IDAPA 20
TITLE 03
CHAPTER 16

20.03.16 - RULES GOVERNING OIL AND GAS LEASING ON IDAHO STATE LANDS

000. LEGAL AUTHORITY.
~~These rules are promulgated by the Idaho State Board of Land Commissioners pursuant to Title 47, Chapter 8 and Title 67, Chapter 52, Idaho Code, and are intended to satisfy the Board's mandate (Idaho Constitution, Art. 9) to maximize return on state lands by encouraging leasing, production of oil and gas, prevention of waste, and protection of the oil, gas and other natural resources of state lands.~~ This Chapter is adopted under the legal authorities of Sections 58-104(10, 58-104(6), 58-104(9), 58-105, and 58-127, Idaho Code; Section 58-307, Idaho Code; Title 47, Chapter 7, Idaho Code; Title 47, Chapter 8, Idaho Code; and Title 67, Chapter 51, Idaho Code ~~(10-11-88)~~

~~**001. -- 002. (RESERVED)**~~
001. TITLE AND SCOPE.

01. Title. These rules will be cited as IDAPA 20.03.16, "Rules Governing Oil and Gas Leasing on Idaho State Lands."

02. Scope. These rules apply to the exploration and extraction of oil and gas resources situated in state-owned mineral lands.

03. Other Laws. In addition to these rules, the lessee shall comply with all applicable federal, state and local laws, rules and regulations. The violation of any applicable law, rule or regulation shall constitute a breach of any lease issued in accordance with these rules.

002. WRITTEN INTERPRETATIONS.
The Idaho Department of Lands maintains written interpretations of its rules which may include, but may not be limited to, written procedures manuals and operations manuals and other written guidance, which pertain to the interpretation of the rules of this chapter. Copies of interpretations, subject to the exemptions in Title 9, Chapter 3, Idaho Code, Sections 9-340A through 9-340H, are available for public inspection and~~nad~~ copying at the ~~director~~Director's office of the Idaho Department of Lands, 300 North 6th Street, Suite 103, Boise, Idaho.

003. ADMINISTRATIVE APPEALS.

01. Appeal to Board. All decisions of the ~~director~~Director are appealable to the Board. An aggrieved party desiring to take such an appeal shall, within thirty (30) days after notice of the ~~director~~Director's decision, file with the ~~director~~Director a written notice of appeal setting forth the basis for the appeal. (10-11-88)

02. Hearing. The Board shall hear the appeal at the earliest practical time or in its discretion appoint a hearing officer to hear the appeal, within sixty (60) days after filing of the notice of appeal. The hearing officer will make findings and conclusions that the Board may accept, reject or modify. The decision of the Board after hearing or upon a ruling concerning the hearing officer's findings and conclusions shall be final. (10-11-88)

03. Judicial Review. Judicial review of the final decision of the Board shall be in accord with the Administrative Procedure Act, Title 67, Chapter 52, Idaho Code, by filing a petition in the district court in Ada County, or the county where the Board heard the appeal and made its final decision, within thirty (30) days after notice of the Board's decision. Service of the Board's decision may be by personal service or by certified mail to the lessee. (10-11-88)

004. INCORPORATION BY REFERENCE.

There are no documents that have been incorporated by reference into this rule.

005. OFFICE – OFFICE HOURS – MAILING ADDRESS AND STREET ADDRESS.
The principal place of business of the Idaho Department of Lands is 300 North 6th Street, Suite 103, Boise, Idaho 83702 and it is open from 8 a.m. to 5 p.m., Monday through Friday, except legal holidays. The mailing address is: Idaho Department of Lands, P.O. Box 83720, Boise, Idaho 83720-0050. The telephone number of the office is (208) 334-0200 and the fax number is (208) 334-3698.

006. PUBLIC RECORDS ACTION COMPLIANCE.
The rules contained herein have been promulgated according to the provisions of Title 67, Chapter 51, Idaho Code and are public records.

007. -- 009. (RESERVED)

010. DEFINITIONS.

01. Board. The Idaho State Board of Land Commissioners or its authorized representative, or where appropriate, the state of Idaho. (10-11-88)

02. Commission. The Idaho Oil and Gas Conservation Commission. (10-11-88)

03. Collateral Surety Bond and Corporate Surety Bond. See Subsections 080.04.a. and 080.04.b. (10-11-88)

04. Department. The Idaho Department of Lands., Boise office business address is 300 North 6th Street, Suite 103, Boise, Idaho 83720. (10-11-88)

05. Director. The D~~d~~irector of the Idaho Department of Lands or their~~his~~ authorized representative. (10-11-88)

06. Discretion. Exercising authority to make a decision, choice or judgment without being arbitrary, capricious or illegal. (10-11-88)

~~**07. Exploration**. The activities related to the search for oil and gas including without limitation aerial, geographical and geophysical surveys and studies, seismic work, core drilling and the drilling of test wells. (10-11-88)~~

07. Exploration. Activities related to the various geological and geophysical methods used to detect and determine the existence and extent of hydrocarbon deposits.

08. Final Board Approval. Approval of a lease occurs after the lease is signed by the Governor, the Secretary of State and the ~~director~~Director on behalf of the Board after approval of the lease by a majority of the Board. All approved leases shall first be signed by the lessee and then by the above-entitled state officials.(10-11-88)

~~**09. Lease**. An oil and gas lease in accord with these rules. (10-11-88)~~

09. Lease. A written agreement between the Department and a Person containing the terms and conditions upon which the Person will be authorized to use state ~~endowment trust~~ lands.

10. Legal Subdivision. See Subsection 071.04. (10-11-88)

11. Lessee. The person to whom a lease has been issued and his successor in interest or assignee(s). More than one (1) person may be entered as an applicant on the application form but only one (1) person shall be designated in the application for lease or assignment as the lessee of record with sole responsibility for the lease under these rules. (10-11-88)

12. **Lessor**. The Board on behalf of the state of Idaho. (10-11-88)

~~**13.** **Motorized Exploration Equipment**. Seismic, stratigraphic, core or other drilling equipment, whether portable or vehicular, vibrator vehicles and other similar equipment. (10-11-88)~~

13. **Motorized Exploration** means exploration which may appreciably disturb or damage the land or resources thereon~~.~~ defined within 47-703A.

14. **Natural Gas Plant Liquids.** Natural Gas Plant Liquids means hydrocarbons in raw gas that are separated as liquids at gas processing plants, fractionating plants, and cycling plants. Natural Gas Plant Liquids obtained include ethane, liquefied petroleum gases (propane and the butanes), and pentanes plus any heavier hydrocarbon compounds. Component products may be fractionated or mixed.

~~**14.** **Oil and Gas**. Oil, gas, casinghead gas, casinghead gasoline, all other hydrocarbons and other carbonaceous substances present in the earth and produced therefrom in a gaseous or liquid form and shall include sulfur and such other gaseous substances and elements as shall be produced in a gaseous or liquid form in association with or separate from oil and gas including carbon dioxide and helium, but shall not include coal, lignite, oil shale or similar hydrocarbons, or synthetic fuels derived therefrom. (10-11-88)~~

15. **Oil and Gas**. Oil and gas means oil or gas or both.

