"The Landowners Law Firm" SM

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APRIL 2017

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Oil & Gas, Solar, Pipeline and Energy Newsletter

Dear Clients, Friends and Colleagues:

Highlights from this issue include:

- We will be hosting landowner meetings in Belmont County, Ohio (on April 19, 2017) and Jefferson County, Ohio (on May 24, 2017). For more information, see page 2.
- We are excited to introduce our newest attorney, Heidi Kemp, and announce plans for our office in Belmont County, Ohio. For more information, see page 2.
- Oil and gas activity in Ohio continues to increase and not just in the Utica/Point Pleasant areas. This is occurring even though oil prices and natural gas prices have not risen as much as hoped. For more information, see page 4.
- Solar, pipeline and oil and gas companies are utilizing options more than we have seen in the recent past. We are especially concerned about the "Options" and so-called "Letters of Intent" being utilized by solar companies. For more information, see below and page 2.

Sincerely,

Emens & Wolper Team Dick, Bea, Sean, Kelly, Cody, Heidi, Michael, Chris, and Gail

🔺 <u>***Ohio Landowner Alert***</u> 🔺

Beware of Proposed Solar Documents: Some of the "Options" and "Letters of Intent" being presented to landowners are very landowner unfriendly. Several of these documents we have reviewed may mislead the landowner. We urge Ohio landowners who receive these documents not to sign until they have been reviewed by attorneys knowledgeable about solar documents. For more information, see page 2.

Consider Oil and Gas Lease Renewal Options: Many oil and gas company Lessees have been offering amendments and less compensation regarding options to renew rather than paying the full option price. Some landowners have looked at such Lessees' activity as a positive and let the lease expire rather than accept the amendment and lower compensation. For more information, see page 4.

Carefully Review Royalty Statements: As stated in our previous Newsletters, landowners need to continue to pay attention to any royalty statements and royalty checks received from oil and gas companies and watch for excessive deductions being taken. Recently, we have reviewed royalty statements where the amount of deductions for production of natural gas liquids ("NGLs") actually exceeded the revenue paid for the NGLs resulting in a negative net number for the landowner.

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EMENS & WOLPER UPCOMING PRESENTATIONS

Wednesday, April 19, 2017

Starting at 6:30 p.m. Union Local Middle School 66859 Belmont Morristown Rd. Belmont, OH 43718

We will be discussing Dormant Mineral Issues, Deductions from Royalty Payments, Oil and Gas Lease Extensions, Sales of Minerals, Estate Planning and answering questions on related subjects.

Wednesday, May 24, 2017

Starting at 6:30 p.m. Wintersville Fire Station 286 Luray Dr. Wintersvile, OH 43953

We will be discussing Dormant Mineral Issues, Deductions from Royalty Payments, Oil and Gas Lease Extensions, Sales of Minerals, Estate Planning and answering questions on related subjects.

We invite you to bring friends and neighbors who have questions to these meetings.

We look forward to seeing you there!

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NEW EMENS & WOLPER ("E&W") ATTORNEY AND OFFICE

Introducing Heidi Kemp and E&W Office in Belmont County, Ohio: We are happy to let you know that Heidi Kemp has joined E&W as an Associate attorney. Heidi grew up on a dairy farm in Belmont County, where her family still lives. She will initially practice in E&W's Columbus, Ohio office and then relocate to a new E&W office which will be established in Belmont County by the end of 2017. More information about the new office will be forthcoming. Heidi will assist landowners with oil and gas issues as well as advise on succession issues for family farms and family businesses. Heidi will also focus her practice on estate planning and probate matters.

Prior to joining E&W, Heidi practiced with a large firm in Columbus after graduating with honors from The Ohio State University Moritz College of Law. Heidi also has an MBA, is a Certified Financial Planner professional, and is a Certified Trust and Financial Advisor. She is licensed in Ohio and has passed the West Virginia bar exam and expects admission May 17 in West Virginia.

WIND AND SOLAR ENERGY UPDATE

First Round of American Electric Power ("AEP") Wind and Solar Requests for Proposals (**"RFPs") Comes to a Close:** On December 16, 2016, AEP Ohio, a unit of AEP, issued two separate RFPs for wind and solar generation in Ohio. The RFPs, which were open until February 16, 2017, sought up to 250 MW of wind energy resources and 100 MW of solar energy resources. The combined 350 MW requested is the first round of RFPs toward fulfilling the 900 MW commitment by AEP (500 MW of wind and 400 MW of solar) as part of a stipulated agreement approved by the Public Utilities Commission of Ohio.

