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MSU Extension has a web page that contains information for mineral and landowners regarding oil and gas leasing and other related informational topics at http://msue.anr.msu.edu/program/info/oil_and_gas

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MICHIGAN BASED JORDAN DEVELOPMENT COMPANY AND WEST BAY EXPLORATION ANSWER LANDOWNER QUESTIONS

Curtis Talley Jr., Extension Educator

The author has had multiple requests from landowners and mineral owners that signed an oil and gas lease that now wonder what might be next. For example, will there be drilling, or what determines if and where you will drill a well? Ben Brower, Vice President of Jordan Development Company and Pat Gibson, Vice President of West Bay Exploration agreed to answer questions submitted to them. "Q" is the question and "A" is the answer.

Q. After signing the lease, how long does it take to pay the bonus?

A. Jordan: "Usually from one to three months depending on attorney backlog and title complexity."

A. West Bay : "Our order for payment requires us to pay within 60 days. In reality, we issue checks three days a week and the payment is usually issued in a matter of days. The reason we have 60 days is in the unlikely event we have to run more title."

Q. After the lease is signed what determines if and where you will drill a well?

A. West Bay: "This is partially determined by how successful we are in leasing. We have only used compulsory pooling a handful of times, and so we generally drill only where we have complete units put together. Our company is very scientifically driven, and we use seismic technology to determine locations."

A. Jordan: "There are many factors that go into developing an oil/gas prospect. Once our geologic/engineering team has evaluated an area that Jordan's management deems worthy to pursue, we use land men to contact and attempt to enter into Oil & Gas Leases with mineral owners covering the area that we want to explore. Once the leases are signed, we usually run seismic to confirm that we want to drill there. Many times, the seismic reveals that this is not a good area to drill so the prospect is dropped. In the instances where the seismic confirms that a well should be drilled, we work with the landowner on a surface location and apply for a drilling permit from the DEQ. The location is determined based on geology / seismic, landowner preferences and environmental concerns".

Q. After you decide to drill, when do you next contact the mineral or surface owner?

A. West Bay: "The landowner receives a letter from us when we apply for the permit, and our landman communicates with them over the phone."

A. Jordan: "We always are in communication with the landowner if a well is being drilled on their land. The Lessor (landowner) can contact me any time to get an update."

Q. How do you determine where roadways and other infrastructure will be placed?

A. Jordan: "We always involve the landowner when we are locating the roads, well sites, etc. on their land."

A. West Bay: "We look at the least amount of disturbance as well as access to county roads. Our lease contains mutual consent, so a landowner is involved in this process as well."

Q. Do you create a map of the site denoting roadway, drilling site, location of well, tanks, separator for the landowner?

A. West Bay: "Before drilling we provide the landowner with a satellite map of the drilling location and roadway. If the well is successful we then look at a facility location. Our surveyor will be on site and install survey stakes so the land owner can see exactly where these locations are."

A. Jordan: "We give them the same map that we provide to the DEQ for permitting requirements."

Q. How often do you use hydraulic fracturing and what determines its use?

A. West Bay: "West Bay has pursued conventional reservoirs throughout the State, and has not used hydraulic fracturing in any of our well completions. These reservoirs are naturally fractured and do not require this technique to be used".

A. Jordan: "To date, Jordan has not drilled a well using the high volume hydraulic fracturing method. Other oil & gas companies in Michigan have been able to safely utilize the method of high volume hydraulic fracturing to stimulate wells with no negative environmental impact"

Q. How do you document to the landowner how much the well is producing and how their payment is determined?

A. Jordan: "The DEQ keeps public records and the monthly revenue statement sent from our office to the landowner indicates how much oil /gas was produced for the month and at what price the product was sold."

A. West Bay : “The payment stub attached to the check details the volume and the price of oil, gas and natural gas liquids produced.”

