Could your public property be sitting on a shale fortune?

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A recent surge of newspaper articles, along with abundant content from oil and gas industry websites and blogs, indicate that there is growing potential for major natural gas and oil production from the Marcellus and Utica shale deposits in Ohio and other states. For many Ohio towns, counties, park districts and other political subdivisions, such production could become a source of additional revenue generation in the form of substantial leasing fees and landowner royalty interests.

Indicative of the potential revenue stream for government lands is the recently enacted Ohio legislation creating an Oil and Gas Leasing Commission, and the accompanying procedures for leasing state-owned or controlled lands for oil and gas production. That legislation, however, does not apply to Ohio's political subdivisions.

While Ohio does not have a uniform procedure for leasing of lands owned by its political subdivisions, there are provisions in the Ohio Revised Code, the Ohio Administrative Code and in some local zoning ordinances that apply to the leasing of public lands for oil and gas development. This is particularly noted in lands within an urbanized area—where the population of a township or municipality is more than 5,000. Likewise, Ohio's spacing and location of wells requirements apply to publicly-owned lands leased for oil and gas development.

Thus for Ohio counties, townships, cities, school districts and other political subdivisions that own undeveloped lands in the Marcellus and Utica shale areas, those lands may become revenue generators without requiring any material investment of funds. In these days of budget cuts and revenue shortfalls, oil and gas leasing fees and royalties, it could be a most welcome addition.

If your governmental entity owns developed land overlying the Marcellus or Utica shales, you likely will be or have been contacted by leasing agents. Responding to such contacts requires thoughtful consideration of a number of factors including what public hearing and legislative actions may be required to enter into an oil and gas lease, as well as negotiation of lease conditions and payment terms. If you want to discuss this in more detail or want further information regarding this opportunity, please contact Jim Hopple at 614.462.2305 or jhopple@szd.com or John McDonald at 614.462.2201 or jmcdonald@szd.com.

Background Information

Both the Marcellus and Utica shale formations are much deeper than the formations that were exploited during the oil and gas boom in Ohio in the 1960s. Recent technology improvements and the ability to perform horizontal drilling, coupled with modern fracturing techniques and a renewed need to exploit oil and gas reserves within the United States, have all made deep-well drilling to extract oil and gas from the Marcellus and Utica formations economically feasible. Major producers are actively pursuing leasing and exploration programs. Leasing of large amounts of acreage in New York, Pennsylvania, West Virginia and Ohio have occurred and are ongoing. Drilling and production have started, particularly in New York, Pennsylvania and West Virginia.

In Ohio, the Marcellus formation underlies a portion of eastern Ohio from Ashtabula to Washington counties, while the even deeper Utica formation is under a larger portion of Ohio, roughly the eastern half and a portion of southwest Ohio.