

OIL AND GAS LEASING IN OHIO

The process of oil and gas drilling begins with a lease agreement between one or more landowners and a company. Landowners who are approached for a mineral rights lease should be aware of all the conditions of the lease, which allows the producing company to drill on their land.

OHIO LEASING ACTIVITY IN THE MARCELLUS AND UTICA SHALES

The Marcellus shale is a formation that lies 7,000 – 9,000 feet underground in eastern Ohio, Pennsylvania, West Virginia and New York. Experts estimate the region could supply the United States' needs for natural gas for many years. Another potentially productive area of shale formation in Ohio, the Utica/Point Pleasant, stretches roughly from the eastern half of the state into central Ohio. Increased capabilities to drill horizontally in the shale coupled with rising natural gas and oil prices have made it economically viable to tap into these shale gas deposits.

WHAT IS A MINERAL RIGHTS OR OIL AND GAS LEASE?

A company representative or an independent landman may offer mineral owners a lease agreement to drill and develop the oil and gas minerals beneath a mineral owner's property. Because a lease is a legal contract, mineral owners should review it carefully with an attorney familiar with oil and gas leases.

WHAT ARE THE DIFFERENT TYPES OF LEASES?

Leases can be either development or non-development. A development lease will include access to the surface of the land for drilling and operating the well. A non-development lease is for the use of the subsurface minerals only. Both types of leases allow the the landowner to receive royalty payments based on the volume of oil and/or gas produced from the well.

LEASING ISSUES TO CONSIDER

As a mineral owner, it is important to become knowledgeable about oil and gas drilling. Be prepared to ask the company questions regarding payment, drilling technology and equipment impact, lease expiration, impact on water supplies, use of your water, receipt of free natural gas, shut-in royalties, post-drilling reclamation and other issues that are important to you.

Although the Ohio Department of Natural Resources (ODNR) does not regulate leasing, there are a number of critical issues landowners should be aware of when entering into one of these leases:

- Check references from the company you are leasing with because you may be in business with this company for years.
- It is a common practice for leases to be "flipped," or sold to another company. You can negotiate for approval of assigning the lease to any third party. If your lease is resold, the terms of the original lease agreement are binding to any successor company and to you.
- Landowners with multiple tracts of land should request separate oil and gas leases for separate tracts.
- Will you have first approval of the location for any well, pipeline, meter, storage tank and access road on your property?
- Will you be fairly compensated for any damage to trees, crops, fences, tile, livestock or buildings damaged by the drilling operations?

WHAT IF A COMPANY DOES NOT FULFILL THE TERMS OF ITS LEASE?

Any dispute concerning a lease is a private matter between the lessor and lessee. Communication between the parties is strongly encouraged. Many leases have arbitration provisions to assist in settling any conflicts. If all else fails, seek legal counsel.



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