



**Michigan Department of Natural Resources**  
**POLICY AND PROCEDURE**

## **27.23-10 – Underground Natural Gas Storage Leasing (Issued: 07/01/2021)**

---

***Supersedes:***

26.50-02 Underground Natural Gas Storage Leasing - State-Owned Lands (Revised 02/04/2010)

***Purpose:***

To outline a process the Department of Natural Resources (DNR) shall follow for entering into contracts that provide access to state-owned subsurface storage rights for the purpose of storing, injecting, and withdrawing natural gas and natural gas liquids in vacant pore space beneath state-owned land.

***Definitions:***

Amendment: A change in the original terms of an Underground Natural Gas Storage (UNGS) lease.

Assignment: A transfer of working interest in an UNGS lease.

Bonus: A one-time payment by the Lessee to the Lessor at the time of leasing as part of the consideration for initial acquisition of an UNGS lease.

Extension: The period after the expiration of the primary term of an UNGS lease.

Land Ownership Tracking System (LOTS): DNR's electronic land management database.

Lessee: The person or entity that has the exclusive right under lease to store and withdraw natural gas as shown in the records of the department.

Lessor: The Director of the DNR, or the Director's designee, on behalf of the State of Michigan.

Parcel Classification: Parcels are classified for UNGS leasing based on their natural resource features. Classification categories consider the effects natural gas storage could have on current and future land uses and other resource values and recognize the DNR's responsibility to manage the land surface. UNGS leases are then classified based on the parcel classification within that lease. Classification categories are:

- *Leasable Development (LD)* – Leasable gas storage rights on which some level of surface use may be allowed in compliance with standard UNGS lease terms and all state and local laws, rules, regulations, and requirements.
- *Leasable Development with Restriction (LDR)* – Leasable gas storage rights on which some level of surface use may be allowed in compliance with standard UNGS lease terms *and* with additional specific restrictions due to environmental or other surface feature conditions.
- *Leasable Nondevelopment (LND)* – Leasable gas storage rights where no surface use or disturbance is authorized without separate approval.

- *Nonleasable* (NL) – Lands that will not be leased for UNGS exploration or development.

Parcel Review System (PRS): DNR's application used for entering and tracking UNGS lease nominations and parcel classification reviews.

***Policy:***

Pursuant to Part 5, Section 502, Paragraph 3, of the NREPA, the DNR is responsible for managing State-owned lands and mineral resources to ensure protection and enhancement of the public trust and may enter into contracts for storage of natural gas and other mineral products beneath state-owned lands. As provided under Michigan Administrative Code R299.4051 – R299.4055, "Leasing State-Owned Underground Gas Storage Rights," the DNR is authorized to enter into UNGS leases through direct leasing.

***Administering Division:***

Finance and Operations Division, Minerals Management Section (MMS).

***Procedure: Direct Lease***

- |                  |   |
|------------------|---|
| Nominator        | 1. Submits completed form PR4351 Underground Gas Storage Lease Application Fees, with a nonrefundable application fee, to the Cashier's Office.   |
| Cashier's Office | 2. Validates and date stamps form PR4351 and deposits nomination fee.<br>3. Forwards validated form PR4351 and supporting documentation, if applicable, to MMS.   |
| MMS Staff        | 4. Reviews form PR4351 and supporting documents to determine if application is administratively complete.<br>5. Confirms state ownership of gas storage rights for nominated parcels.<br>6. Enters nomination information into LOTS and PRS.<br>7. Provides a list of nominated parcels to the Nominator to check for accuracy.<br>8. Coordinates the field review/parcel classification as outlined in Parcel Classification, identified herein.<br>9. Negotiates lease terms and Bonus with Nominator.<br>NOTE: The lease bonus shall not be less than the prevailing rate for State UNGS leases. |
| Nominator        | 10. Drafts public notification regarding the proposed lease and provides notification to the Nominator for publication per Michigan Administrative Code R299.4051 – R299.4055.<br>11. Publishes public notice per Michigan Administrative Code R299.4051 – 299.4055.<br>12. Sends original Affidavit of Publication to MMS.   |

