



UNDERGROUND NATURAL GAS STORAGE LEASE No.

MICHIGAN DEPARTMENT OF NATURAL RESOURCES

By authority of Part 5, Section 502, Act 451 of 1994, as amended.

This Lease, made and entered into this _____ day of _____, 20____,

By and Between the DIRECTOR OF THE DEPARTMENT OF NATURAL RESOURCES for the STATE OF MICHIGAN. Hereinafter called "Lessor," whose address is P.O. Box 30452, Lansing, Michigan 48909 and _____, whose address is _____, hereinafter called "Lessee."

WITNESS, that the State of Michigan is the owner of all "natural gas" storage and/or mineral rights lying within or under any of the land described below, and Lessor has the authority to lease the land for the underground storage of natural gas.

The Lessor for and in consideration of a cash bonus paid to it, and of the covenants and agreements herein contained on the part of the Lessee to be paid, kept and performed, does hereby grant, demise, lease, and let, without warranty, express or implied, unto the Lessee for the sole and only purpose of underground storage of natural gas, together with the right to enter thereon for such purposes, and drill into and through but not below the leased lands, as described herein, and to possess, use, and occupy so much of the surface of said lands as is necessary for the purpose of drilling wells, laying, and operating pipe lines for injecting, storing, recovering and transporting natural gas to and from said well, and other wells located on adjoining and adjacent premises which are a part of this storage system, all of the following described land situated in the State of Michigan:

T _____ County
R _____

Parcels

| Description | Section | Acres | Equity |
|-----------------|---------|-------|--------|
| Township: _____ | | | |

Stipulations

None

A. TERM OF LEASE

1. It is agreed that this lease shall remain in force for a primary term of seven (7) years from this date, or so long as natural gas is stored and facilities are maintained.
2. The Lessor agrees that it may grant to the Lessee an extension of the primary term of this Lease. Such extensions of the Lease Date, as to any or all of the lands leased hereby will be considered upon written application by the Lessee and payment of an extension fee. Extension requests must be made in writing and must be accompanied by an extension review fee as determined by the Department. Extension requests must be submitted at least thirty (30) days prior to the expiration date of the primary term and are subject to the payment of an additional bonus as negotiated between the Lessor and Lessee. No extension of this lease shall be effective, except as agreed, in writing, by the Lessor.
3. All applicable laws and administrative rules are made a part and condition of this lease. No administrative rules made after the approval of this lease shall operate to affect the primary term of lease, rental or acreage, unless agreed to by both parties.

B. ECONOMIC TERMS

1. Rentals

Lessee shall pay to Lessor rental as follows:

- a. The rental rate shall be \$7.50 per acre per year for the first five years of the lease. This amount will be adjusted on each five (5) year anniversary date of this lease. The adjustment will be determined by the percent of change in the Detroit Consumers Price Index (posted by the U.S. Department of Labor's Bureau of Labor Statistics) for the previous five year period.
- b. All rental payments shall be paid annually in advance of the lease anniversary date. Lease rights shall terminate and the Lessee shall be required to file a release with the Lessor as hereinafter provided wherever any rentals coming due under the lease shall be and remain unpaid for a period of fifteen (15) days after receipt of written notice from Lessor.

C. DEVELOPMENT PLAN

1. The Lessee shall develop all surface facilities and installation according to the terms and conditions of an approved development plan and the surface use lease required in Section G (2).
2. Lessee shall comply with the requirements of the Development Plan.
3. The Development Plan may only be amended as agreed, in writing, by Lessor.

D. PERFORMANCE BOND

1. As a guarantee of its faithful performance of its obligations under this lease, the Lessee shall file herewith a performance bond, acceptable to the Lessor, conditioned that Lessee, its heirs, executors, administrators, successors, and assigns, shall faithfully perform the covenants, conditions, and agreements specified in the lease, and the laws and rules of the State of Michigan which apply.
2. The Lessor shall determine, and set forth in a published schedule, the initial acceptable amount required for the performance bond. The Lessor shall annually review the level of the performance bond and shall require the amount of the bond to be increased or decreased to reflect changes in the cost of future reclamation of the leased premises. A review of the performance bond shall be made within thirty (30) days of receipt by Lessor of written notice of termination by the Lessee and shall consider adequacy of bond for removal of personal property not desired by either Lessee or Lessor.
3. Lessee shall keep in full force and effect a sufficient performance bond to cover the acreage held under lease as heretofore specified. If the amount of performance bond in effect becomes depleted or partially depleted because of any claim or claims, Lessee shall file a new performance bond as required by the Lessor.
4. Liability under the bond shall be for the duration of exploration, mining, and reclamation operations and for a period coincident with Lessee's responsibility under the approved reclamation plan.
5. Lessor may invoke part or the entire performance bond when it determines that part or all of the covenants, conditions or agreements specified in the lease are not being fulfilled and shall so notify Lessee. Invoking the performance bond is not necessarily related to any action taken by Lessor under Section E of this lease.