This is a significant step toward advancing Ohio's renewable energy portfolio. Each solar project proposed under the RFP would produce 10 megawatts or greater. Generally, a megawatt can power about 1,000 homes, though wind and solar are not always powering to full capacity, depending on weather conditions.

Although the first round of RFPs are closed, companies are still seeking solar leases and easements on Ohio farmland. However, legislation currently pending in the Ohio legislature may, if passed and signed into law, put a damper on these developments. It appears that there are more than fifteen "companies" currently attempting to lease Ohio land for solar projects. Many of these "companies" have been created very recently and do not have the experience or financial strength to actually construct a solar project. For more information, see http://www.bizjournals.com/columbus/news/2016/12/16/aep-taking-bids-for-350-megawatts-of-ohio-wind.html.

Beware of Proposed Solar Documents: We urge Ohio landowners who have been offered solar documents not to sign even the so-called "Letter of Intent" until each document has been reviewed by attorneys knowledgeable about such documents. Some of the "Options" and "Letters of Intent" being presented to landowners may give the solar company more "rights" than the landowner understands. Some of these Letters of Intent can have the effect of establishing lease terms (and the landowner agreeing to those terms) *even before the lease is negotiated*.

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EMENS & WOLPER LAW FIRM LEGAL SERVICES

Our law firm provides numerous legal services related to natural resources including the following:

- We review, analyze and negotiate new and old oil and gas leases and mineral deeds;
- We review, analyze and negotiate solar options, letters of intent, and leases;
- We review, analyze and negotiate all wind farm documents;
- We review royalty payments, deductions, and division orders;
- We review, analyze and negotiate pipeline easements;
- We analyze mineral abandonment claims and claims regarding expired leases;
- We represent landowners in ODNR mandatory unitization proceedings who are being forced unitized;
- We review, analyze and negotiate water, sand, timber, gravel, and coal rights agreements;
- We review, prepare and negotiate real estate deeds, mortgages, notes and liens;
- We review, analyze, negotiate sale of minerals and royalties; and
- We assist with litigation on all of these matters.

Our law firm also provides services regarding estate planning, succession planning for family farms and other businesses and purchases and sales of farms and other businesses.

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PIPELINE UPDATE

Kinder Morgan Utopia ("KMU"): As KMU continues to seek easements from landowners, it is still unclear whether or not KMU will be utilizing landowners' properties west of Sandusky County, Ohio for its 12-inch ethane pipeline project. As we stated in our January 2017 Newsletter, the KMU pipeline continues to be held up as a result of the Wood County Common Pleas Court decision to deny Kinder Morgan eminent domain. KMU is not a natural gas pipeline within the Natural Gas Act and does not have an opportunity to receive federally mandated eminent domain rights.

It appears KMU will soon be clearing trees along the route of the pipeline – and looking to clear such trees quickly. We have recently been apprised that KMU is now asking some landowners to assist with tree harvesting in exchange for a small fee.

Rover Pipelines: On February 3, 2017 Rover received its Certificate of Public Convenience and Necessity ("CPCN") from the Federal Energy Regulatory Commission ("FERC"). Since receiving its CPCN, Rover has also received notices to proceed with tree clearing (on February 13, 2017) and pipeline construction (on March 3, 2017). Tree clearing AND construction have begun!

Rover and its attorneys used the issuance of its CPCN to file suits for eminent domain against hundreds of landowners in federal court in both the Northern and Southern Districts of Ohio (as well as in federal courts in Michigan and West Virginia). Rover additionally claimed the notices gave it the right of "quicktake" to enter landowner properties without a signed easement agreement. The federal court for the Southern District of Ohio granted Rover its request, but made it clear that Rover was granted the right of "quicktake" to enter *only* landowner land where the landowner was properly served in the lawsuit. Judge Marbley pointed to Rover's requirement of clearing all trees within the pipeline route prior to March 31, 2017 because of the Indiana Brown Bat.

Nexus Pipeline: Due to Norman Bay's resignation as a FERC Commissioner on February 3, 2017, FERC was left without the three-member quorum needed to approve FERC-regulated, natural gas pipeline projects. The Nexus Pipeline project did not receive its approval prior to Bay resigning. Thus, construction of the Nexus Pipeline project is halted awaiting President Trump's appointment of at least one FERC Commissioner and approval of such appointment by the United States Senate.

