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Subject: Idaho

TITLE 07 CHAPTERS 02
20.07.02 - RULES GOVERNING CONSERVATION OF OIL AND NATURAL GAS IN THE STATE OF IDAHO
SUBCHAPTER A - GENERAL PROVISIONS

IDL Staff and Commissioners and Citizens of the State of Idaho,

Having participated in this rule making throughout the process, through dozens of hours or rule-making sessions, and seven versions of the rules themselves, Lone Tree respectfully requests the Department revisits the following issues and adjust the rules to bring Idaho into alignment with state and national standards:

1. Gas well spacing providing for 160-640 acres to be consistent with the size and shape of the pool, in order to avoid waste and maximize development of the resource. Industry experts and scientific data support this change.
2. Production Reporting & Metering: Production should be reported within 30 days of first production, which is consistent with the majority of states. Metering and calibration should be required immediately to provide transparency, and to protect the state and mineral interest owners.
3. Oil Gas Ratio – In absence of field specific data, Idaho should utilize state and national standard of 100,000 to 1.
4. Transparency and Integrity of the Process – Changes to the rules should be based on industry standards and be consistent with other states. The rules should also reflect the input of all parties when valid issues are raised. Changes to the rules should not ever favor any one company.

The management and staff at Lone Tree would like to thank you for the opportunity to have participated in the Negotiated Rulemaking for the 2016 season. During the meeting on July 27,2016 it was stated by the Bureau Chief that final written comments were to be submitted by August 9, 2016. On August 1, 2016 the department sent out an email pointing out that the deadline was actually August 1, 2016 and being somewhat unprepared Lone Tree respectfully submits our outline of key issues, which in our opinion are of great importance to the industry in the state and the process forward. Additional information will be forthcoming in the next few days and Lone Tree respectfully request these following documents be posted as addendum to this comment outline.

The Following on a per page basis is Lone Tree's assessment of the status of key issues, which were discussed but in our view, not adequately resolved in the rulemakings. In the interest of correlative rights for landowners, prevention of waste of the resource, benefits and resource portions owned by the state as well as private landowners, as well as transparency of the process Lone Tree wishes to make final comments at this time for inclusion in the record. Further, we request that a number of changes be made to the most recent iteration of the rules, dated July 26, 2016. By our count, this is the 7th version of the rules, beginning with April 18, 2016, when the Department offered its initial language. We believe our

proposed changes are in the best interest of the State of Idaho and her citizens. With the growing oil and gas industry in the state it is imperative that everyone be held to the highest standards concerning transparency, and integrity of process. This results in the protections of citizens rights and both public as well as private resources. .

It is within these intentions that Lone Tree respectfully submits these comments for consideration as we move forward laying the groundwork for the Oil and Gas industry in the State of Idaho.

We ask the Department to make the following changes to version 7-26.16 of the rules:

Key Issues With Greatest Community and Industry Impact

Spacing

Spacing for gas wells should provide for 160-640 acres, and not default to 640.

Title 47, Chapter 3, Section 47-321: Sub Section 2:

(2) An order establishing spacing units shall specify the size and shape of the units, which shall be such as will, in the opinion of the commission, result in the efficient and economical development of the pool as a whole. Any unit established by the commission shall be geographic. The geographic boundaries of the unit shall be described in accordance with the public land survey system.

Lone Tree Petroleum specifically requests that the current default spacing unit of 640 acres for a gas well be amended to the following language.

"160 acres -640 acres utilizing the largest spacing obtainable from 160 acres to 640 acres and that said spacing unit be geographically described and utilize the PLS System for legal description and that the operator provide supporting evidence if it is available, and that the default spacing reflect the size and shape of the pool, and movable to cover the pool, while maintaining the minimum spacing size. This unit shall be movable and positioned over and covering the pool to the best knowledge of the operator regardless of position in reference to main section lines and allowing the unit to be rectangular in shape if it is so required for any reason. "

If open hole logs or future seismic data or production data should prove a gross adjustment is needed to further protect landowners or the resource, time will be afforded between this data being acquired and future neighboring wells are permitted. Future well spacing's and unit spacing's can be adjusted accordingly.

The largest possible unit size between 160 acres and 640 acres should be utilized as much as possible within bounding faults and compartments within the formation.

