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**DNR
DIRECTOR'S OFFICE**

Jim Justice
Governor of West Virginia

March 15, 2017

Stephen S. McDaniel, Director
Division of Natural Resources
324 Fourth Avenue, Room 200
South Charleston, WV 25303-1228

Re: Middle Island Creek (34.3 acres, m/l), Tyler County – Oil & Gas Leasing

Dear Director McDaniel:

This is in response to your March 14, 2017, request under W. Va. Code § 20-1-7(14) for approval to solicit sealed bids from the public for a lease to develop the oil and gas interests underlying the waters of Middle Island Creek (34.3 acres, m/l) in Tyler County, WV. I hereby approve your request, subject to the division ensuring, at a minimum, that:

1. The bidding process is competitive and accords with § 20-1-7(14);
2. The bidders are responsible and qualified to hold the lease;
3. The mineral interests will be developed in an orderly, diligent, and timely manner;
4. The mineral interests will be developed in compliance with applicable environmental protection laws and regulations;
5. The state shall receive rents, royalties, or other compensation equal to or greater than the fair market value of the mineral interests leased;
6. The state's royalty shall be free of volumetric and cost deductions (*i.e.*, the lessee shall bear all costs incurred in exploring for, producing, marketing, and transporting the mineral interests to the point of sale), unless the particular circumstances warrant the state bearing a portion of the deductions;

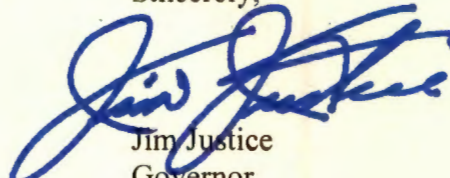
OFFICE OF THE GOVERNOR

McDaniel
Page 2

7. The lessee shall be liable for royalty payments on mineral interests lost or wasted because of negligence or failure to comply with the lease or the law;
8. The lessee shall drill and produce wells necessary to protect the property from drainage or pay compensatory royalty for drainage;
9. The lessee shall regularly furnish detailed statements to the division showing the amount and quality of all minerals extracted and sold, the proceeds therefrom, and the amount used for production purposes or unavoidably lost; and
10. The proposed development is in the best economic interests of the state and will not unreasonably disrupt use and enjoyment of Middle Island Creek or the division's opportunities to develop other mineral interests in the area.

Although the resulting lease will include other important terms and conditions, I believe the foregoing solicitation and lease requirements are of key importance to ensure that the state receives a fair and reasonable deal. Please see that these requirements are adhered to and highlighted in the solicitation process. If they prove unworkable based on the particular circumstances at issue, please advise. Further, please keep my General Counsel, Brian Abraham, informed of the status of this matter.

Sincerely,



Jim Justice
Governor

Cc:

Woody Thrasher, Cabinet Secretary, Department of Commerce
Joshua Jarrell, Esq., General Counsel, Department of Commerce
Dave Hardy, Cabinet Secretary, Department of Revenue



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Jim Justice
Governor

Stephen S. McDaniel
Director

March 14, 2017

The Honorable Jim Justice
Governor of West Virginia
Office of the Governor
State Capitol Complex
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305

Attention: Brian Abraham

RE: Middle Island Creek
Tyler County
Oil & Gas Leasing

Dear Governor Justice:

In accordance with Chapter 20, Article 1, Section 7, Item 14, of the Code of West Virginia, the Division of Natural Resources hereby requests your approval to put out for public competitive bid the oil & gas resources under a portion of Middle Island Creek (34.3 acres, m/l) in Tyler County, West Virginia.

The advertising and bidding procedure will all be carried out in compliance with West Virginia Code Chapter 59, Article 3, Section One.

Your favorable consideration of this request will be appreciated.

Sincerely,

Stephen S. McDaniel
Director

APPROVED: _____

DATE: _____

3-14-17

SM: js

Exhibit B