1~~5~~6. **Person**. (7-1-93)

a. An individual of legal age; (7-1-93)

b. Any firm, association or corporation that is qualified to do business in the state of Idaho; (7-1-93)

c. Or any public agency or governmental unit, including without limitation, municipalities.(10-11-88)

17. **Production in Paying Quantities**. That gross income from oil and/or gas produced and saved (after deduction of taxes and royalty) that exceeds the cost of operation. (10-11-88)

18. **State Lands**. Lands, including the beds of navigable waters within Idaho, in which the title to mineral rights are owned by the state of Idaho and that are under the jurisdiction and control of the Board or any other state agency. (10-11-88)

~~010~~0110~~7~~. -- 014.(RESERVED)

015. CONTROL OF STATE LANDS.

The ~~director~~Director shall regulate and supervise pursuant to law and these rules all state lands within the custody and control of the Board. State lands subject to the custody and control of other state agencies shall be regulated and supervised by the respective agency in accord with state laws and rules; provided that any lease for oil and gas thereon shall comply with these rules. (10-11-8

016. WITHDRAWAL OF LANDS.

At any time prior to final Board approval of a lease, the Board reserves the right to withdraw state lands entirely from oil and gas leasing if consistent with its constitutional and statutory duties and in the state's best interests; ~~provided that the Department shall refund application fee.~~ (10-11-88)

017. -- 019. (RESERVED)

020. QUALIFIED APPLICANTS AND LESSEES.

~~Any person as defined in Subsection 010.15 shall be qualified to lease the oil and gas resources in state lands or take or hold an interest therein, provided that no member of the Board or employee of the Department may take or hold such lease; and provided further, that the Board may in its discretion deny a lease or assignment to any person who has forfeited a lease as per Subsection 071.01 or until delinquent rentals plus interest on any previous lease have been paid~~

~~in full. (10-11-88)~~
Any P~~p~~erson who is not then in default of any contract with the state of Idaho or any department or agency thereof.

021. EXPLORATION.

01. Written Permit Required. Any appreciable surface disturbing activity, ~~exploration~~ including, but not limited to, ~~with~~ M~~m~~otorized E~~e~~xploration ~~equipment~~ on state lands is prohibited except by written permit for exploration for such period of time as determined ~~signed~~ by the ~~director~~Director~~,~~. This permit is in addition to any permit required by the Commission. ~~which shall be valid for ninety (90) days or less for each section of state lands not withdrawn or leased under these rules. However, no test well shall be drilled prior to award of a lease and compliance with Section 055. (10-11-88)~~

02. Permit Conditions. The permit shall contain such conditions as the ~~director~~Director determines will protect the existing surface uses and resources of the state. The permit applicant shall pay in advance the fee required by Section 120.~~; however, when the permit applicant is also the lessee, no fee is required.~~ (10-11-88)

~~**022. APPLICATIONS -- CONTENT -- FEE.**~~

~~**01. Filing**. An application for a lease may be filed with the Department in Boise during regular business hours (8:00 a.m. to 5:00 p.m.) on a department form or exact copy thereof. The application shall contain the following: name, address, telephone number, signature of the applicant, the Department's tract number and legal description of the lands applied for, and the twenty-five dollars ($25) nonrefundable application fee. The Department's tract number and legal description for each tract shall be obtained from the competitive tract list. (10-11-88)~~

~~**02. Establishing Priority**. Individuals not attending a competitive auction under Section 025 may file an application establishing a priority for purposes of Rule 025.02. (10-11-88)~~

~~**03. Competitive Bidding**. Individuals bidding at a competitive auction will file an application in accord with Subsection 028.04. (10-11-88)~~

~~**023. SIZE AND COMPOSITION OF LEASABLE TRACT.**~~

~~**01. Maximum Size**. Each lease shall include all available state lands within a section and shall not exceed six hundred and forty (640) acres in size, unless available state lands in the section exceed six hundred and forty (640) acres. Available state lands means lands not withdrawn or leased per these rules. (10-11-88)~~

~~**02. Navigable Water Courses**. Operations in or under the beds of navigable water courses shall not be authorized except in extraordinary circumstances and only with express written approval of the Board upon such conditions and security as the Board deems appropriate. An applicant may need to obtain a stream channel alteration permit from the Department of Water Resources prior to commencing operations in the beds of any water courses. (10-11-88)~~

~~**024. (RESERVED)**~~

~~**025. COMPETITIVE BIDDING.**~~

~~**01. Highest Bid**. Subject to Section 016 and Subsection 025.02 a lease shall be acquired by competitive bidding and shall be awarded to the qualified bidder with the highest bid. If no application for a particular tract is timely filed and in the absence of any bids for such tract at an auction, that tract will be offered on an over-the-counter basis on the first of the month following the sale to the first qualified applicant. The tract offering period shall be open for a six (6) month period of the auction year. (10-11-88)~~

~~**02. First Applicant When No Bid**. In the absence of any bid at an auction on a particular tract, a lease shall be awarded to the person who filed an application first in time in accord with these rules. If an application with a priority in time is withdrawn per Subsection 027.04, and in the absence of any bid at an auction for that particular tract, the lease shall be awarded to the person who filed an application with next priority in time. (10-11-88)~~

~~**03. Simultaneous Filings**. Applications received by the Department over the counter or by mail on the same day shall be considered as simultaneous filings and shall be resolved by competitive bidding at an auction at a time and place designated by the director. (10-11-88)~~

~~**026. AUCTIONS - SCHEDULE.**~~

~~**01. Time**. Public auctions shall be scheduled as needed by the director. Public auctions will normally be held in Boise and commence at 9:30 a.m. (10-11-88)~~

~~**02. Notice**. A notice of lease auction shall be published no less than thirty (30) days prior to the date of the auction in two (2) newspapers of general circulation in Idaho and in one (1) or more major trade journals of the Department's choice, and mailed to persons on the Department mailing list. The notice shall be posted in the offices of the Department in Boise and in the county courthouse at the county seat of the county where the land is located. The notice shall state the date, time and place of auction, information concerning the tracts offered and special lease stipulations, if any. All tracts on the competitive tract list will be open for competitive bidding. (10-11-88)~~

~~**027. DESIGNATING TRACTS BY APPLICATION.**~~

~~**01. Application for Auction**. Any person who desires that a tract of state land be offered for oil and gas leasing at the next scheduled auction shall make application in compliance with Sections 022 and 023 at least sixty (60) days prior to the date set for auction. Each application shall be deemed an offer to lease the lands described in the amount of the minimum required first year's rental and shall constitute an undertaking to pay, within ten (10) business days after the auction, the required first year's rental for the lease. (10-11-88)~~

~~**02. Designation of Other Tracts**. The director may also designate tracts to be offered at an auction. (10-11-88)~~

~~**03. Filing**. Applications for purposes of priority in time for purposes of Subsection 025.02 made after publication of a notice of lease offering shall be filed with the Department in Boise at least ten (10) business days prior to the date of the auction. (10-11-88)~~

~~**04. Withdrawal of Application**. Any application may be withdrawn by the applicant if a request for such withdrawal is received by the Department in Boise at least seven (7) business days prior to the date fixed for the auction, but the twenty-five dollars ($25) application fee will not be refunded. (10-11-88)~~

~~**028. AUCTION PROCEDURE.**~~

~~**01. Oral Auction**. For oral auction, all bidders shall register with the Department during the seven (7) business days prior to the auction or during a ninety (90) minute period immediately preceding the auction. Registration shall include the name, address and signature of the bidder, the assignment of a bidding number, the submission of either a power of attorney or a designation of agent executed by the applicant, and payment of the ten dollars ($10) bidding fee; provided that persons who have timely filed an application and paid the twenty-five dollars ($25) application fee for a tract to be offered at a particular auction do not need to pay the bidding fee for that auction. Immediately after completion of the auction, each winning bidder shall supplement his registration by listing the name and address of the applicant for the lease, and if the bidder is not an employee of the applicant, he shall submit a copy of a power of attorney executed by the applicant. A qualified applicant pursuant to Section 020 or a designated agent may bid for a competitive lease. (10-11-88)~~

~~**02. Cash Bonus Bid**. The method of bidding will generally be by cash bonus bid at oral auction. The minimum opening bid shall be a twenty-five cent ($.25) bonus per acre. The successful bonus bid for an offered tract at auction shall be the number of dollars bid multiplied by the number of acres in the offered tract plus the first year's rental per Subsection 041.03. The Board reserves the right to specify in the notice of offering any other method of competitive bidding that, in its discretion, it determines to be in the best interests of the state. (10-11-88)~~

~~**03. Right to Reject Bids**. The director reserves the right to reject any or all bids. The Board and~~

~~Department expressly disclaim any liability for inconvenience or loss caused by errors that may occur concerning lease offerings. (10-11-88)~~

