



State of Utah
School and Institutional
Trust Lands Administration

School and Institutional Trust Lands Administration
675 East 500 South, Salt Lake City, Utah 84102

Revised Board of Trustees Meeting Agenda

March 20, 2019

9 a.m.

1. **Welcome**
2. **Approval of Board Meeting Minutes**
 - a. January 9, 2019
 - b. February 22, 2019
3. **Confirmation of Upcoming Meeting Dates**
 - a. April 9th – 10th St. George Tour
 - b. May 8th Regular Meeting (not 17th as previously published)
 - c. June 12th Regular Meeting
 - d. July – No meeting scheduled
 - e. August 14th Regular Meeting
 - f. September 10th - 11th Board Tour – Location TBA
 - g. October 9th Regular Meeting
 - h. November 13th Regular Meeting
 - i. December – No meeting scheduled
4. **Introduction of Justin Atwater**, new Director of the Land Trusts Protection and Advocacy Office
5. **County Advisory Committee, Utah Tribes, and Public Comment Period**
6. **Chair's Report**
7. **Notification and Discussion Items**
 - a. Creation of New Staff Positions – Facilities Coordinator, Paralegal, and Lead Auditor
8. **Director's Report**
 - a. Director's Update
 - Director Ure
 - b. Update Concerning Lawsuit Filed by Salt Lake City Regarding the Utah Inland Port Authority
 - Chris Shiraldi, Legal Counsel

- c. OBA – Non-Competitive Lease of Bituminous/Asphaltic Sands Mineral Lease, Uintah County, Viva Ventures
 - Jerry Mansfield, Mineral Resource Specialist, Mining
- d. 2019-20 Grazing Fee Request
 - Kim Christy, Deputy Director, Surface
- e. Sand Hollow Development Project
 - Kyle Pasley, Deputy Assistant Director, Planning & Development – St. George
- f. New Oil & Gas Rules R850-21 and Audit Rules R850-5-300
 - LaVonne Garrison, Assistant Director, Oil & Gas

9. Closed Session

Closed meeting pursuant to Utah Code Ann. §52-4-205(1)(c), Strategy sessions to discuss pending or reasonably imminent *litigation*, §52-4-205(1)(d), Strategy sessions to discuss the potential *purchase, exchange, or lease of real property*, including any form of a water right or water shares, and/or §52-4-4-205(1)(e), Strategy sessions to discuss the potential *sale of real property*, including any form of a water right or water shares.

10. Adjourn

Items may be heard in any order, at any time, at the Board's discretion. Board Members may participate in the meeting via electronic means.

Please be aware that the public portions of this meeting will be broadcast live over the Internet. Also, be aware that an audio recording of the public portions of this meeting, along with any materials presented or distributed in the public portions of this meeting, will be posted on Utah's public notice website. Witnesses with questions or concerns should contact staff.

In accordance with the Americans with Disabilities Act, persons needing auxiliary communicative aids and services for this meeting should contact Lisa Jones at 801-538-5110, or by email at lsjones@utah.gov, three (3) days in advance.

I, Lisa S. Jones, SITLA Board of Trustees' Executive Assistant, hereby certify the foregoing agenda was emailed to the Salt Lake Tribune, was posted on the Utah State Public Notice website, <http://pmn.utah.gov>, SITLA's website at <https://trustlands.utah.gov/>, the SITLA app, and was posted at SITLA's Offices, 675 East 500 South, Suite 500, Salt Lake City, Utah 84102. *Posted and dated on the 19th day of March, 2019.*

MEMORANDUM

TO: The Board of Trustees
FROM: Lisa Jones, Executive Assistant to the Board
RE: Creation of New Staff (non-exempt) Positions
DATE: March 6, 2019

Due to changing needs and necessary salary adjustments, we present three new staff positions:

1. **Paralegal** (Brigid Carney, incumbent) Pay Range: \$30 - \$50
 - a. Current title: Legal Assistant, Pay Range \$18.20 - \$30.17
 - b. Current pay: \$28.46
2. **Facilities Manager** (Patrick Johnson, incumbent) Pay Range: \$20 - \$40
 - a. Current title: Office Specialist, Pay Range \$10.89 - \$28.65
 - b. Current pay: \$18.00
3. **Lead Auditor** (Merritt Dunn, incumbent) Pay Range \$40 - \$60 per hour
 - a. Current title: Auditor, Pay Range \$40 - \$50
 - b. Current pay: \$42.53

The existing positions have outlived their usefulness – each incumbent is doing more than what they currently are required to do. Each position includes supervision duties which are not included in their present job description. We need to ensure that we have job titles/descriptions that explain fully what these positions require so we can reasonably be prepared to hire replacements with similar qualifications in the future.

BOARD MEMORANDUM

DATE: February 13, 2019

TO: Board of Trustees, Utah School & Institutional Trust Lands Administration (SITLA)

FROM: Tom Faddies, Assistant Director/Minerals
Jerry Mansfield, Resource Specialist

RE: Other Business Arrangement (OBA) – Non-Competitive Lease of Bituminous/Asphaltic Sands Mineral Lease, Uintah County, Utah, Viva Ventures Oil Sands, Inc.

LANDS PROPOSED FOR LEASE:

<u>T15S, R23E, SLB&M</u>	<u>Uintah County</u>
Sec. 16: NE ¹ / ₄ , NE ¹ / ₄ NW ¹ / ₄ , S ¹ / ₂ NW ¹ / ₄ , S ¹ / ₂	1,440.00 Acres
Sec. 21: All	
Sec. 22: SW ¹ / ₄	
Sec. 27: SW ¹ / ₄ NW ¹ / ₄	

Fund: School and Multiple

APPLICANT: Viva Ventures Oil Sands, Inc.
3450 Triumph Blvd., Suite 138
Lehi, Utah 84043

As provided for under Utah Code Anno. 53C-2-401(1)(d)(ii), which permits the Board of Trustees to approve “other business arrangements”, Viva Ventures Oil Sands, Inc. (Viva) on December 26, 2018, submitted a proposal to lease, under the Bituminous/Asphaltic Sands minerals lease category the above-referenced land. The reason this action requires Board approval is the lease would be issued through the “Other Business Arrangement” (OBA) lease process.

This proposed OBA has been reviewed by the SITLA Board’s Mining Committee and they have recommended the Board consider it for approval.

Lease History

Section 16 is a regular School Trust section that came to the State through U.S. Patent 43-66-0067. The lands of section 16 have been leased for bituminous/asphaltic sands once under a lease that was cancelled in 1973 and again under ML 51144 along with the lands under sections 21, 22, and 27 from 2007 until 2015 when it was cancelled for non-payment. The lands were offered for competitive lease in April of 2015 and received no bids. The lands in sections 21, 22, and 27

were obtained through exchange 205 in January of 1999 through patent 43-99-0016. The lands are currently leased for Oil, Gas and Associated Hydrocarbons since 2017 there has been on production and SITLA receives \$2 per acre in rental on the leases.

Proposal

Viva has proposed an initial bonus payment of \$5 per acre, an annual rental of \$1 per acre with a royalty of 8%; the rental and royalty are the current terms for asphaltic \bituminous leases. In exchange for these terms Viva agrees to perform the following:

- Perform an rotary drilling program that would define bituminous/asphaltic sands within each 160 acre parcel.
- Perform a core drilling program based on rotary drilling results that would contribute to a mine plan for bituminous asphaltic sands resources.
- Drill data would be analyzed and shared with SITLA through a professional report in the nature of the Canadian 43-101 report.
- Work requirements would be completed in 4 years with an additional 4 years for planning operations.

Recommendation

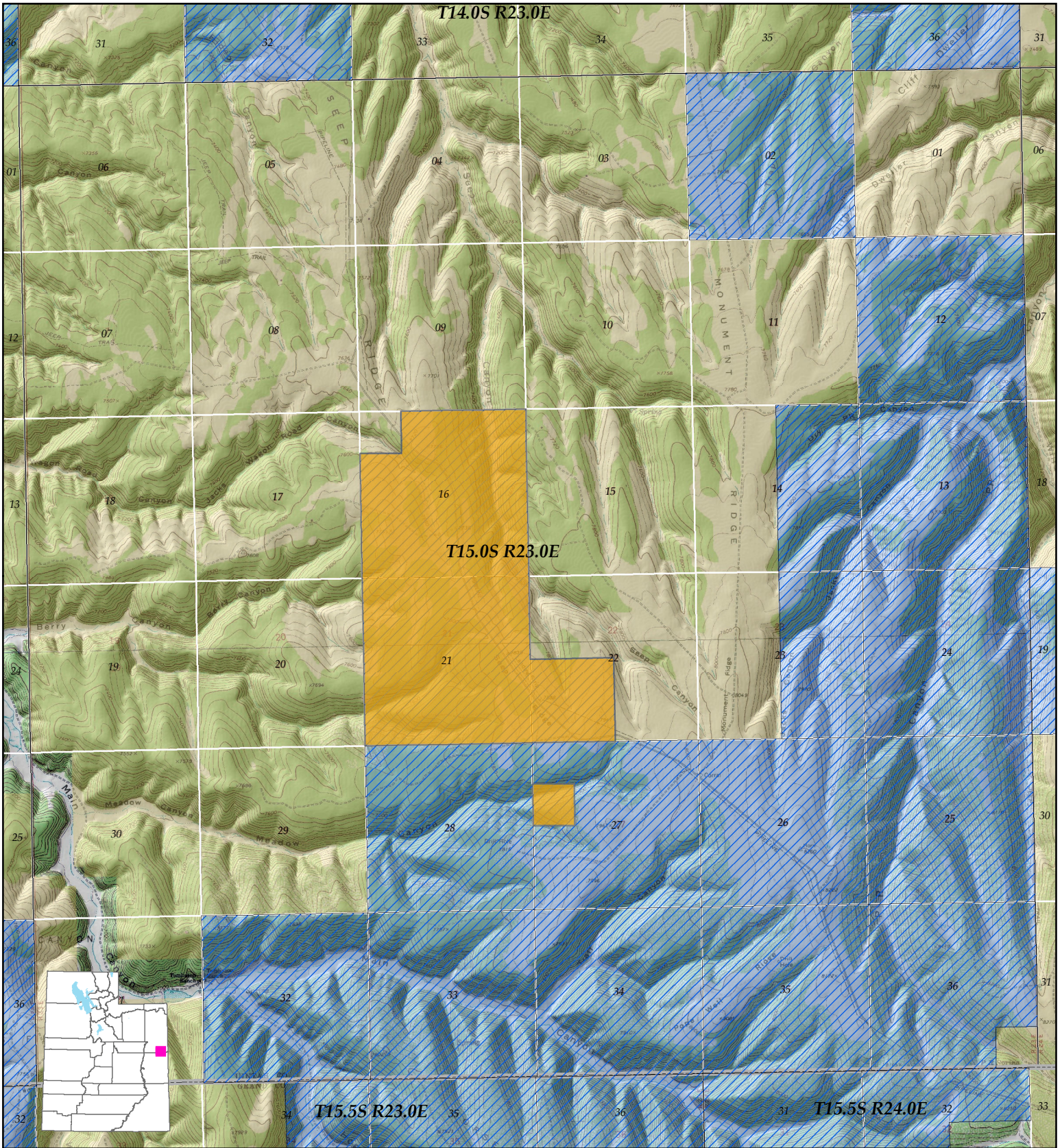
The Trust Land Administration Mining and Oil and Gas staff have reviewed the Viva proposal and recommend that the Board of Trustees, of the School and Institutional Trust Lands Administration, grant approval to issue an “Other Business Arrangement” (OBA) lease to Viva Ventures Oil Sands, Inc. for Bituminous/Asphaltic Sands. Issuance of the Bituminous/Asphaltic Sands OBA lease will include the work requirements outlined above with the following standard Bituminous/Asphaltic Sands Lease terms:

- One-time Bonus bid of \$5.00 per acre (\$7,200.00)
- Standard Annual Rental rate for Bituminous/Asphaltic Sands lease (\$1 per acre, total \$1,440.00)
- \$10.00 per acre annual minimum royalty beginning with the first year of the lease (\$14,400.00)
- 8% production royalty and no less than \$3.00 per barrel; after ten years of production, royalty may be increased by not more than 1% per year to a maximum of 12.5%
- Ten year lease term.
- A performance bond may be required

Respectfully Submitted by:

Tom Faddies
Assistant Director of Minerals

Jerry Mansfield
Resource Specialist



Viva Ventures OBA Lease Proposal

Land Ownership and Administration

- Bureau of Land Management
- Private
- State Trust Lands

Proposed Lease Boundary



0 0.275 0.55 1.1 Miles
1:50,000



Data represented on this map is for REFERENCE USE ONLY and is not suitable for legal, engineering, or surveying purposes. Users of this information should review or consult the primary data and information sources to ascertain the usability of the information. SITLA provides this data in good faith and shall in no event be liable for any incorrect results, or any special, indirect or consequential damages to any party, arising out of or in connection with the use or the inability to use the data herein.

Land parcels, lease boundaries and associated SITLA data layers may have been adjusted to allow for visual "best fit." The Surface Ownership Land Status data (if present) are maintained by SITLA to reflect current trust land status and surface ownership. Lakes, rivers, streams, highways, roads, county and state boundaries are distributed by the Utah Automated Geographic Reference Center and/or other sources as specified. Contour lines (if present) were generated from USGS 10 meter DEM.

Please Note: While SITLA seeks to verify data for accuracy and content, discrepancies may exist within the data. Acquiring the most updated SITLA ownership GIS data may require contacting the GIS staff directly 801-538-5100 or TLA-GIS@utah.gov. The SITLA GIS department welcomes your comments and concerns regarding the data and will attempt to resolve issues as they are brought to our attention. Produced: January 04, 2019 SITLA. Coordinate System: NAD 1983 UTM Zone 12N. Projection: Transverse Mercator.

MEMORANDUM

DATE: February 27, 2019
TO: SITLA Board of Trustees
FROM: Kim S. Christy, Deputy Director
SUBJECT: Request for Adoption of Grazing Assessments for the 2019-2020 Grazing Season

Action Requested: *This request has been reviewed and is supported by the Surface Committee.*

- 1) Adopt the standard grazing assessment of \$6.10 per AUM (includes the \$0.10 per AUM weed and insect control fee) for the 2019–2020 grazing season, as adjusted by the formula adopted by the Board in 2009.
- 2) Adopt a grazing assessment of \$10.64 per AUM (includes the \$0.10 per AUM weed and insect control fee) for selected land blocks for the 2019–2020 grazing season, as adjusted by the formula adopted by the Board in 2009.

Background: Given the importance of the grazing program to a significant segment of Utah's economy, and the Agency's legal mandate to receive no less than fair-market value for the use of its lands to support its beneficiaries, in March of 2003, the Board of Trustees directed the Agency to evaluate the merits of creating a separate grazing assessment structure for selected land blocks and to explore ways of improving the overall grazing program, including stewardship practices. After two years of extensive analysis, including professional guidance from two respected agricultural economists and with input from industry leaders and other stakeholders, a completely new structure for grazing assessments was adopted by the Board of Trustees.

The major questions which were asked in the evaluation process were:

1. What were other western trust land agencies receiving for grazing assessments?
2. What was the grazing permit term in other western states?
3. What were permittees charging to sublease trust land grazing permits?
4. What were other Utah land-owning agencies charging for grazing assessments?
5. What did trust land grazing permits sell for in the open market?
6. What did Utah landowners charge for non-irrigated grazing permits on private land?

The new structure implemented at that time by the Board of Trustees included:

1. A two-tiered grazing assessment with selected blocks having a higher assessment than the standard assessment, which applies to the remaining trust land.

2. The standard assessment increased from \$2.35/AUM¹ to \$3.90/AUM over a three -year period.
3. The block assessment increased from \$2.35/AUM to \$7.00/AUM over a five-year period.
4. Amending Agency rules to allow for a 50/50 split of revenues derived from subleasing grazing permits.
5. The commitment of up to 10% of the Agency's annual grazing proceeds for qualifying capital range-improvement projects.
6. Amending Agency rules to allow for the extension of a grazing permit term when substantial expenses are assumed by the incumbent permittee for approved range-improvement projects.
7. Finally, a grazing assessment formula was adopted in FY 2009, which was to be applied in setting future annual grazing permit assessments. It was determined that the formula would not apply until incremental increases described in items #2 and #3 above were met. The application of the formula is now in its ninth year where it is applicable to both the standard grazing assessment and selected land blocks. The formula is intended to keep assessments relatively stable into the future, yet sensitive to inflationary or deflationary pressures, depending on what changes occur in private lease rates.

The following table represents a summary of the subsequent incremental fee adjustments which have been approved under items 1, 2, 3, and 7 above:

Grazing Season	Standard Assessment + Weed Fee	Block Assessment + Weed Fee
2005-2006	\$2.75 + \$0.10 = \$2.85	\$4.90 + \$0.10 = \$5.00
2006-2007	\$3.10 + \$0.10 = \$3.20	\$5.30 + \$0.10 = \$5.40
2007-2008	\$3.45 + \$0.10 = \$3.55	\$5.70 + \$0.10 = \$5.80
2008-2009	\$3.80 + \$0.10 = \$3.90	\$6.10 + \$0.10 = \$6.20
2009-2010	\$3.86 + \$0.10 = \$3.96 (Adjusted by Formula)	\$6.50 + \$0.10 = \$6.60
2010-2011	\$3.92 + \$0.10 = \$4.02 (Adjusted by Formula)	\$6.90 + \$0.10 = \$7.00
2011-2012	\$4.02 + \$0.10 = \$4.12 (Adjusted by Formula)	\$7.07 + \$0.10 = \$7.17 (Adjusted by Formula)
2012-2013	\$4.12 + \$0.10 = 4.22 (Adjusted by Formula)	\$7.24 + \$0.10 = \$7.34 (Adjusted by Formula)
2013-2014	\$4.35 + \$0.10 = \$4.45 (Adjusted by Formula)	\$7.64 + \$0.10 = \$7.74 (Adjusted by Formula)
2014-2015	\$4.68 + \$0.10 = \$4.78 (Adjusted by Formula)	\$8.22 + \$0.10 = \$8.32 (Adjusted by Formula)

¹ Grazing fees are based on the amount of forage an animal consumes in a month. The base measurement is called an Animal Unit Month (AUM). An AUM is defined as the amount of forage a cow and her calf (or their combined equivalent) consumes in a month.

2015-2016	\$4.93 + \$0.10 = \$5.03 (Adjusted by Formula)	\$8.66 + \$0.10 = \$8.76 (Adjusted by Formula)
2016-2017	\$5.35 + \$0.10 = \$5.45 (Adjusted by Formula)	\$9.40 + \$0.10 = \$9.50 (Adjusted by Formula)
2017-2018	\$5.62 + \$0.10 = \$5.72 (Adjusted by Formula)	\$9.87 + \$0.10 = \$9.97 (Adjusted by Formula)
2018-2019	\$5.72 + \$0.10 = \$5.82 (Adjusted by Formula)	\$10.05 + \$0.10 = \$10.15 (Adjusted by Formula)
2019-2020 (Proposed)	\$6.00 + \$0.10 = \$6.10 (Adjusted by Formula)	\$10.54 + \$0.10 = \$10.64 (Adjusted by Formula)

The Agency believes the results of these changes have been positive for both the Trust and livestock users. Annual grazing program revenues have steadily increased from \$350,000 in FY 2001 to \$1,332,881 in FY 2018. The changes have also resulted in increased security for grazing permittees as well as increased stewardship through the implementation of a wide variety of range-improvement projects around the state.

Grazing Fee Formula:

The formula adopted by the Board in 2009 is structured to reflect market changes occurring in Utah’s private lease rates and is derived through a statistical regression analysis of lease rates over the last five decades. It creates an index from current Utah private, non-irrigated lease rates compared to the previous year’s private lease rate. The formula is designed to be used each year to establish the index for the next year:

$$UTFVI_t = 1.01787 \times UTFV_{t-1} / UTFV_{t-2}$$

Where: UTFVI_t = Utah Forage Value Index

UTFV = Utah private lease rate (as reported by USDA NASS)

The formula applies private lease rates as reported from USDA National Agricultural Statistics Service (NASS) each year (usually available by February of each year). The 2018 NASS report indicates that the Utah private grazing lease rate is \$17.00 per AUM, an increase of \$0.50 per AUM from the previous year. The private lease forage ratio is therefore recognized as \$17.00/\$16.50 = 1.0303. With the private lease forage value ratio for 2019 being 1.000, the UTFVI for 2019/2020 is:

$$UTFVI_{2019} = 1.01787 \times (\$17.00/\$16.50)$$

or, 1.04871

The UTFVI estimate for FY 2019/2020 is multiplied by \$5.72 (TLA_{t-1}) to yield an assessment of \$6.00 per AUM (plus \$0.10 per AUM weed fee) for the 2019/2020 standard grazing assessment.

Applying the formula to selected land blocks yields the following:

$$UTFVI_{2019} = 1.01787 \times (\$17.00/\$16.50)$$

or, 1.04871

The UTFVI estimate for FY 2019/2020 is multiplied by \$10.05 (TLA_{t-1}) to yield an assessment of \$10.54 per AUM (plus \$0.10 per AUM weed fee) for the 2019/2020 selected land block assessment.

Miscellaneous:

The Agency has continued to monitor the formula's market sensitivity and performance over time, particularly in relation to grazing non-use or increased/decreased demand for state grazing leases. We continue to see only minor requests for cancellations, along with some non-use requests. The majority of non-use requests submitted over the last year were driven by resource constraints due to fire and drought (requests for non-use due to an inability to pay a grazing permit assessment are not approved). This suggests that assessments are not prohibitively high.

