

UNIVERSITY LANDS

What is University Lands, and Why is it Important?

Western States Land Commissioners
Association Winter Conference

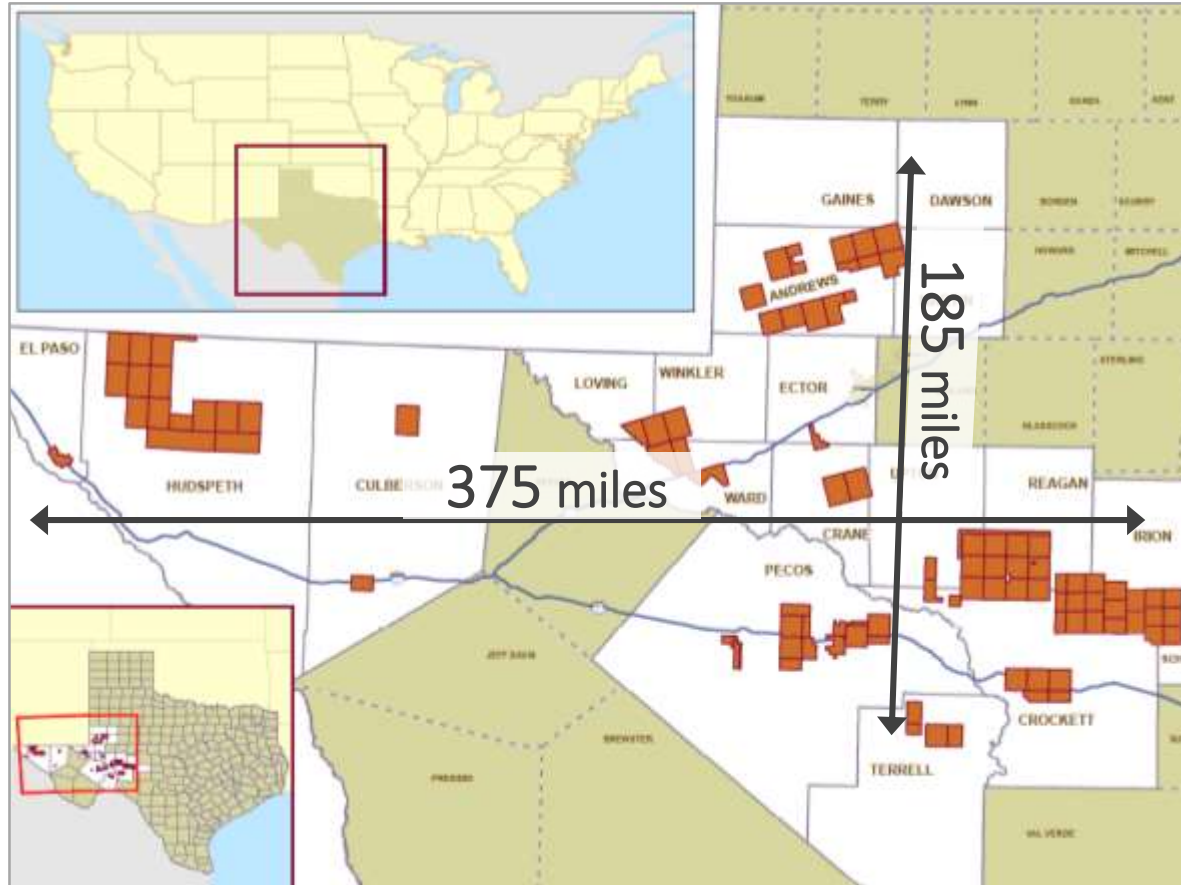
Richard Brantley | SVP, Operations

January 14, 2020



PUF Lands & The University Lands Organization

Surface and mineral rights of 2.1 million acres of “PUF Lands”



History of land dates back to 1838; first oil discovery in 1923

20,000

Wells drilled

>23,000

Identified locations

9,000

Wells producing

4,000

Leases

250+

Operators

Primary revenue driver is mineral royalty revenue. Revenue supports UT & A&M System via the “PUF” and “AUF”.

15,000 miles of active easements

11,500 miles of pipelines

2,700 miles of powerlines

600 miles of roads

200 miles of telecommunications

SURFACE LEASES

- Pipelines and power lines
- Grazing and ranching
- Renewables – wind and solar
- Groundwater sales
- Environmental programs

The Permanent University Fund (PUF)

Benefits 20 Institutions, 6 agencies and
~300,000 students within UT and A&M Systems