~~**04. Winning Bidder Payments**. Winning bidders who have not previously submitted an application for the tract bid upon shall submit by check or money order to the Department's representative immediately after the completion of an oral auction, the application fee for each lease per Section 120. Within ten (10) business days thereafter, winning bidders shall submit to the Department a completed, signed application for each section, if not previously filed, and the bonus bid by check or money order, and the pro rata share of the cost of advertising based upon the percentage of acreage acquired, computed from the total acres leased. A check that is subsequently not honored for any reason other than error by a bank may disqualify the applicant from leasing under these rules until the dishonored check is paid and for one (1) year thereafter. (10-11-88)~~

~~**05. Execution of Lease**. The completed lease shall be executed by the lessee within thirty (30) days from the date of mailing, or if personally delivered to the applicant or his agent by the Department, within thirty (30) days from the date of receipt. An individual who executes a lease on behalf of another person shall submit a power of attorney which outlines his delegated authority. (10-11-88)~~

~~**029. COMPETITIVE TRACT LIST.**~~
~~A list of available state lands will be published for distribution. This list shall contain a tract number for each tract designated by the Department, the legal description of each tract and the number of acres per tract. (10-11-88)~~

022. LEASE AQUISITION PROCESS

01. Acquiring a Lease. A lease ~~tract~~ shall be acquired for the exclusive right and privilege to explore for and produce oil and gas by competitive bidding, oral auction, online, or such other method of competitive bidding authorized by the ~~Land~~ Board, in its discretion, determined to be in the best interest of the state, and shall be awarded to the winning bidder with the highest bid at close of auction. The winning bidder of a lease ~~tract~~ at auction shall be issued the lease by the Department on the first day of the month following Final Board Approval. The Board and Department reserve the right to reject any or all nominations or bids, and expressly disclaim any liability for inconvenience or loss caused by errors that may occur concerning lease offerings.

02. Lease Provisions.

a. Term. All oil and gas leases shall have a term as provided by Statute 47-801 from the effective date and shall continue from year to year thereafter for so long as production of oil and gas continues in paying quantities, or as long as the lessee conducts diligent and continuous drilling operations at a depth of one thousand (1,000) feet or deeper, or at a lesser depth than one thousand (1,000) feet if approved by the Director, or the lessee reworks a former well under authorized permit from the C~~c~~ommission on the leased lands. ~~The Director may, at his discretion, approve an oil and gas lease for a term of less than provided by Statute 47-801.~~

b. Advance Annual Rental. The lessee shall pay to the state of Idaho an advance annual rental for each lease of $3.00 per acre with a minimum of $250.00 per lease ~~tract~~.

c. ~~40.02.~~ Diligent Drilling. Diligent and continuous drilling operations means no delay or cessation of drilling for a period greater than one hundred twenty (120) days, unless extended in writing by the ~~director~~Director. The ~~director~~Director must receive a written request for an extension at least ten (10) days prior to the expiration of the one hundred twenty (120) day period. (10-11-88)

d. ~~40.03.~~ Notification at End of Lease Period. The lessee shall notify the ~~director~~Director in writing prior to the expiration of the final ~~tenth~~ year of his lease that drilling or reworking operations has commenced and will extend beyond the expiration date of the lease. Advance Annual Rental ~~payment~~, in the amount required by Section 022~~41~~ for any additional ~~the eleventh~~ and each succeeding year, shall be received by the Department prior to the

expiration date and shall entitle the lessee to hold the lease only so long as drilling or rework operations are pursued in accord with these rules. There will be no refund of unused rental. (10-11-88)

e. ~~40.04.~~ Abandonment. During any additional ~~the eleventh~~ or succeeding year of any lease, cessation of production for a period of six (6) months shall be considered as abandonment. The lease will then automatically terminate at its next anniversary date unless the ~~director~~Director determines that such cessation of production is justified or the well meets the requirements of a shut in ~~gas~~ well under Subsection 022f~~40.05~~. (10-11-88)

f. Suspension of Production. The Director may grant a suspension of production not to exceed one (1) year upon a written application showing that the lessee is unable to market oil or gas due to a lack of suitable production facilities or a suitable market for the oil or gas and such conditions are outside the reasonable control of lessee and the lease is not being otherwise maintained in force and effect. If such well is shut in and the Director approves the application for suspension of production requirements prior to the expiration or termination of the lease then the lease shall be extended in accordance with the terms of Idaho Code 47-801 for a period of one year if the lessee timely submits an application in a form approved by the Director and, upon approval of said application, pays a shut-in royalty in the amount of $5,000.00. The lessee must remit the shut-in royalty payment, while the lease is otherwise maintained in force and effect. Payment of shut-in royalty after the expiration or other termination of the lease will not revive or extend the lease. The lessee may request continuation of this suspension of production, provided such request is received in writing by the Director at least thirty (30) days prior to the expiration date of the period of suspension.

03. Nominating a Lease Tract for Auction. Lease tracts may be nominated for auction either by application to the Department ~~IDL~~ at least 90 days prior to a~~n~~ Department ~~IDL~~-defined close of auction date, or by Department~~IDL~~ nomination at least 90 days prior to a~~n~~ Department~~IDL~~-defined close of auction date. Any qualified Person may nominate a tract for lease auction by submitting a nomination to the Department in Boise, and paying the nomination fee in an amount determined by the Board, during regular business hours (8:00 a.m. to 5:00 p.m.) on the Department nomination form. Each nominated lease tract shall be a maximum size of 640 acres or one section unless otherwise determined by the Director. Each nomination for a lease tract for auction shall be deemed an offer by the nominating Person to lease the lease tract for the advance annual rental amount as defined in Subs~~S~~ection 02 above.

04. Withdrawing a Lease Tract for Auction. Any Person nominating a lease tract for auction may withdraw their nomination if a request for such withdrawal is received by the Department in Boise at least ten (10) business days prior to the opening date of auction. The nomination fee shall not be refunded.

05. Auction Conditions. The Department shall determine the conditions associated with the auction, including, but not limited to: when or if a lease tract will be offered for auction; whether the lease tract is to be removed from the auction; and any disclaimers, additional information, and any other such terms and conditions associated with the auction of the lease tracts. Any such terms and conditions, disclaimers, and additional information shall be posted on the Department's website.

06. Lease Tract Information for Auction. For each lease tract to be auctioned, the Department shall provide on the website: a tract number designated by the Department; the legal description; the lease length; the number of acres; a minimum bid per acre; ~~-~~a lease template; any lease stipulations; any other lease tract information; a specific date designated for the beginning and ending dates that a bidder may conduct due diligence; a specific date designated for the opening of auction; and a close of auction date. A notice of lease auction shall be published at least once per week for the four consecutive weeks prior to the date of auction in a newspaper in general circulation in the county in which the nominated lease tract is located and in a newspaper in general circulation in Ada County.

07. Auction Procedure. The Department shall determine the procedures associated with the auction, including, but not limited to place of auction, time of auction, and bidder registration procedure. Additional auction procedures are as follows.

a. Bid Increments. The minimum bid increment shall be $1.00.

b. Winning Bid. At close of auction, the winning bid for a nominated lease tract shall be the number of dollars bid multiplied by the number of acres in the nominated lease tract, with fractions of an acre rounded up to the next whole acre. If, at close of auction, a bid for a lease tract has not been submitted by a bidder, then the lease tract shall be awarded to the nominating applicant. The entry of a bid constitutes an enforceable contractual obligation.

c. Amount Due. The amount due for a lease ~~tract~~ shall be the winning bid, plus the first year's annual rental amount as per Subs~~S~~ection 02 above, plus the nomination fee. If the winning bid was submitted by the nominator of the lease tract(s), then the nomination fee will already have been submitted to the Department and shall not be included in the amount due. The nominator will be refunded the nomination fee if they are not the winning bidder.

d. Transfer of Funds. The winning bidder for each lease ~~tract~~ shall have two (2) full business days after close of auction or as otherwise in the notice of auction to complete transfer of funds for the amount due to the Department, unless both parties agree otherwise in writing. Failure of the winning bidder to transfer funds within the period specified constitutes a breach of contract, and the state may pursue any action or remedy, at law or in equity against the winning bidder.

