



Michigan Department of Natural Resources  
POLICY AND PROCEDURE

**27.23-14 – Oil and Gas Leasing  
(Revised: 04/29/2016)**

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***Supersedes:***

27.23-14 – Oil and Gas Leasing Procedure (Issued: 07/11/2005).

***Issue/Purpose:***

The state of Michigan (state) 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 Part 5 of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended (NREPA), the Department of Natural Resources (DNR) is responsible for managing these lands and mineral resources to ensure protection and enhancement of the public trust.

The DNR is authorized to enter into contracts for the taking of oil and gas from state-owned lands. Contracts may be entered into via the public auction and direct lease processes.

Pursuant to DNR Policy, no leases shall be issued which allow drilling or development operations on the bottomlands of inland lakes and streams. Pursuant to Statute, no new leases shall be issued for Great Lakes bottomlands.

***Definitions:***

Bonus: A one-time payment by the Lessee to the Lessor as part of the consideration for initial acquisition of an oil and gas lease.

Development: Classification recommendation by land managing agency or division to allow for the use of the parcel's surface, or a portion thereof, for oil and gas exploration, development, and production.

Drainage: Drainage of oil, gas and/or liquid hydrocarbons from beneath unleased state-owned lands from off-set wells located on adjacent lands.

Lessee: The intended or existing working interest owner of an oil and gas lease issued by the DNR.

Lessor: The Director of the DNR, for the state of Michigan.

Nondevelopment: Classification recommendation by land managing agency or division to prohibit (without specific permission) the use of the parcel's surface for oil and gas exploration, development, and production.

Nonleasable: Classification recommendation by land managing agency or division to prohibit leasing of the parcel for oil and gas exploration, development, and production.

***Requirements:***

As provided under Michigan Administrative Code R299.8101 – 299.8107 "Rules for Oil and Gas Leases on State Lands," lease auctions may be scheduled, subject to demand, with regular periodic auctions as a goal. The DNR reserves the right to cancel any auction, for any given reason. In addition, the DNR may enter into direct oil and gas leases under certain

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circumstances. The NREPA mandates that all leases must be approved by the State Administrative Board.

### **Administering Division:**

Office of Minerals Management

### **Procedure: Public Auction**

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1. Sets a proposed lease auction date and associated nomination period.
  2. Secures a suitable location for a lease auction to be held.
  3. Makes arrangements for the services of a contract auctioneer.
  4. Publishes notice of open nomination period through trade journals and the DNR website.
  5. Nominates lands for lease where:
    - Drainage is suspected.
    - Unleased state acreage is within an active drilling unit or unitized area.
    - There is unleased state acreage in areas of current development.
  6. Submits completed PR4303, Oil and Gas Lease Auction Nomination, with a nonrefundable nomination fee, to the DNR Cashier's Office.
  7. Receives PR4303 and nomination fee.
  8. Validates and date stamps PR4303 and deposits nomination fee.
  9. Forwards validated PR4303 to the Office of Minerals Management.
  10. Receives and date stamps PR4303.
  11. Reviews PR4303 to determine:
    - Vendor/nominator information.
    - Description of land nominated.
    - Nomination fee has been paid in full.
    - DNR ownership for nominated oil and gas rights.
    - Current lease status of nominated oil and gas rights.
    - All required surface owner information has been provided.
- Nominators
- DNR Cashier's Office
- Office of Minerals Management

12. Enters the nomination information into database.  
NOTE: Nominations that are incomplete or submitted after the open nomination period has ended are returned to the nominator.
13. Generates a nomination summary for each nominator.
14. Sends summary to nominator for review.
15. Coordinates field review/lease classification process outlined in DNR Procedure 27.23-15 – Oil and Gas Lease Classification.
16. Performs review of natural features of nominated lands as outlined in DNR Procedure 27.23-15.
17. Make recommendations regarding appropriate lease classification using automated review system.
18. Provides public notification regarding the proposed auction by completing **ALL** of the following:
  - Sending notification directly to owners of surface rights for the nominated parcels.
  - Publishing a public notice of the proposed lease auction in a local or regional newspaper.
  - Sending notification regarding the proposed lease auction directly to township supervisors, county commissioners, and legislators within the townships, counties, and districts of the nominated parcels.
  - Sending notification to the DNR field offices in the areas of nominated parcels.
  - Publishing a public notice of the proposed lease auction in selected industry trade publications.
  - Sending notification of the proposed lease auction directly to the individuals signed up through the DNR email subscriptions service.
  - Publishing notification of proposed lease auction on the DNR Business Calendar.
19. Following a public comment period, prepares memo to the DNR Director for approval to hold a lease auction and of parcel classifications.