E. DEFAULT OF LEASE

1. In the event Lessor shall determine a default in the performance by Lessee of any express or implied covenant of the lease, Lessor shall give notice in writing by certified or registered mail, addressed to Lessee's last address filed with Lessor, specifying the facts by which default is claimed. Except as to rental, minimum royalty, production royalty, and payments in lieu of production royalty requirements as heretofore provided, Lessee shall have thirty (30) days from date of receipt of notice to satisfy the obligation of Lessee, if any, with respect to Lessor's notice, or provide Lessor satisfactory proof that Lessee is not in default or if in default and Lessee is not able to cure within thirty (30) days, Lessee shall submit for Lessor's approval a performance schedule with a date certain to satisfy or cure default of Lessee.
2. If the default is not cured, as provided above, Lessor may take possession of the leased premises or any part thereof, and all nonmetallic minerals and/or nonmetallic mineral products, machinery, fixtures, improvements, and Lessee's personal property on the leased premises become the property of the Lessor. Lessor may then exclude Lessee from the leased premises and declare this lease terminated and Lessee's rights forfeited. Re-entry by Lessor does not eliminate any other legal remedy for Lessor. No tools, fixtures, machinery or other property of the Lessee shall be removed from said premises, and all sums due on royalties, damages, or other payments, shall be a lien on all implements, tools, movable machinery, and all other chattels used in operating said property, and also upon all of the unsold nonmetallic minerals and/or nonmetallic mineral products obtained from the land herein leased, as security for the payment of royalties, damages, or other payments. This lien may be foreclosed in the same manner as chattel mortgages are foreclosed.
3. In addition to any other remedy, the Lessor may draw upon the bond or letter of credit as provided in Section D.
4. In addition to any other remedy, the Lessor, at the Lessor's sole option, may determine that the Lessee can be placed on the "Hold Action" list until such time as any and/or all infractions by the Lessee have been resolved to the satisfaction of the Lessor. Placement on said list may result in barring the Lessee from any further leases, assignments, easements, extensions or other approvals required by the Lessor. However, placement on said list does not eliminate the Lessor's ability to forfeit any or all parts of said lease under D (5).
5. If Lessee fails to address any claim of default as herein provided the Lessor may proceed, at its sole discretion, with forfeiture of all or part of said leased premises in accordance with the provisions of Act 81 of the Public Acts of 1929, being section 554.281 and 554.282 of Michigan Compiled Laws.

F. ASSIGNMENTS AND CONTRACTS

1. It is expressly understood and agreed that no assignments of this lease, or any portion thereof, shall be valid except upon written approval of the same by the Lessor, and upon payment of an assignment fee as established by the Lessor.
2. Each and every clause and covenant in this indenture shall extend to the heirs, executors, administrators, successors, and assigns of the parties hereto.

G. SURFACE DAMAGE PAYMENTS

1. Lessee shall pay or agree upon payment to the Lessor for all damages or losses including any loss of the use of all or part of the surface, caused directly or indirectly by operations hereunder. This may include acquisition of replacement land by the Lessee for facility sites, pipelines or other installations.
2. Authorization to utilize the surface for gas storage facility or well pads shall be granted by a surface use lease or other separate written permission approved by the Lessor. The surface use lease, or other separate written permission, shall specify the terms of use, rental amount, and requirements for abandonment and restoration of the site(s).

H. RECORDS

1. The Lessor (with prior notice) shall have the right to examine the books of the Lessee insofar as they relate to natural gas storage rights herein leased.
2. The Lessor shall have free access to leased premises for the purpose of inspection and examination.

I. ENVIRONMENTAL TERMS

1. Any operations under this lease shall be subject to all applicable federal and state laws and administrative rules now or hereafter in force. This lease is not in itself an authorization to drill, and the issuance of drilling permits for specific locations is subject to separate application and approval by the Supervisor of Wells pursuant to

Part 615, 1994 PA 451, as amended. No operations shall take place on state-owned surface without separate written permission(s) required by Lessor and/or any other state or federal governmental agency.

