
CITY OF ROCHESTER HILLS

Planning and
Development

DATE: April 26, 2005

TO: CDV & Financial Services
Committee Members

FROM: Dan Casey, Manager of
Economic Development,
Ext. 2577

RE: Oil and Gas Lease

Energy Quest, Inc., the City Attorney's office and the Planning Department have been discussing the possibility of leasing City land for exploration and possible extraction of oil and gas. A draft lease agreement has been developed between the parties and will be presented at the joint meeting scheduled for April 28.

Energy Quest is a company that specializes in oil and gas extraction. It has developed a facility in Troy behind the MSU Management and Extension Office at Square Lake and Crooks Roads. Recently, it completed negotiations for a similar facility in the downtown area of Norman, Oklahoma. It conducted preliminary testing in Rochester Hills and found reason to believe that a marketable pocket of gas and/or oil exists in close proximity to Hamlin Road, between John R and Dequindre. It seeks to complete additional testing on city-owned property to determine whether gas and/or oil concentrations are sufficient to warrant the installation of a production facility.

Energy Quest is proposing a three-year lease with a two-year renewal option to allow for additional testing on various properties that it is putting under contract. It is hopeful of entering into a lease agreement with the City for Borden Park, with options on additional city property on the north side of Hamlin, including Helen Allen Park. Total acres under the primary lease is 141.777, plus options on approximately 10 additional acres. The City would receive a "signing bonus" if it chooses to enter into the lease equating to \$100/acre under contract. An additional \$100/acre would be paid should the primary term of the lease be extended. Royalties due to the City should a facility be developed and gas and/or oil produced is equal to a 1/6th share of all acres under contract. This is equivalent to the share the State of Michigan receives for oil and gas leases of state land.

Finally, the lease does not permit production facilities to be located on city property, and other environmental considerations, including disruption of park activities and conditions, are also addressed.

I look forward to presenting this opportunity for your consideration and hearing any comments you may have. Representatives of Energy Quest and the City Attorney's office will be available to answer your questions.