DNR Reviewers

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|  | 20. Forwards memo to the Office of Minerals Management Director for approval.   |
| Office of Minerals Management Director | 21. Reviews and signs memo.   |
|  | 22. Obtains additional approval signatures at the NRC Memo Review meeting.  |
|  | 23. Forwards signed memo to the DNR Director.   |
| Office of Minerals Management          | 24. Creates auction catalog.  |
|  | 25. Publishes notice on the DNR Business Calendar.  |
|  | NOTE: Auction must be published on the DNR Business Calendar for a period of at least 7 days prior to DNR Director approval.  |
| DNR Director                           | 26. Approves lease classifications and lease auction.   |
| Office of Minerals Management          | 27. Sends auction catalog to individuals who nominated state-owned mineral rights for auction.  |
|  | 28. Publishes auction catalog on the DNR website.   |
|  | 29. Conducts a public auction of state oil and lease rights through open oral auction or sealed bid process, as determined by the DNR and as provided under <u>Michigan Administrative Code R299.8101-299.8107 Rules for Oil and Gas Leases on State Lands.</u> |
|  | 30. Prepares memo to the DNR Director for approval of auction bids and bidders.   |
|  | 31. Forwards memo to the Office of Minerals Management Director for review and approval.  |
| Office of Minerals Management Director | 32. Reviews and signs memo.   |
|  | 33. Obtains additional approval signatures at the NRC Memo Review meeting.  |
|  | 34. Forwards signed memo to the DNR Director.   |
| DNR Director                           | 35. Approves auction bids and bidders, and issuance of leases.  |
| Office of Minerals Management          | 36. Upon DNR Director approval, obtains approval from the State Administrative Board to enter into lease contracts as awarded at the lease auction.   |
|  | 37. Reviews Lessee bond information to ensure proper bonding is in place.   |

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38. Reviews Hold Action List to determine if any proposed Lessee is listed.  
NOTE: No leases will be granted to entities on the Hold Action List.
39. Prepares cover letter and sends leases to the proposed Lessees for execution.
- Lessee
40. Receives and reviews lease documents.
41. Obtains properly notarized signature of intended Lessee.
42. Returns lease documents to the Office of Minerals Management, as requested.
- Office of Minerals Management
43. Receives and reviews lease documents to determine if:
- Any changes have been made.
  - Signature page has been properly notarized and executed by the Lessee.
44. Finalizes leases by obtaining a notarized signature from the Office of Minerals Management Director.
45. Prepares cover letter and sends original leases to the Lessee.
46. Updates lease files and database as necessary.

### ***Procedure: Direct Lease***

- Applicant
1. Submits completed PR4306, Direct Oil and Gas Lease Application and Requirements, including nonrefundable application fee and proof of qualification for direct oil and gas lease, to the DNR Cashier's Office.
- DNR Cashier's Office
2. Receives PR4306 and application fee.
3. Validates and date stamps PR4306, and deposits application fee.
4. Forwards validated PR4306 and supporting documents to the Office of Minerals Management.
- Office of Minerals Management
5. Receives and date stamps PR4306.
6. Logs receipt of PR4306.

7. Reviews PR4306 and supporting documents to determine if:
  - Application is accurate and complete according to the Direct Oil and Gas Lease Application and Requirements form.
  - Intended Lessee is a qualified, bonded party.
  - Application is approvable as provided under Michigan Administrative Code R299.8101-299.8107 Rules for Oil and Gas Leases on State Land.
  - Oil and gas rights requested are owned by the DNR or another state agency.
  - Reviews Hold Action List to determine if any proposed Lessee is listed.  
NOTE: No leases will be granted to entities on the Hold Action List.
8. Notifies applicant of any deficiencies in PR4306 and supporting documents.
9. Enters the application information into database.
10. For Development requests ONLY, coordinates field review/lease classification process outlined in DNR Procedure 27.23-15 – Oil and Gas Lease Classification.
11. If applicable, performs review of natural features of nominated lands as outlined in DNR Procedure 27.23-15.
12. Make recommendations regarding appropriate lease classification using automated review system.
13. Provides public notification regarding the proposed lease by completing ALL of the following:
  - Requiring applicant to send notification of pending application directly to owners of surface rights for the nominated parcels.
  - Requiring applicant to publish a public notice of the proposed lease in a local or regional newspaper.
  - Sending notification regarding the proposed lease directly to township supervisors, county commissioners, and legislators within the townships, counties, and districts of the nominated