For lands under this lease, the Lessee shall submit to the Lessor a complete copy of any application for permits to drill simultaneously with the submission of the application to the Supervisor of Wells. Each application shall identify the location of any state-owned surface lands contained within the proposed unit.

2. No well shall be drilled a) in a wetland (as defined in Part 303 of 1994 PA 451, as amended) b) in habitat identified as critical to the survival of species designated under provisions of Part 365 of 1994 PA 451, as amended; c) at a site designated by the State to be of historical or archaeological significance; unless a development plan can be mutually agreed upon by the Lessor and Lessee to substantially eliminate negative impacts.
3. Notwithstanding areas identified in Section I(2), in areas identified by the Lessor as having special wildlife, environmental and/or recreational significance, and/or state surface, the Lessee agrees to negotiate a development plan with the Lessor to minimize impacts prior to submission of a drilling application by the Lessee. The Lessor reserves the right to exclude certain sites from drilling and/or production activities in such areas, provided such exclusions do not prevent Lessee from realizing its storage rights hereunder.
4. No well shall be drilled which is inconsistent with the development plan agreed to in I(3) or nearer than 1,320 feet to any lake or stream without the prior written consent of the Lessor. To obtain Lessor's consent, the Lessee will be required to demonstrate to the Lessor that the non-conforming well location will result in less environmental impact.
5. Lessee shall route all pipelines from the well site to follow existing well roads or utility corridors and shall bury all pipelines below plow depth not less than three feet unless Lessor authorizes exception. Pipeline locations, as approved by the Lessor, shall be covered by easement(s) in accordance with Section 324.2129 of the NREPA. A map indicating all proposed pipeline locations shall be provided to the Lessor.
6. The Lessee shall commence removal of all debris and materials, such as timbers, boards, sheeting, tanks, pipe tubing, and any other equipment used in operating a lease or well, within one hundred eighty (180) days after the Lessee has filed notice of intent to abandon the storage facility, and shall complete removal of all debris, equipment, and flowlines within 365 days, or longer at the discretion of the Lessor. The Lessee shall leave the premises in a safe and orderly condition, and re-establish grade to its original contour. Upon failure of the Lessee to conform to these provisions, the Lessor shall have the right to enter on the property to repair damages and restore the property to a safe and slightly condition at the Lessee's cost or to invoke the Lessee's performance bond.

J. OIL AND GAS RIGHTS

Where there are state-owned natural gas storage rights and state-owned oil and gas rights under lease, the liquid hydrocarbons recovered and sold in association with underground natural gas storage operations shall continue to be subject to the provisions of the existing oil and gas lease(s).

If the oil and gas rights are not under lease, an oil and gas lease will be negotiated either at the same time as the underground natural gas storage lease or prior to field development.

K. LESSOR RIGHTS

1. Lessor reserves the right to use or lease the premises, or any part thereof, at any time, for any purpose other than but not to the detriment of the rights and privileges herein specifically granted.
2. Lessor reserves the right to sell or otherwise dispose of the premises, or any part thereof, subject to the terms and conditions of this lease.
3. Lessor shall not be liable for any damages resulting from failure of its title to rights included herein; provided, however, that if the Lessor's title fails as to any or all of the rights in the natural gas storage covered by this lease, the Lessor shall refund to the Lessee all payments made by the Lessee attributable to that part or portion of, or interest in, the title which has failed.
4. Should Lessor be prevented from complying with any express or implied covenant of this lease because of a force majeure (i.e., for any cause beyond the reasonable control of the Lessor such as, but not limited to, acts of God, legislation or rules of any governmental body, including budgeting constraints, any judgment or injunctive order entered by a court of competent jurisdiction, acts of the public enemy, riots, strikes, labor disputes, labor or material shortages, fire or flood) then such covenant shall be suspended to the extent made necessary by the aforesaid force majeure.

L. LESSEE RIGHTS

Lessee may surrender all or any part of the premises herein leased by giving notice in writing to the Lessor, provided; however, that the Lessee may not escape any prior obligations of the lease by filing a release. Upon surrender, Lessee shall execute and deliver to the register of deeds, in the county wherein the land is situated, for recording, a proper and sufficient instrument of release of all Lessee's rights and interest under this lease, insofar as they apply to the premises surrendered, and shall have said instrument delivered to the Lessor within ten (10) days after recording with register of deeds.

