STATE OF MICHIGAN
DEPARTMENT OF NATURAL RESOURCES
LANSING

RICK SNYDER
GOVERNOR

RODNEY A. STOKES
DIRECTOR

August 15, 2011

TO: Rodney A. Stokes, Director

Information: Natural Resources Commission

Transaction: Establishment of Fees for Oil and Gas Lease Classification Reviews and Oil and Gas Lease Classification Amendment Requests

Authority: Part 5, Department of Natural Resources, Section 502, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended (NREPA), authorizes the Director of the Department of Natural Resources (DNR) to control uses on state-owned lands administered by the DNR, to enter into oil and gas leases, and to implement land use rules.

Discussion: The State of Michigan owns over 4.0 million acres of combined surface and mineral rights, and an additional 2.3 million acres of mineral rights only. Under the provisions of 1994 PA 451 of the NREPA, the Natural Resources Commission (NRC) and Director of the DNR are responsible for managing these lands and mineral resources to ensure protection and enhancement of the public trust.

The DNR has proprietary rights over the land surface and must take into account the effects oil and gas exploration and potential development could have on current and future land uses and other resource values.

Beginning with the May 2008 State of Michigan oil and gas lease auction, the DNR agreed to accept parcel nominations that exceeded the maximum acreage that could be field reviewed for lease classification, provided the excess acreage was offered for lease with a classification of nondevelopment, and without being field reviewed.

Section L-2 of the current oil and gas lease states, in part, "...the Lessor may grant a change of classification from a nondevelopment lease, or tracts therein, to a development lease classification if the Lessor finds the existing nondevelopment classification is in error or that there is a change in circumstances."

Currently, the DNR collects a $2,000 application fee for all reclassification requests, pursuant to Department procedure 27.23-15 – Oil and Gas Lease Classification Procedure. This $2,000 fee is charged regardless of whether the request is for a reclassification of parcels that have been field reviewed prior to auction and subsequent lease amendment, or if it is for an initial classification review and lease amendment for those parcels automatically classified and offered for lease as nondevelopment without a field review. The lessee derives added value to their existing lease from the approval of either of these requests. The process for initial lease

classification reviews is less comprehensive than reviews for reclassifications.

Under the direction of the NRC, the DNR implemented a fee structure to pay for costs associated with mineral lease management activities that were viewed as a service to the lessee or applicant. In 2010, a Mineral Lease Review Fee Committee was formed to develop a recommendation for a fee structure that pays for the services provided to the mineral industry and recommend a system for future fee reviews. The fee committee recommended that a fee of $200 per quarter section be established for initial lease classification reviews. Further, if the classification review recommended the lease be classified as development or development with restrictions, the fee committee recommended a fee of $800 per lease be established for classification amendments. The applicant would be responsible for publishing and paying the cost of the public notice for the classification amendment. This new fee structure would result in a lower fee, which more accurately covers DNR costs for parcel classification reviews and lease classification amendments for those parcels, and subsequent leases, not actually classified prior to auction.

Notice: This item will appear on the September 6, 2011 DNR Business Calendar and will be eligible for approval on September 15, 2011.

Recommendation: That, for those parcels offered for lease with a nondevelopment classification without the benefit of a field classification review, a fee of $200 per quarter section be established for classification reviews and a fee of $800 per lease be established for classification amendments to corresponding leases. The applicant is responsible for publishing and paying the cost of the public notice for the classification amendment.

Lynne M. Boyd, Chief
Forest Management Division

Russ Mason, Ph.D., Chief
Wildlife Division

James L. Dexter, Acting Chief
Fisheries Division

Kelley D. Smith, Ph.D.
Acting Natural Resources Deputy

I approve the staff recommendation.

Rodney A. Stokes
Director

Approval Date