

South Dakota Office of School and Public Lands



Legislative Interim Study on Oil and Gas Development in South Dakota

Tuesday, June 12, 2012

Office History

When South Dakota became a state in 1889, the Federal Government granted the state over 3.5 million acres of land. Township sections 16 and 36 were reserved for school and public purposes; these are known as Common School Lands. If the sections were already settled, the government provided replacement property known as indemnity lands.

Additional property was also provided to be used however the state wished. The South Dakota Constitution divided these lands among the state's universities, the School for the Visually Handicapped, the School for the Deaf, State Training School, and the Developmental Center in Redfield. To manage these lands and the money generated, the constitution established the Office of School and Public Lands.

According to the Constitution, common school and indemnity lands were either to be sold or leased and the proceeds deposited in a permanent trust fund for education. The principal could be increased, but never diminished. Interest from the fund was to be used for funding education.

Each year the office returns approximately \$9 million to school districts and endowed institutions. The money is generated from grazing, mineral, oil and gas leases, interest from the Permanent Fund, and interest earned on land and sales contracts.

History of SPL Mineral Acres

- The Office of School and Public Lands administers approximately 5.2 million acres of mineral rights, many located in the northwest corner of the state.
- 3.5 million acres were granted at statehood.
- Additional acres were acquired during the 1930s when trust fund dollars were lent out to farmers and ranchers across South Dakota for the purchase of farm land. This was called the Rural Credit Board. It was abolished by SDCL 5-8-1.
- There are two classifications of mineral acres:
 - Common School – acres from School and Public Lands surface, as well as from lands sold prior to 1919 law;
 - Rural Credit – acres from the selling of real estate held and subsequently sold by the Office from defaults of accounts under the Rural Credit Board.
- Mineral rights are retained by the State when state land is sold. (SDCL 5-2-12)

Oil and Gas Auction Overview

- Oil and gas lease auctions are held in the spring, summer and fall of each year.
- Individuals and companies submit nominations for tracts of mineral acres to bring to auction. The Commissioner of School and Public Lands also has the authority to nominate tracts for auction.
- Nominees are required to include payment for the first year rent and minimum one-time bonus offer (SDCL 5-7-20):
 - \$1/acre for Annual Delayed Rent (ADR). (SDAR 4:01:01:05)
 - \$2/acre bonus for counties west of the Missouri River, \$.50/acre for counties east of the Missouri River. (SDAR 4:01:01:06)

****This bonus is the fee that is competitively bid at auction.**
- Auctions are advertised once each week for two successive weeks in all legal newspapers in the county where the nominated lands are located. (SDCL 5-7-21)

Oil and Gas Lease Terms

- Leases are issued primarily for units of 640 acres, more or less. (SDAR 4:01:01:04)
- Oil and gas leases are granted for a primary term of 5 years. (SDAR 4:01:01:15)
- If oil or gas is discovered and produced from a well during the primary term, the lease shall continue indefinitely throughout production. (SDCL 5-7-23)
- Royalty rate is set at not less than $1/8^{\text{th}}$ of the oil, gas and casing-head gas produced, saved and marketed from each well. (SDCL 5-7-24)

Oil, Gas & Mineral Acres

County	Total Acres	Leased Acres
Butte	135,758.65	62,516.24
Custer	94,795.95	640.00
Fall River	143,398.714	8,036.35
Harding	473,239.39	222,285.49
Jerauld	59,123.62	320.00
Meade	277,357.13	7,960.00
Perkins	339,321.81	52,536.00
Wibaux Co, MT	512.00	512.00
Slope Co, ND	15.00	15.00