The Agency's formula has demonstrated some sensitivity to livestock market conditions, which have somewhat improved and stabilized from a previous period of decreasing prices. However, it's important to note that the formula uses year-old private lease rates reported by NASS. Therefore, any effect on the formula by current market conditions are always delayed a year.

Last year the formula called for \$0.10 per AUM and \$0.18 per AUM increases in the fee adjustments for the standard and selected land block assessments, respectively. This year the formula calls for \$0.28 per AUM and \$0.49 per AUM increases in the fee adjustments for the standard and selected land block assessments, respectively.

The federal fee for 2019 will be \$1.35 per AUM, down \$0.06 from \$1.41 per AUM last year.

In 2014 and early 2015, the Surface/Water Rights Committee spent considerable time reviewing the validity of the Agency's formula, given unusually high livestock prices that were present at that time. It was felt by some that there was room for more aggressive adjustments to SITLA's assessments. The Committee felt that the standard fee (which represents 92.3% of the agency's grazing permits and 78% of its AUMs) was generally adequate, but that the select land block fee may have room for adjustment. The Committee also considered the merits of assessing a surcharge above and beyond the fee established by the formula for select land blocks. However, the consensus of the Committee following its review, was to continue applying the current formula to both fees.

During the balance of 2015, the committee placed its focus on more aggressive advertisement of expiring grazing permits. At a meeting of the Board of Trustees in May of that year, which was held in Price, Utah, the following changes were approved:

1. Posting all expiring grazing permits on the Agency's web site.
2. The procedures for the reimbursement of permittees who lose the use of an approved range improvement were clarified.
3. The maximum length of time for a grazing permit was set at 15 years. Thus, the allowance for extension of a grazing permit term when substantial expenses are assumed by an incumbent

permittee for approved range-improvement projects (see item 6, page 2 of this report) was eliminated.

During negotiations with the livestock industry over Agency policies regarding aggressive advertisement of expiring permits (specific to select large block permits) it was agreed that the Agency would limit advertising to a generalized notice, published in industry newsletters, which would direct parties interested in expiring grazing permits to the Agency's web site for more information. It was also agreed that the livestock industry would support an increase in grazing permit assignment fees to \$10.00/AUM.

At their November 2015 meeting, the Board of Trustees took action to implement the following additional changes to the rules:

1. Implement the compromise agreement with the livestock industry where the Agency forgoes the extensive advertising of expiring select large block permits and instead sets a fee of \$10.00/AUM when grazing permits are assigned.
2. Amend the rules to give the Agency the tools needed to better manage grazing on trust lands and to deal with permittees who are found in violation of the rules.
3. Make minor cosmetic changes to the rules so that they will better conform to the Rulewriting Manual for Utah (12th Edition) published by the Division of Administrative Rules.

Proposed Grazing Fees for 2019-2020:

R850-50-500, Grazing Fees and Annual Adjustments states: *An annual assessment shall be charged for each AUM authorized by the agency. This assessment shall be established by the board and shall be reviewed annually and adjusted if appropriate.*

Therefore, based on information provided above, the Agency respectfully requests adoption of the grazing fees for 2019–2020 as follows:

- 1) Standard grazing assessment will be \$6.10 per AUM (includes the \$0.10 per AUM weed and insect control fee).
- 2) Selected land block grazing assessment will be \$10.64 per AUM (includes the \$0.10 per AUM weed and insect control fee).

Memorandum

TO: Board of Trustees, School and Institutional Trust Lands Administration

FROM: Aaron Langston, Project Manager, P&DG Utah South

DATE: February 12, 2019

RE: *Request to enter into development agreement –Sand Hollow block*

BENEFICIARY: Multi and Miners Hospital

Purpose of Memorandum

The purpose of this memorandum is to inform the Board regarding offers on our 463 +/- acre Sand Hollow block following a request for proposals and to see if the Board of Trustees desires to move forward with one of the proposals.

Background

The subject Sand Hollow block has not been master planned. Staff contemplated engaging land planners and engineers during the next real-estate downturn in order to get this parcel ready for a future upswing of the market.

Sand Hollow Resort (a resort community directly west of Sand Hollow Reservoir State Park) approached SITLA in 2017, asking if they could become our development partner on this block in order to expand their existing neighboring development. Staff put it out to RFP at that time and only two offers resulted – one from Sand Hollow Resort, another from K.H. Traveller. However, the offers were not sufficiently high enough to suggest the market was ready for this development. As a result, Staff decided to wait a year and determine at that future time if the market warranted another RFP.

Although K.H. Traveller did not express interest in pursuing a second proposal in 2018, Sand Hollow Resort continued conveying their interest to do so. As a result, Staff decided to initiate an RFQ to see if additional developers were interested in this block. The RFQ was sent out in October of 2018 and captured five responses before the end of November. Two of the five, Sand Hollow Resort and Brennan Holdings, submitted percentage shares of gross revenues and proposed lot layouts. Two more, Quality Development and brokers Zachary Hartman and Dave Nasal, responded to the RFQ indicating their interest in the block as qualified developers, but did not submit cost share information (which was not required in the RFQ). The fifth response was a letter from our development partner Cole West (development partner for Coral Canyon), stating that they had interest but were not able to commit at this time.

Staff reached out to Quality Development and brokers Zachary Hartman and Dave Nasal, giving them until the end of the calendar year to submit revenue share information if they wanted to be considered as a possible development partner for the Sand Hollow block. Sand Hollow Resort and Brennan Holdings were also informed they could revise their financials and revenue share information if they desired, up until the end of the calendar year.

There were no revisions to Brennan Holdings or Sand Hollow Resort's original financial data. However, Quality Development also submitted a proposed revenue share so Staff received equivalent evaluative data from three qualified developers, two of whom the Trust has done extensive developments with.

Proposal 1: Sand Hollow Resort

Sand Hollow Resort hired Sunrise Engineering to do a preliminary site layout in order to determine density, design, layout and an estimate of likely infrastructure needs and construction costs, and probable revenues. Their design is well thought out and with a couple of exceptions would probably work from a development and engineering perspective. The main perceived problem is the plan tends to ignore some of the areas where the ground water is high and would probably not support the projected densities.

Regarding finances, Robert Roche would act as the financial backer and guarantor for the project. Based on the financial information submitted, it appears Mr. Roche's assets would primarily come from his offshore/foreign investments. Although Mr. Roche's foreign investments seem to be adequate for the project, the location of the investments and assets (not American based) causes Staff some concern. However, a letter from Rock Canyon Bank was also submitted as part of the proposal, which read: "...efforts are being taken to create a revolving Operating Line of Credit ("Operating Line") up to \$2.5 million and/or issuance of Performance Bonds, should that be necessary to satisfy SITLA that costs not funded by Roche and/or affiliated entities for the pre-development work, spine infrastructure, and other improvements to the SITLA land will be backed by the Operating Line of Performance Bonds..."

According to their proposal, once lots are built and subsequently sold, SITLA would receive 25% of the gross selling price of high density lots and 30% of all other lots. On average, that would yield 26.5% of the gross selling price of the lots to SITLA.

From a development history perspective, neighboring Sand Hollow Resort is an ongoing development project with questionable success. Sand Hollow Resort seemed to struggle through the 2007 – 2011 recession. Since then it has rebounded somewhat.

During a January 24th site visit, Sand Hollow Resort representatives Nancy Stark and Jake Bracken explained that the project was upside down during the recession and they could have declared bankruptcy; instead, Mr. Roche continued meeting their financial obligations and they were able to get the development through the biggest downturn since the Great Depression. Ms. Stark and Mr. Bracken also explained that Sand Hollow Resort has primarily been marketed as a "resort community" and they hope to expand their product type by offering more traditional products on the proposed development lands. They also explained that most of the existing vacant lots within their project have been sold to various builders/investors, so as a development company they have almost no inventory remaining.

They also submitted a second letter showing two other USA based developments Robert Roche has financed – one in Kauai, Hawaii, and another in Gallup, New Mexico. Both projects appear to be in their infancy stages.

Proposal 2: Brennan Holdings

Brennan Holdings also generated a preliminary site layout in order to determine density, design, layout and an estimate of likely infrastructure needs and construction costs, and probable revenues. Their design was well thought out and is assumed to be very viable from a development and engineering perspective. Brennan Holdings worked closely with soils engineers to learn about the high water table and the challenges ground water would present.

From a financial perspective, Robert Brennan would use his personal funds for this project as he has done on his other development projects with SITLA. Similar to his development projects in Sienna Hills and Green Springs, Brennan would use his own funds to install infrastructure and build lots, and then once the lots are sold to select builders, both parties receive their pre-determined share. Their financial data indicate that SITLA would receive 22% of the gross selling price of the lot. Staff has little reason to doubt whether Brennan Holdings would be able to fund the infrastructure necessary to develop the project as proposed. In fact, Brennan Holdings calls about once a week to remind us their proposed pricing is minimum and they think they can actually sell the lots for more than projected, which could yield more in revenue to SITLA.

From a development history perspective, Brennan's developments at Sienna Hills and Green Springs have performed well and market demand for Brennan's lots remains strong. Brennan Holdings has obviously been a great development partner. Although their proposed return to SITLA is lower than the other proposals, Staff is confident this developer could out perform their projections, as they have verbally stated.

Brennan Holdings continues to articulate that 100% of their future lots at Sienna Hills and Green Springs are pre-sold. The moment the lots are completed, they are sold to select buyers. Their waiting list for lots is out over a year and Mr. Brennan is very concerned that they have no more new lots to market to their buyers. They continue asking if they can be our development partner on our remaining lands in Green Springs and now that Sand Hollow went out to an RFP, they expressed a strong desire to become our partner in order to provide desperately needed lots to the building community.

Proposal 3: Quality Development

Quality Development also generated a preliminary site layout in order to determine density, design, layout and an estimate of likely infrastructure needs and construction costs, and probable revenues. Their design appears to be well thought out but has the least amount of lots.

From a financial perspective, Quality Development would use its business funds and its own development crews to install infrastructure and build lots, and then once the lots are sold to select builders, both parties receive their pre-determined share. Their provided financial data state SITLA would receive 28% of the gross selling price of the lots.

From a development history perspective, Quality's developments in the South Block area, including Little Valley and their neighboring project Desert Canyons near the St. George airport, have performed well and market demand for Quality's lots remains strong.

Comparisons:

Quality Development proposes the highest percentage of the gross selling price of the lot. Staff feels that the other development factors, such as total number of lots, total sales price of the developed lots, proposed absorption rates, etc., are essentially nothing more than best guesses from those submitting the proposals. However, the percentage that SITLA gets from the gross selling price of the lot is something substantial that probably best takes out the unknowns and allows SITLA to ride the value wave of the development.

Both Brennan Holdings and Quality Development have done well in the Washington County market and both have good, extensive histories with SITLA. It is anticipated that both developers could perform at least as well as their development proposals indicate, but both would probably perform better.

Regarding Sand Hollow Resort's proposal; their competitive proposal at 26.5% of the gross selling price of the lots is attractive. However, their only Washington County development has had questionable success. Whether they could rise above past performance and execute differently on this proposed project is unknown. In addition, Staff has some concern about their ability to perform financially as their project would be supported from Mr. Roche's offshore investments.

Recommendation

As expressed, Staff has no doubt that Quality Development and Brennan Holdings could perform at least as good as indicated, but there is reasonable concern whether Sand Hollow Resort could do as they hope. Thus, from a risk-averse perspective, moving forward with Quality Development or Brennan Holdings would be an excellent way to monetize the Sand Hollow asset. Wherein Quality Development offers the highest percentage to SITLA, Staff recommends approval to enter negotiations with Quality Development.

The no action alternative to not move forward with a developer at this time would put the burden of land planning, land entitlement, and infrastructure design on Staff. In addition, it would undoubtedly take several years to successfully accomplish. After spending the time, money, and effort required to fully entitle the land and otherwise prepare the subject block for the market, Staff feels that in this case, allowing the developer to do all of the heavy lifting, all the while SITLA will be making 28% of the gross selling price of each lot, is the best course of action.

These proposals were heard in Real Estate Committee meeting by board, beneficiaries and staff on 19. The committee recommended approval of the course of action set forth above to the full Board of Trustees.

Exhibit A

Beneficiary Map

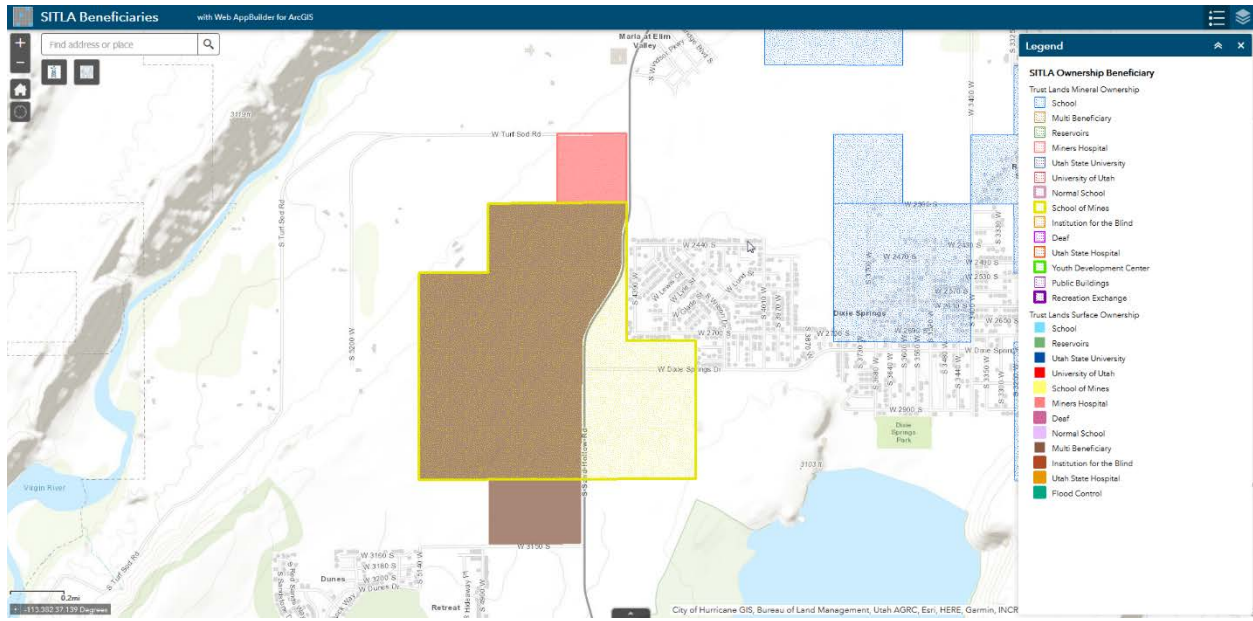
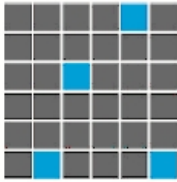
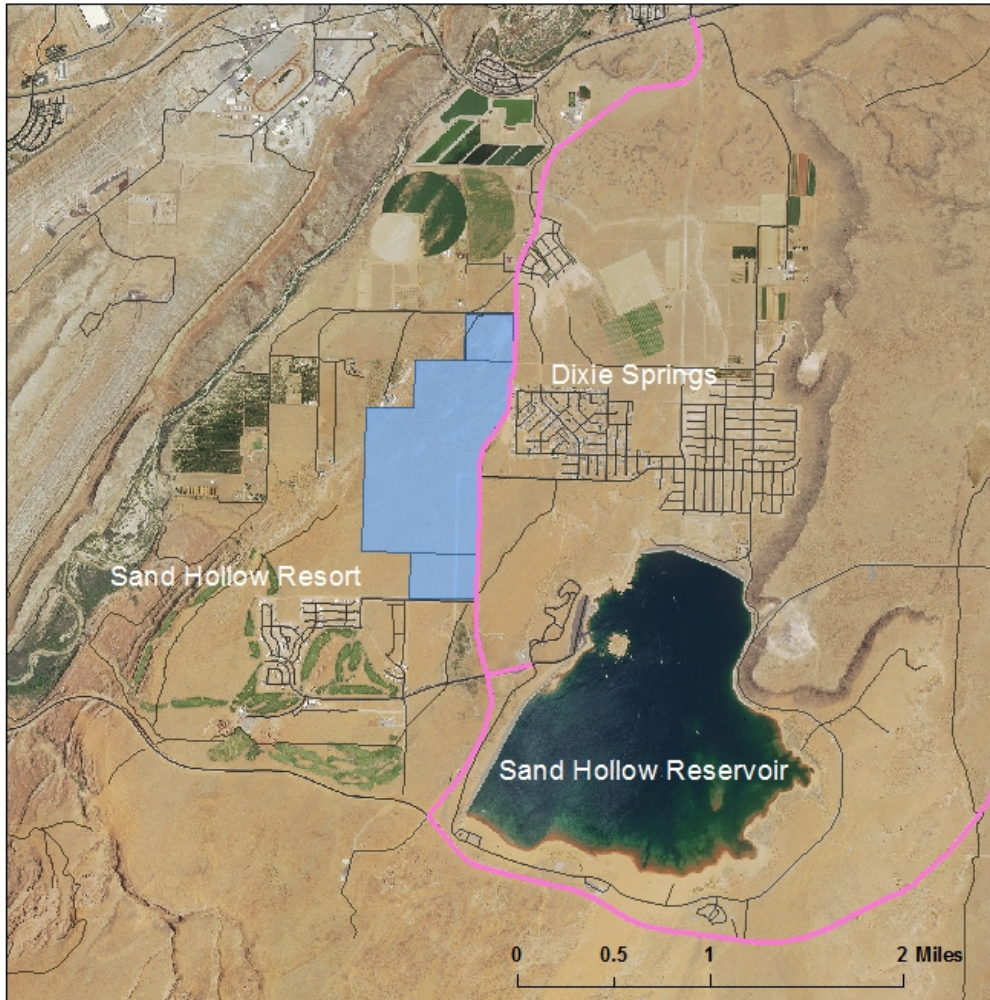


Exhibit B









Sand Hollow Development Block

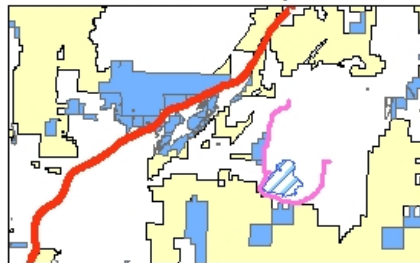
T42S R14W within Sections 11, 14, 23, SLBM
Washington County



Legend

-  Sand Hollow Block
-  Sand Hollow Rd
-  I-15
-  Reservoir
-  School Trust Lands
-  Federal Lands

Locator Map



Map is for reference purposes only. Created on 8/27/2018 by Aaron Langston. All data provided by SITLA.

Exhibit C

Select Project Photos



Photo looking south with Sand Mountain and the sand dunes in the background.

Photo looking southeast showing Dixie Springs in the background.



Photo looking northwest showing some of the unique natural landscapes within the Project.



DATE: March 1, 2019

TO: SITLA Board of Trustees

FROM: LaVonne J. Garrison
Assistant Director/Oil and Gas

FUND: All beneficiaries

RE: Proposed New Oil and Gas Rules R850-21 and
Changes to Rule R850-5-300

Gentlemen:

The existing Oil and Gas Rules were written in 2005. It is now time, fourteen years later, to refresh them and make necessary changes to reflect current agency practices governing our interaction with the oil and gas industry. Once approved by the Board, these rules will be submitted to the Administrative Rules Review Committee and will go through a final, formal processing in order for them to become effective. This will include, among other processes, a formal thirty-day public comment period. Over the past year, the proposed rules have been circulated among oil and gas operators, Utah Petroleum Association, Utah Association of Professional Landmen, some independent oil and gas entities that interact with the agency, and SITLA's legal staff for comment and or correction. Any comments received were discussed and, if merited, incorporated into the final draft attached.

The final set of revised rules, incorporating any changes accepted from the informal comments, were presented to the Board Minerals Subcommittee on February 22, 2019, and received their endorsement. I am enclosing for your review, a red-line of the current rules and the proposed rules. Because these rules have gone through a major overhaul and reorganization, during the implementation process with Rulemaking, the current rules will be repealed and the new rules approved to replace them.

In addition to the revised Oil and Gas Rules, our Auditing group has requested some added clarification changes in R850-5-300 affecting how oil and gas companies must submit royalty reports to the agency. These changes did not go through an informal distribution because they are minor and do not change the existing filing/payment process for companies

but seek to help companies reduce inaccurate reporting and any consequences that might accrue because of such inaccurate reporting. The changes were also reviewed by the Board Minerals Sub-committee on February 22, 2019, and received their endorsement. I am enclosing a red-line of the current rule, and the proposed changes.

I am requesting approval by the full Board for the changes to R850-5-300 and the new replacement rules for oil and gas at R850-21.

Respectfully submitted,

LaVonne J. Garrison

R850. School and Institutional Trust Lands Administration

R850-21. Oil, Gas and Hydrocarbon Resources

R850-21-100. Authorities.

This rule implements Sections 6, 8, 10, and 12 of the Utah Enabling Act, Articles X and XX of the Utah Constitution, and Utah Code Title 53C et seq. which authorize the Director of the School and Institutional Trust Lands Administration to establish rules for the issuance of oil, gas and hydrocarbon leases and which govern the management of trust-owned lands and oil, gas and hydrocarbon resources.

R850-21-150. Planning

Pursuant to Subsection 53C-2-201(1)(a), this category of activity carries no planning obligations by the agency beyond existing rule-based analysis and approval processes. Oil, gas and hydrocarbon development activities are regulated by UDOGM pursuant to Utah Administrative Code Rule R649.

R850-21-175. Definitions.

