Autumn in Boise, Idaho

IDAHO OIL & GAS CONSERVATION COMMISSION

Volume 2 Issue 3 **September 2015**

Inside this issue:

Idaho Petroleum Council Hosts Oil and Gas Conservation Commission on Energy Tour

Right: Langley Gulch Power Plant

Below left: Idaho Power tour guide with IDL director Tom Schultz, IDL Public Information Officer Sharla Arledge, Senator Abby Lee, and State Geologist Ed Ratchford. Photo courtesy of Idaho Petroleum Council

Below right: Part of the 2015 Tour Group. Photo courtesy of Idaho Petroleum Council

Recently, the Idaho Oil and Gas Conservation Commission (OGCC) participated in a tour of western Idaho energy facilities hosted by the Idaho Petroleum Council (IPC).

The IPC and the OGCC would like to thank everyone for attending the tour. We are pleased to play a role in supporting the Idaho Legislature's efforts to educate its members and others on our state's developing energy infrastructure.

These tours are an important way to provide information and background to the policy makers who are tasked with writing legislation to regulate and oversee our state's energy industry and the exciting developments here in Idaho. We are excited to see Idaho join the long list of energy producing states.

The tour was well-attended, not only by Oil and Gas Conservation Commissioners, but also by legislators from District 9, county commissioners from Payette County, Congressional staff, Idaho Department of Lands Director and staff, Office of Energy Resources Director, IPC member companies, members of local and statewide media, Federal agencies, the Idaho Conservation League and local landowners and residents.

The tour schedule included:

- Tour of Idaho Power Langley Gulch natural gas fueled combined cycle combustion turbine power plant.
- Driving tour of western Idaho gas infrastructure including processing facility, pipeline and well sites
- Overview of geology of western Idaho basin, energy resources and infrastructure by Dr. Ed Ratchford, director of Idaho Geological Survey

Lunch with IPC members, Idaho State geologist, commissioners, legislators and citizens at the Fruitland Middle School, courtesy of local petroleum marketer, Dennis Campo.

This article was used with permission from the Idaho Petroleum Council. For more information, please visit: http://idahopetroleumcouncil.com/ipc-tour-hosts-oil-and-gas-conservation-commission-on-energy-tour/

Oil and Gas Open House– August 10th in Payette, Idaho

On August 10th, Idaho Department of Lands (IDL) Director and Secretary to the Idaho Oil and Gas Conservation Commission Tom Schultz gave a presentation on integration to close to 200 people at an open house meeting at McCain Middle School in Payette.

The event was hosted by District Nine Legislators- Representatives Judy Boyle and Ryan Kerby and Senator Abby Lee. Director Schultz spoke for approximately one hour, starting by explaining the history of Oil and Gas in Idaho from both an exploratory and regulation perspective.

He then discussed Idaho's regulatory framework, including the role of the Oil and Gas Conservation Commission, and the commission's relation to other state agencies and local government. He finished with an explanation of split estates and the reasoning for and need for integration to protect the resource and the correlative rights of mineral interest owners.

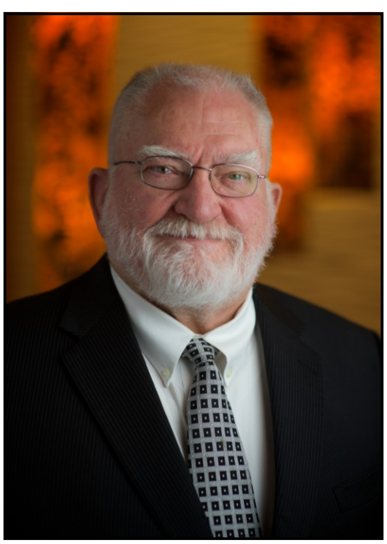
After the presentation, Director Schultz answered written questions from the audience for an hour. Many local residents expressed appreciation for helping them gain a greater understanding of integration.