Statistics current as of June 12, 2012

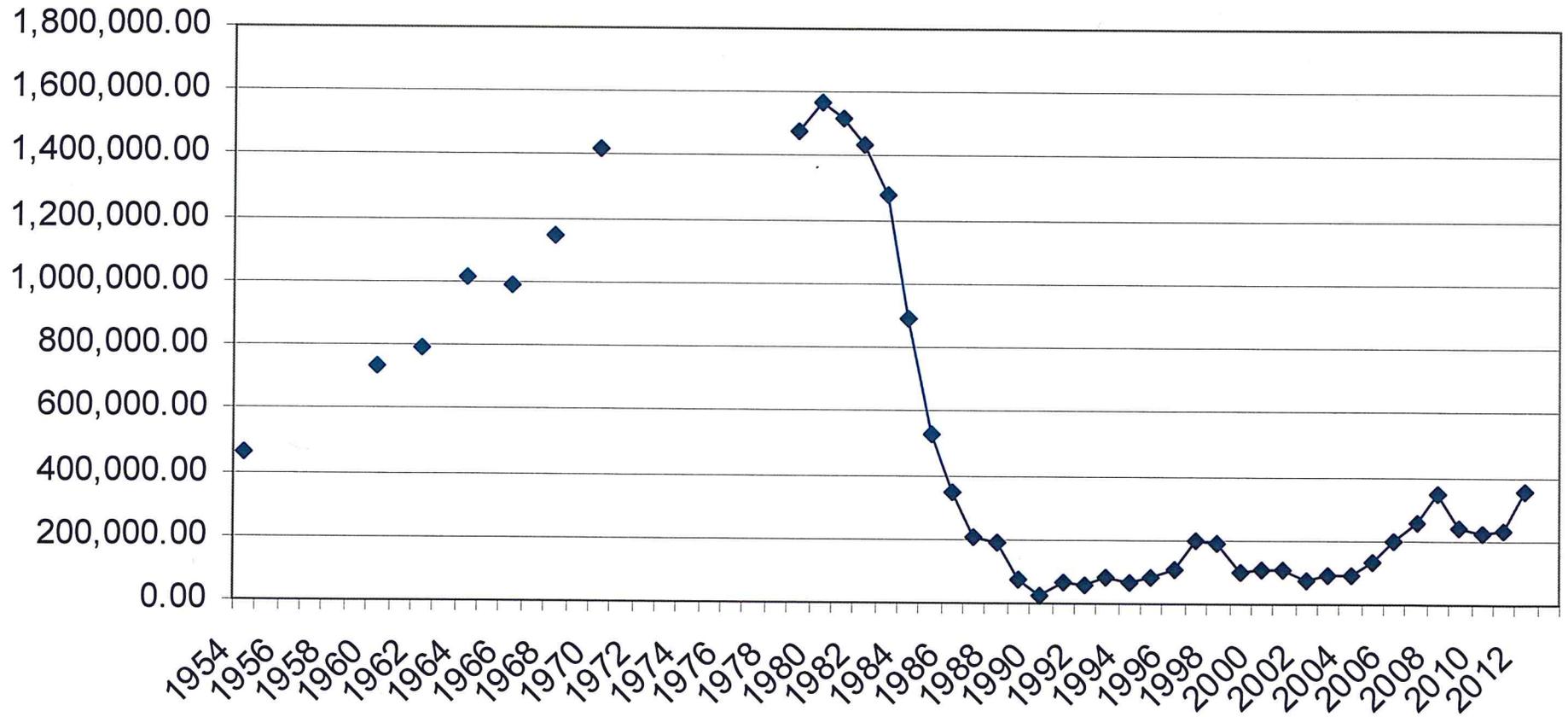
Top 10 Oil, Gas & Mineral Leaseholders

Company	Acres Leased	# of Leases	ADR Leases	HBP Leases
ROC O&G Land Mgmt.	75,649.00	283	283	0
Bedrock Oil & Gas	65,323.00	176	176	0
Grizzly Energy	48,988.66	148	148	0
Cody Oil & Gas	33,923.66	96	96	0
American Oil & Gas	31,584.25	80	80	0
Continental Resources	16,811.63	56	11	45
Zenergy	12,554.27	49	48	1
CH Partners	14,178.08	37	37	0
Spyglass	11,864.17	33	18	15
John Mark Alvord	4,960	9	9	0

SPL has 38 total leaseholders.