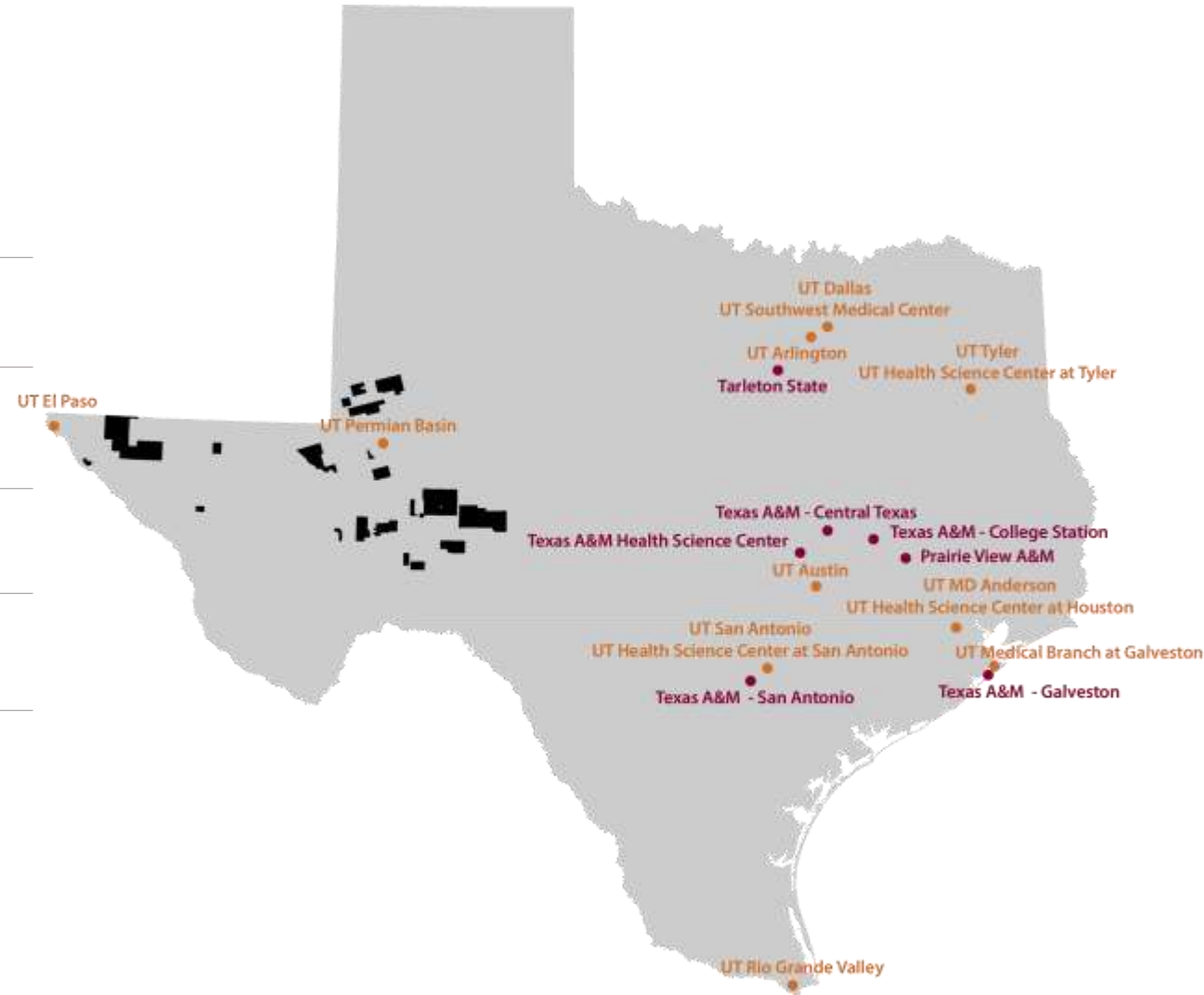
~\$23B in Market Value

4 - 7% of total PUF value distributed annually

2/3 of distribution to UT System

1/3 of distribution to A&M System

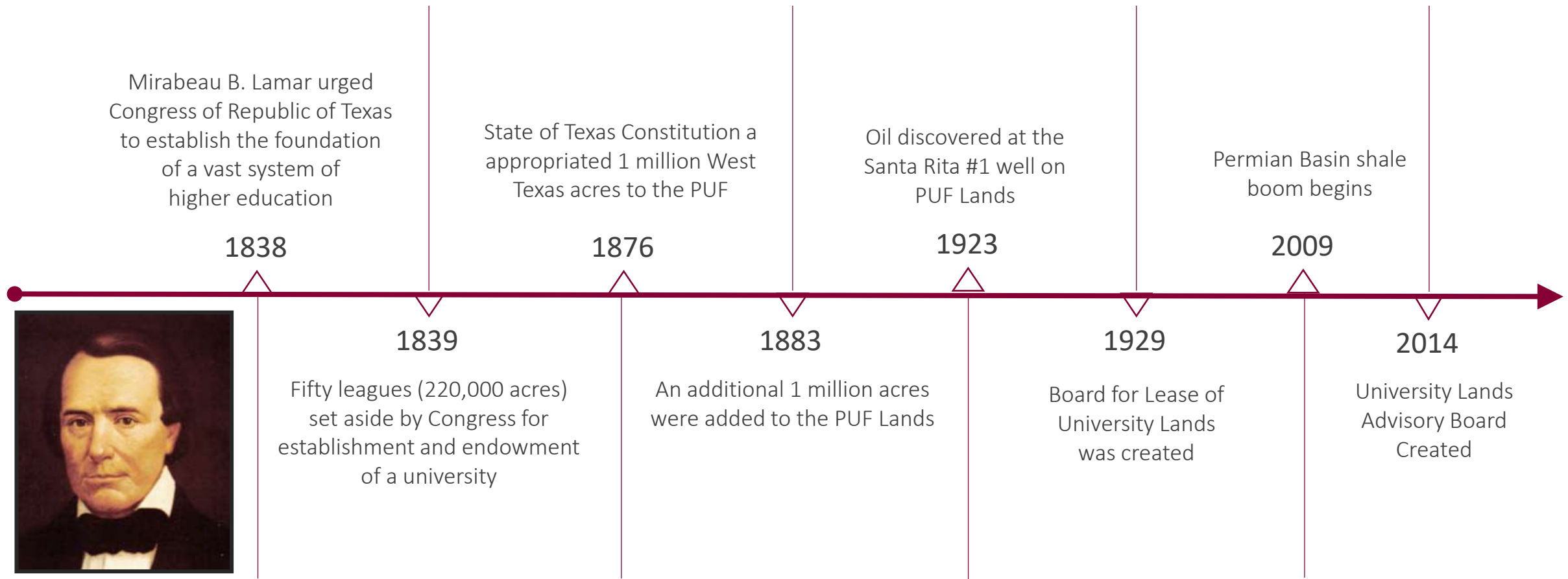
Fund is managed by UTIMCO



Attend UT for free? After Tuesday vote, 21% of undergrads could

- Dell Medical School at UT Austin
- Biomedical engineering building at UT Austin
- Brain Performance Institute at UT Dallas
- Restoration of the Marine Sciences Institute in Port Aransas after Hurricane Harvey
- Most notably, in 2019, the UT System Board of Regents unanimously voted to expand its financial assistance program to help cover the cost of tuition and fees for low and middle-income students attending UT Austin
 - This historic decision reflects the BOR's confidence in the future value of the PUF and in the revenues generated from University Lands

Timeline of PUF Lands



PUF Lands: Vision & Impact

“Texas holds embedded in its earth rocks and minerals which now lie idle because unknown, resources of incalculable industrial utility, of wealth and power. Smite the earth, smite the rocks with the rod of knowledge and fountains of unstinted wealth will gush forth.”

- Ashbel Smith, M.D., first U. T. Board of Regents Chairman at the dedication of the University of Texas, 1881



Economic Impact Today

7,400 Full time equivalent “personnel”

are at work on PUF Lands every day, with thousands more spending part of their day there.

Each year since 2012, commercial activity on PUF lands has generated:

~\$3.5 billion in gross product

~33,000 indirect jobs across Texas

~\$176 million in state tax revenue

~\$40 million in local tax revenue

School districts containing PUF lands accrued

~\$16 million, or ~\$166 per student!

Source: The Perryman Group

UL's New Strategic Priorities (2015-Present)



