



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN

DEPARTMENT OF NATURAL RESOURCES

LANSING



REBECCA A. HUMPHRIES
DIRECTOR

June 8, 2009

TO: Rebecca A. Humphries, Director

Transaction: Six (6) Direct Oil and Gas Leases, Nondevelopment, in Otsego County.

Authority: Part 5, Department of Natural Resources, Section 502, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended (NREPA), and R 299.8105, Direct Leases, Rule 105, Section (4).

Applicant: Dennis R. Schmude, d/b/a Schmude Oil, of Traverse City, Michigan.

Jurisdiction: Department of Natural Resources (DNR), State-owned minerals.

Mineral Description: The SE1/4 SE1/4 (40.00 acres, more or less) of Section 19; the entire NW1/4 (160.00 acres, more or less), the SW1/4 SW1/4 (40.00 acres, more or less), the E1/2 SW1/4 (80.00 acres, more or less), and the entire SE1/4 (160.00 acres, more or less) of Section 20; the entire SW1/4 (160.00 acres, more or less) of Section 21; and the E1/2 NE1/4 (80.00 acres, more or less) of Section 29, all located in T32N, R02W, Corwith Township, Otsego County, containing a total of 720.00 acres, more or less.

Comments: All parcels requested lie within the Pigeon River Country State Forest (PRCSF) Annexed Area, as defined in the November 2007 Concept of Management for the Pigeon River Country. Applicant proposes to utilize directional and horizontal drilling techniques from existing privately held surface well locations lying outside of the PRCSF boundary to reach hydrocarbons lying beneath the parcels requested for lease. Department of Natural Resources (DNR) staff has determined that the above-described parcels are being drained by offset production and therefore recommend that the DNR lease the subject parcels pursuant to the Rules for Oil and Gas Leases on State Lands, R 299.8105, Direct Leases, Rule 105, Section (4). Applicant has existing infrastructure in place (i.e. processing facility, private well pads, flowlines, sales lines, etc.), although additional flowline installations will be required to develop and produce the increased quantities of natural gas.

Drilling Type/Unit: Applicant will petition the Supervisor of Wells, Office of Geological Survey, Department of Environmental Quality, for approval of a proposed 720-acre Uniform Spacing Plan/Antrim drilling unit upon issuance of the requested direct oil and gas leases. This drilling unit will contain 100 percent State ownership for royalty purposes.

NATURAL RESOURCES COMMISSION

Keith J. Charters, Chair • Mary Brown • Hurley J. Coleman, Jr. • John Madigan • Timothy L. Nichols • J. R. Richardson • Frank Wheatlake

STEVENS T. MASON BUILDING • P.O. BOX 30028 • LANSING, MICHIGAN 48909-7528
www.michigan.gov/dnr • (517) 373-2329

Great Lakes, Great Times, Great Outdoors!

Lease Terms: One-year term, no extensions, 3/16 royalty, \$72,000.00 bonus consideration (\$100.00 per acre), and \$2.00 per acre rental.

Special Restrictions: Nondevelopment classification with no future consideration for any type of development reclassification in perpetuity. No development activities shall be allowed within red-shouldered hawk nesting areas between February 1 and August 31, or as specifically directed by the local DNR Wildlife Management Unit Supervisor. The proposed additional pipelines and flowlines necessary for this project shall be double-cased underneath the Sturgeon River, creeks and wetlands for secondary containment purposes. All development activities associated with this project shall follow the Comprehensive Development Plan approved by DNR staff.

Notice: Notice was published in the Gaylord Herald Times on June 25, 2008 and April 29, 2009. This item will appear on the June 29, 2009 DNR Business Calendar and will be eligible for approval on July 9, 2009.

Recommendation: The nondevelopment leases be issued to the applicant pursuant to the above terms, conditions and restrictions.

Lynne M. Boyd, Chief
Forest, Mineral and Fire Management

Russ Mason, Ph.D., Chief
Wildlife

Kelley D. Smith, Ph.D., Chief
Fisheries

Arminda S. Koch
Resource Management Deputy

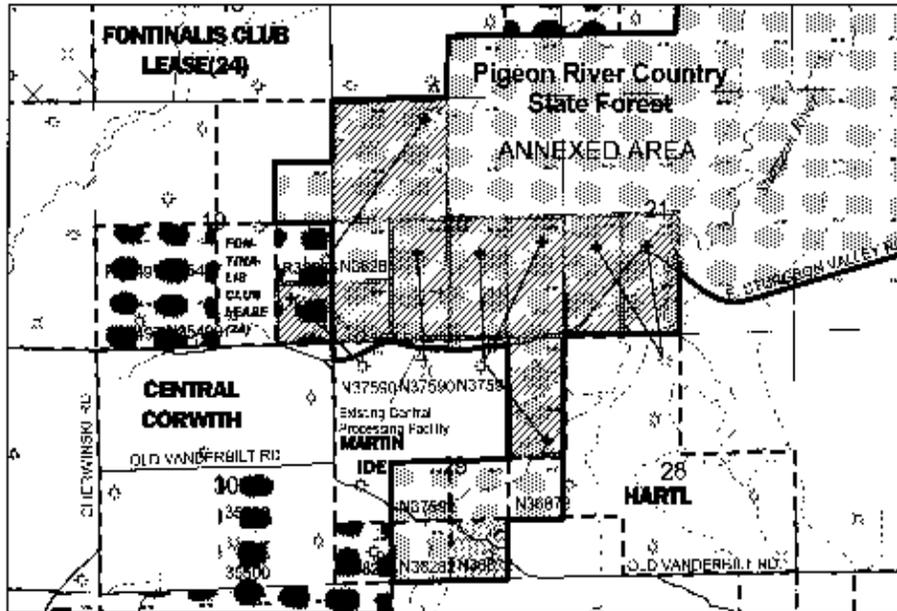
I approve the staff recommendation.

Rebecca A. Humphries
Director

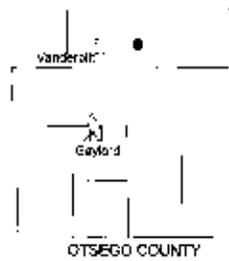
Approval Date

DIRECT OIL AND GAS LEASES (6) - NONDEVELOPMENT

Dennis R. Schmude, d/b/a Schmude Oil
Pigeon River Country State Forest Annexed Area Lands
Sections 19, 20, 21 and 29, T32N, R02W
Corwith Township, Otsego County



- | | |
|--|-------------------------------------|
| — Pigeon River Country State Forest boundary | ◇ Natural gas well |
| - - Antrim Unitized Area boundary | △ Brine disposal well |
| ▨ State-owned minerals requested for oil and gas leases (720.00 acres, more or less) | × Surface location |
| + Proposed terminating bottomhole location | ▤ DNR Surface Ownership |
| — Proposed horizontal drilling | ▥ DNR Mineral and Surface Ownership |
| ~ ~ ~ Proposed Antrim drilling unit | ▧ DNR Mineral Ownership |
| | ▩ Mixed DNR Ownership |





 DNR-FMFM000162/RAU_Project
 Commission_Memo/Minerals
 schmude 06/29/09/09_01/02/09 01:16:54
 CE 04 09, 11:30 am