353-3175, ext. 229.

(See Michigan Ag Commodities Educational Expo information later in this newsletter)

Tentative: Oil, Gas and Mineral Rights Contracts

Ionia County, MI, February 13, 2012

Natural Gas Development – Perspectives from Pennsylvania

Dean Solomon, Senior Extension Educator
Michigan State University Extension

I recently had the opportunity to visit Penn State University to serve as an external advisory committee member for a large new project of their Marcellus Center for Outreach and Research (MCOR). This article reflects on that visit and some of the issues Pennsylvania faces as their natural gas industry rapidly expands.

Pennsylvania's Marcellus formation is one of the nation's most productive and rapidly expanding sources of shale gas – over 3,600 drilling permits were issued there this year, to date. The formation extends into other states, but Pennsylvania is the epicenter. Media reports call Pennsylvania the “Saudi Arabia” of non-conventional shale gas production. The magnitude of natural gas industry expansion in the state poses environmental, economic and social challenges in many small, rural communities. To address these issues, Penn State's “Marcellus Matters: Engaging Adults in Science and Energy” project will help residents in affected communities better understand the science, engineering and energy policy around natural gas development. The controversy surrounding natural gas development can't be successfully resolved through polarized debate between proponents and opponents about “facts.” Recognizing this, the Penn State team is using an innovative approach including a variety of closely integrated activities to engage adults in the Marcellus region. For example, a new Marcellus Community Scientist Program, modeled after Extension's Master Gardener Program, will engage residents in an intensive training on all aspects of the science and issues, enabling them to work with others in their community. Another effort will use community-based theater performances on risk and uncertainty to help increase understanding of these issues. Technology will play a big part in the program – Penn State scientists will develop computer visualizations to help inform community discussions about the environmental and community changes accompanying natural gas development.

During my visit, the project team visited a Shell Oil drilling site and a fracking operation. The scale, as you might imagine, is large. Four wells were to be drilled on the pad we saw, each employing horizontal drilling where a vertical well is drilled to depths of 3,000 to 9,000 feet, then directed horizontally a distance of 5,000 feet or more. The technology was fascinating, much more high-tech than I imagined.

The fracking site was similarly intensive. Millions of gallons of water and tons of sand are continually transported to the site. According to the Shell managers, during each 12-hour shift 75 employees are on-site and 120 vehicles travel in and out. Five to six segments are be fracked during that time, each using a 300,000 gallon mixture of fresh water and produced water from other fracking sites, plus approximately one pound of sand per gallon of water.

Additional chemicals (the controversial components of fracking fluid) are added to the mixture, which is then injected at pressures approaching 10,000 pounds per square inch. At both areas, Shell staff members emphasized their employee safety and environmental protection measures. One fact became very clear to me during my visit – the discussion related to expanded natural gas development is about a lot more than fracking. Penn State faculty did an excellent job describing the positive impacts (jobs, income, energy availability), negative impacts (environmental risks, housing availability, traffic), and less tangible changes to the social structure and appearance of rural communities. A very complex set of issues – much more complicated than being “for” or “against.”

For more information about the Penn State project, visit the MCOR web site, <http://marcellus.psu.edu/>

Learning Too Late the Perils in Gas Well Leases

Curtis Talley Jr. Farm Management Educator Michigan State University Extension

An article “Learning Too Late the Perils in Gas Well Leases” was written in the New York Times recently. The article includes an interview with a father and his son that discusses their unpleasant experience with reclaiming an oil and gas well site. “I guess our terms should have been clearer” about requiring the company to remove the waste pits after drilling, said Mr. Ely, of Dimock, Pa. “We learned the hard way.”¹ The authors or their associates reviewed more than 111,000 leases, addenda and related documents and some of their findings were:

- “Fewer than half of the leases require companies to compensate landowners for water contamination after drilling begins. And only about half the documents have language that lawyers suggest should be included to require payment for damages to livestock or crops.”
- “Most leases grant gas companies broad rights to decide where they can cut down trees, store chemicals, build roads and drill. Companies are also permitted to operate generators and spotlights through the night near homes during drilling.”

¹ Ian Urbina and Jo Craven McGinty. “Learning Too Late of the Perils in Gas Well Leases”, The New York Times, Dec. 2011. 21 Dec. 2011 < <http://www.nytimes.com/2011/12/02/us/drilling-down-fighting-over-oil-and-gas-well-leases.html>>

- “In the leases, drilling companies rarely describe to landowners the potential environmental and other risks that federal laws require them to disclose in filings to investors.”
- “Most leases are for three or five years, but at least two-thirds of those reviewed by The Times allow extensions without additional approval from landowners. If landowners have second thoughts about drilling on their land or want to negotiate for more money, they may be out of luck”.

This is an extensive article that discusses much more about leasing and the leasing process. To read the article in its entirety, please go to the site displayed above.