M. DEFINITIONS

As used in this lease:

1. "Bonus payment" means a payment by the buyer to the lessor at the time of sale as part of the consideration for acquisition of an underground natural gas storage lease.
2. "Commission" means the Michigan Natural Resources Commission.
3. "Condensate" means the liquid resulting when a vapor is subjected to cooling and/or pressure reduction. Also, liquid hydrocarbons condensed from gas and oil wells.
4. "Department" means the Michigan Department of Natural Resources.
5. "Development lease" means a lease that allows the use of the surface of state lands for underground natural gas storage activities.
6. "Development plan" means a storage field plan that includes but is not limited to proposed locations for surface equipment, well locations, pipelines and roads.
7. "Natural gas" means a naturally occurring mixture of hydrocarbon and non-hydrocarbon gases in a gaseous state, found in subsurface reservoirs, often in association with oil including but not limited to natural gas (methane) and casing head gas.
8. "Land" means any property description in which the state owns any underground natural gas storage rights.
9. "Lease" means a lease issued as a result of individual negotiations with the Department.
10. "Lessee" means the owner(s) of an underground natural gas storage lease as shown in the records of the Department.
11. "Lessor" means the Director.
12. "Nondevelopment lease" means a lease that does not allow any use of the land surface, including the surface of submerged bottomlands for underground natural gas storage activities.
13. "Performance bond" means a surety bond, irrevocable letter of credit, or cash bond to guarantee that the lessee and the lessee's heirs, executors, administrators, successors, and assigns shall faithfully perform the covenants, conditions, and agreements specified in the lease and in the laws and administrative rules of the State of Michigan.
14. "Oil" means natural crude oil or petroleum, and other hydrocarbons that are in the liquid form in the subsurface reservoir and recovered as a liquid by ordinary production methods.

N. NONDISCRIMINATION

Lessee shall comply with the Elliott-Larsen Civil Rights Act, 1976 PA 453 as amended, MCL 37.2101 et seq.; the Persons with Disabilities Civil Rights Act, 1976 PA 220, as amended, MCL 37.1101 et seq.; and all other federal, state and local fair employment practices and equal opportunity laws. Lessee covenants that it will not discriminate against any employee or applicant for employment with respect to his or her hire, tenure, terms, conditions, or privileges of employment, or any matter directly or indirectly related to employment, because of his or her race, religion, color, national origin, age, sex, height, weight, marital status, or physical or mental disability unrelated to the individual's ability to perform the duties of a particular job or position. Lessee agrees to include in every subcontract entered into for the performance of this Lease this covenant not to discriminate in employment. A breach of this covenant is a material breach of this lease.

O. RECLASSIFICATION OF LAND UNDER LEASE

1. The Lessee understands and agrees the Lessor may at any time prior to an approved development plan, reclassify this lease as "nondevelopment" as defined as "a lease that does not allow any use of the land surface for development". In the event of such reclassification, the Lessee agrees that its sole remedy, to the exclusion of any other at law or in equity, is to surrender this lease or portion thereof to the Lessor in exchange for a refund of all bonus and rental payments made by the Lessee attributable to the lease or portion thereof surrendered. Where the land subject to the lease is reclassified as "nondevelopment", the Lessee, at its option, may be entitled to a refund equal to the difference between the average per acre bonus paid for state development leases and for state nondevelopment leases at the time of leasing and in the same vicinity of said nondevelopment leases were direct leased for less than the development lease. Upon surrender, the Lessee shall execute and deliver to the register of deeds a proper and sufficient release of the Lessee's rights as set forth in Section L.
2. For nondevelopment lease tracts other than those formally dedicated by the Lessor as state parks, state recreation areas, or wilderness and natural areas, the Lessor may grant a change of classification from a nondevelopment lease, or tracts therein, to a development lease classification if the Lessor finds that the existing nondevelopment classification is in error or that there is a change in circumstances. In the event that a lease is reclassified as development, the Lessee shall pay compensation to the Lessor at least equal to the difference between the average per acre bonus paid for state development leases and for state nondevelopment leases at the time same time of leasing and in the same vicinity.
3. Notwithstanding the provisions of Section I, the Lessor shall not reclassify a lease, as development if there will be impairment of any of the following: wetlands, endangered species habitat, historic, archaeological, or cultural sites, and areas of special wildlife, ecological, or recreational significance.

P. NONDEVELOPMENT LEASE RESTRICTION

(This section pertains to nondevelopment leases only. A nondevelopment lease is identified by the prefix N in front of the Lease Number shown on page 1 of this document.)