Economic Development Opportunities

STRONG COMMERCIAL FOCUS

Oil and Gas
Resources



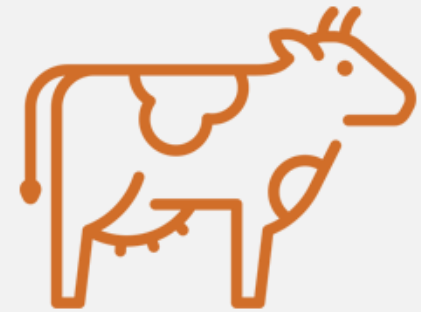
Water Resources
& Logistics



Solar and
Wind

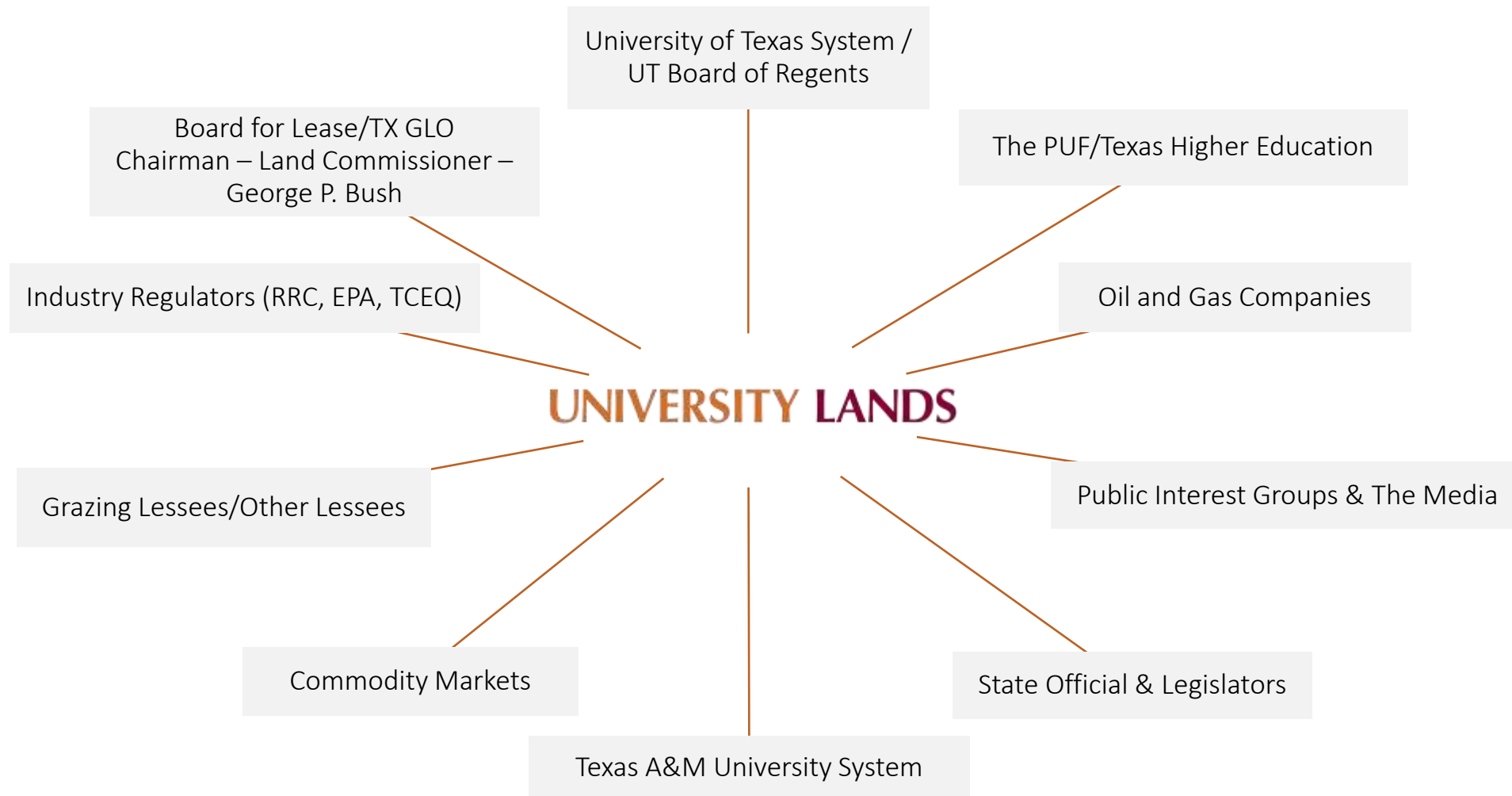


Other Surface
Activities

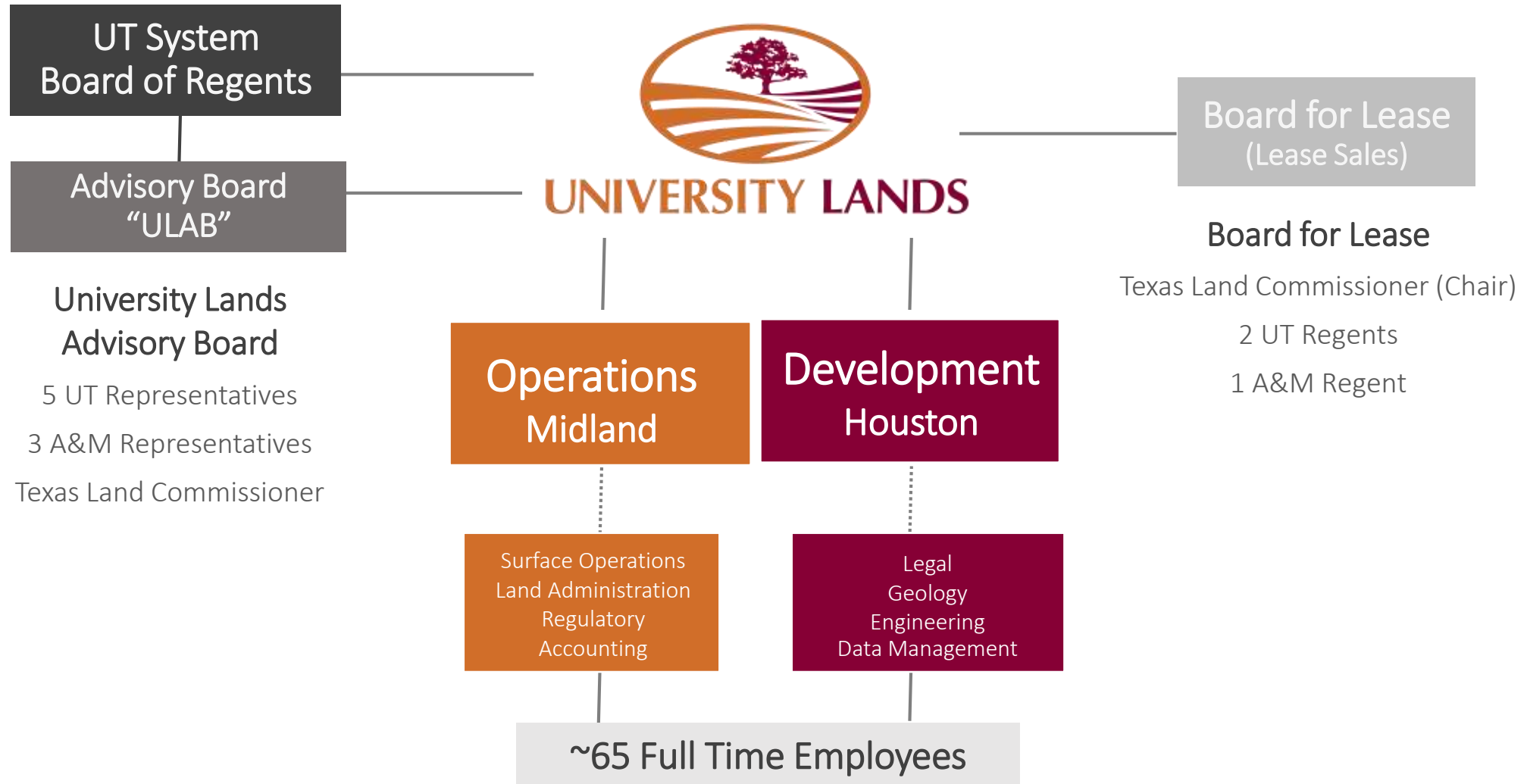


EXCELLENT ENVIRONMENTAL STEWARDSHIP

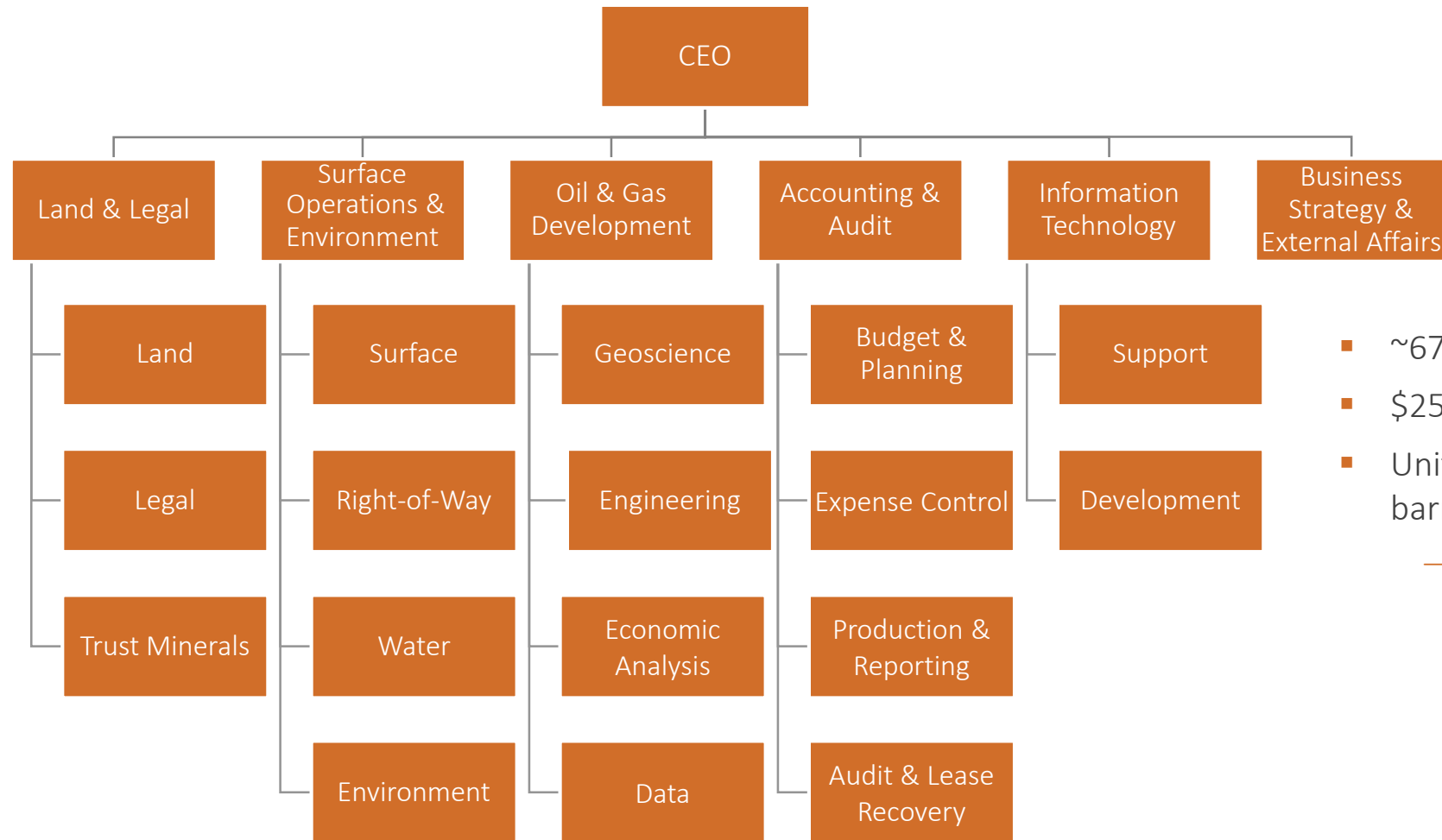
University Lands: A Multitude of Stakeholders



