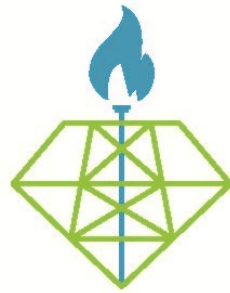




Idaho Wildflowers



IDAHO OIL & GAS CONSERVATION COMMISSION

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Inside this issue:

Rulemaking	1
RBDMS and Data Miner Update	1
Sage Grouse Plan	2
Meet the IOGCC-Commissioner Classen	2
Final Approval O&G Rules/Bills	3
Common Oil and Gas Term	3
BLM Hydraulic Fracturing Rule	4

Rulemaking

IDAPA 20.07.01 was last updated in 1992 and the Attorney General's rules of practice and procedure were implemented in 1993 resulting in the Idaho Oil and Gas Conservation Commission (Commission) operating under Title 67, Chapter 52, Administrative Procedures Act (APA). Under the APA, the Commission was required to handle all proceedings as contested cases, whether or not additional parties had responded or chosen to participate.

During the 2015 legislative session, Title 47, Chapter 3, Oil and Gas Wells was amended by House Bill 123. The amendments exempt the Commission from Idaho Code § 67-5201 and Idaho Code § 67-5240 for the purpose of hearings before the Commission including the contested case provisions of the APA. As a result, the Department believes that it is important to initiate negotiated rulemaking as soon as possible in order to have any changes presented during the 2016 legislative session and thus support Title 47, Chapter 3.

The amendments to Title 47, Chapter 3 will take effect on July 1, 2015 and now necessitate negotiated rulemaking to update IDAPA 20.07.01. The



Department requested direction from the Commission to conduct negotiated rulemaking and promulgate rules allowing more flexibility to select the best process for timely disposition of dockets. The Department has prepared a timeline for beginning initial discussions with stakeholders and submitting the rules to the OGCC and Legislative Services Office in accordance with Department of Administration rulemaking procedures.

At the April 23, 2015 Oil and Gas Conservation Commission meeting, Idaho Department of Lands recommended that the Commission direct the Department to initiate negotiated rulemaking for IDAPA 20.07.01. A motion was made to proceed with the rulemaking. The motion carried on a vote of 5-0.

RBDMS and Data Miner Update-Jay McCoid

The Idaho Department of Lands uses Resource Based Data Management System (RBDMS) to track oil and gas activity in Idaho. The Data Miner application will be the interface allowing the public to access and view oil and gas activity information by accessing a link on the IDL website.

The roll out of the public application to Data Miner has been delayed. IDL want this to be a positive experience for users, and we want to make sure it displays the correct information they are looking for in their searches.

We are in the process of verifying that we have the necessary business processes in place to obtain, process, and display the correct information. We are also carefully verifying what information can be disclosed to the public and what must remain confidential.

We will also be conducting security testing on the Data Miner application before it goes live. Security testing entails bringing in a third-party security expert to conduct perimeter penetration on the Data Miner application to identify any vulnerability and ensure safety of the application from cyber-attack.

Once these tasks are complete, we can move forward with going live with Date Miner. We will continue to update the progress with this project.

Approved Sage Grouse Plan and Next Steps

On February 12, 2015 the Idaho Department of Lands (IDL) presented the Proposed Greater Sage-Grouse Conservation Plan to the Commission as an informational item. IDL sought initial feedback from the Commission and indicated IDL would initiate an extensive stakeholder outreach effort and then come back to the Commission for final approval of the plan at a future meeting.

Since that time IDL has completed the stakeholder outreach effort by soliciting feedback on the Proposed Greater Sage-Grouse Conservation Plan using group and individual meetings. These meetings included direct discussions regarding language in the plan and the impacts of the proposed conservation measures on practices of the oil and gas industry. IDL has revised the Proposed Greater Sage-Grouse Conservation Plan based on the feedback from stakeholder groups and on-going interactions with sister agencies.

Implementation of the Proposed Greater Sage-Grouse Conservation Plan will occur through voluntary agreements between industry and IDL. Updated Standard Operating Procedures will call for IDL to provide applicants requesting permits to drill within core and important habitat with Conservation Measures (CM's). Applicants will then acknowledge which, if any, CM's can be complied with and incorporated as enforceable permit conditions. Monitoring of CM's stipulated to will be incorporated into existing permit inspection procedures. Inspection forms will be amended to include sections for documenting implementation of CM's as well as an assessment of effectiveness.

The Department recommended that the Commission approve the applicable sections of Part II of the proposed Plan.

Upon approval, implementation of the Plan will be contingent on the federal agencies (USFWS and BLM) acceptance and incorporation of the Governor's Plan into the Final Idaho and Southwest Montana Sub-regional Sage-grouse LUPA and EIS. Implementation will begin within 60 days of the Record of Decision (ROD) for the Final Idaho and Southwest Montana Sub-regional Sage-grouse LUPA and EIS.