- |                  |  |
|------------------|--|
| MMS Staff        | 13. Forwards request for approval to enter into lease(s) to: <ul style="list-style-type: none"><li>• Director or Director's designee</li><li>• Transportation and Natural Resources Committee</li><li>• State Administrative Board</li></ul> |
|                  | 14. Generates lease document according to approved terms and form PR4229-2 UNGS Lease Rental and Bonus Remittance.   |
|                  | 15. Sends lease document and form PR4229-2 to Nominator.   |
| Nominator        | 16. Reviews lease document and obtains properly notarized signature of intended Lessee.  |
|                  | 17. Sends copy of form PR4229-2 and check for Bonus and rental to the Cashier's Office.  |
|                  | 18. Returns lease document and a copy of form PR4229-2 to MMS.   |
| Cashier's Office | 19. Validates and date stamps form PR4229-2 and deposits fee.  |
|                  | 20. Forwards validated form PR4229-2 and supporting documentation, if applicable, to MMS.  |
| MMS Staff        | 21. Verifies payment and finalizes lease by obtaining notarized signature from the MMS Manager, on behalf of the DNR Director.   |
|                  | 22. Sends original, executed lease to Lessee.  |

***Procedure: Parcel Classification***

- |           |  |
|-----------|--|
| MMS Staff | 1. Receives nomination of state-owned gas storage rights requested for lease.  |
|           | 2. Verifies nomination information has been entered into LOTS and PRS.   |
|           | 3. Identifies parcels automatically classified as LND by PRS due to one or more of the following reasons: <ul style="list-style-type: none"><li>• Acquisition funding.</li><li>• Deed restrictions.</li><li>• Location within certain management boundaries.</li></ul> |
|           | 4. Generates list of nominated parcels acquired with federal funding and forwards to appropriate land managing division for their reference.   |
|           | 5. If applicable, sends a request to the following non-DNR agencies for their reference: <ul style="list-style-type: none"><li>• Department of Military &amp; Veterans Affairs (DMVA)</li><li>• U.S. Forest Service (USFS)</li></ul>                                   |

- |  |   |
|--|---|
|  | 6. Sends a request to DNR Field Reviewers through PRS to review and classify nominated parcels for UNGS leasing with a deadline for response. |
| DNR Field Reviewers                                    | 7. Reviews nominated parcels and enters preliminary classification recommendations and comments into PRS.                                     |
| Division Field Coordinator or Assistant Chief/Designee | 8. Reviews classification recommendations entered by the DNR Field Reviewers.   |
|  | 9. Resolves any classification disputes.  |
|  | 10. Designates a final Parcel Classification in PRS.  |
| MMS Staff  | 11. Uploads final classification into LOTS.   |

***Procedure: Lease Amendment – Parcel Reclassification***

- |                     |  |
|---------------------|--|
| Lessee or Designee  | 1. Submits to MMS a letter requesting a change in the classification of a parcel(s) in an existing UNGS lease.<br>Application letter must contain: <ol style="list-style-type: none"><li>a. Lease number(s).</li><li>b. Legal description of lands requested for reclassification.</li><li>c. Reason for reclassification and supporting information including a new or updated development plan detailing proposed work on the state lease(s) to warrant the reclassification.</li></ol>  |
| MMS Staff           | 2. Reviews application packet for completeness, verifies lease has a reclassification clause, and reviews LOTS to determine whether parcel(s) requested for reclassification are eligible.<br>3. Determines additional Bonus due for reclassifications, if applicable. <ul style="list-style-type: none"><li>• If additional bonus is due, notifies Lessee or Designee and determines whether they wish to proceed with reclassification request.</li><li>• If Lessee or Designee declines to pursue reclassification withdraws and closes request in LOTS.</li></ul> 4. Coordinates field review/parcel classification process outlined in Parcel Classification, identified herein; updates PRS, as necessary, with application documents. |
| DNR Field Reviewers | 5. Reviews application packet information and supporting documentation.<br>6. Performs a site-specific review to determine whether approval of the request is appropriate and enter recommendation(s) into PRS within the time period specified.   |