Governance & Organizational Structure



UL Functional Structure

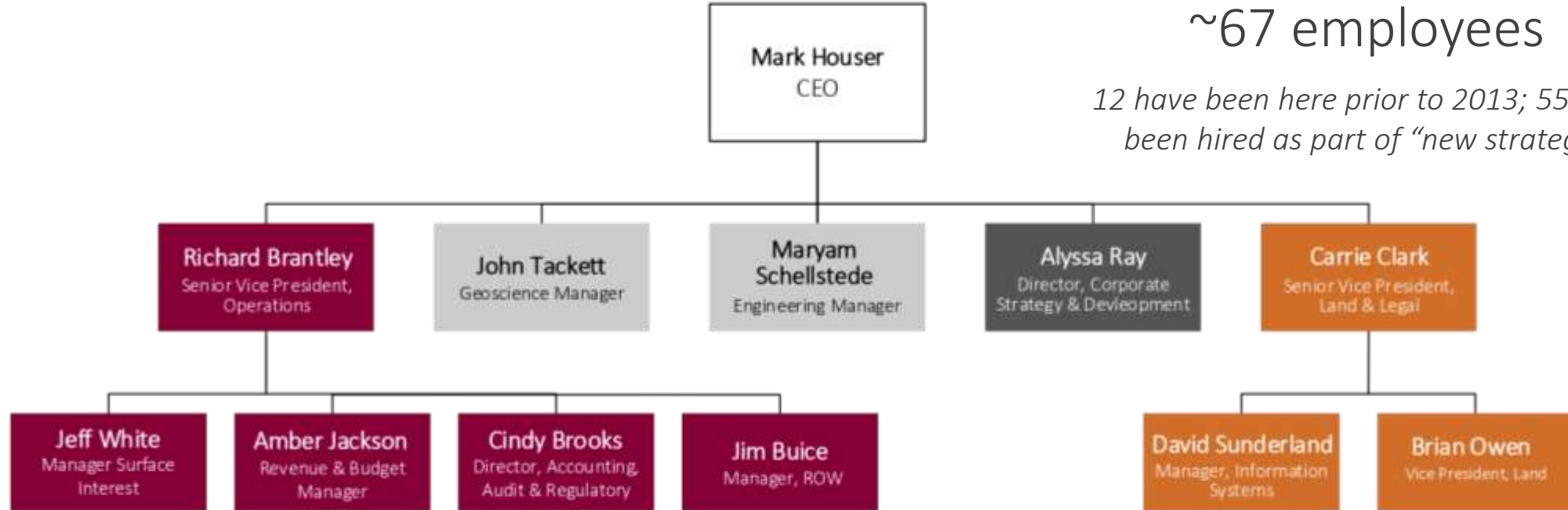


- ~67 employees
- \$25MM annual expenditures
- Unit costs represents ~\$1 per barrel of production
 - 5 top minerals management companies average ~\$3/BOE

Organizational Structure & Functions

~67 employees

12 have been here prior to 2013; 55 have been hired as part of "new strategy"