The Nexus Pipeline project has been under the same obligations as Rover regarding the Indiana Brown Bat to clear trees across the entire pipeline route prior to March 31, 2017, unless it receives a variance. Since Nexus has been unable to obtain a CPCN, it could be until October 2017 before Nexus is allowed to clear trees.

Shell Falcon Ethane Pipeline: Recently, Shell Pipeline Company LP ("Shell") announced a new FERC-regulated, 92.3-mile long, 20-inch diameter pipeline project that is planned to traverse Ohio, West Virginia, and Pennsylvania. In Ohio, the pipeline is projected to cross Harrison, Jefferson and Carroll Counties. According to its website, Shell expects to begin construction on the pipeline in late 2018 with an in-service date of early 2020.

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EXAMPLE VIEW FIRM EMPLOYER LAW FIRM

Landowner Groups and Other Ohio Counties Where Emens & Wolper has Assisted Landowners

<u>Black River Landowners</u> <u>Association</u>—Lorain County

<u>Central Ohio Landowners</u> <u>Association</u>—Richland and Ashland Counties

<u>Coshocton County</u> <u>Landowners Group</u>— Coshocton and Northeastern Muskingum Counties

Jefferson County Landowners Group—Jefferson County

<u>Mohican Basin Landowners</u> <u>Group</u>—Ashland, Wayne, and Holmes Counties

<u>Muskingum Hills</u> <u>Landowners</u>—Southeastern Muskingum County

<u>Perry County Landowners</u>— Perry County

<u>Resources Land Group</u> Licking and Southeastern Knox County

Smith Goshen Group— Belmont County

Ashland, Ashtabula, Athens, Carroll, Columbiana, Crawford, Defiance, Delaware, Erie, Fayette, Franklin, Fulton, Geauga, Guernsey, Hardin, Harrison, Henry, Highland, Hocking, Holmes, Huron, Mahoning, Marion, Meigs, Monroe, Noble, Pickaway, Portage, Ross, Sandusky, Seneca, Stark, Summit, Trumbull, Tuscarawas, Union, Washington, Wayne, Wood, and others.

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EXPLORATION AND DEVELOPMENT UPDATE

Permitting on the Rise Again in Ohio: In January and February 2016, the Ohio Department of Natural Resources ("ODNR") issued just 43 permits for horizontal drilling in the Utica and Point Pleasant shale formations. This year, prior to March 4, 2017, the ODNR has already issued 73 such permits.

Of those 73 issued permits, most are for drilling in the following three Ohio counties: Belmont County - 32, Monroe County - 16, and Noble County - 15. The remaining permits are for Jefferson, Carroll, Coshocton, and Wayne Counties. For more information, see March 16, 2017 FARM AND DAIRY.

New Round of Targeted Leasing Begins in Eastern Ohio: Many oil and gas leases in Ohio's "shale area" signed in 2012 had a five-year primary term and are now expiring unless extended. Many of these 2012 leases contained an "option" right in the Lessee oil and gas company to extend the lease for an additional five-year term upon a timely payment of an amount equal to the original per acre signing bonus.

We are seeing few Lessees exercising the option by paying the full option exercise price. Lessees are often offering an amendment to the lease that gives several one-year options with a reduced option exercise price, or even letting the lease expire.

Some landowners have stated they are glad to see the old lease expire because the landowner expects to get better royalty and bonus terms in a new lease. We caution that landowners think through this strategy as, especially in areas where an oil and gas company has a solid block of leases, there may not be another oil and gas company interested in leasing (at least not anytime soon).

Ohio's Natural Gas Production is Up: Although oil production from Ohio's horizontal shale wells was down nearly 44 percent in the fourth quarter of 2016 (compared to the fourth quarter of 2015), natural gas production was up 14 percent comparing the same dates, according to figures released by the Ohio Department of Natural Resources. During the fourth quarter of 2016, Ohio's shale oil and gas wells produced 3,577,553 barrels of oil and 345,241,753 Mcf (345 billion cubic feet) of natural gas. Of the top-ten wells producing natural gas in Ohio during the fourth quarter of 2016, four were from Jefferson County and the remaining six were from Belmont County.