Statistics current as of June 12, 2012

SPL Mineral Acres Leased by Year



Oil and Gas Wells

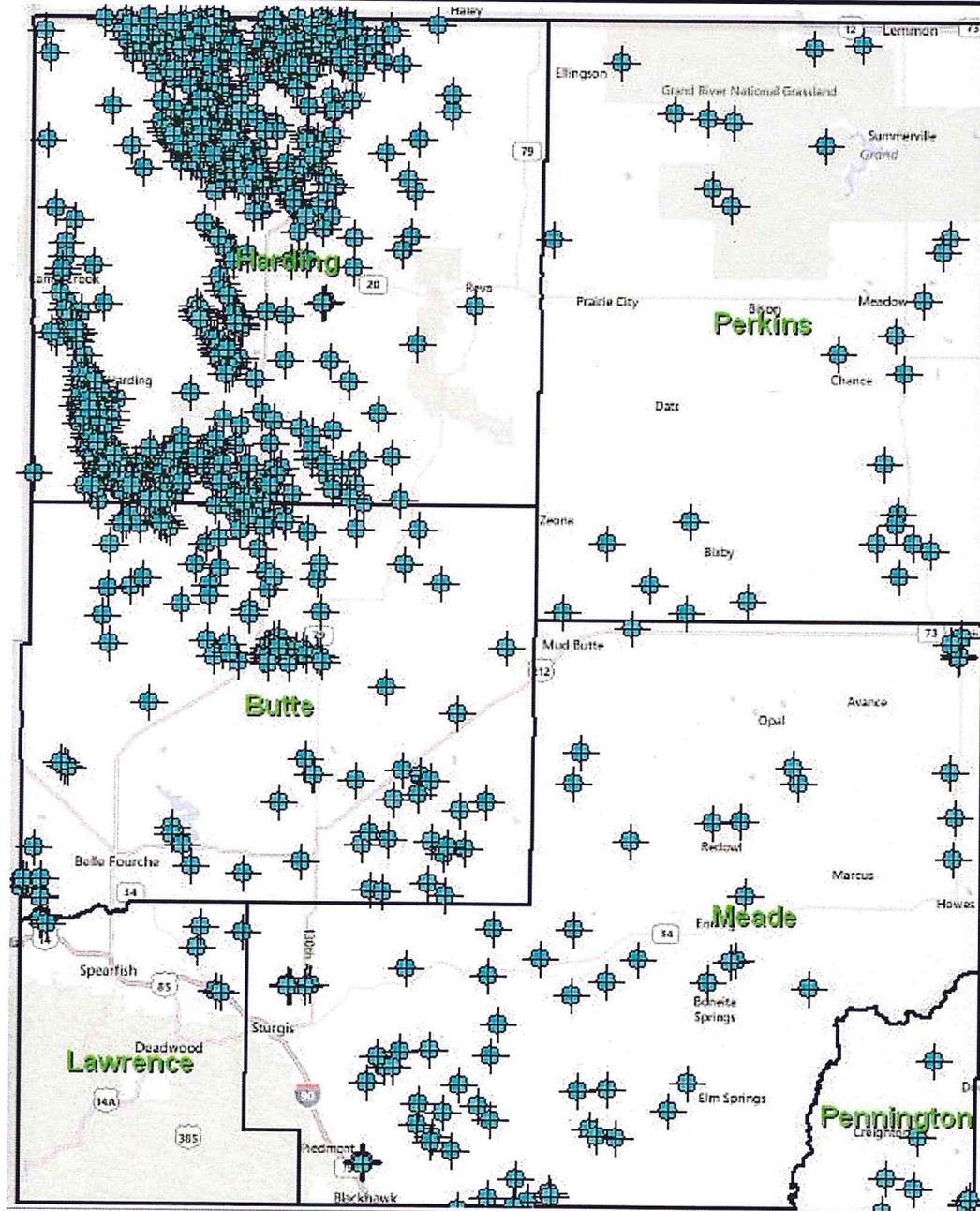
There are 48 wells on lands administered by the Office of School and Public Lands.

The Office of School and Public Lands currently receives royalties from 78 wells. (Including unitization agreements.)