Except as specifically defined below, the definitions set forth at R850-1-200 shall be applicable. The following words and terms, when used in Section R850-21, shall have the following meanings:

1. Anniversary Date: the same day and month in succeeding years as the effective date of the lease.
2. Assignment(s): a transfer of all or a portion of the lessee's record title or operating rights in a lease.
 - (a) Mass Assignment: an assignment that affects two or more leases and identifies the leases affected thereby on an attached exhibit to the assignment.
 - (b) Non-leasehold Assignment: an assignment that transfers an interest in a lease that is not record title or operating rights, for example, but not limited to, overriding royalty, net profits, or other production payments.
3. Certification of Net Revenue Interest: a written declaration of oath to the agency that must accompany assignments of record title or operating rights in leases issued beginning April 1, 2005, certifying that the total net revenue interest (NRI) in the lease has not been reduced to less than 80 percent of 100 percent NRI.
4. Designated Operator: the person or entity that has been granted authority through a Designation of Operator form to conduct operations on the lease or a portion thereof.
5. Diligent Operations: the continuation of drilling or re-working operations in the secondary term of the lease which are prosecuted in a timely and good and workmanlike manner to establish production or restore production of leased substances. Diligent Operations may include cessations of operations which do not exceed ninety (90) days in duration or a cumulative period in excess of one hundred eighty (180) days in a lease year without prior agency approval.
6. Effective Date: the date as defined in the lease.
7. Gas Well: a well capable of producing volumes exceeding 100,000 cubic feet of gas to each barrel of oil from the same producing horizon where both oil and gas are produced; or, a well producing gas only from a formation or producing horizon.
8. Lease Year: the twelve-month period commencing at 12:01 a.m. on the month and day of the effective date of the lease and ending at midnight on the last day of the twelfth month.
9. Minimum Royalty: the minimum amount of money payable to the agency which accrues beginning in the first year of the secondary term of the lease or after first production is obtained. The amount due is calculated on the difference, if any, between the amount of the minimum royalty specified in the lease and the actual royalty paid from production in the lease year.
10. Operating Rights Interest: the interest or contractual obligation created out of a lease that authorizes the operating rights interest owner to enter upon the leased land to conduct drilling, production and other related operations. Operating rights interest may be stratigraphically limited.
11. Other Business Arrangement (OBA): an agreement entered into between the agency and a person or entity consistent with Section 53C-2-401-(1)(d)(ii) and approved by the Board of Trustees. By way of example, but not of limitation, OBAs may be for joint ventures, farmout agreements, exploration agreements, or other agreements for the disposition of hydrocarbon deposits on trust lands.
12. Paying Quantities: unless otherwise defined in the lease, production that allows the lessee to realize a profit after deducting taxes, the agency's royalty, and the cost of the operations.

13. Record Title Interest: the primary ownership of a lease that includes the obligation to pay rentals, the rights to assign or relinquish a lease, and the ultimate responsibility to the agency for obligations under the lease. Record title interest to a lease may not be stratigraphically limited.

14. Rental: a sum of money as prescribed in the lease payable annually in advance to the agency on or before midnight on the last day of the lease year.

15. Shut-in Gas Well: a gas well that is physically capable of producing gas in paying quantities that cannot be marketed at a reasonable price due to lack of market or transportation facilities, the status of which has been confirmed through the filing of a completion report or other documentation with UDOGM.

16. Shut-in Gas Well Payment: beginning at the commencement of the secondary term of the lease, the amount of money accruing and payable to the agency, in addition to other obligations defined in the lease, when gas is not being sold or marketed from the lease for a shut-in gas well.

17. Spud: the first boring of a hole in the drilling of a well and continuation of operations until surface casing is set.

18. UDOGM: the Division of Oil, Gas, and Mining of the Department of Natural Resources of the State of Utah.

R850-21-200. Classification of Oil, Gas and Hydrocarbons.

Oil, gas and hydrocarbon leases may cover oil; natural gas, including gas producible from coal formations or associated with coal-bearing formations; natural gas liquids; other hydrocarbons (whether the same is found in solid, semi-solid, liquid, vaporous, or any other form); sulfur; helium; and other gases not individually described. The oil, gas and hydrocarbon category shall not include coal, oil shale, asphaltic-bituminous sands or gilsonite.

R850-21-300. Lease Application Process.

1. The agency may issue leases competitively, non-competitively or enter into OBAs with qualified applicants as set forth in R850-3-200 for the development of oil, gas and hydrocarbon resources.

2. Competitive Leasing.

The director may designate lands for bidding by electronic means as a vehicle for competitive leasing. Electronic bidding may be in addition to, or in place of, the bidding processes set out at Section 53C-2-407 at the discretion of the director. A list of available land and a link to the bidding form and procedure will be provided at the agency website.

(a) Competitive Bid Offering: when the agency designates lands for competitive bidding, it shall award leases on the basis of the highest bonus bid per acre made by a responsible, qualified bidder.

(b) Minimum Bonus Bid Amount: the minimum acceptable bonus bid for competitive bid offering for leases shall not be less than \$1.00 per acre or fractional acre thereof, as set by the director.

(c) Notice of Offering: notices of the offering of lands for competitive bid shall:

(A) run for a period of not less than fifteen (15) consecutive days after the notice is posted in the agency's office or online;

(B) provide the legal description of the land;

(C) state the last day on which bids may be received.

(d) Identical Bids: in the case of identical successful bids, the agency may award the lease by public drawing or oral auction between the identical bidders, held at the agency's offices.

(e) Awarding of Leases: the winning bid shall be disclosed in the agency's office at 10 a.m. on the first business day following the last day on which bids may be received.

3. Non-Competitive Leasing.

(i) the director may designate lands for non-competitive leasing if the lands have been offered in a competitive offering and have received no bids. Designated lands may be offered for a period of three (3) months from the date the competitive sale closed for which no bids were received. The procedure for non-competitive leasing will be posted on the agency website.

(ii) where two or more applications for the same lease contain identical successful bids, the agency may award the lease by public drawing or oral auction between the identical bidders held at the agency's office.

4. Other Business Arrangement.

(i) the agency may, with board approval, enter into joint ventures, farmout agreements, exploration agreements, or other agreements for the development of oil, gas and hydrocarbon resources if the agency deems it is in the best interest of the trust to do so.

(ii) The application for an OBA must be written and directed to the Assistant Director for Oil and Gas for review on a case-by-case basis.

R850-21-400. Availability of Lands for Lease Issuance.

1. A lease shall not be issued for lands comprising less than a quarter-quarter section or surveyed lot, unless the land the agency owns is less than the whole of a quarter-quarter section or surveyed lot, in which case the lease will be issued only on the entire area owned by the agency.

2. Leases shall be limited to no more than 2560 acres or four sections and must all be located within the same township and range, unless a waiver is approved by the director.

R850-21-500. Lease Provisions.

The following provisions, terms and conditions shall apply to all leases granted by the agency:

1. Rentals and Credits.

(a) The rental rate shall not be for less than \$1 per acre, or fractional acre thereof, per year, at the time the lease is offered.

(b) The minimum annual rental on any lease, regardless of the amount of acreage, shall in no case be less than \$500.00.

(c) Rental payments must be received on or before the end of the lease year notwithstanding R850-5-200(3), unless otherwise stated in the lease.

(d) Any overpayment may, at the option of the agency, be credited toward the lease account.

(e) The agency may accept lease payments made by any party provided, however, that the acceptance of such payment(s) shall not be deemed to be recognition by the agency of any interest of the payee in the lease. Ultimate responsibility for such payments remains with the record title interest owner.

(f) Rental credits, if any, shall be governed by the terms of the lease which provide for such credits.

2. Continuance of a Lease After Expiration of the Primary Term.

Unless otherwise provided in the lease, a lease shall be continued after the primary term has expired so long as:

(a) the leased substance is being produced in paying quantities from the leased trust lands or from other lands pooled, communitized or unitized therewith, and lessee pays the annual minimum royalty set out in the lease; or

(b) the agency determines that the lessee or designated operator is engaged in diligent operations which are determined by the director to be reasonably calculated to restore production of the leased substance from the leased trust lands or from other lands pooled, communitized or unitized therewith, and lessee pays the annual minimum royalty set out in the lease; or

(c) subject to the requirements of R850-21-500(4), if the leased trust lands, or lands pooled therewith, contain a shut in gas well capable of producing paying quantities and lessee makes all payments required by the lease.

3. Pooling, Communitization or Unitization of Leases.

(a) Upon prior written authorization of the director, lessee may commit the leased trust lands or portions of such lands to units, or cooperative or other plans of development under such conditions as the director may prescribe.

(b) The director may, with the consent of the lessee, modify any term of a lease for lands that are committed to a unit, or cooperative or other plan of development.

(c) Production allocated to the leased trust lands under the terms of a unit, or cooperative or other plan of development shall be considered produced from the leased lands whether or not the point of production is located on the leased trust lands.

(d) Lease payments for leases included in any unit, cooperative or other plans of development shall be at the rate specified in the lease, subject to change at the discretion of the director or as may be prescribed in the terms of the lease.

(e) For active leases in a validated federal or state unit as of the effective date of these Rules that are either contracted out of such unit or upon unit termination which occurs before January 1, 2021, the agency will:

(i) grant a one-time, two (2) year extension from the date the lease was eliminated from the unit either by contraction or unit termination and so long thereafter as the leased substances are produced in paying quantities, or

(ii) continue the lease to the end of its primary term, whichever is longer.

4. Shut-in Gas Wells Producing Gas in Paying Quantities.

(a) To qualify as a shut-in gas well capable of producing in paying quantities:

(i) if the well is a new well, the operator must have filed with UDOGM a completion form or other documentation verifying that the well is capable of production in paying quantities, and if the well is an existing well, the operator must have obtained an approval of shut-in status from UDOGM; and

(ii) the lessee shall have complied with the lease terms providing the basis upon which the minimum royalty is to be paid for a shut-in gas well.

(b) The director may, at any time, require written justification from the lessee that the well qualifies as a shut-in gas well.

(c) A shut-in gas well will not extend a lease more than five (5) years beyond the original primary term of the lease unless otherwise extended at the discretion of the director.

5. Oil/Condensate/Gas/Natural Gas Liquids Reporting and Records Retention.

(a) Notwithstanding the terms of the lease, gas and natural gas liquid report payments are required to be received by the agency on or before the last day of the second month succeeding the month of production.

(b) The extension of payment and reporting time for gas and NGLs does not alter the payment and reporting time for oil and condensate royalty which must be received by the agency on or before the last day of the calendar month succeeding the month of production.

(c) Records of production, sales, transportation, and all other documents pertaining to the calculation of royalties shall be maintained for seven (7) years after the records are generated unless the director notifies the record holder that an audit has been initiated or an investigation begun involving such records. When so notified, records shall be maintained until the director releases the record holder of the obligation to maintain such records.

6. Other Lease Provisions.(a) Any lease may be terminated by the agency in whole or in part upon lessee's failure to comply with any lease term, covenant or any applicable law or agency rule. Subject to the terms of any lease issued hereunder, any final agency action is appealable pursuant to R850-8-1000, in accordance with the provisions of the rules of the agency.

(b) When the agency approves the amendment of an existing lease by substituting a new lease form for the existing form, the amended lease will retain the effective date of the original lease.

(c) The agency may require, in addition to the lease provisions required by these rules, any other reasonable provisions to be included in the lease as it deems necessary but which do not substantially impair the lessee's rights under the lease.

R850-21-600. Transfer by Assignment or Operation of Law.

1. Record Title or Operating Rights Transfer by Assignment. Any lease may be assigned as to all or part of the acreage, to any person, firm, association, or corporation qualified to hold a lease provided, however that:

(a) record title or operating rights assignments must be approved by the director. No record title or operating rights assignment is effective until approval is given.

(b) Any attempted or purported assignment of record title or operating rights made without approval by the director is void.

2. Non-leasehold assignments. Non-leasehold assignments of overriding royalty interests must be filed with the agency for record keeping purposes only. Other non-leasehold interest assignments may be filed with the agency for record keeping purposes only.

3. Requirements for Assignments.

(a) An assignment of either a record title or operating rights interest in a lease must:

(i) be expressed in a good and sufficient written legal instrument;

(ii) be properly executed, acknowledged and clearly set forth:

(A) the serial number of the lease;

(B) the land involved;

(C) the name and address of the assignee;

(D) the name of the assignor;

(E) the interest transferred;

(F) interest retained, if any; and

(G) a certification of net revenue interest, if applicable.

(b) Lessees who are assigning a record title or operating rights interest shall:

(i) prepare and fully execute the assignments, complete with acknowledgments;

(ii) require that all assignees execute the acceptance of assignment; and

(iii) submit the prescribed assignment fee.

(c) If approval of any assignment of record title or operating rights is withheld by the director, the assignee shall be notified of such decision and its basis. Any decision to withhold approval may be appealed pursuant to R850-8 or any similar rule in place at the time of such decision.

(d) An assignment shall be effective following approval by the director. The assignor or surety, if any, shall continue to be responsible for performance of any and all obligations as if the assignment had not been executed until approval by the director. After approval by the director, the assignee is bound by the terms of the lease to the same extent as if the assignee were the original lessee, any conditions in the assignment to the contrary notwithstanding; provided, however, that the approved record title interest owner(s) shall retain ultimate responsibility to the agency for all lease obligations.

(e) An assignment of an undivided 100% record title interest in less than the total acreage covered by the lease shall cause a segregation of the assigned and retained portions. Segregated leases shall continue in full force and effect for the primary term of the original lease or as further extended pursuant to the terms of the lease. The agency may re-issue a lease with a new lease number covering the assigned lands. The agency may, in lieu of re-issuing a lease, note the assignment in its records with all lands covered by the original lease maintained with the original lease number and with each separate tract or interest resulting from an assignment with an additional identifying designation to the original number.

(f) Any assignment of record title or operating rights affecting leases issued beginning April 1, 2005, which would create a cumulative royalty and other non-working interest burdens in excess of twenty percent (20%) thereby reducing the net revenue interest in the lease to less than eighty percent (80%) net revenue interest shall not be approved by the agency. The agency reserves the right to void any assignment in which the certification of net revenue interest is found to be false and the assignment results in an aggregate burden in excess of 20% including the agency's retained royalty.

(g) Mass assignments are allowed, provided the requirements set forth in R850-21-600(2) are met.

(h) To the extent a legal foreclosure upon interests in leases occurs under the terms of a mortgage, deed of trust or other agreement, assignments must be prepared as set forth in this section and filed with and approved by the agency.

(i) The agency by approving an assignment does not adjudicate the validity of any assignment as it may affect third parties. Agency approval does not estop the agency from challenging any assignment which is later adjudicated by a court of competent jurisdiction to be invalid or ineffectual.

4. Transfer by Operation of Law.

(a) Death: if an applicant or lessee dies, his/her rights shall be transferred to the heirs or devisees of the estate, as appropriate, upon filing of:

(i) a certified copy of the death certificate, together with other appropriate documentation to verify change of ownership as required under Section 75-1-101 et seq., such as a court order determining intestate heirs or letters testamentary and a deed by the personal representative of the estate;

(ii) a list containing the serial number of each lease interest affected;

(iii) a statement that the transferee(s) is a qualified interest owner;

(iv) a required filing fee for each separate lease in which an interest is transferred; and

(v) a bond rider or replacement bond for any bond(s) previously furnished by the decedent.

(b) Corporate Merger: if a corporate merger affects any interest in a lease, no assignment of any affected lease is required. A notification of the merger, together with a certified copy of the certificate of merger issued by the Utah Department of Commerce, shall be furnished to the agency, together with a list by serial number of all lease interests affected. The required filing fee must be paid for each separate lease in which an interest is affected. A bond rider or replacement bond conditioned to cover the obligations of all affected corporations will be required as a prerequisite to recognition of the merger.

(c) Corporate Name Change: if a change of name of a corporate lessee affects any interest in a lease, the notice of name change shall be submitted in writing with a certificate from the Utah Department of Commerce evidencing its recognition of the name change accompanied by a list of lease serial numbers affected by the name change. The required filing fee must be paid for each separate lease in which an interest is affected. A bond rider or replacement bond, conditioned to cover the obligations of all affected corporations, is required as a prerequisite to recognition of the name change.

R850-21-700. Plan of Operations and Reclamation.

1. Prior to conducting any operations that may disturb the surface of lands contained in a lease, the lessee or designated operator shall submit for approval simultaneously to the agency and to UDOGM, a plan of operations and must receive the approval of the plan by both agencies. Said plan shall include, at a minimum, all proposed access and infrastructure locations and proposed site reclamation. Prior to approval, the agency may require the lessee or designated operator to adopt a special rehabilitation program for the particular property in question. The agency will review any request for drilling operations and will grant approval provided that the contemplated location and operations are not in violation of any rules or order of the agency. Agency approval of the plan of operations for oil, gas or hydrocarbon resources is required prior to approval by UDOGM, unless otherwise waived in writing to UDOGM by the agency.

2. Prior to approval of the plan of operations, the agency shall require the lessee or designated operator to:

(a) provide when requested, a cultural, paleontological or biological survey on lands under an oil, gas and hydrocarbon lease, including providing the agency a copy of any survey(s) required by other governmental agencies; and

(b) when requested, provide for reasonable mitigation of impacts to other trust resources occasioned by surface or sub-surface operations on the lease; and

(c) negotiate with the agency a surface use agreement, right-of-way agreement, or other agreement for trust lands other than the leased lands where the use of said lands is necessary for the development of the lease.

3. During drilling operations, lessee or designated operator shall keep a log of geologic data accumulated or acquired by the lessee or designated operator about the land described in the lease and will deposit any geological data related to exploration drill holes with the agency upon request.

4. Oil and gas drilling, or other operations which disturb the surface of the leased lands shall require surface rehabilitation of the disturbed area as prescribed and as required by the rules and regulations administered by the agency and UDOGM.

All pits, excavations, roads and pads shall be shaped to facilitate drainage and control erosion by following the best management practices. In no case shall the pits or excavations be allowed to become a hazard to persons or livestock. All material removed from the disturbed area shall be stockpiled and be used to fill the pits and for leveling and reclamation of roads and pads, unless consent of the agency to do otherwise is obtained. At the termination of the lease, the land will as nearly as practicable approximate its original configuration. All drill holes must be plugged in accordance with rules promulgated by UDOGM. All mud pits shall be filled and materials and debris removed from the site.

All topsoil in the affected area shall be removed, stockpiled, and stabilized on the leased trust lands until the completion of operations. Upon reclamation, the stockpiled topsoil will be redistributed on the affected area and the land revegetated as prescribed by the agency.

5. All lessees or designated operators shall be responsible for compliance with all laws, notification requirements, and operating rules promulgated by UDOGM with regard to oil, gas and hydrocarbon exploration, or drilling on lands within the state of Utah under The Oil and Gas Conservation Act (Section 40-6-1 et seq.). Lessees or designated operators shall fully comply with all the rules or requirements of other agencies having jurisdiction and provide timely notifications of operations plans, well completion reports, or other information as may be requested or required by the agency.

R850-21-800. Bonding.

1. Bond Obligations.

(a) Prior to commencement of any operations which will disturb the surface of the land covered by a lease, the lessee or designated operator shall post with UDOGM a bond in a form and in the amount set forth in R649-3-1 et seq or any successor rule.

(b) A separate bond shall be posted with the agency by the lessee or the designated operator to assure compliance with remaining terms and conditions of the lease not covered by the bond to be filed with UDOGM, including, but not limited to payment of royalties.

(c) These bonds shall be in effect even if the lessee or designated operator has conveyed all or part of the leasehold interest to an assignee(s) or subsequent operator(s), until the bonds are released by UDOGM and the agency either because the lessee or designated operator has fully satisfied bonding obligations set forth in this section or the bond is replaced with a new bond posted by an assignee or designated operator.

(d) Bonds held by the agency shall be in the form and subject to the requirements set forth herein:

(i) Surety Bonds.

Surety bonds shall be issued by a qualified surety company, approved by the agency and registered in the state of Utah. Surety company must maintain an A credit rating. Lessee or designated operator has thirty (30) days to cure a

devalued rating, or lessee or designated operator will not be allowed to continue to work on the leased trust lands until a new surety bond has been filed and accepted by the agency;

(ii) Personal Bonds.

Personal bonds shall be accompanied by:

(A) a cash deposit to the School and Institutional Trust Lands Administration. The agency will not be responsible for any investment returns on cash deposits; or

(B) a cashier's check or certified check made payable to the School and Institutional Trust Lands Administration;

or

(C) negotiable certificates of deposit. The certificates shall be issued by a federally insured bank authorized to do business in Utah. The certificates shall be made payable or assigned only to the agency both in writing and upon the records of the bank issuing the certificate. The certificates shall be placed in the possession of the agency or held by a federally insured bank authorized to do business in Utah. If assigned, the agency shall require the banks issuing the certificates to waive all rights of setoff or liens against those certificates; or

(D) an irrevocable letter of credit. Letters of credit shall be issued by a federally insured bank authorized to do business in Utah and will be irrevocable during their terms. Letters of credit shall be placed in the possession of and payable upon demand only to the agency. Letters of credit shall be automatically renewable or the operator shall ensure continuous bond coverage by replacing letters of credit, if necessary, at least thirty (30) days before their expiration date with other acceptable bond types or letters of credit; or

(E) any other type of surety approved by the agency.

2. Bond Amounts.

The bond amount required for an oil, gas and hydrocarbon exploration project to be held by the agency for those lease obligations not covered by the bond held by UDOGM shall be:

(a) a statewide blanket bond in the minimum amount of \$15,000 covering exploration and production operations on all agency leases held by lessee; or

(b) a project bond covering an individual, single-well exploration project involving one or more leases. The amount of the project bond will be determined by the agency at the time lessee gives notice of proposed operations. This bond shall not be less than \$5,000.

