



Michigan Department of Natural Resources Oil and Gas Leases Frequently Asked Questions

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What is the DNR's authority for leasing oil and gas?

The DNR's authorization to enter into contracts for the taking of coal, oil, gas and other mineral products from state-owned lands comes from the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended (NREPA).

How are state-owned oil and gas rights leased?

The vast majority of state oil and gas leases originate at DNR oil and gas lease auctions, currently held biannually in Lansing. Parties interested in leasing state-owned oil and gas rights have the opportunity to "nominate" state-owned oil and gas rights (by parcel) prior to each auction. Interested parties may also apply for a direct lease under certain circumstances.



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Who decides which state-owned oil and gas rights will be offered for lease at the auction?

Parties interested in leasing state-owned oil and gas rights can request (or “nominate”) them for an oil and gas lease auction. The DNR director gives final approval of the parcels to be offered and the corresponding parcel classifications.

How often are lease auctions held?

The DNR has been leasing state-owned oil and gas rights through the public auction process since 1929. The oil and gas lease auctions are currently held twice per year – once in the spring and once in the fall.

Why is the state selling its mineral rights?

The oil and gas lease auctions are for the privilege of leasing state-owned oil and gas rights. The state is not selling the mineral or oil and gas rights at these auctions.

Can I lease the oil and gas rights under my property from the state at the auction?

Yes. However, a state of Michigan oil and gas lease is not a transfer of ownership and will expire after its five-year primary term if the lease is not included in a producing unit at that time.

Does the state of Michigan generate revenue from oil and gas leasing?

Yes. Leasing of the state-owned oil and gas rights for exploration and development generates revenue in three ways:

- Lessees pay a “bonus” to acquire the lease rights;
- Lessees pay rent on acreage leased; and
- Lessees pay royalties.

Royalty payments are a percentage of the gross value of the oil or gas produced and are determined at the time the product is sold.

Over the last 10 fiscal years, the leasing of state-owned oil and gas rights has generated more than \$750 million. Michigan’s state constitution requires that this revenue currently goes into the Michigan State Parks Endowment Fund and the Game and Fish Protection Trust Fund. These funds allow for improvements and increased recreational opportunities for everyone.



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Are oil and gas exploration and development activities regulated by the state of Michigan?

Yes. In Michigan, all oil and gas exploration and development on state and private land is regulated by the Michigan Department of Environmental Quality (DEQ), Office of Oil, Gas, and Minerals. For more information regarding oil and gas regulations, please visit their website at: www.michigan.gov/deq/0,4561,7-135-3306_57064---,00.html.

How is the environment protected?

There are several means of addressing environmental concerns with oil and gas development. For example:

- Parcels nominated for leasing go through a classification review by professionals to determine the appropriate level of surface use (see related questions regarding lease classifications and stipulations for further information).
- The state lease prohibits drilling within wetlands; habitat identified as critical to the survival of endangered species; and any drilling within 1,320 feet of any lake or stream.
- The lease is subject to all applicable existing or subsequent federal and state laws and rules.
- The lease within itself is not an authorization to drill. Separate application and approval by the DEQ is required prior to drilling activity.
- DEQ's regulatory rules are continually updated to ensure protection of the natural resources while balancing the development of both private and public minerals. For instance, DEQ has implemented a nationally recognized water assessment tool for evaluating the potential effects of water withdrawal and usage on the environment. If a proposed withdrawal is likely to cause an adverse resource impact, the proposed activity will not be allowed as presented.
- If a well pad location is proposed on state surface, additional site review is completed and separate written approvals are required from field biologists, foresters, the State Archeologist, and others to limit surface disturbance.



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What are some of the standard restrictions in the State of Michigan Oil and Gas Lease?

The following are examples of standard provisions in the State of Michigan Oil and Gas Lease:

- A 1,320 foot setback from lakes and streams
- Prohibits operations in wetlands, critical endangered species habitat, and areas of historical or archaeological significance.
- Requires that a Lessee must submit a detailed development plan to the DNR, as Lessor, simultaneously with any drilling permit application submitted to the DEQ
- Requires that pipeline routes follow existing well roads or utility corridors, and be buried below plow depth (typically 4 feet) unless specific written permission from the DNR, as Lessor, is granted.
- Does not allow for a reclassification approval from the LND classification if there will be impairment of wetlands; endangered species habitat; historic archaeological or cultural sites; or areas of special wildlife, ecological or recreational significance.