State of Michigan October 27 Oil and Gas Lease Auction Results

Curtis Talley Jr., Farm Management Educator Michigan State University Extension

Gladwin County held the most interest to oil and gas companies at the October 27th oil and gas lease auction, as Bayside Energy, LLC leased the entire 22,207 acres for a total bonus bid of \$680,238, or \$30.63/acre. Bayside is located in Oklahoma City, Oklahoma.

A total of 11,888 acres was leased in Sanilac County at an average bonus of \$13/acre. All of the acreage in this county was leased by Western Land Services.

Other counties in which greater than 1,000 acres was leased were: Arenac with 3,803 acres, Grand Traverse with 2,624 acres, and Wexford with 2,601 acres.

Michigan State University Extension Expo

The “Upcoming Landowner Educational Meetings” portion of this newsletter mentioned the Expo. Agriculture’s changing business climate continues to challenge Michigan farmers. Michigan State University Extension is bringing farmers, agricultural professionals and landowners together to learn more about the changes on the horizon. Topics include Michigan Agricultural Commodity Market Situation and Outlook, Lessons Learned from the 2011 Planting Season- Better Management in Poorer Weather, Environmental Challenges for Agriculture, Measuring What Matters in Sustainable Agriculture, Federal Farm Bill and What Landowner s Need to Know About Oil and Gas Leasing.

FracFocus Chemical Registry Initiated

Curtis Talley Jr. Farm Management Educator Michigan State University Extension

FracFocus is a web site that was created to provide the public factual information concerning hydraulic fracturing and groundwater protection. It is managed by the Ground Water Protection Council and Interstate Oil and Gas Compact Commission. According to the site, the mission of both organizations revolves around conservation and environmental protection. The site provides the public access to information about chemicals oil and gas exploration companies have reported are used for hydraulic fracturing. The information includes the chemicals used, the purposes they serve and the means by which the groundwater is protected. The chemical data presented on the site has been submitted on a voluntary basis by the participating oil and gas companies who have agreed to disclose their information.

Is An Oil And Gas Lease Right For Me?

Curtis Talley Jr. Farm Management Educator Michigan State University Extension

Owning the mineral rights along with the land surface is a wonderful combination. There are numerous minerals that have or might have commercial value now or in the future. Mineral income can supplement or exceed surface use income, with crude oil and natural gas the primary products produced currently. The landowner or mineral rights owner (owner), if the mineral estate is split from the surface estate, has the right to negotiate a lease that lays out the terms and conditions in which both the landowner and the lessee (company) agree. If the owner does not support and expect eventual mineral development he should not sign an oil and gas lease. It is not fair to the company to expect an advance bonus payment and then fight the company at every turn when they begin development and drilling. If oil and gas are found, there will be some disadvantages and burdens, but if the lease is understood and the lease addresses the owner's objectives, the burdens can be small compared to the royalties received. If you do not want the inconveniences and consequences associated with drilling and development, or if you detest the oil and gas industry, do not lease your land.

When to Lease?

When there is little or no competition for leases, the owner must decide whether to accept a standing offer, the "standard" lease, or wait until competition results in higher bonuses, royalties and the willingness by the company to negotiate the lease terms and conditions. If an initial offer is accepted, the owner may give up the chance of later leasing at a larger bonus, higher royalties and other terms that are more favorable and that address the owner's particular situation, objectives and concerns. However, if the landowner decides to hold out for higher returns, he may not get another offer. This is the balancing act associated with determining if, when and under what terms the owner is willing to lease. Regardless of when you lease, understand its terms and conditions. These agreements, once signed become contracts that can last a lifetime.

To Whom Should Landowners Lease?

If there is competition for leases, owners may have a chance to choose between two or more prospective companies. Comparing the merits of the prospective companies, the bonus, royalties and various provisions of the lease will help decide.

There are other factors to consider:²

- Landowners should deal with a well-financed, well-managed company that has shown the ability to carry out an effective exploration and development program. However, this may be difficult to determine because companies often obtain leases through brokers and the land man you are negotiating with has nothing to do with the developer.
- If lease terms are somewhat equal, landowners should try to deal with the broker or company that has leased the most land in the area. Development may be delayed if two or more companies are competing for leases. A land man might say that he has already leased your neighbor's land. Check this out and talk to your neighbors. Find out what terms and conditions they negotiated.
- If landowners own only part of the mineral rights in a tract, they should try to lease to the same broker or company holding the leases from the other mineral owners. This will avoid problems that often arise when two or more companies control fractional interests in the same tract.
- Ask the company for references of other landowners they have leased to in the area and those they not only leased from, but drilled and explored for oil or natural gas. These references should also include royalty owners they are currently paying royalties to.
- A landowner should also notify the holder of any mortgage against the land before signing the lease. Some mortgages have terms that require that any payment from mineral leases must be used to pay the mortgage.

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² Ralph A. Cantofino and Rosanna Slingerland, "Understanding and Negotiating the Oil and Gas Lease", (April 2011 staff paper <http://www.cantafiolaowilandgas.com/publications.php>)