3. Bond Default.

(a) Where, upon default, the surety makes a payment to the agency of an obligation incurred under the terms of a lease, the face of the bond and surety's liability shall be reduced by the amount of such payment.

(b) After default, where the obligation in default equals or is less than the face amount of the bond(s), the lessee or designated operator shall either post a new bond, restore the existing bond to the amount previously held, or post an adjusted amount as determined by the agency. Alternatively, the lessee or designated operator shall make full payment to the agency for all obligations incurred that are in excess of the face amount of the bond and shall post a new bond in the amount previously held or such other amount as determined by the agency. Operations shall be discontinued until the restoration of a bond or posting of a new bond occurs. Failure to comply with these requirements may subject all leases covered by such bond(s) to be cancelled by the agency.

(c) The agency will not give consent to termination of the period of liability of any bond unless an acceptable replacement bond has been filed or until all terms and conditions of the lease have been met.

(d) Any lessee or designated operator forfeiting a bond will be denied approval of any future oil, gas or hydrocarbon exploration on agency lands except by compensating the agency for previous defaults and posting the full bond amount for reclamation or lease performance on subsequent operations as determined by the agency.

4. Bonds may be increased at any time in reasonable amounts as the agency may order, providing the agency first gives lessee thirty (30) days written notice stating the amount of the increase and the reason for the increase.

5. The agency may waive the filing of a bond for any period during which a bond that meets the requirements of this section is on file with another agency.

R850-21-900. Failure of Agency's Title. Repealed effective 3/20/2006

R850-21-1000. Multiple Mineral Development (MMD) Area Designation.

1. The agency may designate any land under its authority as a multiple mineral development area. In designated multiple mineral development areas the agency may require, in addition to all other terms and conditions of the lease, that the lessee furnish a bond or evidence of financial responsibility as specified by the agency, to assure that the agency and other lessees shall be indemnified and held harmless from and against unreasonable and all unnecessary damage to mineral deposits or improvements caused by the conduct of the lessee on trust lands. Lessee shall give written notice to all oil, gas and hydrocarbon and other mineral lessees holding a lease for any mineral commodity within the multiple mineral development area. Thereafter, in order to preserve the value of mineral resources the agency may impose any reasonable requirements upon any oil, gas and hydrocarbon or other mineral lessee who intends to conduct any mineral activity within the multiple mineral development area. The lessee is required to submit to the agency in advance written notice of any activities to occur within the multiple mineral development area and any other information that the agency may request. All activities within the multiple mineral development area are to be deferred until the agency has specified the terms and conditions under which the mineral activity is to occur and has granted specific permission to conduct the activity. The agency may hold public meetings regarding mineral development within the multiple mineral development area.

2. The agency may grant a lease extension under a multiple mineral development area designation, providing that the lessee or designated operator requests an extension to the agency prior to the lease expiration date, and that the lessee or designated operator would have otherwise been able to request a lease extension as provided in Section 53C-2-405(4).

KEY: oil gas and hydrocarbons, administrative procedures, lease provisions, operations

Date of Enactment or Last Substantive Amendment:

Notice of Continuation:

Authorizing, and Implemented or Interpreted Law: 53C-1-302(1)(a)(ii); 53C-2 et seq.

R850. –School and Institutional Trust Lands, Administration,

R850-21. –Oil, Gas and Hydrocarbon Resources. ~~(4/1/2005)(4/1/2010⁴)(4/1/2015⁴)~~

R850-21-100. –Authorities.

— This rule implements Sections 6, 8, 10, and 12 of the Utah Enabling Act, Articles X and XX of the Utah Constitution, and Utah Code Title 53C et seq. which authorize the Director of the School and Institutional Trust Lands Administration to establish rules for the issuance of oil, gas and hydrocarbon leases and **which govern the management of trust-owned lands and oil, gas and hydrocarbon resources.** ~~thereon.~~

R850-21-150. –Planning.

— Pursuant to Subsection 53C-2-201(1)(a), this category of activity carries no planning obligations by the agency beyond existing rule-based analysis and approval processes. ~~Oil, gas and hydrocarbon development activities are regulated by UDOGM pursuant to Utah Administrative Code Rule R649.~~

R850-21-175. –Definitions. ~~(6/~~

~~Except as specifically defined below, the definitions set forth at R850-1/2005)~~

~~-200 shall be applicable. The following words and terms, when used in Section R850-21, shall have the following meanings, unless otherwise indicated:-~~

~~1. Act: Utah Code 53C-1 et seq.~~

~~2. Agency: School and Institutional Trust Lands Administration or its predecessor agency.~~

~~3-1. Anniversary Date: –the same day and month in succeeding years as the effective date of the lease.~~

~~4-2. Assignment(s): –a transferconveyancetransfer of all or a portion of the lessee’s record title, non-working interest, or working interest-operating rights in a lease.~~

~~(a) Mass Assignment: an assignment that affects two or more leases and identifies the leases affected thereby on an attached exhibit to the assignment.~~

~~(b) Non-leasehold Assignment: an assignment that transfers an interest in a lease that is not record title or operating rights, for example, but not limited to, overriding royalty, net profits, or other production payments.~~

~~3. Certification of Net Revenue Interest: a written on Assignments: the certificationwritten declaration ofby oath of an assignor to the agency that must accompany assignments of record title or operating rights in leases issued beginning April 1, 2005, certifying that the total net working-revenue interest (NRI) in the lease which the assignment affects has not been reduced to less than 80 percentper centpercent of 100 percentper centpercent NRI. Certification shallis only be requiredfor applicable to leases issued after April1April 1, 2005.~~

~~(a) — 4. Mass Assignment: –an assignment that affects more than one lease, including assignments which affect record title, working or non-working interests.~~

~~(b) — (c) Non-Working Interest Assignment: an assignment of interest in production from a lease other than the agency’s royalty, the record title, or the working interest including but not limited to overriding royalties, production payments, net profits interests, and carried interests assignments but excluding liens and security interests.~~

~~(c) — Record Titleleasehold Assignment: an assignment of the lessee’s that transfers an interest in a lease which includes the obligation to pay rent, the rights to assign/or relinquish the lease, and the ultimate responsibility to the agency for obligations under the lease.~~

~~(d) — Working Interest Assignment: a transfer of a non-that is not record title interest in a lease, includingor operating rights, for example, but not limited to-wellbore assignments, but excepting, overriding royalty, oil payment, net-profit profits, or carried interests or other non-working interests.~~

5. ~~Board of Trustees: the School and Institutional Trust Lands Board of Trustees created under Section 53C-1-202.~~
6. ~~Bonus Bid: a payment reflecting an amount to be paid by an applicant in addition to the delay rentals and royalties set forth in a lease in an application as consideration for the issuance of such lease.~~
7. ~~Committed Lands: a consolidation of all or a portion of lands subject to a lease approved by the director for pooling or unitization which form a logical unit for exploration, development or drilling operations.~~

~~Delay Rental: a sum of money as prescribed in the lease payable to the agency for the privilege of deferring the commencement of drilling operations or the commencement of production during the term of the lease.~~ payments .

5. ~~Designated Operator: the person or entity that has been granted authority by the record title interest owner(s) in a lease and has been approved by the agency through a Designation of Operator form to conduct operations on the lease or a portion thereof.~~

8. ~~5. Director: the person designated within the agency who manages the agency in fulfillment of its purposes as set forth in the Act.~~

~~Effective Date: unless otherwise defined in the lease, the effective date shall be the first day of the month following the date a lease is executed by the agency. An amended, extended or segregated lease will retain the effective date of the original lease.~~ **Diligent Operations:** the continuation of drilling or re-working operations in the secondary term of the lease which are prosecuted in a timely and good and workmanlike manner to establish production or restore production of leased substances. Diligent Operations may include cessations of operations which do not exceed ninety (90) days in duration or a cumulative period in excess of one hundred eighty (180) days in a lease year without prior agency approval.

6. ~~6. Effective Date: the date as defined in the lease.~~

7. ~~76. Gas Well: a well capable of producing volumes exceeding 100,000 cubic feet of gas to each barrel of oil from the same producing horizon where both oil and gas are produced; or, a well producing gas only from a formation or producing horizon.~~

9. ~~87. Lease: an oil, gas and hydrocarbon lease covering the commodities defined in R850-21-200(1) issued by the agency.~~

8. ~~Lease Year: the twelve-month period commencing at 12:01 a.m. on the month and day of the effective date of the lease and ending at midnight on the last day of the twelfth month at 12 midnight.~~

10. ~~98. Leasing Unit: a parcel of trust land lying within one or more sections that is offered for lease as an indivisible unit through a competitive oil and gas lease application process which would constitute one lease when issued.~~

11. ~~Lessee: a person or entity holding a record title interest in a lease.~~

12. ~~NGL: natural gas liquids.~~

Minimum Royalty: the minimum amount of money payable to the agency which accrues beginning in the first year of the secondary term of the lease or after first production is obtained. The amount due Minimum royalty is calculated on the difference, if any, between the amount of the minimum royalty specified in the lease and the actual royalty paid from production in the lease year.

109. ~~Operating Rights Interest: the interest or contractual obligation created out of a lease that authorizes the operating rights interest owner to enter upon the leased land to conduct drilling, production and other related operations. Operating rights interest may be stratigraphically limited.~~

9. ~~1140. Other Business Arrangement ("OBA"): an agreement entered into between the agency and a person or entity consistent with Section 53C-2-401-(1)(d)(ii)UCA and~~

approved by the Board of Trustees. —By way of example, but not of limitation, OBAs may be for joint ventures, farmout agreements or joint venture, exploration agreements. An agreement for an OBA may be initiated by the agency or by a proponent of an agreement by filing a proposal for an OBA with the agency. , operating agreements, or other agreements for the disposition of hydrocarbon deposits on trust lands.

~~10.~~ ~~112. Paying Quantities:~~ unless the gross income from the leased substances produced and sold (after deduction for ~~unless~~ otherwise defined in the lease, production that allows the lessee to realize a profit after deducting taxes, the agency's royalty, and lessor's royalty) that exceeds the cost of operation, the operations.

~~13.~~ ~~1213. Qualified Interest Owner:~~ a person or legal entity who meets the requirements of ~~R850-3-200~~ of these rules.

Record Title Interest: the primary ownership of a lease that includes the obligation to pay rentals, the rights to assign or relinquish a lease, and the ultimate responsibility to the agency for obligations under the lease. Record title interest to a lease may not be stratigraphically limited.

~~11.~~ ~~1314. Rental:~~ —a sum of money as prescribed in the amount due and lease payable ~~on~~ annually in advance to the anniversary of agency on or before midnight on the last effective date last day of a lease to maintain the lease in full force and effect for the following lease year.

~~1415. Shut-in Gas Well:~~ —a gas well that which has been completed and for which a completion form has been filed and accepted by UDOGM and is physically capable of producing gas in paying quantities, but, for which the producible gas that cannot be marketed at a reasonable price due to ~~lack~~ existing marketing ~~lack~~ of market or transportation ~~conditions.~~ ~~23.~~ facilities, and the status of which has been confirmed through the filing of a completion report or other documentation with UDOGM.

~~1516. Shut-In or Minimum Royalty:~~ in Gas Well Payment: beginning at the commencement of the secondary term of the lease, the amount of money accruing and payable to the agency in lieu of rental or delay rental beginning, in addition to other obligations defined in the lease, when gas is not being sold or marketed from the first anniversary date of the lease for a shut-in or after the initial discovery of oil or gas well in paying quantities on the leasehold or the allocation of production to the leasehold. Minimum royalty accrues beginning from the anniversary date lease.

~~12.~~ ~~1617. Spud:~~ the first boring of a hole in the drilling of a well lease but is not payable well and continuation of operations until the end of the year. Actual royalty accruing from a lease or allocated to a unitized or communitized lease during the lease year is credited against the minimum royalty obligation for the lease year. If the royalty from production does not equal or exceed the required minimum royalty for the lease year, the lessee surface casing is obligated to pay the difference. ~~set.~~

~~24.~~ ~~1718. Surveyed Lot:~~ an irregular part of a section identified by cadastral survey and maintained in the official records of the agency.

~~25.~~ Trust Lands: those lands and mineral resources granted by the United States in the Utah Enabling Act to the State of Utah in trust, and other lands and mineral resources acquired by the trust, which must be managed for the benefit of the state's public education system or the institutions designated as beneficiaries.

3. UDOGM: —the Division of Oil, Gas, and Mining of the Utah State Department of Natural Resources of the State of Utah.

~~26.~~ Except as specifically defined above, the definitions set forth at R850-1-200 shall also be applicable.

R850-21-200. —Classification of Oil, Gas and Hydrocarbons.

- Oil, gas, and hydrocarbon leases shall cover oil; natural gas, including gas producible from coal formations or associated with coal-bearing formations; natural gas liquids; and other hydrocarbons (whether the same is found in solid, semi-solid, liquid, vaporous, or any other form) and also including; sulfur; helium; and other gases not individually described. The oil, gas, and hydrocarbon category shall not include coal, oil shale, asphaltic-bituminous sands or gilsonite.

R850-21-300. –Lease Application Process. (7/23/2012)

- 1. The agency may issue leases competitively, non-competitively or enter into OBAs with qualified applicants interest owners as set forth defined in R850-3-200 for the development of oil, gas and hydrocarbon resources.

-2. Competitive Leasing.

The director may designate lands for bidding by electronic means as a vehicle for competitive leasing. Electronic bidding leasing may be in addition to, or in place of, the bidding processes set out at Section Subsection 53C-2-407 at the discretion of the director. A list of available land and a link to the bidding form and procedure will be provided at the agency website.

(a) **Competitive Bid Offering:** –when the agency designates lands leasing units lands for competitive bidding, it shall award leases on the basis of the highest bonus bid per acre made by a responsible, qualified application bidder.

(b) (i) **Minimum Bonus Bid Amount:** –the minimum acceptable bonus bid for competitive bid offering for leases leasing units leases shall be not be less than \$1.00 per acre, or fractional acre thereof, as set by the director. which will constitute the (advance) rental for the first year of the lease.

(c) (ii) **Notice of Offering:** –notices of the offering of lands for competitive bid shall:

(A) run for a period of not less than fifteen (15) consecutive days after the notice is posted in the agency's office; or online;

(B) describe provide the legal description of the leasing unit; land;

(A) indicate the resource available for leasing; and

(C) state the last day date day on which bids may be received.

(d) **Identical Bids:** in the case of identical successful bids, the agency may award the lease by public drawing or oral auction between the identical bidders, held at the agency's offices.

(e) **Opening (iii) Awarding of Bid Applications: Leases:** the winning bid applications shall be disclosed opened disclosed in the agency's office at 10 a.m. on on the first business day following the last day on which bids may be received.

(iii) **3. Content of Applications:** each application shall be submitted in a sealed envelope which clearly identifies: (A) the competitive bid;

(B) leasing unit number; and,

(C) the date of offering for which the bid is submitted.

— (v) The application envelope must:

(A) describe only one leasing unit per application; and,

(B) contain one check for the application fee and a separate check for the amount of the bonus bid. (vi)

Withdrawal of Applications: applicants desiring to withdraw an application which has been filed under these competitive bid filing rules must submit a written request to the agency. If the request is received before sealed bids have been opened, all money tendered by the applicant, except the filing fee, shall be refunded. If a request is received after sealed bids have been opened, and if the applicant is awarded the bid, then unless the applicant accepts the offered lease, all money tendered shall be forfeited to the agency.

(vii) ~~Non-Complying Applications:~~ if the agency determines prior to lease issuance that an application did not comply with these rules at the time of bid opening, the application fee shall be retained by the agency and the application returned to the applicant without further consideration by the agency.

(iv) **Identical Bids:** in the case of identical successful bids, the agency may award the lease by public drawing or oral auction between the identical bidders, held at the agency's offices.

(b) **Non-Competitive Leasing By Over-The-Counter Filing.**

(i) ~~The~~ (i) the director may designate lands for non-competitive leasing by over-the-counter application if the lands have been offered in a competitive offering and have received no bids. Designated lands may be offered for a period of three (3) months from the date of the competitive opening of bids competitive sale closed for which no bids bid was bids were received. The procedure for said lands under the non-competitive leasing bid offering.

The minimum acceptable offer for over the counter applications to lease designated lands shall be not less than \$1 per acre, or fractional acre thereof, which leasing will be constitute the delay rental for the first year of the lease. (iii) ~~Applications for over the counter leases, when authorized, shall be filed be~~ posted on approved forms received from the office of the agency or as made available on its web site and delivered for filing in the main office of the agency during office hours. Except as provided, all over the counter applications received by personal delivery over the counter, are to be immediately stamped with the exact date and time of filing. All applications presented for filing at the opening of the office for business on any business day are stamped received as of 8 a.m., on that day. All applications received in the first delivery of the U.S. Mail of each business day are stamped received as of 8 a.m. on that day. The time indicated on the time stamp is deemed the time of filing unless the director determines that the application is materially deficient in any particular way. If an application is determined to be deficient, it will be returned to the applicant with a notice of the deficiency. the agency website.

If an application is returned as deficient and is resubmitted in compliance with the rules within fifteen (15) days from the date of the determination of deficiency, it shall retain its original filing time. If the application is resubmitted at any later time, it is deemed filed at the time of resubmission.

Where (ii) where two or more applications for the same lease contain identical successful bids bids and bear a time stamp showing the said applications were filed at the same time, the agency may award the lease by public drawing or oral auction between the identical bidders held at the agency's office.

4. If an (c) **Other Business Arrangement.**

(i) ~~The~~ The agency may, with board approval, enter into joint ventures, farmout agreements, exploration agreements, operating agreements or other agreements for the development of the oil, and gas and hydrocarbon resources asset if the agency deems it is in the best interest of the trust to do so.

(iv) (ii) The application or any part thereof is rejected, any money tendered for rental of the rejected portion shall for an OBA should be refunded or credited to the applicant minus the application fee.

(v) An applicant who desires to withdraw its application must be submit a written and request to the agency. If the request is received prior and directed to the Assistant time the agency approves the application, all money tendered by the applicant, except the application fee, shall be refunded. If the request is received after approval of the application, then, unless the applicant accepts the offered lease, all money tendered is forfeited to the agency.

(c) **Competitive Leasing by Electronic Leasing.**

(i) The director may designate leasing units for bidding by electronic means as a vehicle Assistant Director for competitive leasing. Leases will be awarded to the highest bonus bid per acre made by a qualified application. Electronic leasing may be in addition to or in place of the bidding processes set out

at R850-21-300(1)(a) or (b) at the discretion of the director. A list of available leasing units and a link to the bidding form will be provided at the agency website. Oil and Gas for review on a case-by-case basis.

R850-21-400. Availability of Lands for Lease Issuance.

1. A lease shall not be issued for lands comprising less than a quarter-quarter section or surveyed lot, unless the trust owned land managed by the agency owns within any owns is less than the whole of a quarter-quarter section or surveyed lot is less than the whole thereof, in which case the lease will be issued only on the entire area owned and available for lease within the quarter-quarter section or surveyed lot by the agency.

2. Leases shall be limited to no more than 2560 acres or four sections and must all be located within the same township and range, unless a waiver is approved by the director.

1. Any lease may be terminated by the agency in whole or in part upon lessee's failure to comply with any lease term or covenant or applicable laws and rules. Subject to the terms of any lease issued hereunder, any final agency action is appealable pursuant to Section 53C-2-409, in accordance with the provisions of the rules of the agency.

R850-21-500. Lease Provisions. (6/1/2005)

The following provisions, terms and conditions shall apply to all leases granted by the agency:

1. ~~Delay Rentals and Rental Credits.~~

(a) The ~~delay~~ rental rate shall not be for less than \$1 per acre, or fractional acre thereof, per year, at the time the lease is offered.

(b) The minimum annual ~~delay~~ rental on any lease, regardless of the amount of acreage, shall in no case be less than \$50040500.00.

~~Delay rental~~ (c) Rental payments ~~must~~ shall ~~must~~ be received ~~paid each year~~ received on or before the lease anniversary date, end of the lease year notwithstanding R850-5-200(3), unless otherwise stated in the lease.

(d) Any overpayment of ~~delay~~ rental occurring from the lease applicant's incorrect calculation of acreage of lands described in the lease may, at the option of the agency, be credited toward the applicant's ~~rental~~ lease account.

(e) The agency may accept lease payments made by any party provided, however, that the acceptance of such payment(s) shall not be deemed to be recognition by the agency of any interest of the payee in the lease. Ultimate responsibility for such payments remains with the record title interest owner.

(f) Rental credits, if any, shall be governed by the terms of the lease which provide for such credits.

2. ~~Royalty Provisions: the production royalty rate shall not be less than 12.5% of gross proceeds minus costs of transportation off lease, at the time the lease is offered.~~

3. ~~Primary Lease Term: no lease shall establish a primary term in excess of ten (10) years.~~

2. Continuation of a Lease ~~After~~ **After** Expiration of the Primary Term.

~~(a) A~~ Unless otherwise provided in the lease, a lease shall be continued after the primary term has expired so long as:

(a) the leased substance is being produced in paying quantities from the leased ~~trust lands~~ premises or from other lands pooled, communitized or unitized with committed lands; or therewith, and lessee pays the annual minimum royalty set out in the lease; or

~~(i)~~ (b) the agency determines that the lessee or designated operator:

is engaged in diligent operations which are determined by the director to be reasonably calculated to ~~advance or~~ restore production of the leased substance from the leased ~~trust lands~~ premises or from other lands pooled, communitized, or unitized with committed lands; therewith, and lessee pays the annual minimum royalty set out in the lease; or

~~(A)~~ (c) subject to ~~pays the requirements~~ annual minimum royalty set forth in the lease.