OPERATIONS

Right of Way
Water Management
Environment
Grazing & Conservation
Surface Leasing

ENGINEERING & GEOSCIENCE

Reserves
Economic Assessments
Subsurface Modeling
Subsurface Data Management

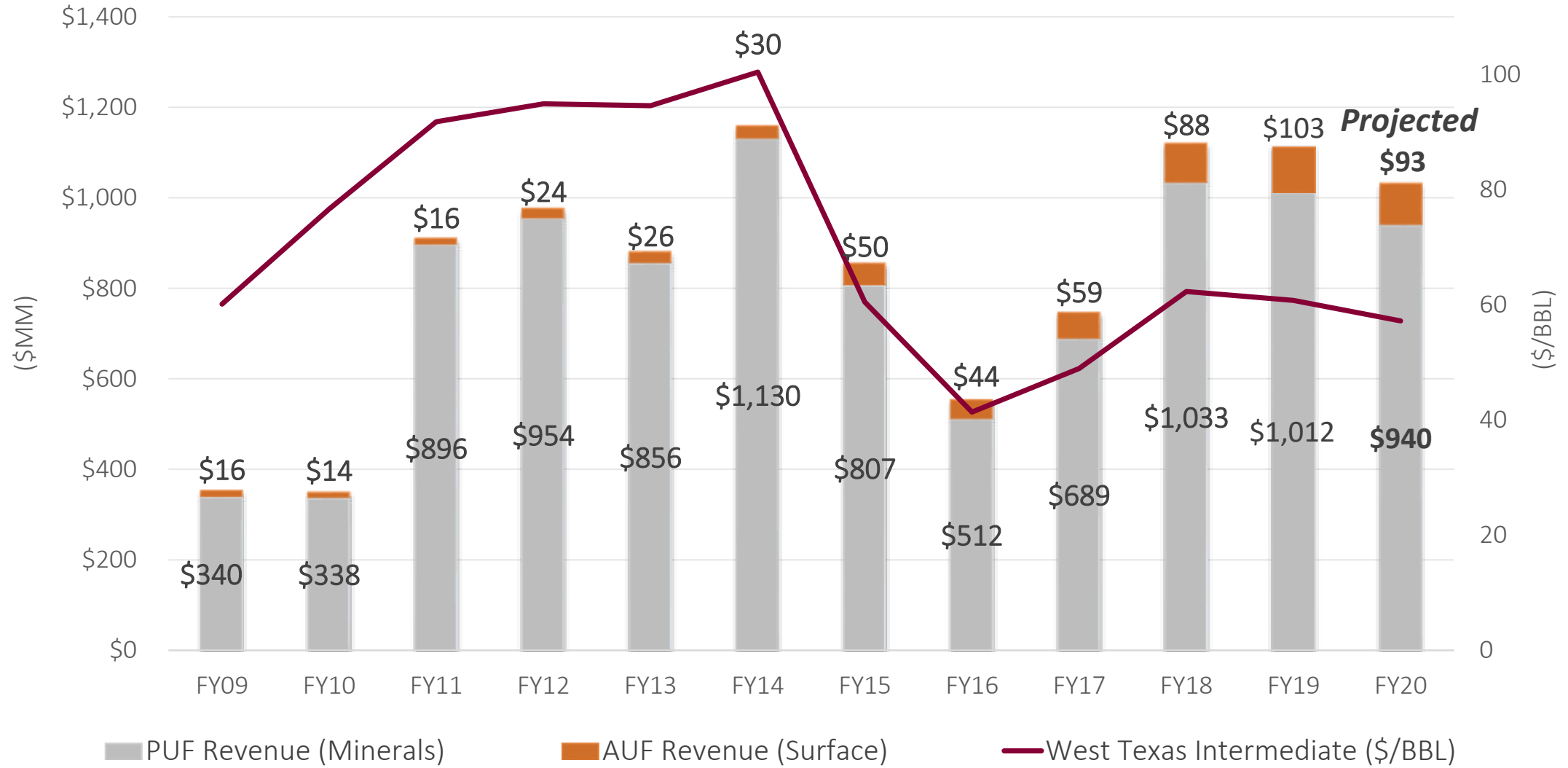
STRATEGY

External Relations
Surface B.D./Commercial
Performance & Planning

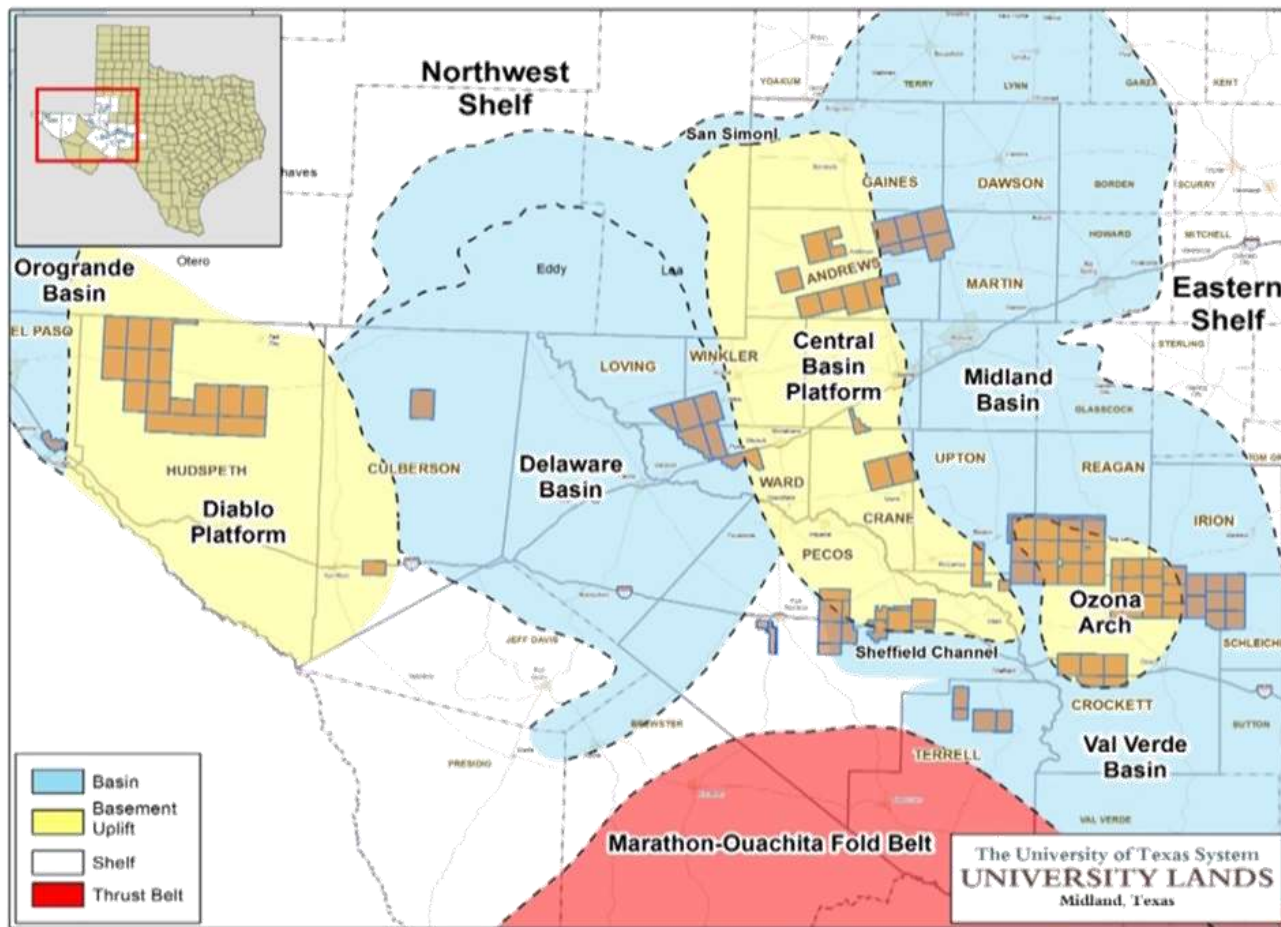
LAND, LEGAL & IS/IT

Contracts
Data
Leases
Information Systems

AUF and PUF Revenue vs. WTI Oil Price



PUF Lands' Oil and Gas Resource



2.1 million acres: ~1.5 million leased for oil and gas activity

Total Net Reserves

~1.9 billion

Barrels of oil equivalent (BOE)