Q. How long after drilling does it take to receive a royalty payment?

A. Jordan: “Usually from 1 to 3 months, depending on attorney backlog and title complexity.”

A. West Bay: “Within two months of the first sale of hydrocarbons.”

Q. How many acres are used for a horizontal drilling site? Vertical Site?

A. West Bay : “An area approximately 200’ x200’ for both. Horizontal drilling does not require any larger area.”

A. Jordan: “Usually +/- 1.4 acres and could be more or less depending on surface constraints. Same for a vertical well.”

Q. Are tank batteries and separators at the drill site?

A. Jordan: “Our preference would be to have the facility at the same location as the well but many times surface constraints prohibit us from doing that. In those instances, we attempt to have a central facility where oil/gas from multiple wells is transported to one site then sold to market from that site”.

West Bay: “If it is a one well discovery this equipment is on site. In the Napoleon field we have drilled 52 successful wells which produce into seven central production facilities.”

Q. At what point in the drilling/reclamation process do you plan reclamation? Pay surface damages?

A. Jordan: “Many times reclamation plans are made when the lease is signed. With many landowners, we will put in writing how we will restore the land. If a dry hole is drilled, the land is restored right away. If we are successful and discover oil/gas, the reclamation is done after the well is done producing and plugged. All plugging and abandonment procedures are approved in writing by the DEQ. Surface damages are paid in advance of a well being drilled.”

A. West Bay: “Surface damages are often paid before drilling commences. Reclamation is handled immediately after our activity is complete.”

Q. How does the industry view topsoil segregation of the drilling site and pipeline routes?

A. Jordan: The industry views it the same as Jordan. The DEQ requires that we segregate the soils for reclamation purposes.”

B. A. West Bay: “This has become standard practice. We generally use this stockpiled material as a berm in landscaping the site.”

What Landowners Need to Know about Pipelines and Easements

Curtis Talley Jr. Farm Business Management Educator

With the increase in available oil and gas supplies in the United States, there is additional interest in installing additional underground pipeline capacity. Southeastern Michigan is experiencing renewed underground pipeline activity. An area in Eastern Colorado that I am familiar with became a pipeline corridor for natural gas leaving northwestern Colorado and Southwest Wyoming around 2005. Some

landowners had 5 or more pipelines crossing their property. They quickly learned the importance of knowing what the contract said, its long-term impacts and contract negotiations.

The 2009 [Right of Way Information for Landowners](#) (currently being updated) was written as a result of landowner questions in Michigan. It discusses the difference between a right of way and an easement and the terms of an agreement that landowners across the country have learned to consider when approached to grant a right-of-way or easement.

In 2014, the [The Michigan Crude Oil and Petroleum Act 16 of 1929](#) was amended and signed into law on April 1, 2014 by Governor Snyder. The act contains protections for landowners that are approached by a company seeking a right of way or easement. A series of three articles titled "The Michigan Crude Oil and Petroleum Act 16 of 1929 Amended" can be found at the MSUE oil and gas page at http://msue.anr.msu.edu/program/info/oil_and_gas or at MSU Extension (<http://www.msue.msu.edu>) that describe in detail what the act now states. The Michigan Department of Natural Resources document "DNR Revised Fee Schedule 2-2013 will be on the MSUE oil and gas page in the near future. It includes a list of the fees it charges per foot for pipelines.

Here are some excerpts from the Act:

1. The power of eminent domain is not granted if the project does not provide a public interest.
2. A person who is conducting survey work for a proposed pipeline shall notify all affected property owners in writing before a survey crew enters the owner's property.
3. Any offer to a landowner for an easement for the purpose of locating, laying, constructing, maintaining, and operating pipelines on agricultural property shall include all of the following information:
 - a. The anticipated physical impact of pipeline construction on the landowner's property.
 - b. Written assurance that any agricultural drainage tile that is damaged or removed during the construction or repair of a pipeline will be repaired or replaced to preconstruction working condition. As used in this subdivision, "drainage tile" includes any surface or subsurface system by which the movement of water is re-directed.
 - c. Written assurance that the topsoil that is disturbed by construction or repair of a pipeline is properly separated and replaced. As used in this subdivision, "topsoil" means surface soil that is presumed to be fertile as distinguished from subsoil.
 - d. The method by which property will be appraised.
 - e. For property used to produce crops prior to construction of a pipeline, an estimate of the value of the loss of the productivity based on the historic yield of the site before construction of a pipeline. The agricultural property owner shall provide historic crop yield values upon request.
 - f. That payment will be made for all damages incurred after construction of the pipeline because of the pipeline owner's or operator's entry upon the property to exercise easement rights, except that the owner or operator of the pipeline may maintain a clear right-of-way without further compensating the landowner.
 - g. That the landowner has rights under the uniform condemnation procedures act.

- h. A pipeline company shall make a good-faith effort to minimize the physical impact and economic damage that result from the construction and repair of a pipeline.

As with other contract offers, negotiation of some terms and conditions is possible. Right of way width, need for and payment rate for temporary work space and route location modification are but just a few of the terms and conditions that should be considered. For example, many landowners prefer a pipeline along the edge of the property, or down an existing farm road. Even though a project may have eminent domain authority, it does not preclude suggestions from the landowner to make these types of modifications.

The Act contains both terms “right of way” and “easement.” A right of way commonly has an expiration date, while an easement commonly is perpetual. It is not uncommon for landowners to prefer a right of way because it allows them to negotiate a new right of way when the existing contract expires. For example, if the right of way has a 30-year term, at the end of 30 years the company and the landowner will negotiate a new agreement and payment for the continued use of the landowner’s property, or potential replacement of the pipeline. Conversely, the payment for an easement only occurs once because it is usually a perpetual agreement.

The Michigan public utilities commission does not determine whether the contract offered is a right of way or easement, the company does. The commission only decides if the project is worthy of allowing the project initiator the power of condemnation. Because the act uses both terms “right of way” and “easement”, a property owner should carefully consider, and seek qualified counsel to determine if the project is authorized to condemn private property. An aggressive right of way agent may use only portions of the act to convince someone the project is allowed to use the power of condemnation, when in fact it does not.

Before signing a right of way or easement agreement it is recommended that an attorney knowledgeable in real estate transactions be consulted for additional provisions or interpretation.

Leasing Activity Picks up in Montcalm County Again; Continues in SE Michigan

Curtis Talley Jr. Farm Business Management Educator

Trent Hilding, one of the attorneys listed on [Oil and Gas Expert Resources for Private Landowners](#) has experienced new interest from landowners seeking oil and gas leasing assistance in Montcalm County. MSUE Extension and Farm Bureau held a public informational meeting in Montcalm County on September 6, 2012 during a period of high leasing interest. There is interest once again.

Southeast Michigan has experienced leasing interest the last few years and in certain areas, such as Oakland County, it continues. MSU Extension held two public informational meetings in Oakland County on August 27 and November 26, 2012.

Landowner Informational Meetings

MSU Extension personnel, private attorneys specializing in assisting landowners with oil and gas leasing, personnel from the Department of Environmental Quality and representatives of the Michigan oil and gas industry offer public meetings to educate landowners about the oil and gas industry in Michigan, which includes understanding and negotiating oil and gas leases. If you would like a meeting in your area, please contact Curtis Talley.

Please Share Your Oil and Gas Experiences

The editor is very interested in hearing both your positive and negative experiences dealing with oil and gas leasing or production. All information is kept confidential and is combined with data from other landowners to analyze the effectiveness of the educational effort. Report your experiences to the editor by phone at 231-873-2129 or talleycu@anr.msu.edu e-mail.

This newsletter is intended for landowners and other members of the public with interest in the oil and gas industry. 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 county MSU Extension Office to obtain copies of the newsletter and other free oil and gas leasing information.