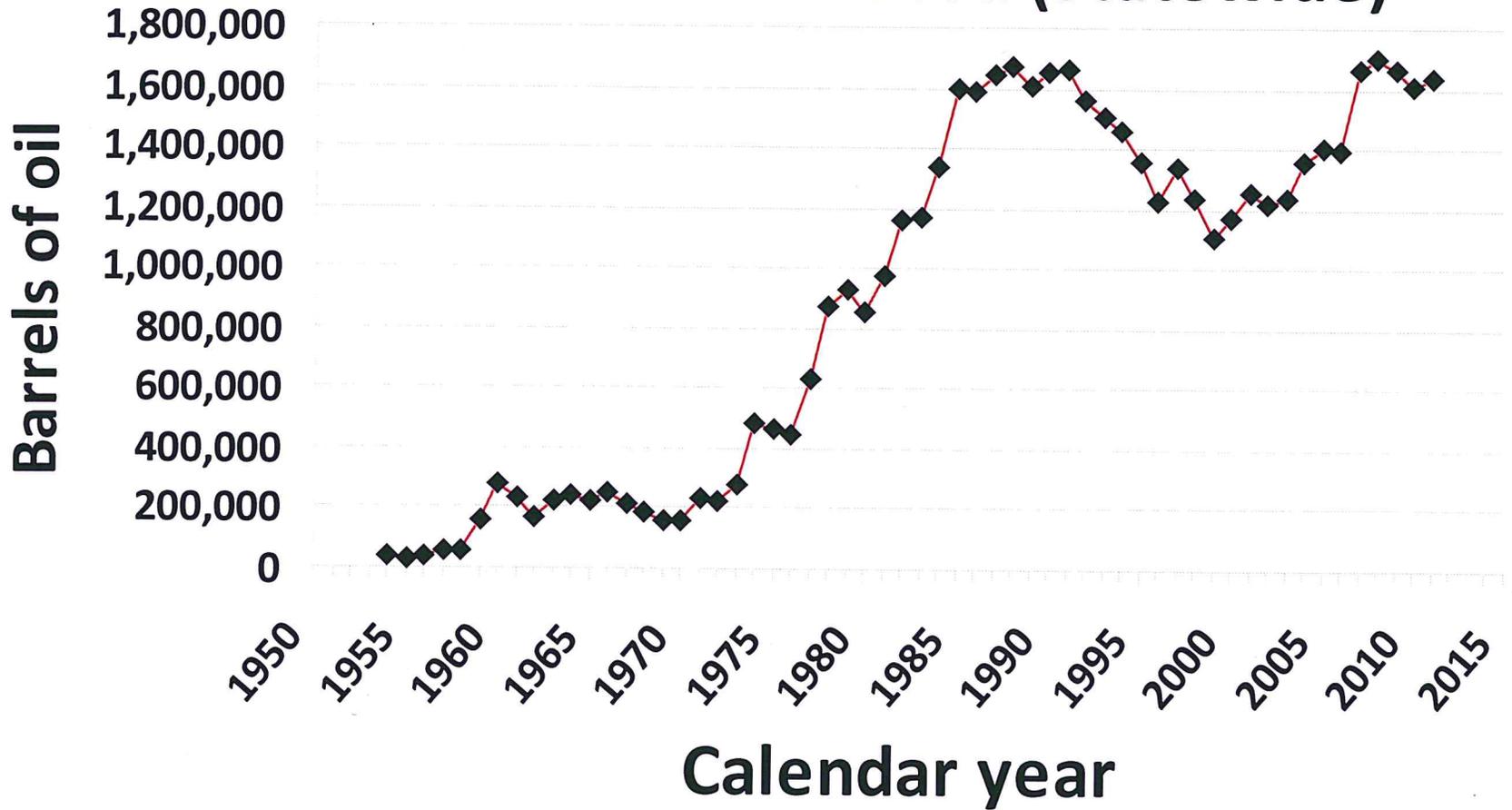
41 oil wells and 37 gas wells

Last year total production from SPL leases was 1,069,390.64 barrels, approximately 65% of all production in the state.