08. Execution of Lease. The completed lease shall be executed by the winning bidder within thirty (30) days from the date of mailing after close of auction, or if personally delivered to the applicant or his agent by the Department, within thirty (30) days from the date of receipt. An individual who executes a lease on behalf of another person shall submit a power of attorney which outlines his delegated authority. (10-11-88)

~~023. – 039. (RESERVED)~~

~~040. TERM.~~

~~**01. Ten Year Lease**. All leases shall have a term of ten (10) years from the anniversary date. The anniversary date of the lease shall be the first day of the month after final Board approval. The lease shall have a primary term consisting of lease years one (1) through five (5), inclusive, and a secondary term consisting of lease years six (6) through ten (10), inclusive. At the expiration of the tenth year, the lease shall continue in force so long as production of oil and gas continues in paying quantities, or as long as the lessee conducts diligent and continuous drilling operations at a depth of one thousand (1,000) feet or deeper, or at a lesser depth than one thousand (1,000) feet if approved by the director, or the lessee reworks a former well under authorized permit from the commission on the leased land. (10-11-88)~~

~~**02. Diligent Drilling**. Diligent and continuous drilling operations means no delay or cessation of drilling for a period greater than one hundred twenty (120) days, unless extended in writing by the director. The director must receive a written request for an extension at least ten (10) days prior to the expiration of the one hundred twenty (120) day period. (10-11-88)~~

~~**03. Notification at End of Lease Period**. The If the lessee intends to extend beyond the original term, then the lessee shall notify the director in writing prior to the expiration of the tenth last year of his the original term of the lease, and each year thereafter, that drilling or reworking operations has commenced and will extend beyond the expiration date of the current lease term. Rental The rental payment for the last year of the original term, and for each year thereafter, in the amount required by Section 041, shall be received by the Department in advance prior to the expiration of the original term, and prior to the end of each succeeding year that the lease is extended, but only so long as drilling or rework operations are pursued in accord with these rules. , in the amount required by Section 041 for the eleventh and each succeeding year, shall be received by the Department prior to the expiration date and shall entitle the lessee to hold the lease only so long as drilling or rework operations are pursued in accord with these rules. There will be no refund of unused rental. (10-11-88)~~

~~**04. Abandonment**. During the any succeeding year that the lease is extended following the original term of the lease eleventh or succeeding year of any lease, the cessation of production for a period of six (6) months~~

~~shall be considered as abandonment. The lease will then automatically terminate at its next anniversary date unless the director determines that such cessation of production is justified or the well meets the requirements of a shut in gas well under Subsection 040.05. (10-11-88)~~

~~**05. Suspension of Production**. The director may grant a suspension of production not to exceed two (2) years upon a written request showing that the lessee is unable to market oil or gas. If such well is shut in and the director approves suspension of production requirements after expiration of the ten (10) year term or for each succeeding year for which the lease is extended, the lease shall be considered as if the well was producing in paying quantities under Subsection 040.01. The lessee shall pay rental for each year during which the well is shut pursuant to Section 041. The lessee may request continuation of this suspension, provided such request is received in writing by the director at least thirty (30) days prior to the expiration date of the period of suspension. (10-11-88)~~

~~**041. RENTALS.**~~

~~**01. Advance Annual Rental**. The lessee shall pay to the state of Idaho an advance annual rental for each acre under lease. The annual rental and bonus bid for the first year shall be due and payable within ten (10) business days after the auction pursuant to Subsection 028.04. Subsequent rental payments must be received in the Department in Boise on or before the anniversary date of the lease. Rental payments shall be made directly to the Department and not through any bank or depository. Failure to pay the exact rental due may result in cancellation of the lease. (10-11-88)~~

~~**02. Delinquent Rental**. Rental is delinquent if not paid on or before the due date. Should rental be delinquent, the Department will send a single notice of delinquent payment by certified mail to the lessee. If payment is not received by the Department within thirty (30) days from the date of mailing, the Department may cancel the lease without further notice to the lessee or may assess the greater of the following; either a twenty five ($25) late payment charge or interest at the rate of one percent (1%) for each calendar month or fraction thereof, compounded monthly, for late payments from the date the rental is due. The Department is not responsible for notifying lessees of rentals due prior to the due date notwithstanding any billing practices of the Department. (10-11-88)~~

~~**03. Bonus Bid**. The lessee shall pay the offered bonus bid and the first year's rental of one dollar ($1) per acre of the lease. For the second year through the tenth year, lessee shall pay in advance an annual rental one dollar ($1) for each acre or part thereof under lease. For leases extended into the eleventh year and/or longer, the advanced annual rental shall be three dollars ($3) for each acre or part thereof under lease, unless the lease is producing in paying quantities. In such instances the annual rental shall be one dollar and fifty cents ($1.50) for each acre or part thereof under the lease. (10-11-88)~~

~~042~~023. - 044. (RESERVED)

045. ROYALTIES.

01. Royalty Payments. Unless otherwise specified by the Board, the lessee shall pay to the state of Idaho in money or in kind to the state at its option a royalty of no less than twelve and one-half percent (12-1/2%) of the oil and/or gas and/or natural gas plant liquids produced and saved. The lessee shall make payments in cash unless written instructions for payment in kind are received from the state. Royalty shall be due on all production from the leased premises except that consumed for the direct operation of the producing wells and that lost through no fault of the lessee. (10-11-88)

02. Royalty Not Reduced. Where royalties are paid in cash, costs of marketing and processing oil and/or gas and/or natural gas plant liquids produced shall be borne entirely by the lessee, and such cost shall not reduce the lessor's royalty directly or indirectly. If the ~~director~~Director elects to take royalty in kind, the state shall reimburse the lessee for reasonable additional storage and transportation costs. (10-11-88)

~~**03. Oil Royalty Calculation**. When paid in cash, the royalty shall be calculated upon the reasonable market value of the oil at the well which shall not be less than the price actually paid or agreed to be paid to the lessee at the well by its purchaser; in no event shall the royalties be based upon a market value at the well less than the posted price in the field for such oil, or upon a market value at the well less than the prevailing price received by other~~

~~producers in the field for oil of like grade and gravity at the time such oil is run into pipelines or storage tanks.~~ ~~(10-11-88)~~

~~**04. Gas Royalty Calculation**. On gas, including casinghead gas or other gaseous substances, the royalty shall be calculated upon the reasonable market value at the well or on the price received by lessee at the well, whichever is greater, of all gas produced and saved from the leased premises. Where gas is sold under a contract that has been approved by the state of Idaho, the reasonable market value of such gas for determining the royalties payable shall be the price at which such gas is sold under such contract; provided, however, that no approval by the state of Idaho of the terms of any such agreement shall operate to make the state a party thereto or obligate it in any way except as herein provided, and the lessee agrees to hold the state harmless from any such obligation. (10-11-88)~~

~~**05. Due Date**. Royalties shall be due and payable monthly in the Department in Boise on or before the last day of the calendar month following the month in which the oil and/or gas was produced. Each royalty payment shall be accompanied by the production report described in Section 056. (10-11-88)~~

03.Oil, Gas, and Natural Gas Plant Liquids Royalty Calculation. All royalty owed to the Lessor hereunder and not paid in kind at the election of the Lessor shall be paid to the Lessor in the following manner: Payment of royalty on production of oil shall be due and must be received by the Lessor on or before the fifth (5th) day of the second (2nd) month succeeding the month of production. Royalty on gas and natural gas plant liquids is due and must be received by the Lessor on or before the fifth (5th) day of the third (3rd) month succeeding the month of production. All royalty payments must be completed in the form and manner prescribed by the Lessor, including but not limited to, ~~and showing~~ the gross amount and disposition of all oil, gas, and natural gas plant liquids produced and the market value of the oil, gas, and natural gas plant liquids. Lessee must maintain, and make available to the Lessor upon request, copies of all documents, records or reports confirming the gross production, disposition and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of the amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the Lessor may require to verify the gross production, disposition and market value. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing, by the assigned Lessor lease number, the amount of royalty being paid on each lease.

