

RULES AND REGULATIONS GOVERNING LEASING FOR PRODUCTION OR EXTRACTION OF OIL, GAS AND OTHER MINERALS FROM ONSHORE STATE-OWNED LANDS

The following rules and regulations, promulgated under the authority of Sections 29-7-1 et seq., 57-75-1 et seq., and 53-5-1 et seq., Mississippi Code Annotated (1972), shall apply to all leases for oil, gas, or other minerals from all onshore state-owned lands and water bottoms within the jurisdiction of the Mississippi Major Economic Impact Authority (MMEIA).

It is the policy of the MMEIA not only to protect and preserve the mineral resources of the State of Mississippi but also to foster and facilitate the utilization, development and production of these resources whenever to do so would be in the best interest of the State and may be accomplished in an environmentally responsible manner. These regulations are designed and intended to establish uniform procedures governing the manner in which state lands are made available for mineral leasing, the advertising requirements for bids when such is the designated leasing technique, the form and content of the lease itself, and other aspects of the leasing process.

While these regulations will apply generally in all mineral lease matters before the MMEIA, Section 29-7-1, Mississippi Code Annotated (1972), authorizes the MMEIA to lease state lands within its jurisdiction upon such terms and conditions as are "just and proper".

SECTION I DEFINITIONS

For the purpose of these rules and regulations, the following terms shall have the meanings respectively ascribed to them hereby, except where applicable statutes may otherwise provide:

- A. **Applicant** - Any person applying for a mineral lease covering State lands under the jurisdiction of the MMEIA

- B. **Appropriate Supervisory Agency** - Appropriate Supervisory Agency (ASA) is that Agency or governmental entity that is given the authority and responsibility to supervise the area for which a lease is requested. For example, the Commission on Wildlife Fisheries and Parks shall be the Appropriate Supervisory Agency for the land and areas under its jurisdiction.

- C. **Bid** - The offer to pay a valuable consideration to obtain a mineral lease
- D. **Bidder** - Any person submitting a bid
- E. **Bonus** - A sum of money offered or paid by a lessee to the State as consideration for the execution of a lease
- F. **MMEIA** - The Mississippi Major Economic Impact Authority, which is a division within the Mississippi Development Authority.
- G. **Delay Rental** - An optional payment offered or made by a lessee to the State, on a per mineral acre basis, annually during each year of the primary term of a lease after the first year thereof, to delay commencement of drilling operations
- H. **Executive Director** - The Executive Director of the MMEIA or his designee
- I. **Joint Bid** - A proposal whereby two or more bidders combine in submitting a bid for a mineral lease
- J. **Lease** - A mineral lease covering oil, gas (including occluded natural gas), and any other products produced through a well bore, both hydrocarbon and nonhydrocarbon, excludes minable minerals such as sand, gravel, lignite, limestone, clay, and others requiring surface mining
- K. **Lease Royalty** - A share of the production, or the proceeds thereof, specified in a lease as a fraction, percentage or fixed sum, payable to the State by the lessee
- L. **Mineral** - Oil, natural gas, and any products produced through a well bore, both hydrocarbon and nonhydrocarbon, excludes sand, gravel, limestone, lignite and other minerals requiring surface mining
- M. **Mineral Acre** - The equivalent of the full mineral interest in one acre of land
- N. **Office of Mineral Lease** - The office that administrates the mineral lease program for MMEIA
- O. **Person** - Any individual, trust, firm, joint stock company, consortium, partnership, association, corporation, (including a government

corporation), state or any political subdivision or officer thereof, or other entity, or any agent, officer, or principal of any such individual or entity