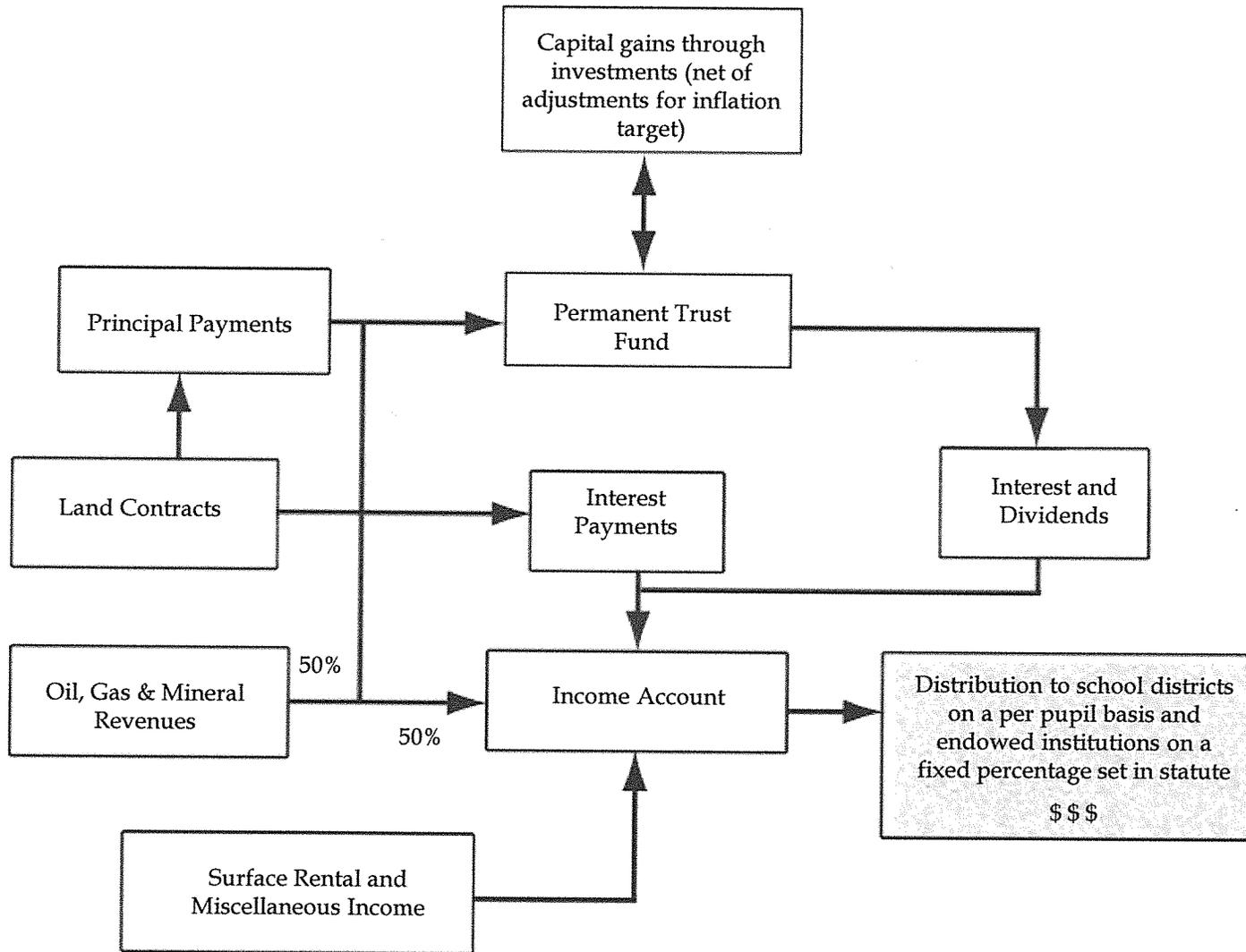
Locations of DENR Well Sites



Barrels of Oil Produced (Statewide)



SPL Income Flow Chart



SPL Oil and Gas Revenues

Term (FY)	Royalty	Rental	Bonus	Misc.	Interest	Total Mineral Dollars
2007	1,650,869.45	443,202.00	284,840.00	2,454.00	25,767.55	2,407,133.00
2008	2,969,394.86	325,034.59	966,401.00	1,500.00	19,276.20	4,281,606.65
2009	2,717,443.76	211,459.00	1,716,258.00	1,918.25	25,362.34	4,672,441.35
2010	2,160,673.46	189,606.24	266,108.00	2,730.00	7,636.75	2,626,754.45
2011	2,465,783.46	225,139.98	298,008.00	670.00	22,843.85	3,012,445.29
2012	2,838,170.23	240,823.00	838,425.00	120.00	9,189.93*	3,926,728.16

* There will be one additional interest payment after the CPI figures on the 14th *

SPL Oil & Gas Income