>23,000

Future potential drilling locations

2019 Daily Production (64% oil)

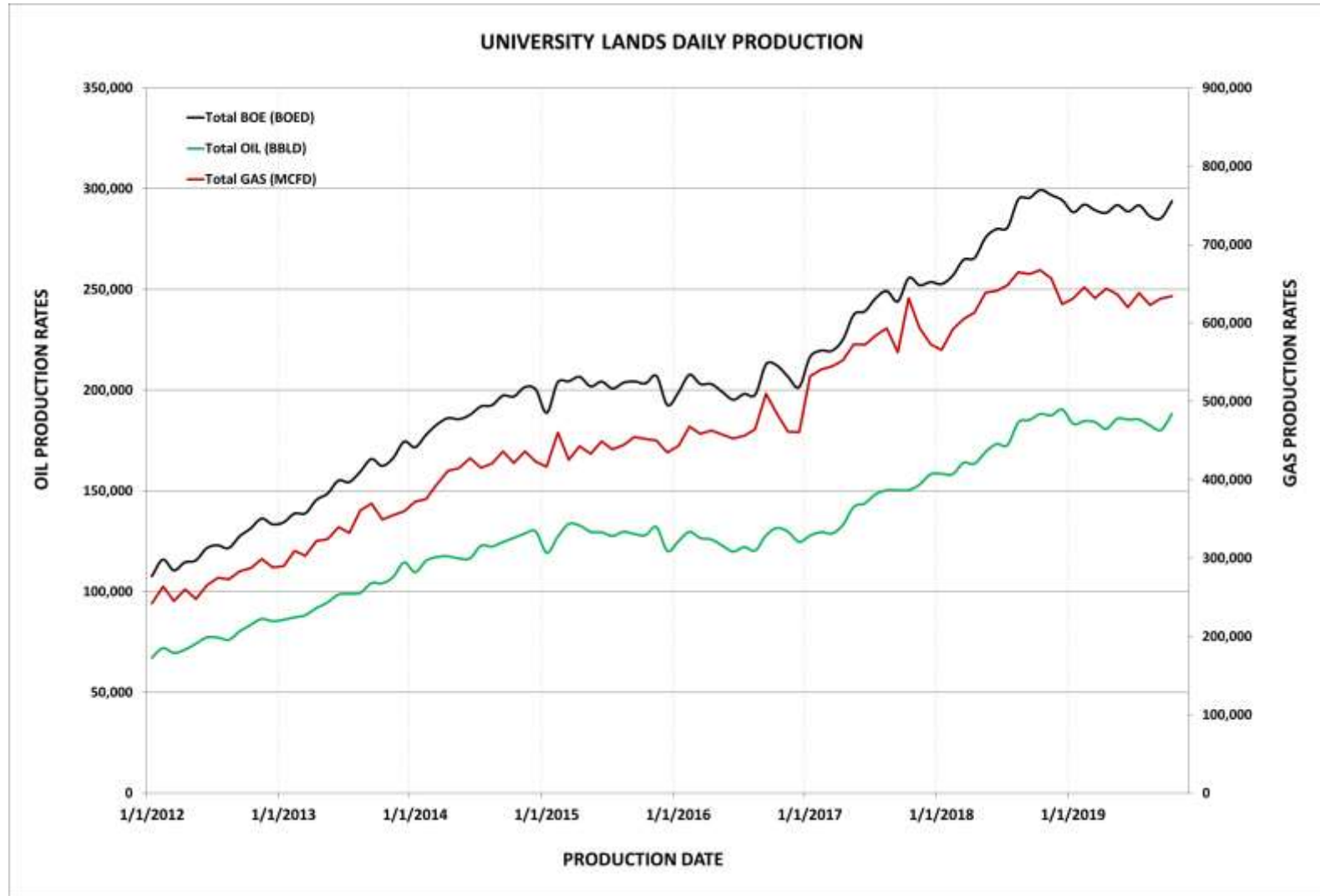
~290,000

BOE gross per day

~58,000

BOE net per day
(20% royalty)

PUF Lands Gross Monthly Production (2012 – Oct 2019)



2019 Top Producers

EP ENERGY



PIONEER
NATURAL RESOURCES

SABLE
PERMIAN RESOURCES



QEP
RESOURCES



JaggedPeak
ENERGY

DIAMONDBACK
Energy

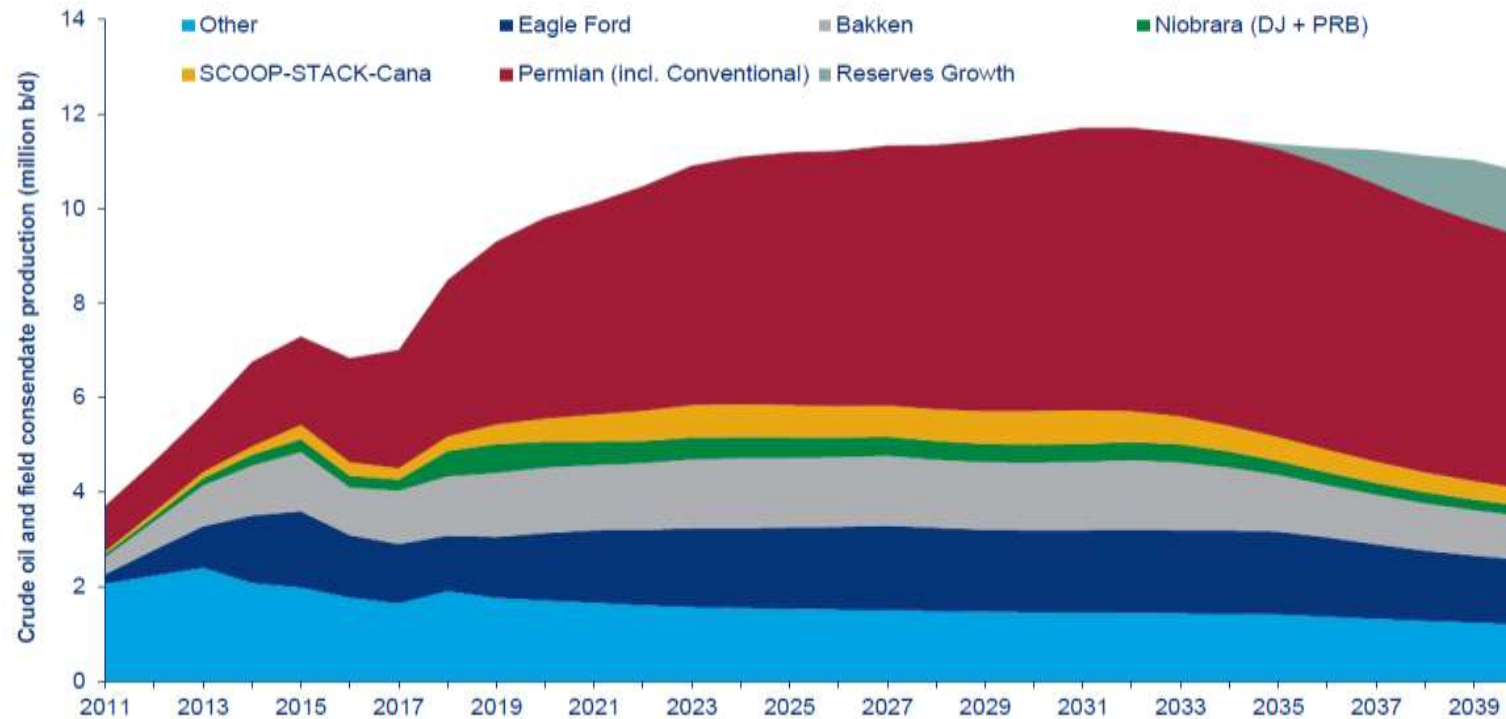


Permian Production - Short, Long-term Growth Projected

US Lower 48 crude oil: Permian growth drives production

Peak production only changed slightly, but production stable into the 2030s

US Lower 48 crude and condensate production



Source: Wood Mackenzie

Commercial Surface Leases & Easements



UL Rate & Damage Schedule

- Enables streamlined damage and easement payments
- Market reflected pricing
- Allows for transparency
- All UL agreements reference the “then-current R&D Schedule” to allow us to adjust rates as needed
- Typically updated once per year
- Most AUF (surface) revenue is reflective of this schedule



UNIVERSITY LANDS

RATE AND DAMAGE SCHEDULE

THE UNIVERSITY OF TEXAS SYSTEM

UNIVERSITY LANDS

P.O. BOX 553

MIDLAND, TEXAS 79702-0553

(432) 684 – 4404

Website Link:

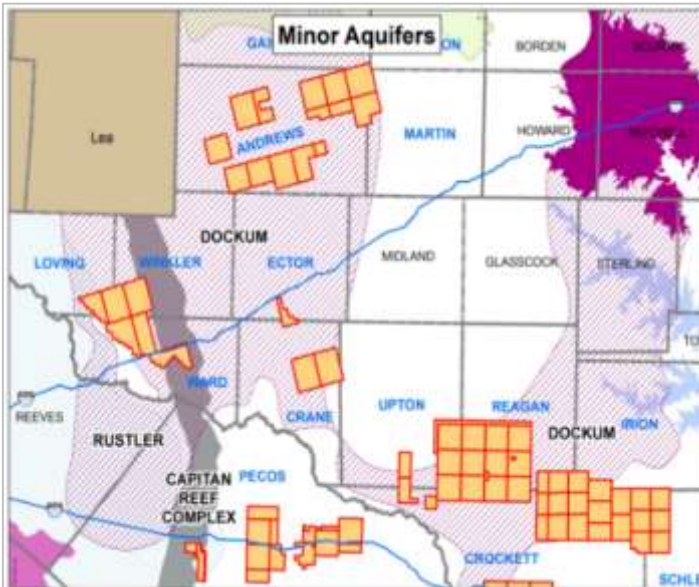
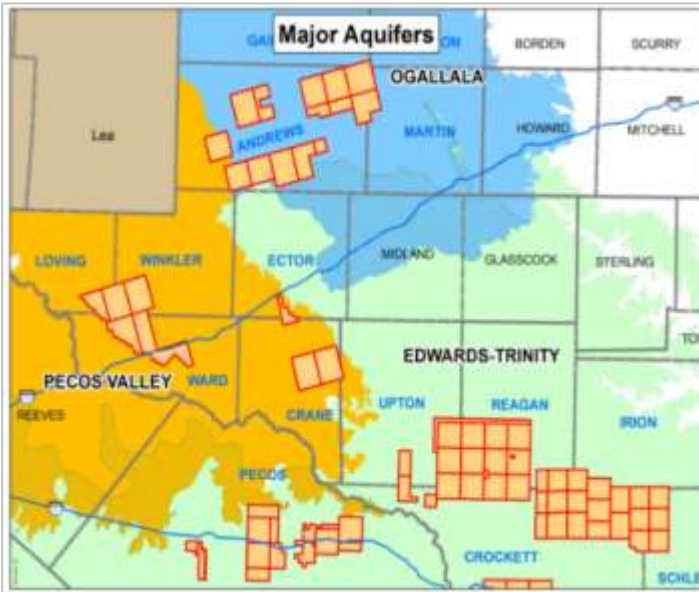
<http://www.utlands.utsystem.edu>