~~065. OVERRIDING ROYALTY.~~ 04. Overriding Royalty

All assignments of overriding royalty without a working interest made directly by the lessee and not included with an assignment of lease shall be filed with the Department in Boise with the recording fee within ninety (90) days from the date of execution; provided that it shall be the lessee's responsibility and not the Department's, to record such assignments by third parties. Any assignment which create~~sing~~ an overriding royalty which exceeds the royalty previously payable to the state by greater than five percent (5%), ~~which when added to overriding royalties previously created and to the royalty payable to the state aggregates in excess of seventeen and a half percent (17 1/2%),~~ shall be deemed a violation of the terms of the lease unless such an assignment expressly provides that the obligation to pay such excess overriding royalty shall be suspended when the average production of oil per well per day, averaged on a monthly basis, is fifteen (15) barrels or less. (10-11-88)

046. -- 049. (RESERVED)

050. LAND USE, SURFACE RIGHTS AND OBLIGATIONS.

01. Use and Occupancy. Notwithstanding other leases for other uses of state lands, the lessee shall be entitled to use and occupy so much of the surface of the leased lands as may be required for all purposes reasonably incident to exploration, drilling and production and marketing of oil and gas produced from the leased land, including the right to construct and maintain all works, buildings, plants, waterways, roads, communication lines, pipelines, reservoirs, tanks pumping stations or other structures necessary to full enjoyment and development; provided that lessee's operation shall not unreasonably interfere with or endanger operations under any lease, license, claim, permit or other authorized, lawful use. (10-11-88)

02. Prevention of Injury or Damage. The lessee, its assignees, agents, and/or contractors shall take all reasonable precautions to prevent injury or damage to persons, real and personal property and to prevent waste or damage to the oil, gas and other surface and subsurface natural resources and the surrounding environment, including

but not limited to, vegetation, livestock, fish and wildlife and their natural habitat, streams, rivers, lakes, timber, forest and agricultural resources. The Lessee, his assignees, agents and/or contractors shall compensate the Board, his surface lessees, grantees or contract purchasers for any damage resulting by reason of their operations or any damage resulting from their failure to take all reasonable precautions to prevent injury or damage to persons, real and personal property and to prevent waste or damage to the oil, gas and other surface and subsurface natural resources and surrounding environment as set forth above. The lessee, its assignees, agents and/or contractors shall comply with all environmental laws, rules and regulations as they pertain to its operation. (10-11-88)

03. Blowout or Spill. The lessee shall report to the ~~director~~Director any blowout, fire, uncontrolled venting, or oil spill on the leased land within twenty-four (24) hours and shall confirm this report in writing within ten (10) days.

(10-11-88)

04. Distance From Residence. No well shall be drilled within two hundred (200) feet of any occupied residence or barn without the written consent of the owner of such building. (10-11-88)

05. Fences. The lessee shall not at any time fence any watering place upon leased lands where it is the only accessible and feasible watering place upon the lands within a radius of one (1) mile, without first having secured the written consent of the ~~director~~Director. (10-11-88)

06. Timber Removal. The lessee shall not unreasonably interfere with the removal of timber purchased prior or subsequent to the issuance of an oil and gas lease. The lessee may remove any timber required for ingress or egress or necessary for operations. The lessee shall pay for any timber cut or removed on a current stumpage price basis as determined by the ~~director~~Director, and proceeds therefrom shall accrue to the state agency that has custody and control over the leased lands. (10-11-88)

07. Potable Water Discovery. If the lessee finds only potable water in any well drilled for exploration or production of oil and gas, and the water is of such quality and quantity as to be valuable and usable for agricultural, domestic, or other purposes, the Board may acquire the well with whatever casing is installed in the well at the fair market value of the casing upon the assumption by its surface lessee, grantee, or contract purchaser of all future liabilities and responsibilities for the well, with the approval of the commission and in compliance with Section 058; provided that the surface lessee, grantee, or contract purchaser shall also comply with applicable laws and rules of the Department of Water Resources. (10-11-88)

08. Reclamation. The lessee shall reclaim all state lands disturbed by its exploration and operations at least consistent with previous use by the surface owner, including segregating and protecting topsoil and regarding to approximate previous contour. If substantial removal of topsoil has occurred as determined by the ~~director~~Director, the lessee shall replace the topsoil and revegetate to the extent necessary to minimize erosion. (10-11-88)

09. Entry by Director. The ~~director~~Director shall be permitted at all reasonable times to go in and upon the leased lands and premises to inspect the operations and the products obtained and to post any lawful notice. The ~~director~~Director may at any time require that reasonable tests, surveys, samples, etc., be taken in accord with his instruction, without cost to the state of Idaho, to assure compliance with these rules. The ~~director~~Director may at any reasonable time inspect and copy at his own expense all of lessee's books and records pertaining to a lease under these rules. Upon failure of lessee to take timely, corrective measures ordered by the ~~director~~Director or the Board or the commission, the ~~director~~Director may shut down lessee's operations if he determines they are unsafe or are causing or can cause waste or pollution, to oil, gas or other resources; or the ~~director~~Director may terminate the lease in accord with these rules, and may cause damage or unsafe conditions to be repaired or corrected at the expense of the lessee and forfeiture of bond under these rules. (10-11-8

10. Other Uses. Subject to Subsection 050.01, the ~~director~~Director may issue leases for other uses of state lands leased under these rules. All lessees shall have the right of reasonable ingress and egress at all times during the term of the lease. (10-11-8

11. Disposal of Leased Lands. The Board reserves the right to sell or otherwise dispose of the surface of the leased lands; provided that any sale of surface rights made subsequent to execution of the lease shall be subject

to all terms and provisions of the oil and gas lease during its life including extensions and continuations under Rule 040. (10-11-88)

051. DILIGENT EXPLORATION REQUIRED.

The lessee shall perform diligent exploration during the entire term of a lease. Diligent exploration means that the lessee shall provide continuing efforts as a reasonably prudent operator toward achieving production, including, without limitation, performing geological and geophysical surveys and/or the drilling of a test well. ~~To qualify as diligent exploration for each year of the secondary term the lessee shall:~~ (10-11-88)

~~**01. Drill One Well**. Drill at least one (1) well upon the leased premises or upon adjacent state leases or upon unitized lands in which the leasehold is included pursuant to Section 090, of such diameter and to such depth as may be necessary to make a reasonable test for oil and gas; or (10-11-88)~~

~~**02. Pay in Advance**. Pay in advance a delayed drilling penalty of one dollar ($1) per acre per year for the remainder of the secondary term. (10-11-88)~~

052. -- 054. (RESERVED)

055. OPERATIONS UNDER THE LEASE.

01. Best Practices. The lessee shall at all times conduct exploration, development, drilling and all operations as a reasonably prudent operator and shall conform to the best practice and engineering principles in use in the oil and gas industry. (10-11-88)

02. Compliance with Rules. The lessee shall comply with all rules of the oil and gas commission, including amendments promulgated pursuant to Title 67, Chapter 52, Idaho Code, and any violations of the commission's rules or other applicable state laws and rules may constitute a violation of the lease under these rules. (10-11-88)

03. Designation of Operator. In all cases where operations are not conducted by the lessee but are to be conducted under authority of an approved operating agreement, assignment or other arrangement, a designation of operator shall be submitted to the ~~director~~Director prior to commencement of operations. Such a designation shall authorize the operator or his local representative to act for the lessee and to sign any papers or reports required under these rules. The lessee shall immediately report to the ~~director~~Director all changes of address and termination of the authority of the operator.