~~(b)~~ Diligent operations may include cessation of R850-21-500(4), if operations not to exceed 90 days in duration or a cumulative period of 180 days in one calendar year.

5 (c) the leased trust lands premises, or lands pooled therewith, contains a shut in gas well capable of producing paying quantities and lessee makes all payments required by the lease.

3.— Pooling, Communitization or Unitization of Leases.

(a) Upon ~~lessees, upon~~ prior written authorization of the director, lessee may commit the leased trust lands or portions of such lands to ~~unit, units, or cooperative or other plans of development—under such conditions as the director may prescribe with other lands.~~

(b) The director may, with the consent of the lessee, modify any term of a lease for lands that are committed to a unit, or cooperative, or other plan of development.

(c) Production allocated to the leased trust lands under the terms of a unit, or cooperative, or other plan of development shall be considered produced from the leased lands whether or not the point of production is located on the leased trust lands.

(d) Lease payments for ~~The term of all leases included in any unit, or cooperative or other plans unit other plan of oil and gas development or operation in which the agency has joined, or shall hereafter join joins,~~ shall not be extended automatically for the term of the unit or, cooperative agreement. ~~Rentals on leases or other plan of development unless:~~

(1) there has been a valuable discovery of unitized substances that satisfied the requirement of production in paying quantities, or

(2) the agency otherwise extends the term of the lease.

(e) Lease payments so extended shall be at the rate specified in the lease, subject to change in rates at the discretion of the director or as may be prescribed in the terms of the lease.

~~(a) Any lease eliminated from any cooperative or unit plan of development or operation, or any lease which is in effect at the termination of a cooperative or unit plan of development or operation, unless relinquished, shall continue in effect for the fixed term of the lease, or for two (2) years after its elimination from the plan or agreement or the termination thereof, whichever is longer, and so long thereafter as the leased substances are produced in paying quantities. Rentals under such leases shall continue at the rate specified in the lease.~~

6

(e) For active leases in a validated federal or state unit as of the effective date of these Rules that are either contracted out of such unit or upon unit termination which occurs before January 1, 2021, the agency will:

(i) grant a one-time, two (2) year extension from the date the lease was eliminated from the unit either by contraction or unit termination and so long thereafter as the leased substances are produced in paying quantities, or

(ii) continue the lease to the end of its primary term, whichever is longer.

4.— Shut-in Gas Wells Producing Gas in Paying Quantities.

(a) To ~~to~~ qualify as a shut-in gas well capable of producing gas in paying quantities:

(i) if the well is (a) a new well, the operator must have filed with UDOGM ~~has to be~~ completed and a completion form or other documentation verifying that the well is capable of production in paying quantities, and if the well is an filed with UDOGM. An existing well, the operator must have obtained an approval of ~~has to have been approved for shut-in status from with UDOGM; and.~~

~~(a) (ii) the lessee (b) a minimum royalty shall have complied with be paid in an amount not less than the current annual minimum royalty provided for in the lease;~~

~~(c) the terms providing of the lease shall provide the basis upon which the minimum royalty is to be paid by the lessee for a shut-in gas well; and~~

~~(b) The (d) the director may, at any time, require written justification from the lessee that the the well qualifies as a shut-in gas well.~~

~~(c) (e) — A shut-in gas well will not extend a lease more than five (5) years beyond the original primary term of the lease. 7 unless otherwise extended at the discretion of the director.~~

5. —Oil/Condensate/Gas/~~Natural~~**Natural Gas Liquids Reporting and Records Retention.**

(a) Notwithstanding the terms of the lease ~~agreements~~, gas and ~~natural~~**Natural gas liquid** report payments are required to be received by the agency on or before the last day of the second month succeeding the month of production.

(b) The extension of payment and reporting time for gas and ~~NGLs~~**NGL's** does not alter the payment and reporting time for oil and condensate royalty which must be received by the agency on or before the last day of the calendar month succeeding the month of production: ~~as currently provided in the lease form.~~

~~(a) — A lessee, operator, or other person directly involved in developing, producing or disposing of oil or gas under a lease through the point of first sale or point of royalty computation, whichever is later, shall establish and maintain records of such activities and make any reports requested by the director to implement or require compliance with these rules. Upon request by the director or the director's designee, appropriate reports, records or other information shall be made available for inspection and duplication.~~

(c) Records of production, ~~sales, transportation and sales~~, and all other documents pertaining to the calculation of royalties shall be maintained for ~~seven~~**seven (7)** years after the records are generated unless the director notifies the record holder that an audit has been initiated or an investigation begun, involving such records. When so notified, records shall be maintained until the director releases the record holder of the obligation to maintain such records.

6. Other Lease Provisions. (.

(a) Any lease may be terminated by the agency in whole or in part upon lessee's failure to comply with any lease term, covenant or any applicable law or agency rule. Subject to the terms of any lease issued hereunder, any final agency action is appealable pursuant to rule R850-8-1000, in accordance with the provisions of the rules of the agency.

(b) When the agency approves the amendment of an existing lease by substituting a new lease form for the existing form, ~~(s)~~, the amended lease will retain the effective date of the original lease.

~~8. Other lease provisions.~~

(c) The agency may require, in addition to the lease provisions required by these rules, any other reasonable provisions to be included in the lease as it deems necessary, but which ~~does~~**do** not substantially impair the lessee's ~~lessee's~~**lessee's** rights under the lease.

R850-21-600. Transfer by Assignment or Operation of Law.

1. **Record Title or Operating Rights Transfer by Assignment.** Any lease may be assigned as to all or part of the acreage, to any person, firm, association, or corporation qualified to hold a lease provided, however, that: ~~all~~:

(a) record title or operating rights assignments must be approved by the director. ~~No~~**No** record title or operating rights assignment is effective until approval is given.

(b) Any attempted or purported assignment of record title or operating rights made without approval by the director is void.

~~1.~~ **2. Transfer by Assignment.**

(b) Non-leasehold assignments. Non-leasehold assignments of overriding royalty interests must be filed with the agency for record keeping purposes only. Other non-leasehold interest assignments may be filed with the agency for record keeping purposes only.

3.2. Requirements for Assignments.

(a) —An assignment of either a record title, ~~working or operating~~**non-working operating rights** interest in a lease must:

(i) be expressed in a good and sufficient written legal instrument;

(ii) be properly executed, acknowledged and clearly set forth:

(A) the serial number of the lease;

(B) the land involved;

- (C) the name and address of the assignee;
 - (D) the name of the assignor;
 - (E) the interest transferred;
 - ~~(iii) be accompanied by a certification that the assignee is a qualified~~
 - (F) interest retained owner; and ~~(iv) include retained, if any; and~~
 - (G) a self-certification of net revenue interest, if applicable.
- (b) Lessees who are assigning a ~~lease record title or operating rights interest~~ shall:
- (i) prepare and fully execute the ~~(S81) assignments in duplicate~~, complete with acknowledgments;
 - (ii) require that all ~~each copy of all~~ assignees execute the assignment have attached thereto an acceptance of assignment duly executed by the assignee; and provide that all assignments forwarded to or deposited with the agency be accompanied by the
 - (iii) submit the prescribed assignment fee.
- (c) ~~The director shall approve any assignment of interest which has been properly executed; if the required filing fee is paid for each separate lease in which an interest is assigned, and the assignment complies with the law and these rules, so long as the director determines that approval would not be detrimental to the interests of the trust beneficiaries.~~
- (c) If approval of any assignment of record title or operating rights is ~~is~~ withheld by the director, the assignee ~~transferee~~ assignee shall be notified of such decision and its basis. Any decision to withhold approval may be appealed pursuant to Rule R850-8 or any similar rule in place at the time of such decision.
- (d) ~~Any assignment of a portion of a lease, whether of a record title, working or non-working interest, covering less than a quarter-quarter section, a surveyed lot, or an assignment of a separate zone or a separate deposit, shall not be approved.~~
- (d) An assignment shall be effective the first day of the month following the approval of the assignment by the director. The assignor or surety, if any, shall continue to be responsible for performance of any and all obligations as if ~~then~~ the assignment had not been executed until approval the effective date of approval by the assignment director. After approval by the director effective date of any assignment director, the assignee is bound by the terms of the lease to the same extent as if the assignee were the original lessee, any conditions in the assignment to the contrary notwithstanding; provided, however, that the approved record title interest owner(s) shall retain ultimate responsibility to the agency for all lease obligations.
- A record title (e) An assignment of an undivided 100% record title interest in less than the total acreage covered by the lease shall cause a segregation of the assigned and retained portions. After the effective date of the approved assignment, the assignor shall be released or discharged from any obligation thereafter accruing to the assigned lands. Segregated leases shall continue in full force and effect for the primary term of the original lease or as further extended pursuant to the terms of the lease. The agency may re-issue a lease with a new lease number covering the assigned lands for the remaining unexpired primary term. The agency may, in lieu of re-issuing a lease, note the assignment in its records with all lands covered by the original lease maintained with the original lease number, and with each separate tract or interest resulting from an assignment with an additional identifying designation to the original number.
- (f) Any assignment of record title or operating rights affecting leases issued beginning April 1, 2005, which would create a cumulative royalty and other non-working interest burdens in excess of twenty percent ~~percent~~ (20%) thereby reducing the net revenue interest in the lease to less than eighty percent ~~percent~~ (80%) NRI-net revenue interest shall not be approved by the agency. The agency reserves the right to void any assignment in which the self-certification of net revenue interest is found to be false and the assignment results in an aggregate burden in excess of 20% including the agency's retained royalty.
- (e) (g) Mass assignments are allowed, provided: the requirements set forth in ~~paragraph R850-21-600(2)~~ are met;

- ~~(i) (h) the serial number, the lands covered thereby, and the percent of interest assigned therein are expressly described in an attached exhibit;~~
- ~~(ii) the prescribed fee is paid for each lease affected; and~~
- ~~(iii) a separate mass assignment is filed for each type of interest (record title, working or non-working interest) that is assigned.~~

~~The agency shall not accept for filing, mortgages, deeds of trust, financing statements or lien filings affecting leases.~~

~~(h) To the extent a legal foreclosure upon interests in leases occurs under the terms of a such agreements a mortgage, deed of trust or other agreement, assignments must be prepared as set forth in this section and filed with the agency, which will then be reviewed and approved in due course by the agency.~~

~~(i) The agency by approving an assignment does not adjudicate the validity of any assignment as it may affect third parties, nor. Agency approval does not estop the agency from challenging any assignment which is later adjudicated by a court of competent jurisdiction to be invalid or ineffectual.~~

~~4.-~~ **3. Transfer by Operation of Law.**

~~(a) Death: —if an applicant or lessee dies, his/her rights shall be transferred to the heirs, or devisees, executor or administrator of the estate, as appropriate, upon the filing of:~~

~~(i) a certified copy of the death certificate, together with other appropriate documentation to verify change of ownership as required under Section the probate laws of the state State of Utah (Section Subsection 75-1-101 et seq., ~~77~~ .) such as a court order determining intestate heirs or letters testamentary and a deed by the personal representative of the estate;~~

~~(ii) a list containing the serial number of each lease interest affected;~~

~~(iii) a statement that the transferee(s) is a qualified interest owner;~~

~~the (iv) a required filing fee for each separate lease in which an interest is transferred; and~~

~~(v) a bond rider or replacement bond for any bond(s) previously furnished by the decedent.~~

~~(b) Corporate Merger: —if a corporate merger affects any interest in a lease because of the transfer of property of the dissolving corporation to the surviving corporation by operation of law, no assignment of any affected lease is required. A notification of the merger, together with a certified copy of the certificate of merger issued by the Utah Department of Commerce, shall be furnished to the agency, together with a list by serial number of all lease interests affected. The required filing fee must be paid for each separate lease in which an interest is transferred. affected. A bond rider or replacement bond conditioned to cover the obligations of all affected corporations will be required as a prerequisite to recognition of the merger.~~

~~(c) Corporate Name Change: — if a change of name of a corporate lessee affects any interest in a lease, the notice of name change shall be submitted in writing with a certificate from the Utah Department of Commerce evidencing its recognition of the name change accompanied by a list of lease serial numbers affected by the name change. —The required—filing fee must be paid for each separate lease in which an interest is affected. transferred affected. A bond rider or replacement bond, conditioned to cover the obligations of all affected corporations, is required as a prerequisite to recognition of the name change.~~

R850-21-700. Plan of Operations Plan and Reclamation.

~~The~~ 1. Prior to conducting any operations that may disturb the surface of lands contained in a lease, the lessee or designated operator shall submit to, for approval simultaneously to the agency and to UDOGM, a plan of operations and must receive the approval of, the agency for a plan of operations prior to any surface disturbance, drilling or other operations which disturb the surface of lands contained in a lease the plan by both agencies. Said plan shall include, at a minimum, all proposed access and infrastructure locations and proposed site reclamation. —Prior to approval, the agency may require the lessee or designated operator to adopt a special rehabilitation program for the particular property in question. Before the lessee or designated operator shall commence actual drilling operations on any well or prior to commencing any surface disturbance associated with the activity on lands contained within a lease, the operator or lessee or designated operator shall provide a plan of operations to the agency simultaneously with the filing of the application for a permit to drill (APD) with UDOGM. —The agency will review any request for drilling operations and will grant approval

~~provided providing~~ provided that the contemplated location and operations are not in violation of any rules or order of the agency. ~~—[SB2] Agency approval of the plan~~ ~~APP~~ plan of operations for oil, gas or hydrocarbon resources administered by the agency is required prior to approval by UDOGM. ~~Notice of approval by the agency shall be given, unless otherwise waived in writing an expeditious manner writing to UDOGM. by the agency.~~

2. Prior to approval of the ~~plan~~ ~~APP~~ plan of operations, the agency shall require the lessee or designated operator to:

- (a) ~~provide when requested, a cultural, paleontological or~~ ~~and or~~ biological survey on lands under an oil, gas and hydrocarbon lease, including providing the agency a copy of any survey(s) required by other governmental agencies; ~~—and~~

(b) ~~when requested, provide for reasonable mitigation of impacts to other trust resources occasioned by surface or sub-surface operations on the lease; and~~

(c) negotiate with the agency a surface use agreement, right-of-way agreement, or ~~other both other~~ agreement for trust lands other than the leased lands where the ~~use surface use~~ use of said lands ~~is a~~ ~~is~~ is necessary for the development of the lease; ~~—and~~.

3. During drilling operations, lessee or designated operator shall keep a log of geologic data accumulated or acquired by the lessee or designated operator about the land described in the lease and will deposit any geological data related to exploration drill holes. ~~—This log shall show the formations encountered and any other geologic information reasonably required by lessor and shall be available with the agency upon request by the agency. —A copy of the log, as well as any data related to exploration drill holes shall be deposited with the agency at the agency's agency's agency's request.~~

4. Oil and gas drilling, or other operations which disturb the surface of lands ~~contained within or on the leased lands shall require surface rehabilitation of the disturbed area as described in the plan of operations approved by the agency, prescribed and as required by the rules and regulations administered by the agency and UDOGM.~~

~~In all cases, the lessee or designated operator shall agree to establish a slope on all excavations to a ratio not steeper than one foot vertically for each two feet of horizontal distance, unless otherwise approved by the agency prior to commencement of operations. This sloping shall be a concurrent part of the operation of the leased premises to the extent that the operation shall not at any time constitute a hazard.~~

All pits, excavations, roads and pads shall be shaped to facilitate drainage and control erosion by following the best management practices. In no case shall the pits or excavations be allowed to become a hazard to persons or livestock. All material removed from the ~~disturbed premises~~ ~~disturbed area~~ shall be stockpiled and be used to fill the pits and for leveling and reclamation of roads and pads, unless consent of the agency to do otherwise is obtained, ~~—so at~~. At the termination of the lease, the land will as nearly as practicable approximate its original configuration. All drill holes must be plugged in accordance with rules promulgated by UDOGM. ~~All mud pits shall be filled and materials and debris removed from the site.~~

All- The agency shall require that all topsoil in the affected area shall be removed, stockpiled, and stabilized on the leased ~~trust lands~~ ~~premises~~ until the completion of operations. Upon reclamation, the stockpiled topsoil will be redistributed on the affected area and the land revegetated as prescribed by the agency. ~~All mud pits shall be filled and materials and debris removed from the site.~~

5. All lessees or designated operators ~~under oil, gas and hydrocarbon leases shall be responsible for compliance with all laws and, notification requirements, and operating rules promulgated by UDOGM with regard to oil, gas and hydrocarbon exploration, or drilling on lands within the state of Utah under The Oil and Gas Conservation Act (Section Subsection 40-6-1 et seq.). Lessees or designated operators shall fully comply with all the rules or requirements of other agencies having jurisdiction and provide timely notifications of operations plans, well completion reports, or other information as may be requested or required by the agency.~~

R850-21-800. —Bonding.

- 1. —Bond Obligations.

(a) Prior to commencement of any operations which will disturb the surface of the land covered by a lease, the lessee or designated operator shall post with UDOGM a bond in a form and in the amount set forth in R649-3-1 et seq. ~~and approved by UDOGM to assure compliance with those terms and conditions of the lease and these rules, involving costs of reclamation, damages to the surface and improvements on the surface and all other related requirements and standards set forth in the lease, rules, procedures and policies of the agency and UDOGM, or any successor rule.~~

(b) A separate bond shall be posted with the agency by the lessee or the designated operator to assure compliance with ~~all~~ remaining terms and conditions of the lease not covered by the bond to be filed with UDOGM, including, but not limited to payment of royalties.

(c) These bonds shall be in effect even if the lessee or designated operator has conveyed all or part of the leasehold interest to an assignee(s) or subsequent operator(s), until the bonds are released by UDOGM and the agency either because the lessee or designated operator has fully satisfied bonding obligations set forth in this section or the bond is replaced with a new bond posted by an assignee or designated operator.

(d) Bonds held by the agency shall be in the form and subject to the requirements set forth herein:

(i) **Surety Bonds.**

- Surety bonds shall be issued by a qualified surety company, approved by the agency and registered in the state of Utah. Surety company must maintain an A credit rating. Lessee or designated operator has thirty (30) days to cure a devalued rating, or lessee or designated operator will not be allowed to continue to work on the leased trust lands lessor's land until a new surety bond has been filed and accepted by the agency;

(ii) **Personal Bonds.**

Personal bonds shall be accompanied by:

(A) a cash deposit to the School and Institutional Trust Lands Administration. —The agency will not be responsible for any investment returns on cash deposits. —Such interest will be retained in the account and applied to the bond value of the account unless the agency has approved the payment of interest to the operator; or;

or

(B) a cashier's check or certified check made payable to the School and Institutional Trust Lands Administration; or

(A) —negotiable bonds of the United States, a state, or a municipality. The negotiable bond shall be endorsed only to the order of, and placed in the possession of, the agency. The agency shall value the negotiable bond at its current market value, not at the face value; or

(C) negotiable certificates of deposit. The certificates shall be issued by a federally insured bank authorized to do business in Utah. The certificates shall be made payable or assigned only to the agency both in writing and upon the records of the bank issuing the certificate. The certificates shall be placed in the possession of the agency or held by a federally insured bank authorized to do business in Utah. If assigned, the agency shall require the banks issuing the certificates to waive all rights of setoff or liens against those certificates; or

(D) an irrevocable letter of credit. Letters of credit shall be issued by a federally insured bank authorized to do business in Utah and will be irrevocable during their terms. Letters of credit shall be placed in the possession of and payable upon demand only to the agency. Letters of credit shall be automatically renewable or the operator shall ensure continuous bond coverage by replacing letters of credit, if necessary, at least thirty (30) days before their expiration date with other acceptable bond types or letters of credit; or

(E) any other type of surety approved by the agency.

2. **Bond Amounts.**

The bond amount required for an oil, gas and hydrocarbon exploration project to be held by the agency for those lease obligations not covered by the bond held by UDOGM shall be:

(a) a statewide blanket bond in the minimum amount of \$15,000 covering exploration and production operations on all agency leases held by lessee; or

(b) a project bond covering an individual, single-well exploration project involving one or more leases. The amount of the project bond will be determined by the agency at the time lessee gives notice of proposed operations. This bond shall not be less than \$5,000 unless waived in writing by the director.

3. **Bond Default.**

(a) Where, upon default, the surety makes a payment to the agency of an obligation incurred under the terms of a lease, the face of the bond and surety's liability shall be reduced by the amount of such payment.

(b) After default, where the obligation in default equals or is less than the face amount of the bond(s), the lessee or designated operator shall either post a new bond, restore the existing bond to the amount previously held, or post an adjusted amount as determined by the agency. Alternatively, the lessee or designated operator shall make full payment to the agency for all obligations incurred that are in excess of the face amount of the bond and shall post a new bond in the amount previously held or such other amount as determined by the agency. —Operations shall be discontinued until the restoration of a bond or posting of a new bond occurs. Failure to comply with these requirements may subject all leases covered by such bond(s) to be cancelled by the agency.

(c) The agency will not give consent to termination of the period of liability of any bond unless an acceptable replacement bond has been filed or until all terms and conditions of the lease have been met.

(d) Any lessee or designated operator forfeiting a bond will be denied approval of any future oil, gas or hydrocarbon exploration on agency lands except by compensating the agency for previous defaults and posting the full bond amount for reclamation or lease performance on subsequent operations as determined by the agency.

4. Bonds may be increased at any time in reasonable amounts as the agency may order, providing the agency first gives lessee thirty (30) days written notice stating the amount of the increase and the reason for the increase.

5. The agency may waive the filing of a bond for any period during which a bond that meets meeting the requirements of this section is on file with another agency.

R850-21-900. -Failure of Agency's Title. ~~(Repealed effective 3/20/2006)~~

R850-21-1000. -Multiple Mineral Development (MMD) Area Designation.