Other comments from people who are geologist and highly experienced in the field have been posted, "albeit many weeks after they were submitted" that reflect the same ideas and reasoning s as to what the spacing should be. The current spacing can leave stranded parcels in many areas, thereby preventing landowners of their rights to benefit from the resource. Creating a situation whereby a hearing is required for every well in many cases after allowing previous firms to space wells on less than 640 is not beneficial to the mineral owners and can very well work to prevent other companies from wanting to develop the resources. These spacing's will undoubtedly be reduced to 160 in the next couple years anyway and the comments in the rules reflect this statement.

Gas Oil Ratio

Absent field-specific data, the definition of oil gas ratio should reflect the most commonly used state and national standard: 100,000 to .

Gas Oil Ratio should be brought to a medium industry standard. 5000 cubic feet to 1 barrel of oil is second lowest in the country. This greatly affects the outcome of whether a well is defined as oil or a gas well and thereby whether it is spaced correctly or not. This determination places a very large gamble with legal consequence to mineral interest owners. Default 640 acres benefits only the company wishing to hold more land, For an operator to predict with accuracy of 5000 cubic feet of gas prior to drilling a well as Oil or Gas would be a remarkable feat, and dry holes would be a thing of the past. Misjudging the hydrocarbons by a very small margin can potentially cause a well to be shut in and result in a misclassification and possible litigation, which would be of absolutely no benefit to the landowner, the oil company, or the state. The national numbers run from 2000 cubic feet in one state to 1,000,000 cubic feet in others. A range of 100,000 to 500,000 cubic feet /barrel of oil would be the average and much more suitable to determine a gas well. This would be well within the industry norm.

Production Reporting and Metering

Production should be reported to the state the month following initial production. This is the case in the majority of states. Idaho mineral owners, regulators and citizens are entitled to know what is being produced immediately.

Industry standard and steps for reporting is as follows:

1. Daily readings are taken by operators' representatives in the field and logged.
2. The log sheet runs from the 1st of the month to the last day of the month.
3. This production volume is reported to the state usually by 21st of the following month.
   "This gives a base line from which one can go back and audit"
4. Taxes are later calculated from the sales of product..

Proper reporting and Metering, with proven validated meters go hand in hand. It is the check and balance that assures the state collects proper taxes, and land and mineral owners are properly and fairly paid. Metering volumes in the proper and regulated manners is critical, to proper royalties being paid. IDL has indicated it does not have the resources to certify and validate meters, but ensuring that meters are accurate, and validated by a third party is fundamental to the transparency and integrity of the process and to the protection of mineral interest owners.

Example:

A 400 bbl. oil tank has a volume increment of app 1.66 bbl. of fluid /inch of dept.

So if the is 10' of oil in this example tank, this would be

> ***10 x 12 = 122 inches***
>
> ***122 inches x 1.66= 202.66 bbl. of Oil***

If this tank is improperly strapped .5 or ½ bbl. short for 75% of the year, then

> ***365 x .75 = 273 days***
> ***273 x .5= 136.875 x $80.00 Oil = $10950.00 in lost sales***

When automated meters fail and there is no backup the losses or substantial. If this is occurring in 12 tanks the losses are quite substantial as well.

Metering of gas is even more critical in that wet gas is actually the transportation of oil, condensate as well as gas. So while these components are in solution the losses can be even higher.

From my Comments dated July 5, 2016

> *Meters are subject to failure or losing calibration for a variety of reasons. Every day operations, handling, temperature, and just simple malfunction or failure can result in small variances adding up over time, or large variances in measurement adding up over time and these issues are just too simple to monitor and correct. It can be done with little or no expense to the state and be readily available for anyone to inspect at all times.*
>
> *Most states do not read meters nor would this be practical. They do ALL however require certain standard guidelines and practices to be followed. Constant meter proving and calibration monitoring is a standard industry wide. Just as the scale at your local grocer or the gas pump everyone uses weekly is calibrated and certified, so are meters in the oil and gas industry.*

In most other states meters are proven monthly or quarterly by a third party at the expense of the operator. These test are allowed to be within a certain tolerance, if outside this tolerance the meter must immediately be repaired or replaced and recertified. All pertinent documents are required to be turned in to the state. This at least provides a starting point if there are any discrepancies.

National Standards

Adherence to national standards in the absence of certain data and information being available is imperative in creating a fair and competitive market place. It also provides the middle of the road positioning by which the state can best protect the correlative rights of mineral owners, the interest of the businesses participating and the State of Idaho's interest as well. Any thing less should immediately be corrected to prevent waste of resources and lay a clean and simple path forward for the oil and gas industry in the State of Idaho.

C.J. McDonald

Lone Tree Petroleum, Inc.