- P. **Primary Term** - The fixed period of time during which a lease may be kept alive, even though there is no production or operations thereon, by the payment of delay rentals
- Q. **Shut-in Royalty** - An amount specified in the lease to be paid for a time period also specified in the lease to hold the lease in force after a well has been completed and tested capable of production, but which has been shut-in under provisions specified in the lease
- R. **State** - The State of Mississippi
- S. **Onshore State-Owned Lands** - All lands and water bottoms owned by the State and administered by MMEIA that lie above the mean high tide and are not influenced by the tides of the Gulf of Mexico. University and 16th section lands are not administered by the MMEIA.
- T. **Tract** - That parcel of land that will be covered by an individual lease

SECTION II CALL FOR LEASE OR NOMINATIONS FOR LEASE FOR STATE OWNED LANDS

RULE 1

Any person desiring to have offered for lease any onshore State-owned lands within the jurisdiction of the MMEIA may apply to the MMEIA to have the lands advertised as provided herein. The MMEIA may, without any prior request and upon its own motion, call for nominations for leasing or advertise for lease any lands within its jurisdiction.

While it is the general policy of the MMEIA to lease all onshore lands within its jurisdiction through the mechanism of competitive public bidding, according to the procedures hereinafter provided, the MMEIA reserves the right, whenever necessary or appropriate and as the best interests of the State may require, to lease lands by competitive bid or noncompetitive negotiation.

RULE 2

Except for actions taken by the MMEIA upon its own motion, all applications for advertisement for leasing shall be made upon forms provided by the Office of Mineral Lease, or reproductions thereof. The MMEIA may elect to waive this requirement for any application submitted in substantial compliance with the format of the official form.

RULE 3

Applications for advertisement for leasing shall contain the following information:

- A. A legally sufficient description of the area or areas involved, including where applicable the section, township, range, and county or counties wherein the lands lie;
- B. The approximate number of acres in the area or areas described;
- C. A plat depicting in red or other contrasting color the area described; and
- D. All hard copy plats shall be overlain on either an original or exact copy of an official United States Geological Survey Quadrangle Map, or equivalent, at a scale of 1:62,500 (15 Minute) or 1:24,000 (7-1/2 Minute). Digital (GIS) equivalent maps are encouraged and are acceptable provided they match the MMEIA used format.

RULE 4

Prior to publication of any call for nominations for leasing or advertisement for leasing, the MMEIA may prescribe and collect from each applicant a prepayment for publication expenses allocable to the respective tract or tracts applied for by each applicant.

- A. The prepayment shall be made to the MMEIA Mineral Lease, P.O. Box 849, Jackson, Mississippi 39205-0849.
- B. If no bids are received, or if the applicant does not submit a bid for the tract for which he applied and all other bids are rejected, the entire prepayment shall be forfeited to the State as liquidated damages.

- C. If the applicant does submit a bid for the tract for which he applied and all bids are rejected, or if the applicant is an unsuccessful bidder, the entire prepayment shall be refunded.
- D. The successful bidder for each tract on which a mineral lease is awarded shall pay all publication costs allocable to the leased tract as a condition precedent to execution of the lease by the MMEIA.
- E. In the event the applicant forfeits the prepayment as provided in subsection B above, the applicant shall also be required to pay any amount by which the actual publication costs allocable to the tract for which he applied exceed the prepayment.

**SECTION III PROCEDURE FOR PUBLICATION OF CALLS FOR
NOMINATIONS FOR LEASING AND ADVERTISEMENTS
FOR LEASING**

RULE 5

All calls for nominations for leasing and advertisements for leasing shall be published in: The Southeastern Oil Review; one (1) or more Jackson, Mississippi newspapers having general circulation in the area wherein the involved lands lie; one (1) or more newspapers, if any, published of general circulation in the county or counties wherein the involved lands lie; and any other advertising media deemed by the MMEIA to be appropriate.

RULE 6

All calls for nominations for leasing shall be published. The MMEIA shall prescribe the publication periods and frequency of publication. The MMEIA shall set the time between the last publication calling for nominations and the first advertisement calling for bids.