1. The agency may designate any land under its authority as a multiple mineral development area. In designated multiple mineral development areas the agency may require, in addition to all other terms and conditions of the lease, that the lessee furnish a bond or evidence of financial responsibility as specified by the agency, to assure that the agency and other lessees shall be indemnified and held harmless from and against unreasonable and all unnecessary damage to mineral deposits or improvements caused by the conduct of the lessee on trust lands. ~~Lessee~~ ~~Written notice shall give written notice~~ ~~be given~~ to all oil, gas and hydrocarbon and other mineral lessees holding a lease for any mineral commodity within the multiple mineral development area. Thereafter, in order to preserve the value of mineral resources the agency may impose any reasonable requirements upon any oil, gas and hydrocarbon or other mineral lessee who intends to conduct any mineral activity within the multiple mineral development area. The lessee is required to submit to the agency in advance written notice of any activities to occur within the multiple mineral development area ~~to the agency~~ and any other information that the agency may request. All activities within the multiple mineral development area are to be deferred until the agency has specified the terms and conditions under which the mineral activity is to occur and has granted specific permission to conduct the activity. ~~The agency may hold public meetings regarding mineral development within the multiple mineral development area.~~

2. The agency may grant a lease extension under a multiple mineral development area designation, providing that the lessee or designated operator requests an extension to the agency prior to the lease expiration date, and that the lessee or designated operator would have otherwise been able to request a lease extension as provided in Section 53C-2-405(4).

~~1. The agency may grant a lease extension under a multiple mineral development area designation, providing that the lessee or designated operator requests an extension to the agency prior to the lease expiration date, and that the lessee or designated operator would have otherwise been able to request a lease extension as provided in Subsection 53C-2-405(4).~~

KEY: oil gas and hydrocarbons, administrative procedures, lease provisions, operations
Date of Enactment or Last Substantive Amendment: July 23, 2012
Notice of Continuation: April 1, 2015
Authorizing, and Implemented or Interpreted Law: 53C-1-302(1)(a)(ii); 53C-2 et seq.

{00079360.1}

Page 15 of 15

R850. School and Institutional Trust Lands Administration

R850-21. Oil, Gas and Hydrocarbon Resources

R850-21-100. Authorities.

This rule implements Sections 6, 8, 10, and 12 of the Utah Enabling Act, Articles X and XX of the Utah Constitution, and Utah Code Title 53C et seq. which authorize the Director of the School and Institutional Trust Lands Administration to establish rules for the issuance of oil, gas and hydrocarbon leases and which govern the management of trust-owned lands and oil, gas and hydrocarbon resources.

R850-21-150. Planning

Pursuant to Subsection 53C-2-201(1)(a), this category of activity carries no planning obligations by the agency beyond existing rule-based analysis and approval processes. Oil, gas and hydrocarbon development activities are regulated by UDOGM pursuant to Utah Administrative Code Rule R649.

R850-21-175. Definitions.

Except as specifically defined below, the definitions set forth at R850-1-200 shall be applicable. The following words and terms, when used in Section R850-21, shall have the following meanings:

1. Anniversary Date: the same day and month in succeeding years as the effective date of the lease.
2. Assignment(s): a transfer of all or a portion of the lessee's record title or operating rights in a lease.
 - (a) Mass Assignment: an assignment that affects two or more leases and identifies the leases affected thereby on an attached exhibit to the assignment.
 - (b) Non-leasehold Assignment: an assignment that transfers an interest in a lease that is not record title or operating rights, for example, but not limited to, overriding royalty, net profits, or other production payments.
3. Certification of Net Revenue Interest: a written declaration of oath to the agency that must accompany assignments of record title or operating rights in leases issued beginning April 1, 2005, certifying that the total net revenue interest (NRI) in the lease has not been reduced to less than 80 percent of 100 percent NRI.
4. Designated Operator: the person or entity that has been granted authority through a Designation of Operator form to conduct operations on the lease or a portion thereof.
5. Diligent Operations: the continuation of drilling or re-working operations in the secondary term of the lease which are prosecuted in a timely and good and workmanlike manner to establish production or restore production of leased substances. Diligent Operations may include cessations of operations which do not exceed ninety (90) days in duration or a cumulative period in excess of one hundred eighty (180) days in a lease year without prior agency approval.
6. Effective Date: the date as defined in the lease.
7. Gas Well: a well capable of producing volumes exceeding 100,000 cubic feet of gas to each barrel of oil from the same producing horizon where both oil and gas are produced; or, a well producing gas only from a formation or producing horizon.
8. Lease Year: the twelve-month period commencing at 12:01 a.m. on the month and day of the effective date of the lease and ending at midnight on the last day of the twelfth month.
9. Minimum Royalty: the minimum amount of money payable to the agency which accrues beginning in the first year of the secondary term of the lease or after first production is obtained. The amount due is calculated on the difference, if any, between the amount of the minimum royalty specified in the lease and the actual royalty paid from production in the lease year.
10. Operating Rights Interest: the interest or contractual obligation created out of a lease that authorizes the operating rights interest owner to enter upon the leased land to conduct drilling, production and other related operations. Operating rights interest may be stratigraphically limited.
11. Other Business Arrangement (OBA): an agreement entered into between the agency and a person or entity consistent with Section 53C-2-401-(1)(d)(ii) and approved by the Board of Trustees. By way of example, but not of limitation, OBAs may be for joint ventures, farmout agreements, exploration agreements, or other agreements for the disposition of hydrocarbon deposits on trust lands.
12. Paying Quantities: unless otherwise defined in the lease, production that allows the lessee to realize a profit after deducting taxes, the agency's royalty, and the cost of the operations.

13. Record Title Interest: the primary ownership of a lease that includes the obligation to pay rentals, the rights to assign or relinquish a lease, and the ultimate responsibility to the agency for obligations under the lease. Record title interest to a lease may not be stratigraphically limited.

14. Rental: a sum of money as prescribed in the lease payable annually in advance to the agency on or before midnight on the last day of the lease year.

15. Shut-in Gas Well: a gas well that is physically capable of producing gas in paying quantities that cannot be marketed at a reasonable price due to lack of market or transportation facilities, the status of which has been confirmed through the filing of a completion report or other documentation with UDOGM.

16. Shut-in Gas Well Payment: beginning at the commencement of the secondary term of the lease, the amount of money accruing and payable to the agency, in addition to other obligations defined in the lease, when gas is not being sold or marketed from the lease for a shut-in gas well.

17. Spud: the first boring of a hole in the drilling of a well and continuation of operations until surface casing is set.

18. UDOGM: the Division of Oil, Gas, and Mining of the Department of Natural Resources of the State of Utah.

R850-21-200. Classification of Oil, Gas and Hydrocarbons.

Oil, gas and hydrocarbon leases may cover oil; natural gas, including gas producible from coal formations or associated with coal-bearing formations; natural gas liquids; other hydrocarbons (whether the same is found in solid, semi-solid, liquid, vaporous, or any other form); sulfur; helium; and other gases not individually described. The oil, gas and hydrocarbon category shall not include coal, oil shale, asphaltic-bituminous sands or gilsonite.

R850-21-300. Lease Application Process.

1. The agency may issue leases competitively, non-competitively or enter into OBAs with qualified applicants as set forth in R850-3-200 for the development of oil, gas and hydrocarbon resources.

2. Competitive Leasing.

The director may designate lands for bidding by electronic means as a vehicle for competitive leasing. Electronic bidding may be in addition to, or in place of, the bidding processes set out at Section 53C-2-407 at the discretion of the director. A list of available land and a link to the bidding form and procedure will be provided at the agency website.

(a) Competitive Bid Offering: when the agency designates lands for competitive bidding, it shall award leases on the basis of the highest bonus bid per acre made by a responsible, qualified bidder.

(b) Minimum Bonus Bid Amount: the minimum acceptable bonus bid for competitive bid offering for leases shall not be less than \$1.00 per acre or fractional acre thereof, as set by the director.

(c) Notice of Offering: notices of the offering of lands for competitive bid shall:

(A) run for a period of not less than fifteen (15) consecutive days after the notice is posted in the agency's office or online;

(B) provide the legal description of the land;

(C) state the last day on which bids may be received.

(d) Identical Bids: in the case of identical successful bids, the agency may award the lease by public drawing or oral auction between the identical bidders, held at the agency's offices.

(e) Awarding of Leases: the winning bid shall be disclosed in the agency's office at 10 a.m. on the first business day following the last day on which bids may be received.

3. Non-Competitive Leasing.

(i) the director may designate lands for non-competitive leasing if the lands have been offered in a competitive offering and have received no bids. Designated lands may be offered for a period of three (3) months from the date the competitive sale closed for which no bids were received. The procedure for non-competitive leasing will be posted on the agency website.

(ii) where two or more applications for the same lease contain identical successful bids, the agency may award the lease by public drawing or oral auction between the identical bidders held at the agency's office.

4. Other Business Arrangement.

(i) the agency may, with board approval, enter into joint ventures, farmout agreements, exploration agreements, or other agreements for the development of oil, gas and hydrocarbon resources if the agency deems it is in the best interest of the trust to do so.

(ii) The application for an OBA must be written and directed to the Assistant Director for Oil and Gas for review on a case-by-case basis.

R850-21-400. Availability of Lands for Lease Issuance.

1. A lease shall not be issued for lands comprising less than a quarter-quarter section or surveyed lot, unless the land the agency owns is less than the whole of a quarter-quarter section or surveyed lot, in which case the lease will be issued only on the entire area owned by the agency.

2. Leases shall be limited to no more than 2560 acres or four sections and must all be located within the same township and range, unless a waiver is approved by the director.

R850-21-500. Lease Provisions.

The following provisions, terms and conditions shall apply to all leases granted by the agency:

1. Rentals and Credits.

(a) The rental rate shall not be for less than \$1 per acre, or fractional acre thereof, per year, at the time the lease is offered.

(b) The minimum annual rental on any lease, regardless of the amount of acreage, shall in no case be less than \$500.00.

(c) Rental payments must be received on or before the end of the lease year notwithstanding R850-5-200(3), unless otherwise stated in the lease.

(d) Any overpayment may, at the option of the agency, be credited toward the lease account.

(e) The agency may accept lease payments made by any party provided, however, that the acceptance of such payment(s) shall not be deemed to be recognition by the agency of any interest of the payee in the lease. Ultimate responsibility for such payments remains with the record title interest owner.

(f) Rental credits, if any, shall be governed by the terms of the lease which provide for such credits.

2. Continuance of a Lease After Expiration of the Primary Term.

Unless otherwise provided in the lease, a lease shall be continued after the primary term has expired so long as:

(a) the leased substance is being produced in paying quantities from the leased trust lands or from other lands pooled, communitized or unitized therewith, and lessee pays the annual minimum royalty set out in the lease; or

(b) the agency determines that the lessee or designated operator is engaged in diligent operations which are determined by the director to be reasonably calculated to restore production of the leased substance from the leased trust lands or from other lands pooled, communitized or unitized therewith, and lessee pays the annual minimum royalty set out in the lease; or

(c) subject to the requirements of R850-21-500(4), if the leased trust lands, or lands pooled therewith, contain a shut in gas well capable of producing paying quantities and lessee makes all payments required by the lease.

3. Pooling, Communitization or Unitization of Leases.

(a) Upon prior written authorization of the director, lessee may commit the leased trust lands or portions of such lands to units, or cooperative or other plans of development under such conditions as the director may prescribe.

(b) The director may, with the consent of the lessee, modify any term of a lease for lands that are committed to a unit, or cooperative or other plan of development.

(c) Production allocated to the leased trust lands under the terms of a unit, or cooperative or other plan of development shall be considered produced from the leased lands whether or not the point of production is located on the leased trust lands.

(d) Lease payments for leases included in any unit, cooperative or other plans of development shall be at the rate specified in the lease, subject to change at the discretion of the director or as may be prescribed in the terms of the lease.

(e) For active leases in a validated federal or state unit as of the effective date of these Rules that are either contracted out of such unit or upon unit termination which occurs before January 1, 2021, the agency will:

(i) grant a one-time, two (2) year extension from the date the lease was eliminated from the unit either by contraction or unit termination and so long thereafter as the leased substances are produced in paying quantities, or

(ii) continue the lease to the end of its primary term, whichever is longer.

4. Shut-in Gas Wells Producing Gas in Paying Quantities.

(a) To qualify as a shut-in gas well capable of producing in paying quantities:

(i) if the well is a new well, the operator must have filed with UDOGM a completion form or other documentation verifying that the well is capable of production in paying quantities, and if the well is an existing well, the operator must have obtained an approval of shut-in status from UDOGM; and

(ii) the lessee shall have complied with the lease terms providing the basis upon which the minimum royalty is to be paid for a shut-in gas well.

(b) The director may, at any time, require written justification from the lessee that the well qualifies as a shut-in gas well.

(c) A shut-in gas well will not extend a lease more than five (5) years beyond the original primary term of the lease unless otherwise extended at the discretion of the director.

5. Oil/Condensate/Gas/Natural Gas Liquids Reporting and Records Retention.

(a) Notwithstanding the terms of the lease, gas and natural gas liquid report payments are required to be received by the agency on or before the last day of the second month succeeding the month of production.

(b) The extension of payment and reporting time for gas and NGLs does not alter the payment and reporting time for oil and condensate royalty which must be received by the agency on or before the last day of the calendar month succeeding the month of production.

(c) Records of production, sales, transportation, and all other documents pertaining to the calculation of royalties shall be maintained for seven (7) years after the records are generated unless the director notifies the record holder that an audit has been initiated or an investigation begun involving such records. When so notified, records shall be maintained until the director releases the record holder of the obligation to maintain such records.

6. Other Lease Provisions.(a) Any lease may be terminated by the agency in whole or in part upon lessee's failure to comply with any lease term, covenant or any applicable law or agency rule. Subject to the terms of any lease issued hereunder, any final agency action is appealable pursuant to R850-8-1000, in accordance with the provisions of the rules of the agency.

(b) When the agency approves the amendment of an existing lease by substituting a new lease form for the existing form, the amended lease will retain the effective date of the original lease.

(c) The agency may require, in addition to the lease provisions required by these rules, any other reasonable provisions to be included in the lease as it deems necessary but which do not substantially impair the lessee's rights under the lease.

R850-21-600. Transfer by Assignment or Operation of Law.

1. Record Title or Operating Rights Transfer by Assignment. Any lease may be assigned as to all or part of the acreage, to any person, firm, association, or corporation qualified to hold a lease provided, however that:

(a) record title or operating rights assignments must be approved by the director. No record title or operating rights assignment is effective until approval is given.

(b) Any attempted or purported assignment of record title or operating rights made without approval by the director is void.

2. Non-leasehold assignments. Non-leasehold assignments of overriding royalty interests must be filed with the agency for record keeping purposes only. Other non-leasehold interest assignments may be filed with the agency for record keeping purposes only.

3. Requirements for Assignments.

(a) An assignment of either a record title or operating rights interest in a lease must:

(i) be expressed in a good and sufficient written legal instrument;

(ii) be properly executed, acknowledged and clearly set forth:

(A) the serial number of the lease;

(B) the land involved;

(C) the name and address of the assignee;

(D) the name of the assignor;

(E) the interest transferred;

(F) interest retained, if any; and

(G) a certification of net revenue interest, if applicable.

(b) Lessees who are assigning a record title or operating rights interest shall:

(i) prepare and fully execute the assignments, complete with acknowledgments;

(ii) require that all assignees execute the acceptance of assignment; and

(iii) submit the prescribed assignment fee.

(c) If approval of any assignment of record title or operating rights is withheld by the director, the assignee shall be notified of such decision and its basis. Any decision to withhold approval may be appealed pursuant to R850-8 or any similar rule in place at the time of such decision.

(d) An assignment shall be effective following approval by the director. The assignor or surety, if any, shall continue to be responsible for performance of any and all obligations as if the assignment had not been executed until approval by the director. After approval by the director, the assignee is bound by the terms of the lease to the same extent as if the assignee were the original lessee, any conditions in the assignment to the contrary notwithstanding; provided, however, that the approved record title interest owner(s) shall retain ultimate responsibility to the agency for all lease obligations.

(e) An assignment of an undivided 100% record title interest in less than the total acreage covered by the lease shall cause a segregation of the assigned and retained portions. Segregated leases shall continue in full force and effect for the primary term of the original lease or as further extended pursuant to the terms of the lease. The agency may re-issue a lease with a new lease number covering the assigned lands. The agency may, in lieu of re-issuing a lease, note the assignment in its records with all lands covered by the original lease maintained with the original lease number and with each separate tract or interest resulting from an assignment with an additional identifying designation to the original number.

(f) Any assignment of record title or operating rights affecting leases issued beginning April 1, 2005, which would create a cumulative royalty and other non-working interest burdens in excess of twenty percent (20%) thereby reducing the net revenue interest in the lease to less than eighty percent (80%) net revenue interest shall not be approved by the agency. The agency reserves the right to void any assignment in which the certification of net revenue interest is found to be false and the assignment results in an aggregate burden in excess of 20% including the agency's retained royalty.

(g) Mass assignments are allowed, provided the requirements set forth in R850-21-600(2) are met.

(h) To the extent a legal foreclosure upon interests in leases occurs under the terms of a mortgage, deed of trust or other agreement, assignments must be prepared as set forth in this section and filed with and approved by the agency.

(i) The agency by approving an assignment does not adjudicate the validity of any assignment as it may affect third parties. Agency approval does not estop the agency from challenging any assignment which is later adjudicated by a court of competent jurisdiction to be invalid or ineffectual.

4. Transfer by Operation of Law.

(a) Death: if an applicant or lessee dies, his/her rights shall be transferred to the heirs or devisees of the estate, as appropriate, upon filing of:

(i) a certified copy of the death certificate, together with other appropriate documentation to verify change of ownership as required under Section 75-1-101 et seq., such as a court order determining intestate heirs or letters testamentary and a deed by the personal representative of the estate;

(ii) a list containing the serial number of each lease interest affected;

(iii) a statement that the transferee(s) is a qualified interest owner;

(iv) a required filing fee for each separate lease in which an interest is transferred; and

(v) a bond rider or replacement bond for any bond(s) previously furnished by the decedent.

(b) Corporate Merger: if a corporate merger affects any interest in a lease, no assignment of any affected lease is required. A notification of the merger, together with a certified copy of the certificate of merger issued by the Utah Department of Commerce, shall be furnished to the agency, together with a list by serial number of all lease interests affected. The required filing fee must be paid for each separate lease in which an interest is affected. A bond rider or replacement bond conditioned to cover the obligations of all affected corporations will be required as a prerequisite to recognition of the merger.

(c) Corporate Name Change: if a change of name of a corporate lessee affects any interest in a lease, the notice of name change shall be submitted in writing with a certificate from the Utah Department of Commerce evidencing its recognition of the name change accompanied by a list of lease serial numbers affected by the name change. The required filing fee must be paid for each separate lease in which an interest is affected. A bond rider or replacement bond, conditioned to cover the obligations of all affected corporations, is required as a prerequisite to recognition of the name change.

R850-21-700. Plan of Operations and Reclamation.

1. Prior to conducting any operations that may disturb the surface of lands contained in a lease, the lessee or designated operator shall submit for approval simultaneously to the agency and to UDOGM, a plan of operations and must receive the approval of the plan by both agencies. Said plan shall include, at a minimum, all proposed access and infrastructure locations and proposed site reclamation. Prior to approval, the agency may require the lessee or designated operator to adopt a special rehabilitation program for the particular property in question. The agency will review any request for drilling operations and will grant approval provided that the contemplated location and operations are not in violation of any rules or order of the agency. Agency approval of the plan of operations for oil, gas or hydrocarbon resources is required prior to approval by UDOGM, unless otherwise waived in writing to UDOGM by the agency.

2. Prior to approval of the plan of operations, the agency shall require the lessee or designated operator to:

(a) provide when requested, a cultural, paleontological or biological survey on lands under an oil, gas and hydrocarbon lease, including providing the agency a copy of any survey(s) required by other governmental agencies; and

(b) when requested, provide for reasonable mitigation of impacts to other trust resources occasioned by surface or sub-surface operations on the lease; and

(c) negotiate with the agency a surface use agreement, right-of-way agreement, or other agreement for trust lands other than the leased lands where the use of said lands is necessary for the development of the lease.

3. During drilling operations, lessee or designated operator shall keep a log of geologic data accumulated or acquired by the lessee or designated operator about the land described in the lease and will deposit any geological data related to exploration drill holes with the agency upon request.

4. Oil and gas drilling, or other operations which disturb the surface of the leased lands shall require surface rehabilitation of the disturbed area as prescribed and as required by the rules and regulations administered by the agency and UDOGM.

All pits, excavations, roads and pads shall be shaped to facilitate drainage and control erosion by following the best management practices. In no case shall the pits or excavations be allowed to become a hazard to persons or livestock. All material removed from the disturbed area shall be stockpiled and be used to fill the pits and for leveling and reclamation of roads and pads, unless consent of the agency to do otherwise is obtained. At the termination of the lease, the land will as nearly as practicable approximate its original configuration. All drill holes must be plugged in accordance with rules promulgated by UDOGM. All mud pits shall be filled and materials and debris removed from the site.

All topsoil in the affected area shall be removed, stockpiled, and stabilized on the leased trust lands until the completion of operations. Upon reclamation, the stockpiled topsoil will be redistributed on the affected area and the land revegetated as prescribed by the agency.

5. All lessees or designated operators shall be responsible for compliance with all laws, notification requirements, and operating rules promulgated by UDOGM with regard to oil, gas and hydrocarbon exploration, or drilling on lands within the state of Utah under The Oil and Gas Conservation Act (Section 40-6-1 et seq.). Lessees or designated operators shall fully comply with all the rules or requirements of other agencies having jurisdiction and provide timely notifications of operations plans, well completion reports, or other information as may be requested or required by the agency.