If the ROD does not include the foundational elements of the Governor's Plan, IDL will reevaluate and revise the Plan if necessary and inform the Commission or seek approval as needed.

A motion was made that the Commission approve the recommendation. The motion carried on a vote of 5-0.

For more information on the Proposed Greater Sage-Grouse Conservation Plan, please visit: <http://www.idl.idaho.gov/sage-grouse/index.html>



Meet the Idaho Oil & Gas Conservation Commission—Commissioner Classen



Jim Classen of Boise represents geological interests on the Oil and Gas Conservation Commission. He holds an Engineer of Geology degree from Colorado School of Mines and a Masters Degree in Geology from Stanford.

Classen has more than 55 years experience as an exploration geologist in the oil and gas business and been an Independent the last 35 years. An independent is a person or a company that seeks to get oil and gas wells drilled, completed and potentially acts as an operator of the well. Commissioner Classen's company generates prospects for specific drilling opportunities. He also reviews specific prospects offered by other Independents and participates in a small way in those drilling ventures, primarily in the Gulf Coast area.

Classen has a wide variety of oil and gas experience, including District Geologist with AMOCO. He has been involved in exploration in Colorado, Kansas, Michigan, Illinois, the Gulf Coast – both on and offshore, and the East Coast with the greatest concentration in Florida, North and South Carolina.

His work has included prospect generation, marketing, evaluation, sales and management of oil and gas programs.

Classen hopes to see Idaho develop into a successful oil and gas producing state within safe environmental standards.

Despite his incredibly busy schedule, he still finds time to go salmon fishing.

Final Oil and Gas Rules/Bills Approved

The 2015 Legislature passed some oil and gas rules that were proposed by Idaho Department of Lands (IDL). The changes better align Idaho's oil and gas laws with industry best practices, and prevent waste and protect mineral owners during oil and gas development. IDL looked to other states with more mature oil and gas industries in coming up with recommendations that work best for Idaho.

Some highlights of the many rule changes include:

- Increased setbacks from the place where a well is drilled to a structure or water well. The changes protect people's property and reduce the potential for structure damage during drilling.
- Increased bonding requirements to plug inactive wells so they reflect actual costs and the State of Idaho is at lesser risk of being on the hook to pay. The enhanced rule will better protect water quality.
- Integration of mineral rights: Integration protects mineral rights by ensuring all mineral owners in a drilling unit receive compensation upon production of the resource. Integration allows for orderly development of an oil and gas reservoir when 55 percent of the mineral interest owners within a unit have been leased to an operator.
- Some other things addressed in the rulemaking include increased industry notification and state inspection of critical pre-drilling operations; online disclosure of chemicals used during hydraulic fracturing through FracFocus.org (there are no applications or permits for fracking in Idaho); restrictions on flaring gas (burning off excess gas); restrictions for on-site chemical storage; increased protection of groundwater resources.

Three bills that were proposed by IDL were passed. These bills are:

H48-Oil and Gas Production Records Confidentiality; Oil and gas production records, which are considered business records, will be reported six months after production and will be exempt from public disclosure for another six months.

H49-Oil and Gas Fees for Permitted Activities; Sets application fees for oil and gas activities regulated by the Commission so that IDL can cover the costs to administer the applications.

H50-Oil and Gas Unit Operations; This bill defines how oil and gas companies cooperate in the development of an oil and gas field or pool, and allows fewer wells to be drilled in order to prevent waste and to efficiently drain oil and gas.

Other oil and gas bills that passed that IDL did not propose:

H0125-Oil and Gas definition of "gas"; This bill that defines "gas" to include "condensate," restoring the historical definition of gas in Idaho Code and clarifying that condensate is taxable under Idaho Code.

H0124-Oil and Gas Wells; Industry-proposed bill that gives the Commission the option to exclude the BLM from a drilling unit. The bill also provides for geographic units.

H0123-Oil and Gas Conservation Commission; Industry-proposed bill that exempts the Commission from the contested case provision of the Administrative Procedures Act. IDL will initiate rulemaking this year to complement the new law. The change is better adapted to the oil and gas industry and will be more efficient for the Commission and IDL.

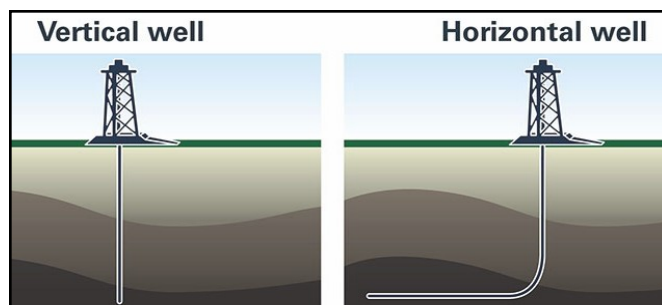
H 269- Oil, Gas Tax; This bill aligns tax collection policies with industry and market practices to allow for uniform tax assessment for oil and gas produced in Idaho.