1. All other provisions of this lease notwithstanding, it is understood no exploration or development work shall be conducted on the surface of the land described in this lease without reclassification and/or the specific authorization of the Lessor. Reclassification or such authorization for lease or any portion of the lands contained herein will be granted at the sole discretion of the Lessor.
2. No operations shall be conducted until written instructions for the proper protection of any and all natural resource interests and/or surface values are issued by the Lessor.

Q. INSURANCE

1. Lessee shall obtain and maintain all worker's compensation insurance as required by state law in accordance with 1969 PA 317, as amended, as well as liability insurance and policies of insurance against risks in amounts customarily obtained in similar mining operations and shall furnish Lessor proof of insurance prior to the commencement of any operations.
2. The Lessee shall, at Lessee's expense, during the term of the lease and any extension thereof, obtain and maintain insurance which insures the premises for public liability in amounts not less than those set below naming the State of Michigan, its several departments, commissions, boards, officers, and employees as an additional insured and protecting against all claims, demands, actions, suits or causes of action and judgments, settlements or recoveries, for bodily injury, death or property damage arising out of Lessee's use or occupancy of or operations conducted upon the leased premises. Lessee agrees to maintain minimum policy limits in the amount of \$1,000,000 per occurrence for property damage and \$1,000,000 per occurrence for bodily injury or death, and to provide the state with a certificate of insurance, within thirty (30) days following final execution and delivery of this lease to Lessee. The companies issuing such policies shall also be required to furnish the Lessor written notice thirty (30) days prior to cancellation, termination, or other change of any such insurance. The Lessor shall periodically review the level of the indemnification insurance and may require the amount of such insurance to be increased or decreased to reflect changes in risk exposure.

R. INDEMNIFICATION

Lessee agrees to indemnify and hold Lessor, its departments, agencies, boards, commissions, officers, agents and employees harmless from all claims, demands, actions, or liability for property damage, personal injury or death sustained by any person arising in any manner out of Lessee's use of the Premises or from any act or omission of Lessee in exercising its rights under this Lease.

S. NON-ENFORCEMENT

The decision of Lessor not to enforce the performance of any provision or addendum of this lease may not be construed as a waiver or relinquishment of the Lessor's right to performance of it. Lessee's obligation to comply with the lease remains in full force and effect.

T. UNFAIR LABOR PRACTICES

Lessee shall comply with the Employers Engaging in Unfair Labor Practices Act, 1980 PA 278, as amended, MCL 423.321 et seq.

U. LAWS, RULES AND REGULATIONS

1. Any operations under this lease shall be subject to all applicable federal, state, and local laws and rules now or hereafter in force. This lease is not in itself an authorization to drill wells or construct facilities. In addition to compliance with the provisions of this lease, and particularly Section I thereof, Lessee must obtain all permits which may be or are required under federal, state, and local laws or any rules or ordinances adopted thereunder.
2. No rules adopted by the State of Michigan or any agency thereof after the approval of this lease shall operate to affect the term of lease, rental, or acreage, unless agreed to by both parties.

SAMPLE

The said Lessor, by its Director, has signed and affixed the seal of the State of Michigan by virtue of action taken by Lessor on this ___ day of _____, 20___, and the Lessee has signed the day and year written below.

ACKNOWLEDGEMENT BY LESSOR

**DEPARTMENT OF NATURAL RESOURCES
STATE OF MICHIGAN**

By: _____ (signature)

M. Scott Bowen, Director

Acknowledged before me in _____ County, Michigan on _____, 20___, by M. Scott Bowen, Director of the Department of Natural Resources for the State of Michigan.

By: _____ (notary signature)

_____ (printed name)

State of Michigan, County of: _____

My Commission Expires: _____

Acting in County of: _____

ACKNOWLEDGEMENT BY LESSEE

IN WITNESS WHEREOF, the signatory below herein represents and warrants that the execution, delivery, and performance of this Lease has been duly authorized and signed by a person who has legal authority to sign on behalf of its business or organization as named in this Lease and has signed the foregoing instrument this ___ day of _____, 20___.

LESSEE: _____

By: _____ (signature)

_____ (printed name)

Its: _____

Before me, the undersigned, a notary public in and for said county and State, on this ___ day of _____, 20___, personally appeared _____ who acknowledged to me that they executed the same as their free and voluntary act and deed.

By: _____ (notary signature)

_____ (printed name)

State of: _____, County of: _____

My Commission Expires: _____

Acting in County of: _____

This Lease was approved by the Michigan State Administrative Board on:

Prepared by: _____, DNR-MMS, P.O. Box 30452, Lansing, MI 48909

Return to: _____