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EFFECTIVE February 12, 2019

This schedule supersedes all previous Rate and Damage Schedules

University Lands Water Management

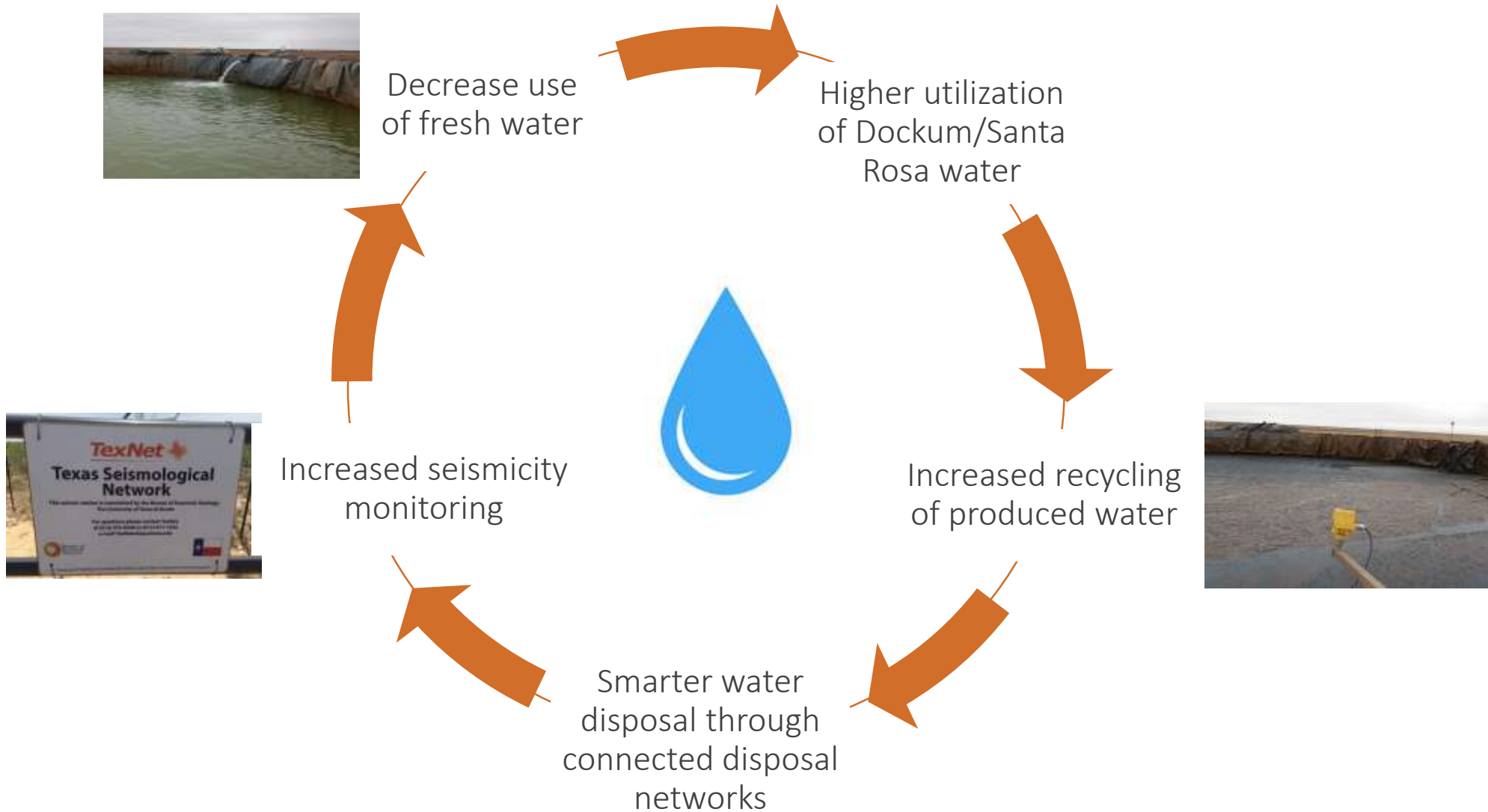


Sales of fresh water to Midland, Andrews County and the Colorado River Municipal Water District

Initiated a formal groundwater management plan in 2013 that continues to evolve

- Includes 3D modeling of all major and minor aquifers
- Preservation of fresh water aquifers (*Ogallala, Trinity/Edwards & Pecos Alluvium*)
- Prudent utilization of brackish aquifers (*Dockum/Santa Rosa Aquifers*)
- Promote recycling of produced water

UL's Focus: "Full-Cycle Water Management"



Preferred Water Service Providers (PWSPs)

New concept created by UL – *“to enable a responsible, economic, and holistic approach to water management”*

PSWP’s ability to easily service multiple operators in an area as a third-party will ease the water management process for operators on PUF Lands

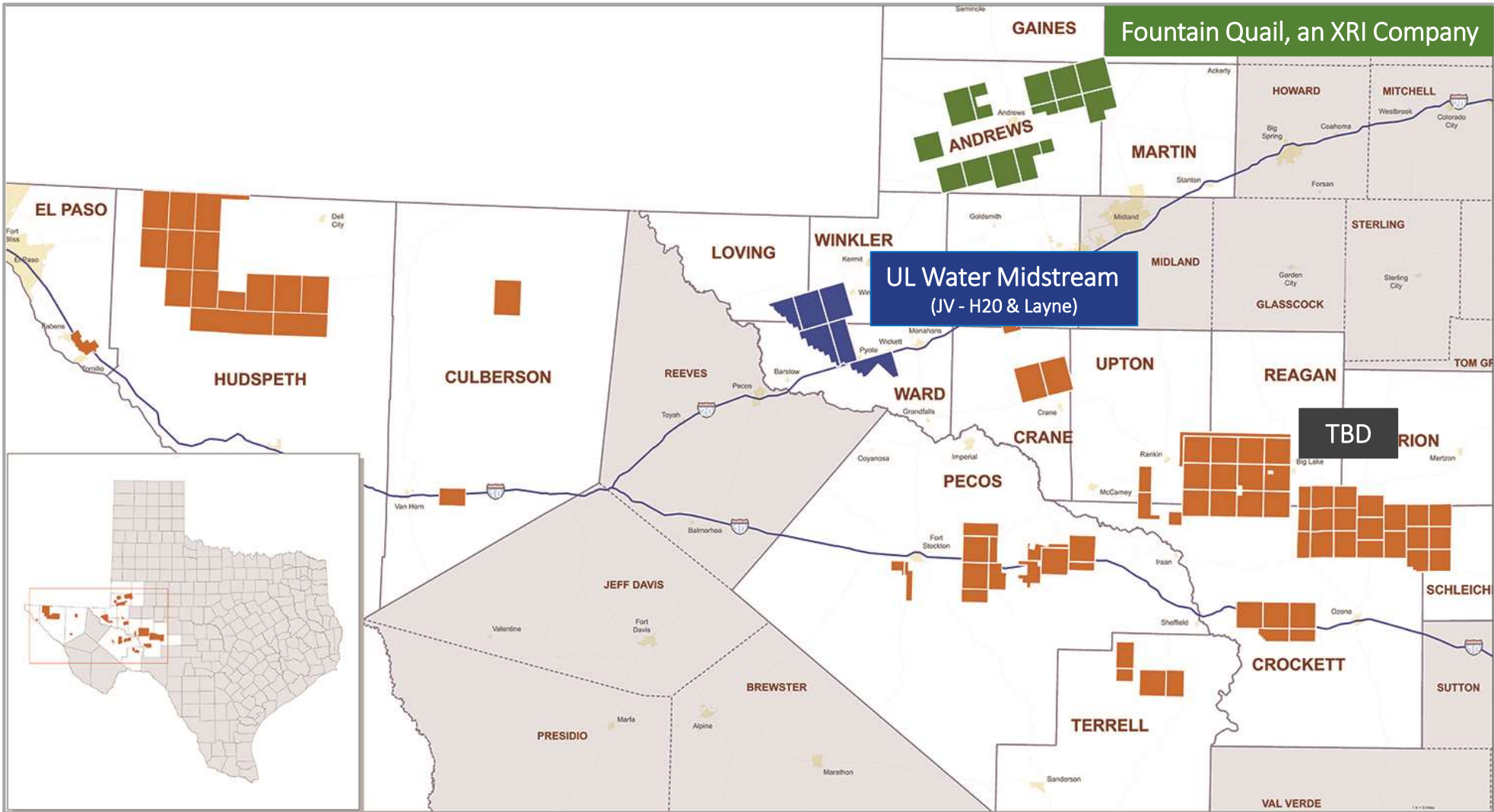
- Shared systems to allow for smarter disposal, connected disposal well networks
- Economies of scale will enable increase in recycling of produced water
- Less redundancy across the board – minimizes environmental impact, use of fresh water