RULE 7

The advertising requirements specified herein are intended by the MMEIA to maximize interest and participation in, not to unduly complicate, the bidding process. To this end, only one of the advertisements required by Rule 5 hereof shall be deemed to be jurisdictional insofar as the validity of the bidding process is concerned. All

other advertisements are for informational purposes only and shall be published in the manner prescribed by the MMEIA prior to each lease offering.

The jurisdictional advertisement for leasing shall be published in a Jackson, Mississippi newspaper having general circulation throughout the State of Mississippi. The publication periods and frequency shall be defined by the MMEIA. The minimum advertisement period for leasing shall be set by MMEIA.

- A. The formal advertisement for leasing particular state lands shall provide:
1. A description of the tract or tracts to be leased, by either metes and bounds or government grid, including the number of acres.
 2. The place, date and time where any interested party may obtain additional information about the advertised tracts or the leasing procedure.
 3. The place, date and time bids will be received.
 4. The place, date and time where bids will be publicly opened.
 5. The only item subject to bid is the lease bonus. Pre-set lease term(s), will be set forth on the lease form.
 6. Any conditions or limitations known by the MMEIA at the time of the advertisement to be required of the lessee by the MMEIA.
 7. A description of the form of the lease or the location in which such lease forms are filed and available for public inspection.
 8. Any other information deemed by the MMEIA to be necessary or appropriate.

Regarding any of the items specified hereinabove in the actual published advertisement; the MMEIA may waive as inconsequential any minor irregularity that does not materially affect the accuracy of the advertisement or cause the same to be ambiguous or misleading. Further, if any material error is corrected and not repeated after the first publication, the advertisement shall be deemed to have been made correctly in the first instance and the validity of any lease awarded pursuant to the advertisement shall not be affected or impaired.

SECTION IV PROCEDURES FOR BIDDING

RULE 8

All bids shall be submitted on the forms provided by the MMEIA Office of Mineral Lease, or reproductions thereof. However, the MMEIA may elect to waive this requirement for any bid submitted in substantial compliance with the format of the official form.

RULE 9

Bids may be submitted on any or all of the tracts advertised. A separate bid shall be submitted on each advertised tract.

RULE 10

The MMEIA shall invite bids on the lease bonus only. Other terms of the lease will be set forth in the lease form.

RULE 11

Each bid, whether submitted in person, by mail, or by courier, shall be placed in a sealed envelope with a description or designation of the tract covered by the bid on the face of the envelope. The bid shall then be transmitted, as directed in the advertisement, either separately or along with other bids related to the same lease offering, in a sealed envelope with the notation "SEALED BID ENCLOSED" on the face thereof.

RULE 12

Bids shall specify the full consideration and the bonus per acre equivalent offered for each tract.

RULE 13

Bidders submitting joint bids must state on the bid form the proportionate interest of each participating bidder, in percent to a maximum of three decimal places after the decimal point.

RULE 14

Bidders shall submit with each bid, as security therefor, a cashier's check, certified check, or bank exchange draft in the amount of one hundred percent (100%) of the bonus amount bid.

RULE 15

All bonus payments shall be made by certified check, cashier's check, or bank exchange draft, drawn to the order of the MMEIA Office of Mineral Lease. The MMEIA shall note these payments as lease bonuses for proper distribution.

RULE 16

On the date and at the time and place specified in the advertisement, all bids will be publicly opened by the MMEIA, in regular or special meeting assembled, and either accepted, rejected, or taken under advisement.

Since the bid system employed by the MMEIA calls for an award only to the high bidder, the MMEIA shall, upon opening the bids, return the bid security of the unsuccessful bidders, and may take the bid of the high bidder under advisement. Whenever bids are taken under advisement, the MMEIA, in its discretion, may allow the bidder(s) to retrieve their actual bid security and substitute therefor-equivalent security in a form acceptable to the MMEIA. Bids must be accepted or rejected by MMEIA within five (5) business days of the opening of the bid.

In the event of a tie for a lease, all bidders present, who so desire, may submit an increased sealed bid within one hour of the opening of the bids. If a tie occurs again on the re-bid, then bidding will be repeated until one person has the highest bid. The winner will have five (5) business days to tender an additional bonus in excess of his original bid.