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- parcels.
  - Sending notification of the proposed lease and the public notice to the DNR field offices and other state agency staff.
  - Sending notification of the proposed lease directly to the individuals signed up through the DNR email subscription service.
- Applicant
14. Publishes public notice in appropriate newspaper, as instructed.
  15. Sends notification to owners of surface rights for the nominated parcels, if applicable.
  16. Forwards original Affidavit of Publication, along with copies of any surface owner notification letters, to the Office of Minerals Management.
- Office of Minerals Management
17. For Development requests ONLY, reviews final classification recommendation from automated review system.
  18. Reviews state agency classification recommendation and authorization to lease non-DNR lands, if applicable.
  19. Reviews comments, concerns, and objections from elected officials and others responding to the public notice, if applicable.
  20. Develops leasing terms and economic factors by:
    - Reviewing previous three years of state and federal lease auction data within a three mile radius of request.
    - Reviewing private lease information submitted by the applicant.
    - Reviewing area of intended lease with the Office of Minerals Management Geologist for potential new formation play or high oil and gas value area.
    - Comparing the applicant's proposal with the requirements outlined in the Michigan Administrative Code R299.8101-299.8107 Rules for Oil and Gas Leases on State Land.
  21. Negotiates terms, royalty rate, and bonus consideration with applicant.

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22. Prepares brief narrative description of direct lease and publishes on the DNR Business Calendar.  
NOTE: Direct lease must be published on the DNR Business Calendar for a period of at least 7 days prior to Natural Resources Deputy or DNR Director approval, as applicable.
23. Prepares memo to the Natural Resources Deputy or DNR Director, as applicable, for approval to issue direct lease.
24. Forwards memo to the Office of Minerals Management Director for approval.
- Office of Minerals Management Director 25. Reviews and signs memo.
26. Forwards signed memo to the Natural Resources Deputy or DNR Director, as applicable.
- Natural Resources Deputy or DNR Director 27. Reviews and signs memo.
28. Forwards signed memo to the Office of Minerals Management.
- Office of Minerals Management 29. Upon Natural Resources Deputy or DNR Director approval, as applicable, obtains approval from the State Administrative Board to enter into lease contact.
30. Generates new lease document according to approved terms.
31. Prepares PR4304, Oil and Gas Lease Rental and Bonus Remittance.
32. Prepares cover letter and sends lease document and PR4304 to applicant.
- Applicant 33. Receives and reviews lease document and PR4304.
34. Obtains properly notarized signature of intended Lessee.  
NOTE: All approved changes to the terms of the lease document must be initialed by Lessee.
35. Forwards copy of PR4304, along with check for bonus and rental, to the DNR Cashier's Office.
36. Forwards original, properly executed new lease and a copy of PR4304 to the Office of Minerals Management.

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37. Receives and reviews lease document to determine if:
  - Any changes have been made.
  - Signature page has been properly notarized and executed by the Lessee.
  - Payment has been received and deposited.
38. Finalizes lease by obtaining notarized signature from the Office of Minerals Management Director, on behalf of the DNR Director.  
NOTE: All approved changes to the terms of the lease document must be initialed by Lessor.
39. Prepares cover letter and sends original executed lease document to applicant.
40. Updates lease files and database as necessary.
41. Distributes copies of executed lease document to other state agencies, if applicable.

***Related Reference:***

27.23-15, Oil and Gas Lease Classification  
27.23-18, Oil and Gas Lease Maintenance  
2306.E8, Oil and Gas Lease Compliance  
PR4303, Oil and Gas Lease Auction Nomination  
PR4304, Oil and Gas Lease Rental and Bonus Remittance  
PR4306, Direct Oil and Gas Lease Application and Requirements

**27.23-14 – Oil and Gas Leasing** is hereby approved.



Dr. William E. Moritz, Director



Effective Date