04. Legal Representative. When required by the ~~director~~Director, the lessee shall designate a local representative empowered to receive service of civil or criminal process and notices and orders of the ~~director~~Director issued pursuant to these rules. (10-11-88)

05. Diligence. The lessee shall, subject to the right to surrender the lease, diligently drill and produce such wells as are necessary to protect the Board from loss by reason of production on other properties, or with the consent of the ~~director~~Director, shall compensate the Board for failure to drill and produce any such well. All wells under lease shall be drilled, maintained and operated to produce the maximum amount of oil and/or gas that can be secured without injury to the well. (10-11-88)

06. Loss Through Waste or Failure to Produce. The ~~director~~Director shall determine the value of production accruing to the Board where there is loss through waste or failure to drill and produce protection wells on the leased lands and the compensation due to the Board as reimbursement for such loss. Payment for such losses shall be made within sixty (60) days after the date of billing. The value of production resulting from a loss through waste or failure to take corrective measures to protect a well shall be calculated at ninety percent (90%) of the last year's actual production royalty or a minimum royalty of five dollars ($5) per acre or fraction thereof, whichever is greater. (10-11-88)

07. By-Products. Where production, use of conversion of oil and gas under a lease, is susceptible of producing a valuable by-product or by-products, including, without limitation, commercially demineralized water,

carbon dioxide or helium, the lessee shall submit to the ~~director~~Director all available information concerning the potential by-product. The Department may conduct tests or studies at its expense and may issue reasonable orders to produce and preserve such by-product. (10-11-88)

08. Geothermal Information. Prior to abandoning any well, the lessee shall submit to the ~~director~~Director all available information concerning geothermal resource potential. The Department may conduct tests or studies at its expense prior to the abandoning of any well to determine geothermal resource potential. Except as provided in Subsection 040.05, the lessee shall promptly plug and abandon any well on the leased land that is not used or useful, in accord with these rules and the rules of the commission, and any applicable rules and regulations of the Department of Water Resources. When drilling in a known geothermal resources area, the applicant may need a geothermal resource well permit from the Department of Water Resources. (10-11-88)

~~**056. PRODUCTION REPORT.**~~

~~The lessee shall file with the Department on a Department form or on a reasonable facsimile a sworn monthly report on all production for each lease. The report must be received by the Department no later than the end of the calendar month following the month for which the report is prepared. If production should cease during any month, the reason for cessation shall be explained on the report. (10-11-88)~~

~~**057. EXPLORATION AND OPERATIONS RECORDS -- CONFIDENTIALITY.**~~

~~All production reports filed with the director and information obtained pursuant to Subsection 050.09 shall be held confidential for one (1) year, unless otherwise directed by the lessee; provided that the Board may utilize such information in asserting or defending its rights under these rules in litigation or administrative hearings. (10-11-88)~~

05~~8~~7. WATER RIGHTS.

The lessee shall comply with all state laws and rules regulating the appropriation of water rights. No water rights developed or obtained by the lessee in conjunction with operations under a lease shall be sold, assigned or otherwise transferred without written approval of the ~~director~~Director. Upon surrender, termination or expiration of the lease, the lessee shall take all actions required by the ~~director~~Director to assign to the Board all water rights, including applications and permits, subject to applicable laws regarding the transfer or assignment of permits to appropriate water. (10-11-88)

058. - 059. (RESERVED)

060. ASSIGNMENTS.

01. Prior Written Approval. No lease assignment shall be valid until approved in writing by the ~~director~~Director, and no assignment shall take effect until the first day of the month following its approval.(10-11-88)

02. Qualified Assignee. A lease may be assigned to any person qualified to hold a state lease, provided that in the event an assignment partitions leased lands between two (2) or more persons, neither the assigned nor the retained part created by the assignment shall contain less than forty (40) acres or a government lot, whichever is less. (10-11-88)

03. Responsibilities. In an assignment of the complete interest of the leasehold, the assignor and his surety shall continue to comply with the lease and these rules until the effective date of the assignment. After the effective date of any assignment, the assignee and his surety shall be bound by the lease and these rules to the same extent as if the assignee were the original lessee, notwithstanding any conditions in the assignment to the contrary; however, the assignor-lessee shall remain liable for rentals and royalties due and damages accruing prior to the effective date of the assignment. (10-11-88)

04. Segregation of Assignment. If an assignment partitions leased lands between two (2) or more persons, it shall clearly segregate the assigned and retained portions of the leasehold. Resulting segregated leases shall continue in full force and effect for the balance of the ten-year term of the original lease or as further extended pursuant to these rules. (10-11-88)

05. Joint Principal. Where an assignment does not segregate the record title to the lease, the assignee,

if the assignment so provides, may become a joint principal on the bond with the assignor. The application must be accompanied by a consent of assignor's surety to remain bound under the bond of record, if the bond by its terms does not contain such consent. If a party to the assignment has previously furnished a statewide bond, no additional showing by such party is necessary as to the bond requirement. (10-11-88)

06. Form of Assignment. An assignment shall be a valid legal instrument, properly executed and acknowledged, setting forth the number of the lease, a legal description of the land involved, the name and address of the assignee, the interest transferred and the consideration. A fully executed copy of the instrument of assignment shall be filed with the application for approval pursuant to Subsection 060.07. An assignment may affect or concern more than one (1) lease. (10-11-88)

07. Application. The application for approval of an assignment shall be submitted in duplicate on forms of the Department or exact copies of such forms. The "lessee/assignee of record" shall be designated in accord with Subsection 010.11. If payments out of production are reserved, a statement shall be submitted stating the amount, method of payment, and other pertinent items. The statement shall be filed with the Department in Boise, not later than fifteen (15) days after the filing of the application for approval. (10-11-88)

08. Denial. The ~~director~~Director may deny an application for assignment if the lessee or the assignee is delinquent in payment of rentals or royalties or otherwise has violated these rules. (10-11-88)

09. Fee. All applications for approval of assignment shall be accompanied by the fee required by Section 120. (10-11-88)

~~**061. -- 064. (RESERVED)**~~

~~**065. OVERRIDING ROYALTY.**~~
~~All assignments of overriding royalty without a working interest made directly by the lessee and not included with an assignment of lease shall be filed with the Department in Boise with the recording fee within ninety (90) days from the date of execution; provided that it shall be the lessee's responsibility and not the Department's, to record such assignments by third parties. Any assignment creating an overriding royalty, which when added to overriding royalties previously created and to the royalty payable to the state aggregates in excess of seventeen and a half percent (17 1/2%), shall be deemed a violation of the terms of the lease unless such an assignment expressly provides that the obligation to pay such excess overriding royalty shall be suspended when the average production of oil per well per day, averaged on a monthly basis, is fifteen (15) barrels or less. (10-11-88)~~

~~066.~~ 061.-- 069. (RESERVED)

070. SURRENDER - RELINQUISHMENT.

01. Procedure. The lessee may surrender its lease or any surveyed subdivision of the area covered by such lease, by filing a written relinquishment with the Department, provided that a partial relinquishment shall not reduce the remaining acreage in the lease to less than forty (40) acres or a government lot, whichever is less. The ~~director~~Director may waive the minimum acreage provision of this rule if he finds it is justified on the basis of exploratory and development data derived from activity on the leasehold. (10-11-88)

02. Effective Date. A relinquishment shall take effect thirty (30) days after it is received by the Department. Thereafter the lessee shall be relieved of liability under these rules except for the continued obligation of the lessee and his surety to: (10-11-88)

a. Make payments of all accrued rentals and royalties; (10-11-88)

b. Place all wells on the land to be relinquished in condition for suspension of operations or abandonment; (10-11-88)

c. Comply with all rules of the commission for plugging of abandoned wells; (10-11-88)

d. Comply with applicable laws and rules of the Department of Water Resources; and (10-11-88)

e. Reclaim the surface and natural resources in accord with these rules. (10-11-88)

03. Partial Surrender. In the event of a partial surrender of the land covered by such lease, the annual rental thereafter payable shall be reduced proportionately. (10-11-88)

071. TERMINATION - CANCELLATION OF LEASE.

01. Cause. Except as otherwise provided in these rules, the ~~director~~Director may terminate the lease for any substantial violation of these rules, the lease, or the rules of the commission, ninety (90) days after notice of the violation has been given to lessee by personal service or by certified mail to the lessee, unless: (10-11-88)

a. The violation has been corrected; or (10-11-88)

b. The violation is one that cannot be corrected within the notice period and the lessee has in good faith commenced within the notice period to correct the violation and proceeds diligently to complete corrective action within a time period set by the ~~director~~Director. If sent by certified mail, such notice shall be deemed served upon mailing.