Agreement enables PWSPs to build pipeline, disposal wells, pits, recycling facilities, etc. across their assigned acreage area/region on PUF Lands

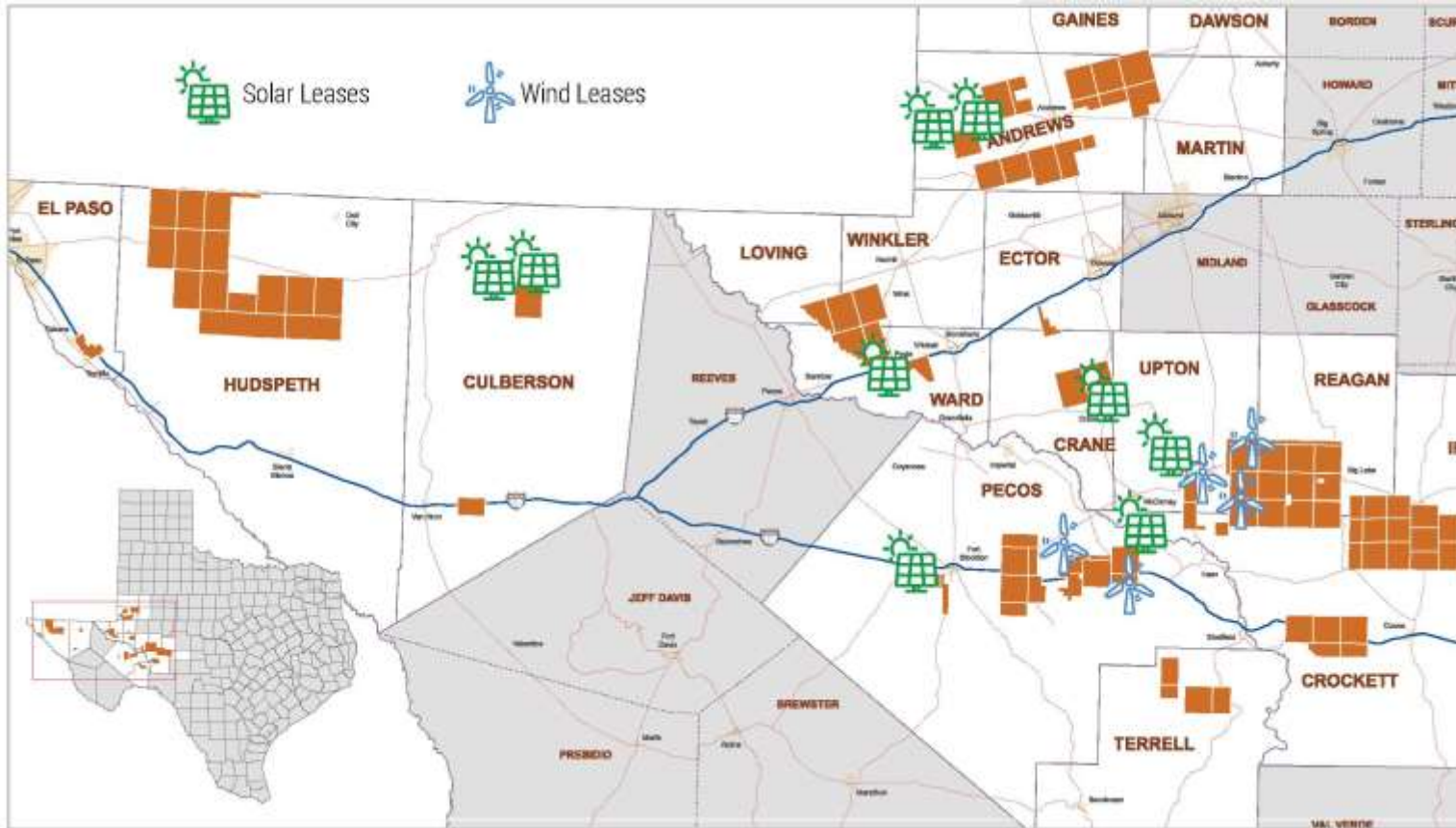
- “Rights” for use of PUF Lands similar to that of an operator
- UL retains a negotiated % of PWSP revenue generated on PUF Lands

This is a longer-term initiative: UL eventually sees increase in oil and gas royalty revenue as PWSPs increasingly take over water management for operators – so that operators can instead put their capital back into the drillbit

PWSP Development Areas



Renewables



12 leases executed, 1 negotiating

110,000 acres

2,100 MW

\$210MM Total PV

\$6,500 PV per acre (solar)

\$1,000 PV per acre (wind)

- Locked-in, long-term surface revenue
- Significant increase over grazing revenue
- Social/environmental benefits
- Oil and gas development continues

Environmental Stewardship

- Strong relationships with environmental groups and regulators
 - UL invited to share “best environmental practices” of U.S. operators to Environmental Defense Fund workshop in China
- Unique policies that surpass regulatory requirements
- Commitment to evolving as technology evolves
- Infrared imaging camera used for emissions inspections
- Environmental Stewardship Initiatives Program
- Alignment with, promotion of The Environmental Partnership
 - Since 2014, emissions from operations on PUF Lands have decreased by 25%, while oil and gas production increased by 46%
 - On a unit basis, emissions are down 49% per barrel of production
- Focus on initiatives that reduce truck traffic and promote shared infrastructure across operators



Range & Wildlife Conservation Practices

- Range Improvements (USDA) FY19
 - 100 miles of fencing installed
 - 25 new ranch water wells installed
 - 20 old water wells plugged
 - Numerous water distribution improvements projects
 - 40,000 acres of brush control
- Wildlife
 - Conduct annual surveys
 - Provide harvest recommendations
- Endangered Species
 - Work with federal, state and local authorities on multiple species of concern
 - TAMU Natural Resource Institute
 - State Comptroller's Office



Key Long-Term Focus Areas

- Emphasize prudently accelerated oil and gas development
- Intensify/strengthen environmental strategy and objectives
- More local impact – explore ways we help address West Texas infrastructure, health, education constraints
- Continue water infrastructure initiatives
- Prudently expand wind and solar development



Thank You!