



Michigan Department of Natural Resources Oil and Gas Lease Classifications Frequently Asked Questions

How are parcels classified for potential oil and gas leasing?

Prior to offering a parcel for oil and gas leasing, it is reviewed by a multidisciplinary team at the Department of Natural Resources (DNR) and other professionals including staff from the Department of Environmental Quality (DEQ). The purpose of the review is to determine the most appropriate level of surface use that should be allowed for oil and gas development activities.

The following four lease classification categories are used:

- Nonleasable (NL) – The NL category prohibits the leasing of the parcel’s oil and gas rights. It is used when there are no means to adequately protect surface resources; when deed restrictions prohibit leasing; or when state statute prohibits leasing (e.g. Great Lakes Bottomlands lease prohibition).¹
- Leasable Nondevelopment (LND) – The LND category allows for a parcel’s oil and gas rights to be leased, but it does not allow the parcel’s land surface to be used for oil and gas development purposes without separate written permission. This classification is typically applied to a variety of sensitive lands, such as public parks, recreation areas, wetlands, and sand dunes.²
- Leasable Development with Restrictions (LDR) – The LDR category allows for a parcel’s oil and gas rights to be leased and also allows surface use³ after all necessary permits and permissions have been obtained. In addition to standard lease provisions (see separate FAQ document), LDR leases contain other specific restrictions. Examples of such restrictions include Kirtland’s Warbler habitat management area time restrictions, or recreational trails setback restrictions.
- Leasable Development (LD) – The LD category allows for oil and gas rights to be leased and allows surface use after all necessary permits and permissions have been granted. The Lessee must follow all standard lease provisions and obtain all necessary permissions before commencing surface activities.

Lease classifications do not convey a right to drill a well to a Lessee. It is only the first of many steps required in the oil and gas production process. A lease, regardless of its associated classification, merely grants a Lessee the exclusive right to pursue development of the leased oil and gas rights if they choose to do so.

¹ Use of the NL classification puts the State of Michigan’s oil and gas resources at risk for drainage. Drainage of oil and gas, in a geologic formation, occurs when a producing well is placed near the unleased oil and gas rights. The oil and gas resource beneath the unleased parcel could be removed (or “drained”) and the people of the State of Michigan would not receive any compensation for the oil and gas produced.

² The LND classification prevents drainage of the oil and gas resource from occurring while still protecting other valuable resources from the impacts of surface development.

³ Surface use does not necessarily mean a well will be allowed on the parcel.