(10-11-88)

02. Failure to Pay Rental. Failure to pay rent on or before the due date shall result in the termination of the lease without notice or opportunity to cure. Time is of the essence for payment of rent and it is a material term of the Lease. ~~The director may terminate a lease for failure to pay rentals or royalties thirty (30) days after mailing of notice of delinquent rental. (10-11-88)~~

03. Surrender After Termination. Upon the expiration or termination of the lease, the lessee shall quietly and peaceably surrender possession of the premises to the state. Thereafter, lessee's obligations under these rules that have accrued prior to the date of expiration or termination shall continue in full force and effect.(10-11-88)

04. Other Wells. Default by the lessee in the performance of any of the conditions or provisions of the lease concerning a well or wells on any legal subdivision of the leasehold shall not affect the right of the lessee to continue the possession or operation of any other well or wells, situated upon any other legal subdivision of the leasehold. The term "legal subdivision" as herein used shall mean a subdivision as established by the United States land survey that most nearly approximates in size the area allocated to one well under any approved well spacing program; provided that if no special program has been approved, "legal subdivision" shall mean the parcel upon which such well is located, but in any event not less than forty (40) acres surrounding such well. Where such a default involving one (1) or more wells results in cancellation, and the lessee has other wells on the lease not in default, such cancellation shall result in the division of the defaulting acreage from the lease and resultant reduction in the size of the lease held by the lessee. (10-11-88)

05. Equipment Removal. Upon the expiration of the lease, or its earlier termination or surrender pursuant to these rules, the lessee shall, within a period of ninety (90) days, remove from the premises all materials, tools, appliances, machinery, structures; equipment subject to removal, but not removed within the ninety (90) day period, or any extension that may be granted because of adverse climatic conditions during that period, shall, at the option of the ~~director~~Director, become property of the state of Idaho; or the ~~director~~Director may cause the property to be removed at the lessee's expense. (10-11-88)

072. -- 079. (RESERVED)

080. BOND REQUIREMENTS.

01. Minimum Bond. Prior to entry with motorized exploration equipment upon leased lands, the surface of which has been sold or leased, the lessee shall submit to the ~~director~~Director a corporate surety bond or collateral bond in the amount of one thousand dollars ($1,000) in favor of the state of Idaho conditioned upon the payment of all damages to the surface that result from the lessee's operation. Prior to entry upon the leased land with

drilling equipment or prior to commencing any construction in preparation for drilling upon leased lands, the lessee shall submit to the ~~director~~Director a corporate security bond or collateral bond in the amount of six thousand dollars ($6,000) in favor of the state of Idaho bond will be conditioned upon compliance with the lease, these rules, the removal of all materials, etc. per Subsection 071.05, and the payment of all damages to the land surface and all improvements thereon, including crops, which result from the lessee's operation, regardless of whether the lands under this lease have been sold or leased by the Board for any other purpose. This bond is in addition to the drilling bond pursuant to ~~commission~~ Commission rules. This rule notwithstanding, the oil and gas lessee may be required on a case-by-case basis to post a bond in excess of six thousand dollars ($6,000) to protect a surface lessee's or surface owner's interests pursuant to Section 47-708, Idaho Code. (10-11-88)

02. Statewide Bond. In lieu of the aforementioned bonds, the lessee may furnish a good and sufficient "statewide" bond conditioned as above in the amount of fifty thousand dollars ($50,000) in favor of the state of Idaho to cover all lessee's leases and operations carried on under these rules. (10-11-88)

03. Period of Liability. The period of liability of any bond shall not be terminated until all obligations under the lease and these rules have been fulfilled and the bond is released in writing by the ~~director~~Director.(10-11-88)

04. Form of Performance Bond. (10-11-88)

a. Corporate surety bond means an indemnity agreement executed by or for the lessee and a corporate surety licensed to do business in the state of Idaho on an oil and gas lease bond form supplied by the Department conditioned in accord with Subsection 080.01, and payable to the state of Idaho. (10-11-88)

b. Collateral bond means an indemnity agreement executed by or for the lessee and payable to the state of Idaho, pledging cash deposits, negotiable bonds of the United States, state or municipalities, or negotiable certificates of deposit of any bank doing business in the United States. Collateral bonds shall be subject to the following conditions: The Department shall obtain possession and deposit such with the state treasurer. The Department shall value collateral at its current market value, not face value. Certificates of deposit shall be made payable to the "State of Idaho or the lessee." Amount of an individual certificate shall not exceed the maximum amount insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation or their successors. Banks issuing such certificates shall waive all rights of set-off or liens that they have of may have against such certificates. Any such certificates shall be automatically renewable. The certificate of deposit shall be of sufficient amount to insure that the Department would be able to liquidate such certificates prior to maturity, upon forfeiture, for the amount of the required bond including any penalty for early withdrawal. (10-11-88)

05. Bond Cancellation. Any surety company or indemnitor cancelling a bond shall give the Department at least sixty-days' (60) notice prior to cancellation. The Department shall not release a surety or indemnitor from liability under existing bonds until the lessee has submitted to the Department an acceptable replacement bond. Such replacement bond shall cover any liability accrued against the bonded principal on the lease covered by the previous bond. (10-11-88)

06. Surety License. If the license to do business in Idaho of any surety shall be suspended or revoked, the lessee shall find a substitute for such surety within thirty (30) days after notice by the Department. If the lessee fails to secure a substitute surety, he shall cease operation upon the lease. The substitute surety shall be licensed to do business in Idaho. (10-11-88)

07. Form. All bonds furnished shall be on the Department bond form or exact copy of it. (10-11-88)

081. -- 084. (RESERVED)

085. PREFERENTIAL RIGHTS UPON DISCOVERY OF UNLEASED GEOTHERMAL RESOURCES AND OTHER MINERALS.

A lessee who shall discover any mineral, including geothermal resources, on the leasehold shall have a right of first refusal to a state lease covering such minerals, including geothermal resources; provided they are not included within a mineral location under Section 47-703, Idaho Code, a mineral lease, or mineral lease application. The right shall continue for a period of sixty (60) days after discovery of minerals, provided the lessee shall notify the

~~director~~Director within thirty (30) days after the discovery and shall make application to lease the minerals within sixty (60) days after the date of discovery. Notwithstanding, nothing herein shall require the Board to issue a mineral lease or geothermal resource lease.

086. -- 089. (RESERVED)

090. UNIT OR COOPERATIVE PLANS OF DEVELOPMENT OR OPERATION.

01. Unit Plan. For the purpose of properly conserving the natural resources of any oil and gas pool, field or like area, the lessee may, with the written consent of the ~~director~~Director, commit the leased lands to a unit, cooperative or other plan of development or operation with other state, federal, Indian, or privately-owned lands.(10-11-88)

02. Contents. An agreement to unitize shall describe the separate tracts comprising the unit, disclose the apportionment of the production of royalties and costs to the several parties, the name of the operation and shall contain adequate provisions for the protection of the interests of all parties, including the state. The agreement shall be signed by or in behalf of those persons or entities having effective control of the geologic structure, shall be submitted to the ~~director~~Director with the application to unitize, and shall be effective only after approval by the ~~director~~Director. (10-11-88)

03. Interested Parties. The owners of any right, title or interest in the oil and gas resources to be developed or operated under an agreement may be regarded as interested parties to a proposed unitization agreement. Signature of a party with only an overriding royalty interest in unnecessary. (10-11-88)

04. Collective Bond. In lieu of separate bonds for each lease committed to a unit agreement, the unit operator may furnish and maintain a collective corporate surety bond or a collateral bond conditioned upon faithful performance of the duties and obligations of the agreement, the lease subject to the agreement and these rules. The liability under the bond shall be for such amount as the ~~director~~Director shall determine to be adequate to protect the interests of the state. If the unit operator is changed, a new bond or consent of surety to the change in principal under the existing bond shall be filed within thirty (30) days of assignment. (10-11-88)