- |  |   |
|--|---|
| Division Field Coordinator or Assistant Chief/Designee | 7. Reviews classification recommendation(s) entered by the DNR Field Reviewers.   |
|  | 8. Resolves any classification disputes.  |
|  | 9. Designates a final parcel classification in PRS.   |
| MMS Staff  | 10. Reviews final classification submitted by division field coordinator or assistant chief/designee.   |
|  | 11. Updates LOTS as necessary.  |
|  | 12. If reclassification is approved, drafts public notification and provides the notification to the Lessee or Designee for publication regarding the proposed parcel reclassification. |
| Lessee or Designee                                     | 13. Publishes public notice in appropriate newspaper, as instructed.  |
|  | 14. Sends original Affidavit of Publication to MMS.   |
| MMS Staff  | 15. Obtains DNR Director or Director's designee approval of reclassification request.   |
|  | 16. Prepares Amendment and form PR 4229-2 UNGS Lease Rental and Bonus Remittance, if applicable.  |
|  | 17. Sends Amendment and form PR4229-2 to Lessee or Designee.  |
| Lessee or Designee                                     | 18. Reviews Amendment and obtains Lessee's notarized signature on Amendment.  |
|  | 19. Sends a copy of form PR4229-2 and a check for additional Bonus due to the Cashier's Office, if applicable.  |
|  | 20. Returns executed Amendment and a copy of form PR4229-2 to MMS.  |
| Cashier's Office (if applicable)                       | 21. Validates and date stamps form PR4229-2 and deposits fee.   |
|  | 22. Forwards validated form PR4229-2 and supporting documents to MMS.   |
| MMS Staff  | 23. Verifies payment, if applicable, and finalizes Amendment by obtaining a notarized signature from MMS Manager.   |
|  | 24. Records amendment with applicable county, if deemed in the state's best interest.   |
|  | 25. Mails original, fully executed Amendment and cover letter to Lessee or Designee.  |

**Procedure: Lease Amendment - Add Parcel(s) to an Existing Lease**

- |                     |  |
|---------------------|--|
| Lessee or MMS Staff | 1. Submits completed form PR4351 Underground Gas Storage Lease Application Fees, with a nonrefundable nomination fee, and a letter requesting to add a parcel(s) to an existing lease to the Cashier's Office. |
|---------------------|--|

NOTE: If MMS staff submits a lease on behalf of a Lessee, no nomination fee may be required.

- |                                  |  |
|----------------------------------|--|
| Cashier's Office                 | 2. Validates and date stamps form PR4351 and deposits fee.   |
|                                  | 3. Forwards validated form PR4351 and supporting documentation, if applicable, to MMS.   |
| MMS Staff                        | 4. Reviews form PR4351 and supporting documents to determine if application is administratively complete.  |
|                                  | 5. Coordinates the field review/parcel classification as outlined in Parcel Classification, identified herein.   |
|                                  | 6. Drafts public notification regarding the proposed Amendment and provides notification to the Lessee/Applicant for publication.  |
| Lessee/Applicant                 | 7. Publishes public notice, as instructed.   |
|                                  | 8. Sends original Affidavit of Publication to MMS.   |
| MMS Staff                        | 9. Forwards request for approval to add parcel(s) to lease to: <ul style="list-style-type: none"><li>• Director or Director's designee</li><li>• Transportation and Natural Resources Committee</li><li>• State Administrative Board</li></ul> |
|                                  | 10. Prepares lease Amendment and, if applicable, form PR4229-2 UNGS Lease Rental and Bonus Remittance.   |
|                                  | 11. Sends Amendment and form PR4229-2, if applicable, to Lessee/Applicant.   |
| Lessee/Applicant                 | 12. Reviews Amendment and obtains Lessee's notarized signature on Amendment.   |
|                                  | 13. If applicable, sends copy of form PR4229-2 and check for additional Bonus due to the Cashier's Office.   |
|                                  | 14. Returns executed Amendment and a copy of form PR4229-2 to MMS.   |
| Cashier's Office (if applicable) | 15. Validates and date stamps form PR4229-2 and deposits fee.  |
|                                  | 16. Forwards validated form PR4229-2 and supporting documentation to MMS.  |
| MMS Staff                        | 17. Verifies payment, if applicable, and finalizes Amendment by obtaining a notarized signature from MMS Manager.  |
|                                  | 18. Records Amendment with applicable county, if deemed in the state's best interest.  |
|                                  | 19. Mails original, fully executed Amendment to Lessee/Applicant.  |