Producer	County	Township	Well Name	Gas Production
1. Ascent Resources Utica	Jefferson	Smithfield	Smithfield S 4H	1,635,148
2. Ascent Resources Utica	Jefferson	Smithfield	Smithfield A 2H	1,620,840
3. Ascent Resources Utica	Belmont	Richland	Emersyn E 3H	1,619,684
4. Ascent Resources Utica	Belmont	Richland	Emersyn E 1H	1,619,632
5. Ascent Resources Utica	Jefferson	Smithfield	Smithfield N 7H	1,618,468
6. Gulfport Energy Corp.	Belmont	Wayne	Warrick 210463 4A	1,598,247
7. Ascent Resources Utica	Belmont	Richland	Ross SE 11H	1,595,125
8. Ascent Resources Utica	Belmont	Wheeling	Cravat N 3H-A	1,593,361
9. Ascent Resources Utica	Belmont	Richland	Coleman RCH 1H	1,591,631
10. Ascent Resources Utica	Jefferson	Smithfield	Dalrymple 3H	1,590,184

*Mcf gas (1 MCF = 1,000 cubic feet of gas). Ohio law does not require the separate reporting of Natural Gas Liquids (NGL). Gas reporting totals listed on the report include NGLs.

For more information, see http://www.farmanddairy.com/top-stories/ohio-utica-shale-gas-production-up-43-in-2016/406196.html.

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LEGAL UPDATE

Court Releases Leased Acreage Outside of Unitized Acreage: In *Burke v. Excalibur Exploration*, 2017-Ohio-999, the Court of Appeals for the Eleventh District of Ohio affirmed a decision from the Common Pleas Court of Ashtabula County, Ohio that despite leased acreage being pooled within a drilling unit containing a producing well, the lease terminated as to the remaining acreage outside the unit after the expiration of the primary term. On August 4, 2000, landowner-lessor Gerald W. Burke ("Burke") entered into an oil and gas lease with Excalibur Exploration, Inc. ("Excalibur") covering approximately 227.7 acres in Ashtabula County, Ohio ("Lease"). Paragraph seven of the Lease stated "Operations upon and production from any unit, including all or any portion of the leased lands, shall be treated as if such operations were upon or such production were from the leased lands whether or not the well or wells are located thereon." Paragraph seven was subsequently amended to state that "Lessee hereby agrees not to pool or unitize the herein leased lands or any part thereof without prior written consent from Lessor" and, on March 26, 2003, Burke consented to unitization of 20.52 acres in a drilling unit with the lands of other property owners.

On October 14, 2015, Burke filed a complaint to cancel the Lease as it related to the 207.18 acres not contained within the drilling unit. Excalibur argued that the incorporation of any portion of the leased property into a drilling unit held the entire leasehold estate – even the leased land outside the drilling unit. On July 13, 2016 the trial court granted Burke's motion for summary judgment cancelling the Lease as to the 207.18 acres, concluding that Excalibur had not conducted any operations on such acreage. On appeal, the Court affirmed by writing that "the wells discussed in paragraph seven refer to those that are physically located in a drilling unit." As such, paragraph seven was narrowly construed to read that the drilling unit only held the acreage contained within such unit. "If the parties intended [a contrary] interpretation," the Court wrote, "the paragraph would have stated that production from any lands within the drilling unit shall be treated as if the operations were *on the entirety of the leased premises* out of which the unit is comprised." *Id.* (emphasis added).

Ohio Appellate Courts Begin Applying Dormant Mineral Act Decisions: Ohio enacted the Ohio Dormant Minerals Act ("DMA"), Ohio Revised Code ("R.C.") § 5301.56, on March 22, 1989 ("1989 DMA"), which provided that a mineral interest held by a severed mineral owner (who is not a public entity or owner of an interest in coal) "shall be deemed abandoned and vested in the owner of the surface" if none of the six enumerated "savings events" occurred within the "the preceding" 20-year period. R.C. § 5301.56(B). The DMA was significantly amended on June 30, 2006 to include additional notice and filing requirements ("2006 DMA"). After the Ohio shale boom began in 2010, many surface owners tried to use the 2006 DMA to merge severed mineral interests back to the surface but were unable to do so. Many of these surface owners then filed lawsuits claiming that under the 1989 DMA the severed mineral interest had been abandoned and vested with the surface *automatically* while the 1989 DMA was in effect. On September 15, 2016, the Supreme Court of Ohio wrote, in *Corban v. Chesapeake Exploration, L.L.C.*, Slip Opinion No. 2016-Ohio-5796, that after June 30, 2006, landowners, like those mentioned above, were unable to utilize the 1989 DMA to claim ownership to oil and gas minerals underlying their properties.

