

**OIL AND GAS EXPLORATION – ROSE TOWNSHIP LEASE AGREEMENT**

**A Recommendation**

1. **Division and Department:** Finance and Administration Division
2. **Introduction:**

**The Property**

In December 2012 the Oakland University (University) Board of Trustees (Board) authorized the Vice President for Finance and Administration to advertise and request bids, consistent with Board policy, to lease the University's Rose Township Property, Oakland County, Michigan (Property) for the purpose of oil and gas exploration.

The University received the Property as a gift in 1984. The Property is comprised of approximately 121 undeveloped acres, except for one single-family home located on the Property's western boundary, which the University currently rents via a residential lease on a year-to-year basis.

The northern boundary of the Property abuts the Rose Township Superfund Site (Superfund Site), a contaminated area as designated by the United States Environmental Protection Agency (USEPA). In 1992, the Board of Trustees (Board) approved an access agreement with Chrysler Corporation (Chrysler) that granted Chrysler access to a 21 acre parcel at the northern boundary of the Property to perform testing, monitoring and cleanup activities related to the Superfund Site (Access Site). Pursuant to the access agreement, Chrysler erected a fence and installed ten monitoring wells at the Access Site. The access agreement was subsequently extended with Board approval in 1995 and 1996. At the request of the USEPA, a new group known as the Rose Township Group (RTG) assumed responsibility from Chrysler for cleanup activities at the Superfund Site, and in December 2010 the Board approved an access agreement that grants RTG continued access to the Access Site. RTG maintains the fence and inspects samples and monitors the monitoring wells. The access agreement with RTG is currently in effect and will terminate only after the USEPA notifies the University and RTG that no further cleanup of the Superfund Site is necessary.

The Property is also subject to a permanent easement over the northwest tip of the Property, which is held by Consumers Energy Company (Consumers) pursuant to a Right of Way granted by the University's donor of the Property in 1951. The permanent easement grants Consumers the right to construct, repair and maintain up to two gas mains within the permanent easement, and Consumers has constructed and operates two gas mains in the permanent easement.

### **The Board's Policy and Procedures**

The Board's Policy and Procedure for Disposal, Acquisition, Lease, and Other Transfer of Real Property Interests relative to oil, gas, and mineral transactions (Policy), requires that:

1. All inquiries with respect to mineral rights and leases shall be made in writing to the President and reported to the Board of Trustees.
2. The President, on behalf of the Board of Trustees, will evaluate each request for a mineral right or lease as to its impact on the University. Upon completion of this review, a report will be presented to the Board of Trustees. The Board of Trustees will determine whether or not the property will be offered for lease or the sale of the mineral rights.
3. When the Board of Trustees has approved a parcel of property for mineral lease, the Office of the Vice President for Finance and Administration will advertise and request bids in the appropriate publications.
  - a. All bids must be in writing and sealed and delivered to the Office of the Vice President for Finance and Administration by a specified date.
  - b. All bids will be presented to the Board of Trustees with a recommendation from the President.
  - c. The Board of Trustees reserves the right to lease to a specified party if it is in the interest of the University. The University shall document in writing the appropriateness of such action and shall establish a fair market value of the lease based upon appraisals.
4. The Board of Trustees will make the final decision on all oil, gas and mineral leases and transactions. These transactions will be reviewed by the General Counsel or a designee of the General Counsel.

### **The Proposed Oil and Gas Lease**

Susan Hlywa Topp, attorney-at-law, of Topp Law PLC, was engaged to advise and assist in the bid process, proposal evaluation, and proposed oil and gas lease negotiations. Ms. Topp's practice is focused on environmental and natural resource law, including litigation and regulatory actions under State of Michigan oil, gas and mineral development programs, such as litigating title and environmental claims as well

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as negotiating oil and gas leases. Ms. Topp has also negotiated several oil and gas leases on behalf of the State of Michigan.

With Ms. Topp's assistance, a Request for Proposals (RFP) was issued on February 26, 2013 to five oil and gas exploration firms. Only Jordan Development Company, L.L.C. (Jordan) submitted a sealed bid. Ms. Topp also negotiated the terms and conditions of the proposed oil and gas lease with Jordan on behalf of the University.

It is recommended that the Board authorize the Vice President for Finance and Administration to execute an oil and gas lease (Lease) with Jordan to discover, develop, and produce oil and natural gas from the University's Rose Township Property, Oakland County, Michigan, consistent with Board policies. No wells will be located on University property, rather, Jordan will access producing formations by directional drilling under the University's property.

The Lease, which reflects fair market value, provides royalties of 1/6<sup>th</sup>, equal to the royalties being received by the State of Michigan; a provision to not use hydraulic fracturing, "fracking"; a three year lease term and an option for a two year extension; restrictions on development, deductions, and size of drilling/production units; shut in royalties of \$25 per acre per year with a maximum of three consecutive years shut in.

The Lease has been reviewed and approved by the Office of the Vice President for Legal Affairs and General Counsel, and is in compliance with the law and University policies and regulations, and conform to legal standards and policies of the Vice President for Legal Affairs and General Counsel.

**3. Previous Board Action:** On August 29, 1984, the Board accepted a gift of the Property. On October 1, 1992, the Board authorized a three (3) year Access Agreement with Chrysler for the purpose of performing remediation activities at the Rose Township Superfund Site, which was subsequently extended for six (6) months. On April 11, 1996, the Board extended the term of that Access Agreement for an additional two (2) years, which ended in May, 1998. On April 7, 2010, the Board authorized an Agreement Regarding Easement with Consumers expanding an existing utility easement on the Property held by Consumers. On December 9, 2010, the Board authorized a new Access Agreement with the RTG for the purpose of performing continuing remediation activities at the Rose Township Superfund Site. On December 3, 2012, the Board authorized the Vice President for Finance and Administration to advertise and request bids to lease the Property for oil and gas exploration.

**4. Budget Implications:** Potential income from the lease, including royalties, may occur if oil and/or gas are discovered and produced.

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5. **Educational Implications:** Potential income could provide funding to support/enhance educational programs.
6. **Personnel Implications:** None.
7. **University Reviews/Approvals:** This recommendation was formulated by the Vice President for Finance and Administration and approved by the President.
8. **Recommendation:**  
RESOLVED, that the Board of Trustees authorizes the Vice President for Finance and Administration to execute the Oil and Gas Lease with Jordan to discover, develop, and produce oil and natural gas from Oakland University's Rose Township Property, Oakland County, Michigan.
9. **Attachments:** None.

Submitted to the President  
on 6/24, 2013 by

  
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John W. Beaghan  
Vice President for Finance and Administration  
and Treasurer to the Board of Trustees

Recommended on 6/24, 2013  
to the Board of Trustees for approval by

  
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Gary D. Russi  
President