Although time did not allow for responses to all questions from attendees, IDL compiled these questions and will soon post the answers on the IDL website where you can also view Director Schultz's presentation. The link to the site is: http://www.idl.idaho.gov/oil-gas/regulatory/index.html

Above: Director Tom Schultz

Side: Representative Judy Boyle

Meet the Idaho Oil & Gas Conservation Commission—Commissioner Smith



Ken Smith of Boise, Idaho is serving a four year term on the Oil and Gas Conservation Commission. He represents Oil and Gas Interests. Mr. Smith is a retired Certified Public Accountant who was a Chief Financial Officer for oil and gas companies in Oklahoma, Texas and Idaho. He also was Executive Vice President, Chief Operations Officer and Chief Technical Officer for Petroglyph Energy in Idaho.

Welcome Oil and Gas Program Manager– Paul Lowrey

I would like to introduce myself as the new Oil and Gas Program Manager for Idaho Department of Lands (IDL). I am excited to step into this role at a time when the exploration and production of oil and gas in Idaho is taking off.

I have been a resident of Boise for three years. I moved here from Missoula, where I graduated from the University of Montana with a degree in Geology in 2000. I come to IDL from the industry side of Oil and Gas, having owned a small Geology Consulting Company for seven years. The focus of my company was to provide well site geology expertise to exploration and production companies. I have made my Idaho home in the North End of Boise where I can enjoy the foothills with my wife and one year old son. I enjoy spending time in the great outdoors; hiking, mountain biking, rafting and hunting.

I look forward to helping build a program that makes Idaho a cutting edge state for oil and gas development.

Update on Integration Hearing

There are currently two applications for integration filed with the Idaho Oil and Gas Conservation Commission (OGCC) and both are contested cases.

The OGCC appointed Tommy Butler, an attorney from Montana with several years of experience in Oil and Gas law to be the Presiding Officer and Hearing Officer for both cases. As both the Presiding Officer and Hearing Officer, Mr. Butler will conduct the hearings, hear the arguments, and then prepare and submit a recommended order to the OGCC.

The OGCC will decide to adopt, reject, or amend the hearing officer's recommendation. Mr. Butler held two status conferences last week on the two applications for integration filed with the OGCC. He issued amended scheduling orders based upon those conferences. The hearing officer gave the parties additional time to complete their briefing on a prehearing motion to intervene. After briefing is complete and the hearing officer issues orders on that motion, the hearing officer will address discovery.

The orders also canceled the hearings set for September 16, 2015, and re-set the hearings to November 19, 2015. These hearings are following the Rules of Administrative Procedure of the Attorney General-04.11.01.

Humorous Oil and Gas Terms

Monkey Board

Cat Walk-any elevated walkway.

Dog House-a small enclosure on the rig floor used as an office and/or as a storehouse for small objects. Also, any small building used as an office or for storage.

Fishing-the procedure of recovering lost or stuck equipment in the wellbore.

Macaroni String- a string of tubing or pipe, usually 3/4 or 1 inch (1.9 or 2.54 centimeters) in diameter.

Monkey Board-the derrickhand's working platform. As pipe or tubing is run into or out of the hole, the derrickhand must handle the top end of the pipe, which may be as high as 90 feet (27 meters) or higher in the derrick or mast.

Pigging-Use of a scraping device for cleaning and testing petroleum and natural gas pipelines, or to separate different throughputs in a pipeline.

Spudding- Starting the drilling process by moving the drill string up and down with out rotation. This 'slang' term is a holdover from cable-tool drilling. "Spud" is from the Old English meaning "a feeble movement".

A pig

https://www.osha.gov/SLTC/etools/oilandgas/glossary_of_terms/glossary_of_terms_p.html
http://www.onrr.gov/ReportPay/pdfdocs/mprh/MPRH-Glossary.pdf
http://oilgasglossary.com/spud.html
http://dictionary.reference.com/browse/spuddle

Integration Options Explained

Integration is a way to bring all of the mineral interest owners in a drilling unit together so that all are compensated for their mineral rights. Before an oil & gas company (known as an Operator) can drill a well in Idaho, it must obtain leases from all of the mineral interest owners (hereby referred to as "owners") in a drilling unit (defined as 640 acres for gas and 40 acres for oil). If some mineral interest owners cannot be leased, then the operator can file an application for integration with the Idaho Oil and Gas Conservation Commission (OGCC) if they first obtain leases with at least 55% of the owners in the unit. The operators will serve the application on all mineral interest owners in the spacing unit to be integrated under the application. If the application for integration is approved by the OGCC then the commission will issue an integration order as described in IDAPA 20.07.02.131.