In light of the decision in *Corban*, many previously-stayed decisions at the Ohio appellate court level have finally experienced resolution. One court, the Court of Appeals for the Eleventh District of Ohio, has already applied the *Corban* decision in at least four lawsuits including *Stalder v. Bucher*, 2017-Ohio-725, *Williams v. Stallion*, 2017-Ohio-714, *Gentile v. Ackerman*, 2017-Ohio-789, and *Jefferis Real Estate Oil & Gas Holdings*, *L.L.C. v. Scaffner Law Offices*, *L.P.A.*, 2017-Ohio-1013. The court decisions, however, are not surprising. As oil and gas leasing and production continues to pick back up in eastern Ohio (see page 4) we expect to continue to see the trend of oil and gas mineral ownership issues being resolved. *Continued on page* 6.

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Please visit our website for **Educational Articles** www.emenswolperlaw.com

- Solar is Here in Ohio: Landowners Beware
- Selling Your Mineral Rights -Questions You Should Consider First!
- Separating your Mineral Rights: Remember Real Estate Taxes
- Post-Production Costs: Protecting Landowner Rights
- Oil and Gas Leases and Pipeline Easements - - This Time It's Different
- Oil and Gas Considerations When Buying and Selling Farmland
- "Force Pooling" in Ohio: **Requiring Non-Consenting** Landowner's to Develop Their Oil and Gas Minerals
- "Mineral Rights ARE Different Pipeline Easements and Right of Ways: Protecting Your Rights
- Pipeline Easements: Steps to Protecting Landowner Rights
- Unusual Ohio Oil and Gas Lease Provisions
- Ohio Oil and Gas Conservation Law – The First Ten Years (1965 - 1975)

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LEGAL UPDATE (CONTINUED)

Another previously stayed decision from the Court of Appeals for the Seventh District of Ohio, Devitis v. Draper, 2017-Ohio-1136, reversed a decision from the Common Pleas Court of Monroe County, Ohio that held that a surface owner may utilize the 1989 DMA to reclaim abandoned oil and gas minerals. Interestingly, as a case of first impression, the Court also wrote that a reserved royalty interest is also subject to abandonment under the DMA. As the Court explained, the DMA is a tool to extinguish a reserved oil and gas mineral interest "regardless of how the interest is created and the form of the interest." Id. at ¶ 18. (emphasis added).

Using Estate Planning to "Protect the Family Farm" (Including Oil and Gas Rights): In Ashtabula Cty. Technical & Career Ctr. v. Thompson, 2017-Ohio-618, the Court of Appeals for the Eleventh District of Ohio affirmed a decision from the Common Pleas Court of Ashtabula County, Ohio that oil and gas rights disposed of in a trust could not be reserved by the trust's trustee. In 1978, Lucille M. Romansky, obtained title to approximately 190 acres in Orwell, Ohio (the "Farm Property"), which she leased to Gasearch, Inc. in 1984. In 2005, Lucille created the Lucille M. Romansky Trust ("Trust") and in 2007 deeded the Farm Property to the Trust. The Trust provided "If the Trustor still owns the [Farm Property] at the time of her death, this property shall be distributed to the ASHTABULA COUNTY JOINT VOCATIONAL SCHOOL.... This land shall not be divided, sold, or given to any third party." Id. at ¶ 5.

Upon Lucille's death in 2012, her niece, Denise Thompson, became trustee of the Trust. In 2015, Denise provided the Ashtabula County Joint Vocational School ("ACJVS") with a Deed of Trustee to convey the Farm Property to ACJVS. However, said Deed attempted to reserve all oil and gas rights underlying the Farm Property, including those leased to Gasearch, Inc. Id. Because the Deed of Trustee contained a reservation contrary to the language of the Trust, the ACJVS refused to record it. On June 30, 2015, the ACJVS filed a complaint for declaratory relief against Denise demanding that she provide ACJVS with another deed without the reservation of oil and gas rights. The trial court granted ACJVS' motion for summary judgment, writing that the language of the Trust was unambiguous. This decision was upheld on appeal.

Thompson is an important decision for those landowners who wish to "protect the family farm" after their passing. The case demonstrates the importance of specific language in an estate plan. Had Lucille wished to allow any successor trustee of the Trust to be able to be able to reserve the oil and gas minerals underlying the Farm Property, the Trust's language should have been specifically and carefully crafted to so state. Landowners who wish to pass their farms onto successive generations needs comprehensive plans and specific language to ensure their wishes are fulfilled in the future.

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Emens & Wolper would like to thank Marty Shumway for providing the Utica Status Map, above.

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