What is a “split-estate?”

A split-estate occurs when the mineral estate, which includes oil and gas rights, is severed from the surface estate. In this case, one party may own the right to farm the land, build a house or graze cattle, while another party may own the right to explore for and produce the oil and gas from beneath the land at that same property.

What are the requirements related to notification and compensation of surface owners for split-estate property?

The state of Michigan oil and gas lease contains a clause requiring the lessee to notify the surface owner of the intent to enter the land prior to any operations. The lessee is also required to compensate a surface owner for all damage or losses caused directly or indirectly by development operations on the leased premises. A copy of the State of Michigan Oil and Gas Lease form can be viewed online at:

www.michigan.gov/documents/dnr/OilAndGasLeasePR4305_183829_7.pdf.

How can I stop someone from drilling on my land?

The mineral estate is termed the “dominant estate.” That means a surface owner cannot prevent a mineral owner from extracting those minerals, and must grant them reasonable use of the surface to extract minerals from the property. However, the owner of the surface estate may be entitled to compensation for use of the land, such as for damage to crops or trees.



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Does state ownership of the oil and gas rights mean there is oil and gas to be developed under that property?

Not necessarily. State ownership of the oil and gas rights merely signifies that the state owns the rights to develop oil and/or gas from the property if it exists. Issuance of an oil and gas lease on state lands indicates a company or individual has interest in exploring for oil and/or gas under the property. However, oil and gas development is often a “hit-or-miss” proposition. Oil and gas must be recoverable and exist in quantities large enough to support commercial production. Several leases are issued for every one that ultimately proves to be viable. The state of Michigan owns nearly 6.2 million acres of oil and gas rights, but currently has commercial production on just more than 400,000 acres.

What is a lease classification?

There are four categories of lease classification: Leasable development, leasable development with restrictions, leasable non-development, and nonleasable. Nominated parcels are classified for leasing after a review by biologists, foresters, the State Archeologist, and other professionals to determine the appropriate level of surface use for the parcel based on its resource features.

What are lease stipulations?

Stipulations are additional restrictions or requirements that are added to an oil and gas lease. They are determined by the DNR based on a pre-lease classification review of nominated tracts. For example, the classification review may find that a well pad already exists on the nominated parcel, and the department may add a stipulation to the oil and gas lease to restrict development to the existing well pad. Other stipulations might address the placement of drilling equipment or roads on a parcel, or address wildlife and other natural resource issues.

What are administrative rules?

Administrative rules are adopted by the various state agencies to guide them and the public in the conduct of their agency responsibilities. The DNR has developed and implemented rules to guide the process of oil and gas leasing on state lands. These rules can be found on the DNR website at:

www.michigan.gov/documents/OG_rules_21384_7.pdf



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How does the DNR notify the public?

The DNR uses a variety of methods to notify the public regarding the leasing of state owned oil and gas rights:

- The DNR website contains a variety of information regarding the leasing of state-owned mineral rights – including nomination information, oil and gas lease auction catalogs, oil and gas lease auction results, and mineral leasing procedures and forms.
- The DNR places a public notice regarding proposed leasing in newspapers serving areas of proposed lease activity. Public notices are distributed to newspapers in time to give the public 30 days to review and comment on tracts nominated for leasing.
- The DNR sends information regarding proposed mineral leasing to the counties and townships where parcels are located.
- The DNR sends notification directly to owners of the severed surface estate, where applicable.
- The DNR places ads in various trade journals serving individuals and oil and gas companies active in Michigan and surrounding states regarding upcoming oil and gas lease auctions.
- The DNR distributes press releases regarding upcoming oil and gas lease auctions.
- The DNR sends information regarding all oil and gas leasing activities to interested parties via e-mail or text through the GovDelivery system

Does the DNR accept public comments on oil and gas leasing activities?

Yes. Public comment is an important component of every oil and gas lease auction.

Written comments may be sent to Michigan Department of Natural Resources, Office of Minerals Management, P.O. Box 30452, Lansing, MI 48909-7952 or e-mailed to DNR-Minerals@Michigan.gov.