R850-21-800. Bonding.

1. Bond Obligations.

(a) Prior to commencement of any operations which will disturb the surface of the land covered by a lease, the lessee or designated operator shall post with UDOGM a bond in a form and in the amount set forth in R649-3-1 et seq or any successor rule.

(b) A separate bond shall be posted with the agency by the lessee or the designated operator to assure compliance with remaining terms and conditions of the lease not covered by the bond to be filed with UDOGM, including, but not limited to payment of royalties.

(c) These bonds shall be in effect even if the lessee or designated operator has conveyed all or part of the leasehold interest to an assignee(s) or subsequent operator(s), until the bonds are released by UDOGM and the agency either because the lessee or designated operator has fully satisfied bonding obligations set forth in this section or the bond is replaced with a new bond posted by an assignee or designated operator.

(d) Bonds held by the agency shall be in the form and subject to the requirements set forth herein:

(i) Surety Bonds.

Surety bonds shall be issued by a qualified surety company, approved by the agency and registered in the state of Utah. Surety company must maintain an A credit rating. Lessee or designated operator has thirty (30) days to cure a

devalued rating, or lessee or designated operator will not be allowed to continue to work on the leased trust lands until a new surety bond has been filed and accepted by the agency;

(ii) Personal Bonds.

Personal bonds shall be accompanied by:

(A) a cash deposit to the School and Institutional Trust Lands Administration. The agency will not be responsible for any investment returns on cash deposits; or

(B) a cashier's check or certified check made payable to the School and Institutional Trust Lands Administration;

or

(C) negotiable certificates of deposit. The certificates shall be issued by a federally insured bank authorized to do business in Utah. The certificates shall be made payable or assigned only to the agency both in writing and upon the records of the bank issuing the certificate. The certificates shall be placed in the possession of the agency or held by a federally insured bank authorized to do business in Utah. If assigned, the agency shall require the banks issuing the certificates to waive all rights of setoff or liens against those certificates; or

(D) an irrevocable letter of credit. Letters of credit shall be issued by a federally insured bank authorized to do business in Utah and will be irrevocable during their terms. Letters of credit shall be placed in the possession of and payable upon demand only to the agency. Letters of credit shall be automatically renewable or the operator shall ensure continuous bond coverage by replacing letters of credit, if necessary, at least thirty (30) days before their expiration date with other acceptable bond types or letters of credit; or

(E) any other type of surety approved by the agency.

2. Bond Amounts.

The bond amount required for an oil, gas and hydrocarbon exploration project to be held by the agency for those lease obligations not covered by the bond held by UDOGM shall be:

(a) a statewide blanket bond in the minimum amount of \$15,000 covering exploration and production operations on all agency leases held by lessee; or

(b) a project bond covering an individual, single-well exploration project involving one or more leases. The amount of the project bond will be determined by the agency at the time lessee gives notice of proposed operations. This bond shall not be less than \$5,000.

3. Bond Default.

(a) Where, upon default, the surety makes a payment to the agency of an obligation incurred under the terms of a lease, the face of the bond and surety's liability shall be reduced by the amount of such payment.

(b) After default, where the obligation in default equals or is less than the face amount of the bond(s), the lessee or designated operator shall either post a new bond, restore the existing bond to the amount previously held, or post an adjusted amount as determined by the agency. Alternatively, the lessee or designated operator shall make full payment to the agency for all obligations incurred that are in excess of the face amount of the bond and shall post a new bond in the amount previously held or such other amount as determined by the agency. Operations shall be discontinued until the restoration of a bond or posting of a new bond occurs. Failure to comply with these requirements may subject all leases covered by such bond(s) to be cancelled by the agency.

(c) The agency will not give consent to termination of the period of liability of any bond unless an acceptable replacement bond has been filed or until all terms and conditions of the lease have been met.

(d) Any lessee or designated operator forfeiting a bond will be denied approval of any future oil, gas or hydrocarbon exploration on agency lands except by compensating the agency for previous defaults and posting the full bond amount for reclamation or lease performance on subsequent operations as determined by the agency.

4. Bonds may be increased at any time in reasonable amounts as the agency may order, providing the agency first gives lessee thirty (30) days written notice stating the amount of the increase and the reason for the increase.

5. The agency may waive the filing of a bond for any period during which a bond that meets the requirements of this section is on file with another agency.

R850-21-900. Failure of Agency's Title. Repealed effective 3/20/2006

R850-21-1000. Multiple Mineral Development (MMD) Area Designation.

1. The agency may designate any land under its authority as a multiple mineral development area. In designated multiple mineral development areas the agency may require, in addition to all other terms and conditions of the lease, that the lessee furnish a bond or evidence of financial responsibility as specified by the agency, to assure that the agency and other lessees shall be indemnified and held harmless from and against unreasonable and all unnecessary damage to mineral deposits or improvements caused by the conduct of the lessee on trust lands. Lessee shall give written notice to all oil, gas and hydrocarbon and other mineral lessees holding a lease for any mineral commodity within the multiple mineral development area. Thereafter, in order to preserve the value of mineral resources the agency may impose any reasonable requirements upon any oil, gas and hydrocarbon or other mineral lessee who intends to conduct any mineral activity within the multiple mineral development area. The lessee is required to submit to the agency in advance written notice of any activities to occur within the multiple mineral development area and any other information that the agency may request. All activities within the multiple mineral development area are to be deferred until the agency has specified the terms and conditions under which the mineral activity is to occur and has granted specific permission to conduct the activity. The agency may hold public meetings regarding mineral development within the multiple mineral development area.

2. The agency may grant a lease extension under a multiple mineral development area designation, providing that the lessee or designated operator requests an extension to the agency prior to the lease expiration date, and that the lessee or designated operator would have otherwise been able to request a lease extension as provided in Section 53C-2-405(4).

KEY: oil gas and hydrocarbons, administrative procedures, lease provisions, operations

Date of Enactment or Last Substantive Amendment:

Notice of Continuation:

Authorizing, and Implemented or Interpreted Law: 53C-1-302(1)(a)(ii); 53C-2 et seq.

R850. School and Institutional Trust Lands, Administration.

R850-21. Oil, Gas and Hydrocarbon Resources.

R850-21-100. Authorities.

This rule implements Sections 6, 8, 10, and 12 of the Utah Enabling Act, Articles X and XX of the Utah Constitution, and Utah Code Title 53C et seq. which authorize the Director of the School and Institutional Trust Lands Administration to establish rules for the issuance of oil, gas and hydrocarbon leases and management of trust-owned lands and oil, gas and hydrocarbon resources.

R850-21-150. Planning.

Pursuant to Subsection 53C-2-201(1)(a), this category of activity carries no planning obligations by the agency beyond existing rule-based analysis and approval processes. Oil, gas and hydrocarbon development activities are regulated pursuant to R649.

R850-21-175. Definitions.

The following words and terms, when used in Section R850-21 shall have the following meanings, unless otherwise indicated:

1. Act: Utah Code 53C-1 et seq.
2. Agency: School and Institutional Trust Lands Administration or its predecessor agency.
3. Anniversary Date: the same day and month in succeeding years as the effective date of the lease.
4. Assignment(s): a conveyance of all or a portion of the lessee's record title, non-working interest, or working interest in a lease.
 - (a) Certification of Net Revenue Interest: the certification by oath of an assignor to the agency that the total net working revenue interest (NRI) in the lease which the assignment affects has not been reduced to less than 80 per cent of 100 per cent NRI. Certification shall only be required for leases issued after April, 2005.
 - (b) Mass Assignment: an assignment that affects more than one lease, including assignments which affect record title, working or non-working interests.
 - (c) Non-Working Interest Assignment: an assignment of interest in production from a lease other than the agency's royalty, the record title, or the working interest including but not limited to overriding royalties, production payments, net profits interests, and carried interests assignments but excluding liens and security interests.
 - (d) Record Title Assignment: an assignment of the lessee's interest in a lease which includes the obligation to pay rent, the rights to assign/or relinquish the lease, and the ultimate responsibility to the agency for obligations under the lease.
 - (e) Working Interest Assignment: a transfer of a non-record title interest in a lease, including but not limited to wellbore assignments, but excepting overriding royalty, oil payment, net-profit, or carried interests or other non-working interests.
5. Board of Trustees: the School and Institutional Trust Lands Board of Trustees created under Section 53C-1-202.
6. Bonus Bid: a payment reflecting an amount to be paid by an applicant in addition to the delay rentals and royalties set forth in a lease in an application as consideration for the issuance of

such lease.

7. Committed Lands: a consolidation of all or a portion of lands subject to a lease approved by the director for pooling or unitization which form a logical unit for exploration, development or drilling operations.

8. Delay Rental: a sum of money as prescribed in the lease payable to the agency for the privilege of deferring the commencement of drilling operations or the commencement of production during the term of the lease.

9. Designated Operator: the person or entity that has been granted authority by the record title interest owner(s) in a lease and has been approved by the agency to conduct operations on the lease or a portion thereof.

10. Director: the person designated within the agency who manages the agency in fulfillment of its purposes as set forth in the Act.

11. Effective Date: unless otherwise defined in the lease, the effective date shall be the first day of the month following the date a lease is executed by the agency. An amended, extended or segregated lease will retain the effective date of the original lease.

12. Gas Well: a well capable of producing volumes exceeding 100,000 cubic feet of gas to each barrel of oil from the same producing horizon where both oil and gas are produced; or, a well producing gas only from a formation or producing horizon.

13. Lease: an oil, gas and hydrocarbon lease covering the commodities defined in R850-21-200(1) issued by the agency.

14. Lease Year: the twelve-month period commencing at 12:01 a.m. on the month and day of the effective date of the lease and ending on the last day of the twelfth month at 12 midnight.

15. Leasing Unit: a parcel of trust land lying within one or more sections that is offered for lease as an indivisible unit through a competitive oil and gas lease application process which would constitute one lease when issued.

16. Lessee: a person or entity holding a record title interest in a lease.

17. NGL: natural gas liquids.

18. Other Business Arrangement ("OBA"): an agreement entered into between the agency and a person or entity consistent with the purposes of the Act and approved by the Board of Trustees. By way of example, but not of limitation, OBAs may be for farmout agreements or joint venture agreements. An agreement for an OBA may be initiated by the agency or by a proponent of an agreement by filing a proposal for an OBA with the agency.

19. Paying Quantities: the gross income from the leased substances produced and sold (after deduction for taxes and lessor's royalty) that exceeds the cost of operation.

20. Qualified Interest Owner: a person or legal entity who meets the requirements of R850-3-200 of these rules.

21. Rental: the amount due and payable on the anniversary of the effective date of a lease to maintain the lease in full force and effect for the following lease year.

22. Shut-in Gas Well: a gas well which is physically capable of producing gas in paying quantities, but, for which the producible gas cannot be marketed at a reasonable price due to existing marketing

or transportation conditions.

23. **Shut-In or Minimum Royalty:** the amount of money accruing and payable to the agency in lieu of rental or delay rental beginning from the first anniversary date of the lease on or after the initial discovery of oil or gas in paying quantities on the leasehold or the allocation of production to the leasehold. Minimum royalty accrues beginning from the anniversary date of a lease but is not payable until the end of the year. Actual royalty accruing from a lease or allocated to a unitized or communitized lease during the lease year is credited against the minimum royalty obligation for the lease year. If the royalty from production does not equal or exceed the required minimum royalty for the lease year, the lessee is obligated to pay the difference.

24. **Surveyed Lot:** an irregular part of a section identified by cadastral survey and maintained in the official records of the agency.

25. **Trust Lands:** those lands and mineral resources granted by the United States in the Utah Enabling Act to the State of Utah in trust, and other lands and mineral resources acquired by the trust, which must be managed for the benefit of the state's public education system or the institutions designated as beneficiaries.

26. **UDOGM:** the Division of Oil, Gas and Mining of the Utah State Department of Natural Resources.

27. Except as specifically defined above, the definitions set forth at R850-1-200 shall also be applicable.

R850-21-200. Classification of Oil, Gas and Hydrocarbons.

Oil, Gas, and Hydrocarbon leases shall cover oil, natural gas, including gas producible from coal formations or associated with coal bearing formations, and other hydrocarbons (whether the same is found in solid, semi-solid, liquid, vaporous, or any other form) and also including sulfur, helium and other gases not individually described.

The oil, gas, and hydrocarbon category shall not include coal, oil shale, tar sands or gilsonite.

R850-21-300. Lease Application Process.

1. The agency may issue leases competitively, non-competitively or enter into OBAs with qualified interest owners for the development of oil, gas and hydrocarbon resources.

(a) **Competitive Bid Offering:** when the agency designates leasing units for competitive bidding it shall award leases on the basis of the highest bonus bid per acre made by qualified application.

(i) **Minimum Bonus Bid Amount:** the minimum acceptable bonus bid for competitive bid offering for leasing units shall be not less than \$1.00 per acre, or fractional acre thereof, which will constitute the (advance) rental for the first year of the lease.

(ii) **Notice of Offering:** notices of the offering of lands for competitive bid shall:

(A) run for a period of not less than fifteen (15) consecutive days after the notice is posted in the agency's office;

(B) describe the leasing unit;

(C) indicate the resource available for leasing; and

(D) state the last date on which bids may be received.

(iii) **Opening of Bid Applications:** bid applications shall be

opened in the agency's office at 10 a.m. of the first business day following the last day on which bids may be received.

(iv) Content of Applications: each application shall be submitted in a sealed envelope which clearly identifies:

- (A) the competitive bid;
- (B) leasing unit number; and,
- (C) the date of offering for which the bid is submitted.

(v) The application envelope must:

- (A) describe only one leasing unit per application; and,
- (B) contain one check for the application fee and a separate check for the amount of the bonus bid.

(vi) Withdrawal of Applications: applicants desiring to withdraw an application which has been filed under these competitive bid filing rules must submit a written request to the agency. If the request is received before sealed bids have been opened, all money tendered by the applicant, except the filing fee, shall be refunded.

If a request is received after sealed bids have been opened, and if the applicant is awarded the bid, then unless the applicant accepts the offered lease, all money tendered shall be forfeited to the agency.

(vii) Non-Complying Applications: if the agency determines prior to lease issuance that an application did not comply with these rules at the time of bid opening, the application fee shall be retained by the agency and the application returned to the applicant without further consideration by the agency.

(viii) Identical Bids: in the case of identical successful bids, the agency may award the lease by public drawing or oral auction between the identical bidders, held at the agency's offices.

(b) Non-Competitive Leasing By Over-The-Counter Filing.

(i) The director may designate lands for non-competitive leasing by over-the-counter application if the lands have been offered in a competitive offering and have received no bids. Designated lands may be offered for a period of three (3) months from the date of the opening of bids for which no bid was received for said lands under the competitive bid offering.

(ii) The minimum acceptable offer for over-the-counter applications to lease designated lands shall be not less than \$1 per acre, or fractional acre thereof, which will constitute the delay rental for the first year of the lease.

(iii) Applications for over-the-counter leases, when authorized, shall be filed on approved forms received from the office of the agency or as made available on its web site and delivered for filing in the main office of the agency during office hours. Except as provided, all over-the-counter applications received by personal delivery over the counter, are to be immediately stamped with the exact date and time of filing. All applications presented for filing at the opening of the office for business on any business day are stamped received as of 8 a.m., on that day. All applications received in the first delivery of the U.S. Mail of each business day are stamped received as of 8 a.m. on that day. The time indicated on the time stamp is deemed the time of filing unless the director determines that the application is materially deficient in any particular way.

If an application is determined to be deficient, it will be returned to the applicant with a notice of the deficiency.

If an application is returned as deficient and is resubmitted

in compliance with the rules within fifteen (15) days from the date of the determination of deficiency, it shall retain its original filing time. If the application is resubmitted at any later time, it is deemed filed at the time of resubmission.

(iv) Where two or more applications for the same lease contain identical bids and bear a time stamp showing the said applications were filed at the same time, the agency may award the lease by public drawing or oral auction between the identical bidders held at the agency's office.

(v) If an application or any part thereof is rejected, any money tendered for rental of the rejected portion shall be refunded or credited to the applicant minus the application fee.

(vi) An applicant who desires to withdraw its application must submit a written request to the agency. If the request is received prior to the time the agency approves the application, all money tendered by the applicant, except the application fee, shall be refunded. If the request is received after approval of the application, then, unless the applicant accepts the offered lease, all money tendered is forfeited to the agency.

(c) Competitive Leasing by Electronic Leasing.

(i) The director may designate leasing units for bidding by electronic means as a vehicle for competitive leasing. Leases will be awarded to the highest bonus bid per acre made by a qualified application. Electronic leasing may be in addition to or in place of the bidding processes set out at R850-21-300(1)(a) or (b) at the discretion of the director. A list of available leasing units and a link to the bidding form will be provided at the agency website.

R850-21-400. Availability of Lands for Lease Issuance.

1. A lease shall not be issued for lands comprising less than a quarter-quarter section or surveyed lot, unless the trust-owned land managed by the agency within any quarter-quarter section or surveyed lot is less than the whole thereof, in which case the lease will be issued only on the entire area owned and available for lease within the quarter-quarter section or surveyed lot.

2. Leases shall be limited to no more than 2560 acres or four sections and must all be located within the same township and range unless a waiver is approved by the director.

3. Any lease may be terminated by the agency in whole or in part upon lessee's failure to comply with any lease term or covenant or applicable laws and rules. Subject to the terms of any lease issued hereunder, any final agency action is appealable pursuant to Section 53C-2-409, in accordance with the provisions of the rules of the agency.

R850-21-500. Lease Provisions.

The following provisions, terms and conditions shall apply to all leases granted by the agency:

1. Delay Rentals and Rental Credits.

(a) The delay rental rate shall not be for less than \$1 per acre, or fractional acre thereof, per year at the time the lease is offered.

(b) The minimum annual delay rental on any lease, regardless of the amount of acreage, shall in no case be less than \$40.

(c) Delay rental payments shall be paid each year on or before the lease anniversary date, unless otherwise stated in the lease.

(d) Any overpayment of delay rental occurring from the lease applicant's incorrect calculation of acreage of lands described in the lease may, at the option of the agency, be credited toward the applicant's rental account.

(e) The agency may accept lease payments made by any party provided, however, that the acceptance of such payment(s) shall not be deemed to be recognition by the agency of any interest of the payee in the lease. Ultimate responsibility for such payments remains with the record title interest owner.

(f) Rental credits, if any, shall be governed by the terms of the lease which provide for such credits.

2. Royalty Provisions: the production royalty rate shall not be less than 12.5% of gross proceeds minus costs of transportation off lease, at the time the lease is offered.

3. Primary Lease Term: no lease shall establish a primary term in excess of ten (10) years.

4. Continuance of a Lease after Expiration of the Primary Term.

(a) A lease shall be continued after the primary term has expired so long as:

(i) the leased substance is being produced in paying quantities from the leased premises or from other lands pooled, communitized or unitized with committed lands; or

(ii) the agency determines that the lessee or designated operator:

(A) is engaged in diligent operations which are determined by the director to be reasonably calculated to advance or restore production of the leased substance from the leased premises or from other lands pooled, communitized, or unitized with committed lands; and

(B) pays the annual minimum royalty set forth in the lease.

(b) Diligent operations may include cessation of operations not to exceed 90 days in duration or a cumulative period of 180 days in one calendar year.

5. Pooling, Communitization or Unitization of Leases.

(a) Lessees, upon prior written authorization of the director, may commit leased trust lands or portions of such lands to unit, cooperative or other plans of development with other lands.

(b) The director may, with the consent of the lessee, modify any term of a lease for lands that are committed to a unit, cooperative, or other plan of development.

(c) Production allocated to leased trust lands under the terms of a unit, cooperative, or other plan of development shall be considered produced from the leased lands whether or not the point of production is located on the leased trust lands.

(d) The term of all leases included in any cooperative or unit plan of oil and gas development or operation in which the agency has joined, or shall hereafter join, shall be extended automatically for the term of the unit or cooperative agreement. Rentals on leases so extended shall be at the rate specified in the lease, subject to change in rates at the discretion of the director or as may be prescribed in the terms of the lease.

(e) Any lease eliminated from any cooperative or unit plan of

development or operation, or any lease which is in effect at the termination of a cooperative or unit plan of development or operation, unless relinquished, shall continue in effect for the fixed term of the lease, or for two (2) years after its elimination from the plan or agreement or the termination thereof, whichever is longer, and so long thereafter as the leased substances are produced in paying quantities. Rentals under such leases shall continue at the rate specified in the lease.

6. Shut-in Gas Wells Producing Gas in Paying Quantities: to qualify as a shut-in gas well capable of producing gas in paying quantities:

(a) a minimum royalty shall be paid in an amount not less than the current annual minimum royalty provided for in the lease;

(b) the terms of the lease shall provide the basis upon which the minimum royalty is to be paid by the lessee for a shut-in gas well; and

(c) the director may, at any time, require written justification from the lessee that a well qualifies as a shut-in gas well. A shut-in gas well will not extend a lease more than five years beyond the original primary term of the lease.

7. Oil/Condensate/Gas/NGL Reporting and Records Retention.

(a) Notwithstanding the terms of the lease agreements, gas and NGL report payments are required to be received by the agency on or before the last day of the second month succeeding the month of production.

(b) The extension of payment and reporting time for gas and NGL's does not alter the payment and reporting time for oil and condensate royalty which must be received by the agency on or before the last day of the calendar month succeeding the month of production as currently provided in the lease form.