05. Lease Modification. The terms of any lease included in any cooperative or unit plan of development or operation may be modified by the ~~director~~Director with approval of the lessee, except that a unit agreement must have final approval by the ~~director~~Director for a state cooperative plan or the final approval by the secretary of interior for a federal cooperative plan prior to extending any lease into its eleventh year and each year thereafter. A lease so extended shall expire two (2) years after the unit plan expires provided the lessee continues to pay the annual rental as outlined in Subsection 041.03. (10-11-88)

06. Rentals. Rentals and royalties on leases so extended shall be at the rates specified in these rules. Advanced rental shall be paid on or before the extended lease's anniversary date. Any unused portion of annual rental shall not be refunded. (10-11-88)

07. Evidence of Agreement. Before issuance of a lease for lands within an approved unit agreement, the lease applicant shall file with the Department evidence that he has entered into an agreement with the unit operator for the development and operation of the lands in a lease, or a statement giving satisfactory reasons for the failure to enter into such agreement. If such statement is acceptable, the applicant will be permitted to operate independently, but shall be required to perform its operations in a manner that the ~~director~~Director deems to be consistent with the unit operations. (10-11-88)

08. Segregation Prohibited. A lease shall not be segregated if any part thereof is included in a cooperative plan until the pool or field has been defined. Once defined those areas outside the unit area or pool boundary can be surrendered as provided in Section 070. (10-11-88)

091. -- 094. (RESERVED)

095. LIABILITY INSURANCE; SPECIAL ENDORSEMENTS.

01. Liability Insurance Required. Prior to entry upon the leased lands for any reason other than casual exploration or inspection pursuant to Section 021, the lessee shall secure and maintain during the term of this lease, public liability, property damage, and products liability insurance in the sum of four hundred thousand dollars ($400,000) for injury or death for each occurrence; in the aggregate sum of two million dollars ($2,000,000) for injury or death; and in the sum of four hundred thousand dollars ($400,000) for damages to property and products damages caused by any occupancy, use, operations of any other activity on leased lands carried on by the lessee, its assigns, agents, operators or contractors. The lessee shall insure against explosion, blow out, collapse, fire, oil spill and underground hazards and shall submit evidence of such insurance to the ~~director~~Director. If the land surface and improvements thereon covered by the lease have been sold or leased by the state of Idaho, the owner or lessee of the surface rights and improvements shall be an additional named insured. The state of Idaho shall be a named insured in all instances. This policy or policies of liability insurance shall contain the following special endorsement:

"The state of Idaho, the Idaho State Board of Land Commissioners, the ~~Director~~Director of the Department of Lands, the Department of Lands, (or other state agency exercising custody and control over the lands), and (herein insert name of owner or lessee of surface rights, if applicable) and the officers, employees and agents of each and every of the foregoing are additional insureds under the terms of this policy: Provided, however, these additional insureds shall not be insured hereunder for any primary negligence or misconduct on their part, but such additional insureds shall be insured hereunder for secondary negligence or misconduct, which shall be limited to failure to discover and cause to be corrected the negligence or misconduct of the lessee, its agents, operators or contractors. This insurance policy shall not be cancelled without thirty (30) days prior written notice to the Idaho Department of Lands. None of the foregoing additional insureds is liable for the payment of premiums or assessments of this policy."

No cancellation provision in any insurance policy shall be in derogation of the continuous duty of the lessee to furnish insurance during the term of this lease. Such policy or policies shall be underwritten to the satisfaction of the ~~director~~Director. A signed complete certificate of insurance, with the endorsement required by this paragraph, shall be submitted to the ~~director~~Director prior to entry upon the leased land with motorized exploration equipment after award of a lease and may be required prior to such entry under Rule 021. (10-11-88)

02. Certificate of Insurance. At least thirty (30) days prior to the expiration of any such policy, a signed complete certificate of insurance, with the endorsement required by Subsection 095.01, showing that such insurance coverage has been renewed or extended, shall be filed with the ~~director~~Director. (10-11-88)

096. HOLD HARMLESS.

The state of Idaho, the Board, the ~~director~~Director, the Department, and any other state agency that may have custody or control of the leased lands, and the owner of the surface rights and improvements, if not the state of Idaho, or state lessee of surface rights, if there be one (1), the officers, agents and employees of each and every one (1) of the foregoing, shall be free from any and all liabilities and claims for damages and/or suits for or by reason of death or injury to any person or damage of property of any kind whatsoever, caused by a negligent or otherwise wrongful act or omission of the lessee, its assigns, agents, operators, employees or contractors; and lessee covenants and agrees to indemnify and to save harmless the state of Idaho, the Board, the ~~director~~Director, the Department, or other state agency, or the lessee of surface rights if there be one (1), and their officers, agents, and employees from all liabilities, charges, expense, including attorney fees, claims, suits or losses caused by a negligent or otherwise wrongful act or omission of the lessee, its assigns, agents, operators, employees or contractors. The lessee's signature to a lease under these rules shall constitute express agreement to this rule. (10-11-88)

097. -- 099. (RESERVED)

100. TITLE.

The state of Idaho does not warrant title to the leased lands or the oil and gas resources that may be discovered thereon; the lease is issued only under such title as the state of Idaho may have as of the effective date of the lease or thereafter acquires. (10-11-88)

101. IMPOSSIBILITY OF PERFORMANCE.

Whenever, as a result of any act of God, or law, order or regulation of any governmental agency, it becomes impossible for the lessee to perform or to comply with any obligation under the lease or these rules, other than payment of rentals or royalties, the ~~director~~Director in his discretion, may by written order excuse lessee from

damages or forfeiture of the lease, and the lessee's obligations shall be suspended and the term of the lease may be extended provided that the ~~director~~Director finds that good cause exists. (10-11-88)

102. TAXES.
The lessee shall pay, when due, all taxes and assessments of any kind lawfully assessed and levied against the lessee's interest or operations under the laws of the state of Idaho. (10-11-88)

103. PUBLIC RECORDS.
Applications are not public records until the day after the next regularly scheduled auction. Leases, assignments and relinquishments, after approval by the Board or the ~~director~~Director as required by these rules, are public records available for public inspection during regular business hours. (10-11-88)

104. OUTSTANDING LEASES -- GRANDFATHER RIGHTS.
No right to seek, obtain or use oil and gas resources has passed or shall pass with any past, existing or future license, permit or mineral or geothermal lease or sale of state lands after the passage of Idaho Section 47-701, Idaho Code, except upon the issuance of an oil and gas lease. The following rules herein shall apply to all existing leases, except insofar as directly conflicting with the provisions of an existing lease: Sections 000 through 015 inclusive, Sections 020, 045 through 090 inclusive, and Sections 100 through 120 inclusive; provided that the requirement of Section 051 to drill a well or pay a delayed drilling penalty shall not apply until the next anniversary date of each existing lease; provided further that upon expiration, new leases shall conform to all of these rules. (10-11-88)

105. MAILING LIST.
A mailing list is maintained by the Department for the purpose of notifying all interested persons of scheduled offerings and for changes regarding the rules. The responsibility for keeping the list current and accurate rests solely with those persons on the list. The Board shall have no liability to anyone who may have been omitted in the mailing of a scheduled offering notice or other mailing. (10-11-88)

106. -- 119. (RESERVED)

120. FEES.
~~The following are the fees established under these rules: (10-11-88)~~

01. Exploration Permit. One hundred dollars ($100) per linear mile or a minimum of one hundred dollars ($100) per section. (10-11-88)

02. Nonrefundable Nomination Fee ~~Application.~~ The nomination fee shall be set by the board at a minimum of two hundred and fifty dollars ($250.00) per tract. ~~Twenty-five dollars ($25) per application for lease.(10-11-88)~~

~~**03. Bidding Fee**. Ten dollars ($10) per auction (unless an application has been timely filed for the scheduled auction). (10-11-88)~~

~~**04. Application for Approval**. Application for approval twenty dollars ($20) per lease involved of assignment in the assignment. (10-11-88)~~

~~**05. Recording Fee.**~~ Recording fee one hundred~~five dollars~~ ($100.00~~5~~) per each document~~. (10-11-88)~~

06. Fee Adjustment. The Board may annually adjust these fees without formal rule-making procedures. (10-11-88)

121. -- 999. (RESERVED)