RULE 17

Full payment of the cost of publication of the advertisement for lease attributable to the tract leased shall be a condition precedent to execution of the lease agreement.

SECTION V LEASE PROVISIONS AND APPROVAL PROCEDURE

RULE 18

Upon final review of the bids, the MMEIA shall determine the highest bonus bid for each tract. The MMEIA reserves the right to reject any or all bids, in its sole discretion.

RULE 19

The State shall neither warrant nor agree to defend either the title to the leased property or the accuracy of the description therefor. The State shall not refund any bonus or other payments in the event of discovery that the leased acreage is overestimated. In the event the stated acreage is underestimated the state shall, at it's option, either 1) require additional payment sufficient to cover the underestimated acreage or 2) negotiate a new lease with any person covering the underestimated acreage. Moreover, the lease shall be neither affected nor impaired by discovery of an overestimate or underestimate in the leased acreage.

RULE 20

The lessee shall not be authorized by the lease to in any wise subrogate or offset the payments to the State arising under the lease to any other payments made by the lessee in connection with the leased property.

RULE 21

No lease shall cover more than one tract, as described in the advertisement.

RULE 22

All leases to joint bidders shall be executed to the bidders according to the proportionate interests depicted in the bid.

RULE 23

Minimum requirements for all leases shall be as follows:

- A. The MMEIA shall specify the delay rental for all leases. The delay rental shall be not less than Two Dollars (\$2) per mineral acre/year and

may be made on such terms and conditions as the MMEIA may prescribe.

- B. The MMEIA shall specify the lease royalty as a fixed fraction or percentage. Lease royalties shall not be less than:
 - 1. Three-sixteenth (3/16), at the well, on all oil, gas, casinghead gas or other gaseous substance produced and saved, or the proceeds thereof.
 - 2. Three-sixteenth (3/16) or Two Dollars (\$2) per long ton, on sulfur, whichever is greater, on sulfur mined and marketed.
 - 3. Three-sixteenth (3/16) or Ten Cents (\$.10) per ton, whichever is greater, on potash produced and marketed.
 - 4. Three-sixteenth (3/16) at the well, on all other minerals produced and marketed, or the proceeds thereof.
- C. The MMEIA shall specify the shut-in royalty to be paid for gas wells.
- D. The minimum rentals and royalties specified hereinabove shall not be construed as values necessarily acceptable to the MMEIA, it being the policy of the MMEIA to adjust the lease terms to reflect the tract potential.
- E. The MMEIA shall set the primary term for all leases.
- F. The “force majeure” clause of the lease may apply to the procurement of required drilling and other permits if said delays are excessive and caused by governmental agencies, MMEIA will make that determination.
- G. The lease will permit assignment or transfer of all or any interest therein only upon prior written approval by the Executive Director.

SECTION VI LEASE ACQUISITION METHODS

RULE 24

All onshore state-owned land over which the MMEIA has leasing jurisdiction shall be leased by competitive bid or noncompetitive negotiations, whichever is in the best interest of the State as determined by MMEIA.

SECTION VII RECORDING

RULE 25

All leases shall be duly recorded by the lessee, in compliance with all applicable State statutes, as soon as reasonably possible after execution and delivery by the MMEIA. Likewise, a release shall be recorded upon expiration, and a copy of the recorded release shall be furnished free of charge to the MMEIA.

RULE 26

The lessee for recording purposes shall purchase all mineral documentary stamps, and the lessee shall likewise pay all recording fees.

SECTION VIII MISCELLANEOUS

RULE 27

- A. The execution of the lease to the lessee does not relieve the lessee of the responsibility to obtain all required additional authorizations and permits from other local, state, and federal entities.
- B. Upon written request and justification by the applicant, and with the agreement of both the Executive Director and the appropriate supervisory agency, the provisions herein may be modified or waived.