(c) A lessee, operator, or other person directly involved in developing, producing or disposing of oil or gas under a lease through the point of first sale or point of royalty computation, whichever is later, shall establish and maintain records of such activities and make any reports requested by the director to implement or require compliance with these rules. Upon request by the director or the director's designee, appropriate reports, records or other information shall be made available for inspection and duplication.

(d) Records of production, transportation and sales shall be maintained for six (6) years after the records are generated unless the director notifies the record holder that an audit has been initiated or an investigation begun, involving such records. When so notified, records shall be maintained until the director releases the record holder of the obligation to maintain such records.

8. When the agency approves the amendment of an existing lease by substituting a new lease form for the existing form(s), the amended lease will retain the effective date of the original lease.

9. Other lease provisions.

The agency may require, in addition to the lease provisions required by these rules, any other reasonable provisions to be included in the lease as it deems necessary, but which does not substantially impair the lessees' rights under the lease.

R850-21-600. Transfer by Assignment or Operation of Law.

1. Any lease may be assigned as to all or part of the acreage, to any person, firm, association, or corporation qualified to hold a lease provided, however, that all assignments must be approved by the director. No assignment is effective until approval is given. Any attempted or purported assignment made without approval by the director is void.

2. Transfer by Assignment.

(a) An assignment of either a record title, working or non-working interest in a lease must:

(i) be expressed in a good and sufficient written legal instrument;

(ii) be properly executed, acknowledged and clearly set forth:

(A) the serial number of the lease;

(B) the land involved;

(C) the name and address of the assignee;

(D) the name of the assignor;

(E) the interest transferred;

(iii) be accompanied by a certification that the assignee is a qualified interest owner; and

(iv) include a certification of net revenue interest.

(b) Lessees who are assigning a lease shall:

(i) prepare and execute the assignments in duplicate, complete with acknowledgments;

(ii) provide that each copy of the assignment have attached thereto an acceptance of assignment duly executed by the assignee; and

(iii) provide that all assignments forwarded to or deposited with the agency be accompanied by the prescribed fee.

(c) The director shall approve any assignment of interest which has been properly executed; if the required filing fee is paid for each separate lease in which an interest is assigned, and the assignment complies with the law and these rules, so long as the director determines that approval would not be detrimental to the interests of the trust beneficiaries.

(d) If approval of any assignment is withheld by the director, the transferee shall be notified of such decision and its basis. Any decision to withhold approval may be appealed pursuant to Rule R850-8 or any similar rule in place at the time of such decision.

(e) Any assignment of a portion of a lease, whether of a record title, working or non-working interest, covering less than a quarter-quarter section, a surveyed lot, or an assignment of a separate zone or a separate deposit, shall not be approved.

(f) An assignment shall be effective the first day of the month following the approval of the assignment by the director. The assignor or surety, if any, shall continue to be responsible for performance of any and all obligations as if no assignment had been executed until the effective date of the assignment. After the effective date of any assignment, the assignee is bound by the terms of the lease to the same extent as if the assignee were the original lessee, any conditions in the assignment to the contrary notwithstanding; provided, however, that the approved record title interest owner(s) shall retain ultimate responsibility to the agency for all lease obligations.

(g) A record title assignment of an undivided 100% record title

interest in less than the total acreage covered by the lease shall cause a segregation of the assigned and retained portions. After the effective date of the approved assignment, the assignor shall be released or discharged from any obligation thereafter accruing to the assigned lands. Segregated leases shall continue in full force and effect for the primary term of the original lease or as further extended pursuant to the terms of the lease. The agency may re-issue a lease with a new lease number covering the assigned lands for the remaining unexpired primary term. The agency may, in lieu of re-issuing a lease, note the assignment in its records with all lands covered by the original lease maintained with the original lease number, and with each separate tract or interest resulting from an assignment with an additional identifying designation to the original number.

(h) Any assignment which would create a cumulative royalty and other non-working interest in excess of twenty per cent (20%) thereby reducing the net revenue interest in the lease to less than eighty per cent (80%) NRI shall not be approved by the agency.

(i) Mass assignments are allowed, provided:

(i) the requirements set forth in paragraph R850-21-600(2) are met;

(ii) the serial number, the lands covered thereby, and the percent of interest assigned therein are expressly described in an attached exhibit;

(iii) the prescribed fee is paid for each lease affected; and

(iv) a separate mass assignment is filed for each type of interest (record title, working or non-working interest) that is assigned.

(j) The agency shall not accept for filing, mortgages, deeds of trust, financing statements or lien filings affecting leases. To the extent a legal foreclosure upon interests in leases occurs under the terms of such agreements, assignments must be prepared as set forth in this section and filed with the agency, which will then be reviewed and approved in due course.

(k) The agency by approving an assignment does not adjudicate the validity of any assignment as it may affect third parties, nor estop the agency from challenging any assignment which is later adjudicated by a court of competent jurisdiction to be invalid or ineffectual.

3. Transfer by Operation of Law.

(a) Death: if an applicant or lessee dies, his/her rights shall be transferred to the heirs, devisees, executor or administrator of the estate, as appropriate, upon the filing of:

(i) a certified copy of the death certificate together with other appropriate documentation to verify change of ownership as required under the probate laws of the state of Utah (Section 75-1-101 et seq.);

(ii) a list containing the serial number of each lease interest affected;

(iii) a statement that the transferee(s) is a qualified interest owner;

(iv) the required filing fee for each separate lease in which an interest is transferred; and

(v) a bond rider or replacement bond for any bond(s) previously furnished by the decedent.

(b) Corporate Merger: if a corporate merger affects any interest in a lease because of the transfer of property of the dissolving corporation to the surviving corporation by operation of law, no assignment of any affected lease is required. A notification of the merger, together with a certified copy of the certificate of merger issued by the Utah Department of Commerce, shall be furnished to the agency, together with a list by serial number of all lease interests affected. The required filing fee must be paid for each separate lease in which an interest is transferred. A bond rider or replacement bond conditioned to cover the obligations of all affected corporations will be required as a prerequisite to recognition of the merger.

(c) Corporate Name Change: if a change of name of a corporate lessee affects any interest in a lease, the notice of name change shall be submitted in writing with a certificate from the Utah Department of Commerce evidencing its recognition of the name change accompanied by a list of lease serial numbers affected by the name change. The required filing fee must be paid for each separate lease in which an interest is transferred. A bond rider or replacement bond, conditioned to cover the obligations of all affected corporations, is required as a prerequisite to recognition of the name change.

R850-21-700. Operations Plan and Reclamation.

1. The lessee or designated operator shall submit to, and must receive the approval of, the agency for a plan of operations prior to any surface disturbance, drilling or other operations which disturb the surface of lands contained in a lease. Said plan shall include, at a minimum, all proposed access and infrastructure locations and proposed site reclamation. Prior to approval, the agency may require the lessee or designated operator to adopt a special rehabilitation program for the particular property in question. Before the lessee or designated operator shall commence actual drilling operations on any well or prior to commencing any surface disturbance associated with the activity on lands contained within a lease, the operator or lessee or designated operator shall provide a plan of operations to the agency simultaneously with the filing of the application for a permit to drill (APD) with UDOGM. The agency will review any request for drilling operations and will grant approval providing that the contemplated location and operations are not in violation of any rules or order of the agency. Agency approval of the APD for oil, gas or hydrocarbon resources administered by the agency is required prior to approval by UDOGM. Notice of approval by the agency shall be given in an expeditious manner to UDOGM.

2. Prior to approval of the APD, the agency shall require the lessee or designated operator to:

(a) provide when requested, a cultural, paleontological and biological survey on lands under an oil, gas and hydrocarbon lease, including providing the agency a copy of any survey(s) required by other governmental agencies;

(b) provide for reasonable mitigation of impacts to other trust resources occasioned by surface or sub-surface operations on the lease;

(c) negotiate with the agency a surface use agreement,

right-of-way agreement, or both for trust lands other than the leased lands where the surface of said lands are necessary for the development of the lease; and

(d) keep a log of geologic data accumulated or acquired by the lessee or designated operator about the land described in the lease.

This log shall show the formations encountered and any other geologic information reasonably required by lessor and shall be available upon request by the agency. A copy of the log, as well as any data related to exploration drill holes shall be deposited with the agency at the agency's request.

3. Oil and gas drilling, or other operations which disturb the surface of lands contained within or on the leased lands shall require surface rehabilitation of the disturbed area as described in the plan of operations approved by the agency, and as required by the rules and regulations administered by the UDOGM.

In all cases, the lessee or designated operator shall agree to establish a slope on all excavations to a ratio not steeper than one foot vertically for each two feet of horizontal distance, unless otherwise approved by the agency prior to commencement of operations. This sloping shall be a concurrent part of the operation of the leased premises to the extent that the operation shall not at any time constitute a hazard. All pits, excavations, roads and pads shall be shaped to facilitate drainage and control erosion by following the best management practices. In no case shall the pits or excavations be allowed to become a hazard to persons or livestock. All material removed from the premises shall be stockpiled and be used to fill the pits and for leveling and reclamation of roads and pads, unless consent of the agency to do otherwise is obtained, so at the termination of the lease, the land will as nearly as practicable approximate its original configuration. All drill holes must be plugged in accordance with rules promulgated by UDOGM.

The agency shall require that all topsoil in the affected area be removed, stockpiled, and stabilized on the leased premises until the completion of operations. Upon reclamation, the stockpiled topsoil will be redistributed on the affected area and the land revegetated as prescribed by the agency. All mud pits shall be filled and materials and debris removed from the site.

4. All lessees or designated operators under oil, gas and hydrocarbon leases shall be responsible for compliance with all laws and notification requirements and operating rules promulgated by UDOGM with regard to oil, gas and hydrocarbon exploration, or drilling on lands within the state of Utah under The Oil and Gas Conservation Act (Section 40-6-1 et seq.). Lessees or designated operators shall fully comply with all the rules or requirements of agencies having jurisdiction and provide timely notifications of operations plans, well completion reports, or other information as may be requested or required by the agency.

R850-21-800. Bonding.

1. Bond Obligations.

(a) Prior to commencement of any operations which will disturb the surface of the land covered by a lease, the lessee or designated operator shall post with UDOGM a bond in a form and in the amount set forth in R649-3-1 et seq. and approved by UDOGM to assure compliance

with those terms and conditions of the lease and these rules, involving costs of reclamation, damages to the surface and improvements on the surface and all other related requirements and standards set forth in the lease, rules, procedures and policies of the agency and UDOGM.

(b) A separate bond shall be posted with the agency by the lessee or the designated operator to assure compliance with all remaining terms and conditions of the lease not covered by the bond to be filed with UDOGM, including, but not limited to payment of royalties.

(c) These bonds shall be in effect even if the lessee or designated operator has conveyed all or part of the leasehold interest to an assignee(s) or subsequent operator(s), until the bonds are released by UDOGM and the agency either because the lessee or designated operator has fully satisfied bonding obligations set forth in this section or the bond is replaced with a new bond posted by an assignee or designated operator.

(d) Bonds held by the agency shall be in the form and subject to the requirements set forth herein:

(i) Surety Bonds.

Surety bonds shall be issued by a qualified surety company, approved by the agency and registered in the state of Utah;

(ii) Personal Bonds.

Personal bonds shall be accompanied by:

(A) a cash deposit to the School and Institutional Trust Lands Administration. The agency will not be responsible for any investment returns on cash deposits. Such interest will be retained in the account and applied to the bond value of the account unless the agency has approved the payment of interest to the operator; or

(B) a cashier's check or certified check made payable to the School and Institutional Trust Lands Administration; or

(C) negotiable bonds of the United States, a state, or a municipality. The negotiable bond shall be endorsed only to the order of, and placed in the possession of, the agency. The agency shall value the negotiable bond at its current market value, not at the face value; or

(D) negotiable certificates of deposit. The certificates shall be issued by a federally insured bank authorized to do business in Utah. The certificates shall be made payable or assigned only to the agency both in writing and upon the records of the bank issuing the certificate. The certificates shall be placed in the possession of the agency or held by a federally insured bank authorized to do business in Utah. If assigned, the agency shall require the banks issuing the certificates to waive all rights of setoff or liens against those certificates; or

(E) an irrevocable letter of credit: Letters of credit shall be issued by a federally insured bank authorized to do business in Utah and will be irrevocable during their terms. Letters of credit shall be placed in the possession of and payable upon demand only to the agency. Letters of credit shall be automatically renewable or the operator shall ensure continuous bond coverage by replacing letters of credit, if necessary, at least thirty (30) days before their expiration date with other acceptable bond types or letters of credit; or

(F) any other type of surety approved by the agency.

2. Bond Amounts.

The bond amount required for an oil, gas and hydrocarbon exploration project to be held by the agency for those lease obligations not covered by the bond held by UDOGM shall be:

(a) a statewide blanket bond in the minimum amount of \$15,000 covering exploration and production operations on all agency leases held by lessee; or

(b) a project bond covering an individual, single-well exploration project involving one or more leases. The amount of the project bond will be determined by the agency at the time lessee gives notice of proposed operations. This bond shall not be less than \$5,000 unless waived in writing by the director.

3. Bond Default.

(a) Where, upon default, the surety makes a payment to the agency of an obligation incurred under the terms of a lease, the face of the bond and surety's liability shall be reduced by the amount of such payment.

(b) After default, where the obligation in default equals or is less than the face amount of the bond(s), the lessee or designated operator shall either post a new bond, restore the existing bond to the amount previously held, or post an adjusted amount as determined by the agency. Alternatively, the lessee or designated operator shall make full payment to the agency for all obligations incurred that are in excess of the face amount of the bond and shall post a new bond in the amount previously held or such other amount as determined by the agency. Operations shall be discontinued until the restoration of a bond or posting of a new bond occurs. Failure to comply with these requirements may subject all leases covered by such bond(s) to be cancelled by the agency.

(c) The agency will not give consent to termination of the period of liability of any bond unless an acceptable replacement bond has been filed or until all terms and conditions of the lease have been met.

(d) Any lessee or designated operator forfeiting a bond is denied approval of any future oil, gas or hydrocarbon exploration on agency lands except by compensating the agency for previous defaults and posting the full bond amount for reclamation or lease performance on subsequent operations as determined by the agency.

4. Bonds may be increased at any time in reasonable amounts as the agency may order, providing the agency first gives lessee thirty (30) days written notice stating the increase and the reason for the increase.

5. The agency may waive the filing of a bond for any period during which a bond meeting the requirements of this section is on file with another agency.

R850-21-1000. Multiple Mineral Development (MMD) Area Designation.

1. The agency may designate any land under its authority as a multiple mineral development area. In designated multiple mineral development areas the agency may require, in addition to all other terms and conditions of the lease, that the lessee furnish a bond or evidence of financial responsibility as specified by the agency, to assure that the agency and other lessees shall be indemnified and held harmless from and against unreasonable and all unnecessary damage to mineral deposits or improvements caused by the conduct of the lessee

on trust lands. Written notice shall be given to all oil, gas and hydrocarbon and other mineral lessees holding a lease for any mineral commodity within the multiple mineral development area. Thereafter, in order to preserve the value of mineral resources the agency may impose any reasonable requirements upon any oil, gas and hydrocarbon or other mineral lessee who intends to conduct any mineral activity within the multiple mineral development area. The lessee is required to submit advance written notice of any activities to occur within the multiple mineral development area to the agency and any other information that the agency may request. All activities within the multiple mineral development area are to be deferred until the agency has specified the terms and conditions under which the mineral activity is to occur and has granted specific permission to conduct the activity. The agency may hold public meetings regarding mineral development within the multiple mineral development area.

2. The agency may grant a lease extension under a multiple mineral development area designation, providing that the lessee or designated operator requests an extension to the agency prior to the lease expiration date, and that the lessee or designated operator would have otherwise been able to request a lease extension as provided in Subsection 53C-2-405(4).

KEY: oil gas and hydrocarbons, administrative procedures, lease provisions, operations

Date of Enactment or Last Substantive Amendment: July 23, 2012

Notice of Continuation: April 1, 2015

**Authorizing, and Implemented or Interpreted Law:
53C-1-302(1)(a)(ii); 53C-2 et seq.**

R850-5-300. Royalties (8/1/1994) (1/1/1995) (6/21/2007) (8/1/2018)

1. Royalty Reports and Reporting Periods

(a) All royalty payments shall be made payable to the School and Institutional Trust Lands Administration and shall be accompanied by a royalty report on a form specified by the agency. Failure to provide such a report may, after proper notification, subject the lease to cancellation. Check stubs or other report forms are unacceptable and do not satisfy the reporting requirement of this section.

(b) Any report submitted to the agency which includes entries such as those described below, may not be accepted by the agency and may be returned.

i) Any report submitted 24 months after the royalty due date.

ii) Amendments to prior report periods creating a net adjustment of less than \$10.

iii) Any oil and gas royalty report line of original entry submitted after the first 180 days following the month of first production with a volume entry of zero which is subsequently amended with the actual volume.

2. Interest on Delinquent Royalties

Interest shall be based on the prime rate of interest at the beginning of each month as approved by the Director and documented in the agency's Director's Actions, plus 4%.

R850-5-300. Royalties. (8/1/1994)(1/1/1995)(6/21/2007)(8/1/2018)

1. Royalty Reports and Reporting Periods

(a) All royalty payments shall be made payable to the School and Institutional Trust Lands Administration and shall be accompanied by a royalty report on a form specified by the agency. Failure to provide such a report may, after proper notification, subject the lease to cancellation. Check stubs or other report forms are unacceptable and do not satisfy the reporting requirement of this section.

(b) Any report submitted which includes entries as described below, may not be accepted by the agency and may be returned.

i) Any report submitted 24 months after the royalty due date.

ii) Amendments to prior report periods creating a net adjustment of less than \$10.

iii) Any oil and gas royalty report line of original entry submitted after the first 180 days following the month of first production with a volume entry of zero which is subsequently amended with the actual volume.

2. Interest on Delinquent Royalties

Interest shall be based on the prime rate of interest at the beginning of each month as approved by the Director and documented in the agency's Director's Actions, plus 4% .

Deleted: and may be made subject to the penalty provisions of this rule.¶

Deleted: including adjustments to reporting periods more than

Deleted: prior to the current report period

Deleted: However, interest will not be assessed for prior period adjustments or amendments except as provided in R850-5-300(1)(c) and for amounts of additional royalties due discovered during any audit action. Also, interest will not be accrued or billed for amounts less than \$30.

R850-5-300. Royalties. (8/1/1994)(1/1/1995)(6/21/2007)(8/1/2018)

1. Royalty Reports and Reporting Periods

(a) All royalty payments shall be made payable to the School and Institutional Trust Lands Administration and shall be accompanied by a royalty report on a form specified by the agency. Check stubs or other report forms are unacceptable and do not satisfy the reporting requirement of this section.

(b) Any report not sufficiently complete and accurate to enable the agency to deposit the royalty to the correct institutional fund must be promptly corrected or amended by the payor. Failure to provide such a report may, after proper notification, subject the lease to cancellation.

(c) Any report submitted which includes entries as described below, may be returned and may be made subject to the penalty provisions of this rule.

- i) Any report including adjustments to reporting periods more than 24 months prior to the current report period.
- ii) Amendments to prior report periods creating a net adjustment of less than \$10.
- iii) Any oil and gas royalty report line of original entry submitted after the first 180 days following the month of first production with a volume entry of zero which is subsequently amended with the actual volume.

2. Interest on Delinquent Royalties

Interest shall be based on the prime rate of interest at the beginning of each month as approved by the Director and documented in the agency's Director's Actions, plus 4%. However, interest will not be assessed for prior period adjustments or amendments except as provided in R850-5-300(1)(c) and for amounts of additional royalties due discovered during any audit action. Also, interest will not be accrued or billed for amounts less than \$30.

R850-5-400. Audits. (8/1/1994)(1/1/1995)

The agency shall have the right at reasonable times and intervals to audit the books and records of any lessee/permittee/payor and to inspect the leased/permitted premises and conduct field audits for the purpose of determining whether there has been compliance with the rules or the terms of agreement.

R850-5-500. Reinstatements. (8/1/1994)(1/1/1995)(8/1/1995)(4/15/1996)(6/2/1997)(10/22/1998)

1. The director may reinstate the following specific leases, permits, and easements, in the event of their cancellation, upon filing of a request for reinstatement, the payment of all late fees, reinstatement fees, and rental fees in arrears, based on a written finding that a reinstatement would be in the best interest of the trust beneficiaries:

- (a) Special use leases issued using a competitive process within 60 days of cancellation.
- (b) Special use leases issued without using a competitive process within 60 days of cancellation if:
 - i) there are no apparent competing interests,
 - ii) the cost of requiring a competitive process would be excessive in light of the potential revenue,
 - iii) a negotiated settlement appears to present greater opportunity for increased compensation than a competitive settlement, or
 - iv) there exists compelling reason establishing that the best interests of the trust would be met by waiving the competitive process.
- (c) Grazing permits within 60 days of cancellation with the exception that grazing permits cancelled for reasons of non-payment of grazing fees may be reinstated by the director without a written finding.
- (d) Easements within 60 days of cancellation provided that:
 - i) if the easement term is perpetual, then the easement shall be amended so that the term is 30 years beginning as of the original effective date. However, if the remaining number of years on an easement so amended is less than 15, the ending date of the easement shall be set so that there will be 15 years remaining in the easement;
 - ii) if the easement term is not perpetual, easements shall be reinstated only for the balance of the original term;and
 - iii) the applicant for an easement reinstatement agrees to pay the difference between what was originally paid for the easement and what the agency would charge for the easement at the time the request for reinstatement is submitted.
- (e) Materials permits within 60 days of cancellation.
- (f) Materials permits issued without using a competitive process within 60 days of cancellation if:
 - i) there are no apparent competing interests,
 - ii) the cost of requiring a competitive process would be excessive in light of the potential revenue,