



innovative by nature

September 21, 2012

Bryan K. Barnett
Mayor

Dear Residents and Property Owners:

City Council

Ravi Yalamanchi
District 1

Adam Kochenderfer
District 2

Greg Hooper
District 3

Nathan Klomp
District 4

James Rosen
At-Large

Mark Tisdell
At-Large

Michael Webber
At-Large

In recent weeks, several residents and property owners have received a packet of information from Land Services, Inc. that, in the most general of terms:

1. Explains their intent to explore for oil and gas reserves in subsurface pockets (termed "structures").
2. Requests the property owner(s) to sign and have a lease notarized.
3. Lists an amount to be paid to the owner(s) for agreeing to lease their subsurface rights for the exploration and extraction of oil and gas.

Information

The City has met with representatives of Jordan Management Company, LLC., and their attorney, Mike Cox, former State Attorney General. They have informed the City that the State Department of Natural Features (MDNR) has awarded their company the exploration rights for Oakland County. The City experienced a similar level of activity in 2005 from the same company.

Some of the information provided to the City includes the following:

- MDNR solicited bids from qualified companies to be awarded areas of the State.
- The areas are awarded on a county-wide basis in groupings of 160 acres or $\frac{1}{4}$ square mile.
- West Bay Exploration Company is part of the Jordan Management Company.
- There are 4 general areas in/near the city that early sonar detection systems have indicated that oil may exist. (Note: Oil is their pursuit due to current market prices).
- 2 of the 4 areas are near the Intersection of Adams and Tienken.
- The 3rd area is east of Tienken and Livernois by Paint Creek.
- The 4th area is located near Tienken and Sheldon.
- The City has been assured, and the letter states, that this process does not include Hydraulic Fracturing or "fracking" as it has become known.
- The depths that the "structures" are found are usually between 2,000 feet to 10,000 feet deep. The drilling operation can be set up as much as 2 miles away due to the ability to directional bore. The horizontal distance is a factor of the depth of the "structure".
- The leases requested are written to cover five years. The lease also provides for extensions.

-The Process

- It is our understanding that West Bay would like to secure at least 75% of leases from the landowners within the estimated lease area, the 160 acre section, before they can construct and begin operations of an exploratory drilling operation. However, the State only requires that they receive a majority of landowners' leases (50% plus 1).
- The drilling operation is to confirm what their early sonar detection system provided, some evidence as to the existence of a "structure". The early sonar testing is usually done late at night and from the roadway with a specially equipped truck. There is no vibration or shaking that occurs.
- After drilling and once a "structure" is confirmed and adequate amounts are determined, the company can begin extraction or put the extraction on hold. The delay may be due to workload elsewhere or market fluctuations.
- It is estimated that the drilling activity takes about 3 weeks.
- Once drilling is complete, it is decided by the company to extract or cap the well. If extraction begins, different equipment is installed and placed behind a security fence. The equipment consists of a pump, valves, and a structure about the size of a house trailer.
- The State regulates that they can only withdraw up to 5% of the volume annually. A portion of the revenues are paid to the State and become the source of the MDNR Trust Fund. The landowner(s) is also paid and that amount is a factor based on the surface land area or acreage under the landowner's control and market prices. The Company retains the balance.
- It is our understanding that the Company is obligated to pay the landowner a minimum amount per acre as set by the state, just for the right to conduct the exploration. If oil is found and extracted, there will be additional payments.
- There may have been some misinformation, but it is our understanding that the lease being offered to permit subsurface exploration will also serve as the lease for extraction if a "structure" is found and is deemed to hold sufficient mineral quantity (oil or gas).

It has been the City's experience that West Bay Exploration Company is operating under the auspices of the State of Michigan Department of Natural Resources.

PLEASE NOTE: THE CITY CANNOT TELL YOU WHAT TO DO IN REGARD TO THIS LEASE REQUEST AND CANNOT PROVIDE YOU LEGAL COUNSEL.

If you do have additional questions, please contact the author of the letter sent by Land Service, Inc on behalf of West Bay Exploration Company. Thank you.

Sincerely,

Bryan K. Barnett, Mayor
City of Rochester Hills