**Procedure: Amendment - Lease Variance**

- |                                     |  |
|-------------------------------------|--|
| Lessee/Applicant                    | 1. Submits a written request for a variance in lease terms.  |
| MMS Staff                           | 2. Reviews request and processes per the variance requirements including request for field review, if necessary. |
| DNR Field Reviewers (if applicable) | 3. Reviews request and supporting documents and makes recommendation for approval or denial.                     |
| MMS Manager                         | 4. Reviews request and supporting documents and makes final recommendation for approval or denial.               |
| MMS Staff                           | 5. Prepares lease Amendment.   |
|                                     | 6. Sends Amendment to Lessee/Applicant.  |
| Lessee/Applicant                    | 7. Reviews Amendment and obtains Lessee's notarized signature on Amendment.                                      |
|                                     | 8. Returns executed Amendment to MMS.  |
| MMS Staff                           | 9. Finalizes Amendment by obtaining a notarized signature from MMS Manager.                                      |
|                                     | 10. Records Amendment with applicable county, if deemed in the state's best interest.                            |
|                                     | 11. Mails original, fully executed Amendment to Lessee/Applicant.  |

**Procedure: Lease Assignment**

- |                 |   |
|-----------------|---|
| Applicant       | 1. Submits completed form PR4058 Assignment of Lease(s) and required fee to the Cashier's Office.                           |
| Cashiers Office | 2. Validates and date stamps form PR4058 and deposits fee.  |
|                 | 3. Forwards validated form PR4058 and supporting documentation, if applicable, to MMS.                                      |
| MMS Staff       | 4. Reviews form PR4058 and processes per the assignment requirements outlined in form IC4307 Lease Assignment Requirements. |
|                 | 5. Obtains approval and returns Assignment to Applicant.  |
|                 | 6. Records Assignment with applicable county, if deemed in the state's best interest.                                       |

**Procedure: Lease Extension**

- |           |  |
|-----------|--|
| Applicant | 1. Submits a written request for a Lease Extension                             |
| MMS Staff | 2. Reviews Lease Extension request.  |
|           | 3. If approved, prepares form PR4229-2 UNGS Lease Rental and Bonus Remittance. |

- |                 |   |
|-----------------|---|
|                 | 4. Prepares Lease Extension Agreement.  |
|                 | 5. Mails form PR4229-2 and Lease Extension Agreement to Applicant.  |
| Applicant       | 6. Reviews Lease Extension Agreement and obtains Lessee's notarized signature on Agreement.                       |
|                 | 7. Sends a copy of form PR4229-2 and a check for minimum royalty due to the Cashier's Office.                     |
|                 | 8. Returns executed Lease Extension Agreement and a copy of form PR4229-2 to MMS.                                 |
| Cashiers Office | 9. Validates and date stamps form PR4229-2 and deposits fee.  |
|                 | 10. Forwards validated form PR4229-2 and supporting documentation, if applicable, to MMS.                         |
| MMS Staff       | 11. Verifies payment and finalizes Lease Extension Agreement by obtaining a notarized signature from MMS Manager. |
|                 | 12. Records Lease Extension Agreement with applicable county, if deemed in the state's best interest.             |
|                 | 13. Mails original, fully executed Lease Extension Agreement to Applicant.  |

**Procedure: Lease Release**

- |           |  |
|-----------|--|
| MMS Staff | 1. Reviews lease file to determine whether lease can be released, working with field staff as applicable.            |
|           | 2. Prepares form PR4058-1 Partial Release of Lease(s) or form PR4058-2 Full Release of Lease(s) and sends to Lessee. |
| Lessee    | 3. Executes and sends form PR4058-1 or PR4058-2 to MMS.  |
| MMS Staff | 4. If executed release form not received after 30 days, administratively release in LOTS.                            |
|           | 5. Updates LOTS and lease file(s) as necessary.  |

**Related References:**

IC4307 Lease Assignment Requirements  
PR4058 Assignment of Lease(s)  
PR4058-1 Partial Release of Lease(s)  
PR4058-2 Full Release of Lease(s)  
PR4229-2 Underground Gas Storage Lease Rental and Bonus Remittance  
PR4351 Underground Gas Storage Lease Application Fees  
Michigan Administrative Code R299.4051 – 299.4055 Leasing State-Owned Underground Gas Storage Rights



**27.23-10 – Underground Natural Gas Storage Leasing** is hereby approved.



\_\_\_\_\_  
Dan Eichinger, Director

7/1/2021

\_\_\_\_\_  
Effective Date