Once an integration application is granted by the OGCC, unleased mineral interest owners will be provided four options for participation in the drilling and production of oil and/or gas within a drilling unit. These options are listed out in IDAPA 20.07.02.131, but the terms used can confusing. Some examples are given below with a graphic to help explain the financial differences between them. Round numbers are used to help explain the four options, but these numbers do not represent in any way the actual cost of drilling or value of the oil or gas obtained. The numbers, for illustrative purposes only, are as follows:

> Well costs $1,000,000 to drill. Spacing is 640 acres. Well operator has 60% of the drilling unit leased (384 acres), and integrates the remaining 40% (256 acres). The bonus paid by the operator was $100/acre for signing a lease prior to integration. The well is successful and produces $200,000 of gas each year. Each of the scenarios below describes what would happen if an owner of the integrated 256 acres chose a different option.

Option 1: 20.07.02.131.02- Enter into an agreement as a Working Interest Owner. This is similar to investing in a business by investing money up front and then earning a profit (if any) proportionate to the investment. The investment cost and potential profit is determined by the Working Interest Owner's percentage of the total acres in a drilling unit. If the well turns out to be dry (unproductive), a Working Interest Owner would not be refunded the monies that were invested. If the well was productive, then the Working Interest Owner would be paid the full profit from their respective share of the well.

> No per acre bonus is paid because this is a partnership and not a lease. Owner pays out $400,000 up front as his proportionate share of the drilling costs. After production starts, the owner receives $80,000 per year (40% of the drilling unit income).

Option 2: 20.07.02.131.03-Elect to become a Non-Consenting Working Interest Owner. This option is a hybrid of leasing and being a Working Interest Owner. With this option the owner contributes no money out of pocket for the cost of drilling the well. If the well turns out to be non-productive, the owner does not have to pay a penny and does not lose money. If the well is productive, then the owner receives a royalty of 12.5% (1/8) from their respective share of acres in the unit for the life of the well. The remainder of the royalty (87.5%) would go to the operator who paid for the cost of drilling the well until the owner's share of the well costs are recovered under the terms set forth in the integration order. The OGCC sets the costs an operator may recover, which can be up to 300% of the non-consenting working interest owner's share of the well's drilling and operating costs. In this example, a 300% penalty is used. After the remaining royalty of 87.5% has repaid the well operator 300% of the owner's share of the well costs, then the owner receives 100% of their share of the well income for the remainder of time that it is productive. The owner, as a Non-Consenting Working Interest Owner, will also be responsible for their proportionate share in the well, surface facility, and production costs as if the nonconsenting owner had originally agreed to pay the costs of drilling and operating the well.

> No per acre bonus is paid because this is a partnership and not a lease. After production starts, the owner receives $10,000 per year (1/8 royalty paid on 40% of the drilling unit income). Their remaining share of production, $70,000 per year, is credited against 300% of their proportional share of drilling costs. Their proportionate share of those costs is $400,000, so a total of $1,200,000 must be paid out of 7/8 of their income before they can receive their entire share of production. After the 300% is paid to the operator, the owner receives $80,000 per year (40% of the drilling unit income).