Common Oil and Gas Term-Vertical vs. Horizontal Drilling

Most wells drilled for water, oil, and natural gas are vertical wells, which are commonly referred to as "conventional wells". When drilling a vertical well, the wellbore is drilled straight down until the oil or natural gas reservoir is reached. Vertical drilling is most efficient when reservoir pressure is high and the formation has high permeability.

Vertically drilled wells are only able to access the oil and natural gas that immediately surrounds the end of the well. Historically, natural gas and oil exploration involved the use of vertical wells because directional drilling technology was expensive and complicated.

Horizontally drilled wells, commonly referred to as "unconventional wells," use a drilling process in which the well is drilled vertically then at depth is drilled horizontally, with the well resembling an exaggerated letter J. A horizontal well is able to reach a much wider area of rock and the natural gas



trapped within the rock, resulting in more energy being reached with fewer wells.

Historical records date horizontal drilling back as early as 1929. It became more common in the 1980's as equipment and technology developed. The extraction of oil and gas from unconventional sources, such as shale rock formations, often requires the use of horizontal drilling technologies.

Brief Comparison of BLM Hydraulic Fracturing Rules to IDL Rules

Dave Schwarz— IDL Oil and Gas Leasing Program Manager



On March 26, 2015, the Department of the Interior Assistant Secretary for Land and Minerals Management published a final rule (Rule) for hydraulic fracturing on Federal and Indian lands in the Federal Register to be administered by the Bureau of Land Management (BLM). In addition to current drilling regulations, which will remain in effect, the Rule creates new requirements for operators using hydraulic fracturing to stimulate oil and natural gas wells for unconventional resources **on federal lands**. It does not apply to hydraulic fracturing activity on private and state-owned land. However, some states may look to this Rule as a model and adopt many of the same requirements.

The BLM:

- thoroughly reviewed existing programs to find tried and true best practices for application across all Federal and tribal lands;
- used existing or proposed state regulations or industry guidance to develop the new Rule;
- provided an extensive public comment period and public hearings on the draft Rule; and
- will allow states or tribes with primacy to seek a variance from enforcing the new Rule.

Key components of the Rule, which will take effect in 90 days from March 26 include:

- Provisions for ensuring the protection of groundwater supplies by requiring a validation of well integrity and strong cement barriers between the wellbore and water zones through which the wellbore passes;
- Increased transparency by requiring companies to publicly disclose chemicals used in hydraulic fracturing to the BLM through the website FracFocus, within 30 days of completing fracturing operations;
- Higher standards for interim storage of recovered waste fluids from hydraulic fracturing to mitigate risks to air, water, and wildlife;
- Measures to lower the risk of cross-well contamination with chemicals and fluids used in the fracturing operation, by requiring companies to submit more detailed information on the geology, depth, and location of preexisting wells to afford the BLM an opportunity to better evaluate and manage unique site characteristics.

Based on this brief assessment, the IDL rules essentially adhere to the new Rule requirements, except for cementing and evaluating casing strings. IDL rules require that the IDL will witness and document all surface casing cementing activities. In the BLM Rule, casing strings that run from the surface must be cemented to the surface with proof of adequate cement bonding. The primary indicator of adequate cement bonding is cement monitoring. The Rule requires witnessing good cement returns to the surface, noting the absence of gas-cut mud in the cement, and assessing properly-functioning equipment throughout the cementing process. For surface casing, the Rule does not require a cement evaluation log (CEL) for each well. Instead, the operator must witness the arrival of cement returns to the surface, followed by pressure testing the cemented annular space. For any surface casing not meeting these performance standards, an approved remedial plan and CEL will be required. For intermediate and production casing not cemented to the surface, a CEL will be required for all wells. For any well where there is an indication of inadequate cement, the operator must notify the BLM of the inadequate cement within 24 hours of discovering it and submit a plan to the BLM requesting approval of remedial action to achieve adequate cementing of the casing. The operator must also verify that the remedial action was successful with a CEL or other method BLM approves in advance. For wells where a CEL is required, the operator must run a CEL to demonstrate that there is at least 200 feet of adequately-bonded cement between the zone to be hydraulically fractured and the deepest usable water zone. Meeting this requirement would demonstrate isolation and protection of the usable water zone from the zone to be hydraulically fractured. This part of the Rule is generally consistent with industry guidance and specified in some state regulations, such as in Ohio.

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