



Oil & Gas Unitization Information Sheet

Updated January 2015

Idaho has seen increased interest from companies seeking to drill for oil and gas. Ownership of mineral rights (including oil and gas rights) and how those resources can be extracted is often complicated.

Oil and gas resources have the potential to be pooled in a large geologic formation below the surface, with a patchwork of different mineral ownership interests. The legal principle of correlative rights establishes that each mineral right owner has a reasonable opportunity to capture the resource under his or her property, in a share equal to the size of their land in proportion to the size of the underlying geological formation that contains oil or gas.

Oil and gas mineral rights are divided into units over Idaho's geography for the purposes of ensuring proper spacing of the wells, which ensures the proper extraction of resources while protecting correlative rights. Idaho's Oil & Gas Conservation Commission (Commission) in accordance with state law (Idaho Code § 47-321), has set the standard drilling unit of land at 640 acres for natural gas and 40 acres for oil.

A drilling unit may be comprised of several mineral rights owners who have leased to one or more oil companies. Oil companies within a drilling unit usually work together in what is called a joint operating agreement, which specifies how they work together, how royalties are paid, and how expenses are billed.

If the pool of oil or gas under the ground goes beyond the boundaries of one drilling unit there may be multiple companies on several drilling units extracting from the same resource pool. If production for some of the well operators or for everyone begins to decline at an unexpected rate, unitization may be the answer.

Unitization gathers all the mineral rights for a specific portion of oil and gas resources and brings its development under common control. It combines multiple drilling units into one larger unit to cover most or all of the pool of oil or gas. It requires industry to cooperate with each other to efficiently drain the mineral resource while preventing waste and protecting the correlative rights.

Unitization can come about one of two ways. Based on subsurface information (such as well logs) and production data, the Commission may bring the companies together in a hearing to determine if unitization is needed. The hearing may also come about based on requests from operators who are drilling.

If the companies are not in agreement on how to work together, they individually come up with plans and the Commission will make the decision during an official hearing on how the companies will operate together and what responsibilities each company will have. This is similar to a joint operating agreement, but on a larger scale.



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Frequently Asked Questions
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Q: What is unitization?

A: Unitization gathers all the mineral rights for a specific portion of oil and gas resources and brings its development under common control and requires oil companies or operators who are extracting the resources to work together to efficiently drain the mineral resource while preventing waste and protecting the correlative rights.

Q: Why is unitization needed?

A: If production for some of the well operators or for everyone begins to decline at an unexpected rate, unitization may be the answer. Unitization defines the roles and responsibilities of companies and operators who must work together when extracting gas or oil from the same resource pool.

Q: Who determines if unitization should take place?

A: The Commission is ultimately responsible. The request can come from an oil and gas company, or be initiated by the commission based on well log and production information.

Q: Once unitization has taken place is the new unit size permanent?

A: No. Once the unitization is completed, the configuration can be changed (made larger or smaller) as new technical information is presented to the Commission.

Q: Does unitization affect the royalty rates of leased mineral owners in the unit?

A: No. Royalty rates are based on the lease already in place. However, if all the leased area does not fall within the unitized area, only the net mineral acres in the boundary would be based on the royalty rate for that extraction.

Q: Who is responsible for the production and reporting in the new unit?

A: The responsible operator would be determined by the Commission's unitization order.

Q: Does unitization affect severance taxes?

A: No. Severance taxes are based on what is produced and sold.

Q: What happens if oil and gas production continues in an unexpected decline?

A: More technical evidence will be collected and the prior unitization order can be adjusted by the Commission.

Q: If the unit is dissolved, who gets to keep all the equipment under the unitization agreement?

A: It is determined as part of the Commission's unitization order which takes into account proposals from all the operators in the unit.

Q: Do all parties have to agree to unitization?

A: No. As long as the operators of 55% of the proposed unitized boundaries agree, they will all be integrated and the area unitized.

Q: Can a unit size be smaller than a standard drilling unit?

A: Yes. This is called a down spaced unit and it is based on the seismic interpreted data.