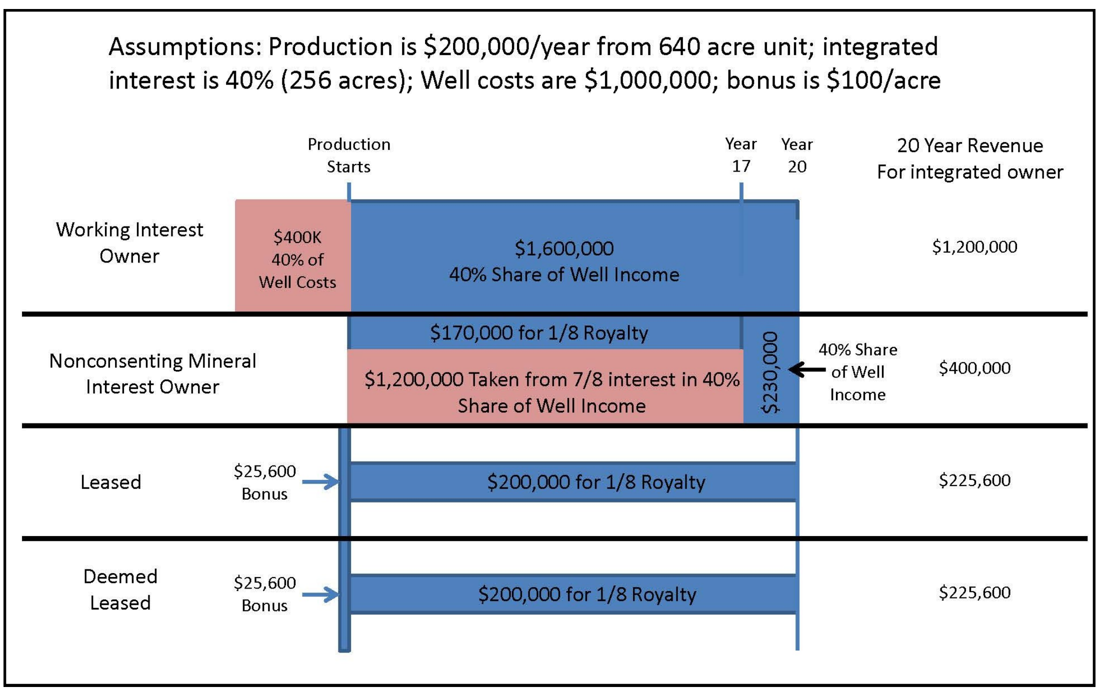
Integration Options Explained—continued from previous page

Option 3: 20.07.02.131.04: Lease- An owner may enter into a lease with the operator of the integrated spacing unit under the terms and conditions in the integration order. The owner will receive one-eighth (1/8) royalty. The operator of an integrated spacing unit must pay a leasing mineral owner the same bonus payment per acre as the operator originally paid to other owners in the spacing unit prior to the issuance of the integration order.

Owner receives $25,600 as a bonus payment prior to the well being drilled. After production starts, the owner receives $10,000 per year (1/8 royalty paid on 40% of the drilling unit income).

Option 4: 20.07.02.131.04- Become deemed leased. This is a non-participation option and means that the owner has no agreement or lease with the operating company. The integration order will dictate the terms and conditions if an owner fails to make an election within the election period set forth in the integration order. The owner will, however, still be compensated for their proportionate share of production. The owner would receive a 12.5% (1/8) royalty from their share of the production from the well for its lifetime.

Owner receives $25,600 as a bonus payment prior to the well being drilled. After production starts, the owner receives $10,000 per year (1/8 royalty paid on 40% of the drilling unit income).



Type of Owner	Working Interest Owner	Non-Consenting Working Interest Owner	Leased	Deemed Leased
Upfront cost	$400,000	$0	$0	$0
One-time Bonus	$0	$0	$25,600	$25,600
Annual profit from Royalties	$80,000	$10,000 for 17 years $80,000 for remaining 3 years	$10,000	$10,000
Net Gained over 20 years	$1,200,000	$400,000	$225,600	$225,600

Previous newsletters and additional information including FAQ's can be found on the IDL website: http://www.idl.idaho.gov/oil-gas/regulatory/index.html

PAUL LOWREY
OIL AND GAS PROGRAM MANAGER

300 N 6th Street
PO Box 83720
Boise, ID 83720-0050

Phone: 208-334-0243
Fax: 208-334-3698
E-mail: plowrey@idl.idaho.gov