

BEFORE THE OIL AND GAS CONSERVATION COMMISSION  
STATE OF IDAHO

In the Matter of Application for Integration of All ) Docket No. 2014-OG-01-01  
Unleased Mineral Interests and for Authority to )  
Produce the Proposed Well and to Share the Costs ) **FINAL ORDER**  
of Such Well and the Hydrocarbons Produced )  
therefrom Between the Working Interest Owners )  
and Royalty Owners in the Unit Described as East )  
Half of Section 33 and the West Half of Section 34, )  
Township 9 North, Range 4 West, Boise Meridian, )  
Payette County, Idaho; Proposed Kauffman #1-34. )  
ALTA MESA SERVICES, LP, Applicant. )  
\_\_\_\_\_ )

I. PROCEDURAL BACKGROUND

Applicant Alta Mesa Services, LP (“Alta Mesa”) initiated the above-entitled matter on July 11, 2014, by filing its Application with the Oil and Gas Conservation Commission (“Commission”) to integrate the unleased mineral interests of Amy D. and Lemuel A. Walker, their heirs, successors, and assigns (collectively “Integrated Persons”), for authority to produce the proposed well and to share the costs of such well between the working interest owners and royalty owners, and to designate a cross-section spacing unit. On August 27, 2014, Alta Mesa supplemented its Application with additional information requested by Idaho Department of Lands.

The Commission issued the Notice of Hearing on September 17, 2014. The Commission held a hearing on this matter at a special meeting on October 1, 2014. Alta Mesa was represented by John Peiserich of PPGMR Law, PLLC, and Michael Christian of Marcus, Christian, Hardee, and Davies, LLP. Alta Mesa presented testimony and offered exhibits to the Commission in support of its Application, and the Commission voted to approve Alta Mesa’s Application. The Commission,

having fully considered the record in this matter, issues this Final Order as its decision in this matter pursuant to Idaho Code §§ 47-321, 47-322 and 67-5246(1) and IDAPA 04.11.01.740.

## II. FINDINGS OF FACT

1. Alta Mesa proposes designating a cross section spacing unit described as the East Half of Section 33 and the West Half of Section 34, both in Township 9 North, Range 4 West, Boise Meridian, Payette County, Idaho (“Spacing Unit”).<sup>1</sup> The proposed unit contains approximately 640 acres. (Ex. 1, p. 1).<sup>2</sup>

2. The Spacing Unit is located in the Western Idaho Basin. One well is currently in production in the basin. There is not a history of oil and gas production in this basin. (Hearing Transcript (“Tr.”), p. 12.)

3. The geology in the Western Idaho Basin is complex. This is a large, freshwater basin; known as a lacustrine basin. Sediment is being deposited in the basin. The basin is dropping due to the weight of the sediment deposits, movement of the Earth’s crust, and volcanic activity. The down dropping creates faults in the basin. The geologic setting in the basin is unique compared to other areas of the United States and other countries. (Tr., p. 23.)

4. Based on information known to Alta Mesa at this time, the potential gas play is located in the Spacing Unit, generally half in Section 33 and half in Section 34. The evidence presented at the hearing demonstrates that there is a reasonable possibility that a well drilled in the Spacing Unit would recover oil and gas in commercial quantities and is prospective of oil and gas. (Ex. 1; Tr., p. 29.)

---

<sup>1</sup> Alta Mesa provided a unit plat map with its application (Exhibit E of Exhibit 1), and Alta Mesa later submitted a second map (dated 8/25/14) with a smaller unit size. Counsel for Alta Mesa clarified at the hearing that Alta Mesa is requesting a 640 acre spacing unit. Therefore, the Commission will disregard the second map.

<sup>2</sup> The pages of the Alta Mesa’s Application (Exhibit 1) are unnumbered, but the Application pages will be referenced in the Final Order as if they are numbered.

5. Alta Mesa proposes drilling the Kaufmann #1-34 well in the Northwest Quarter of Section 34, Township 9 North, Range 4 West, B.M. The well was administratively approved on June 30, 2014 as an exceptional well location. (Ex. 1, pp.1-2.)

6. Alta Mesa seeks to be the operator of the well in the Spacing Unit. (Ex. 1, p. 2.)

7. Alta Mesa owns oil and gas leases and agreements with other working interest owners in the Spacing Unit. (Ex. 1, p. 2.)

8. Alta Mesa obtained an abstract for the Spacing Unit for the purpose of obtaining a title opinion, and determined there was a reservation for mineral interests in a 160-acre tract located in the Southwest Quarter of the Northwest Quarter, the North Half of the Southwest Quarter, and the Southeast Quarter of the Southwest Quarter, Section 34, Township 9 North, Range 4 West, B.M., Payette County, Idaho. Amy D. Walker and Lemuel A. Walker are the owners of record of 50% of the mineral interest in the 160-acre tract. (Ex. 1-E.)<sup>3</sup>

9. David Pepper, Idaho Land Supervisor for Alta Mesa, requested that Glen R. Johnson, a contract landman, attempt to locate the owners of the Walkers' mineral interest. Mr. Johnson summarized his findings in a resume of efforts submitted with Alta Mesa's Application. (Ex. 1-B.)

10. Lemuel A. Walker died in Ontario, Malheur County, Oregon in 1956. According to the Probate Records of Payette County, Mr. Walker died intestate and his wife was designated as the only legatee with no other issue. (Ex. 1-B.)

11. Amy D. Walker died in August 1971 in Payette, Idaho at the age of 91, according to the Social Security Death Index. Mr. Johnson did not find any probate information for Ms. Walker the records of Payette County, Idaho, or Malheur County, Oregon. Mr. Johnson reviewed records

---

<sup>3</sup> Exhibit 1 includes several exhibits identify by letters. In the Final Order, the exhibits to Exhibit 1 will be referenced as Exhibit 1-A, etc.

available on the website Ancestry.com, and did not find any record that Ms. Walker had children or siblings. (Ex. 1-B.)

12. Mr. Johnson searched the records of the Payette County Clerk and Recorder forward from August 1971 and did not find any record of conveyances of the mineral interest from Ms. Walker. (Ex. 1-B.)

13. Alta Mesa sent a letter addressed to Amy D. and Lemuel A. Walker and their heirs, successors, and assigns, to the Walker's last known address found on court documents. The letter was returned to sender as unclaimed and unable to forward. (Ex. 5.)

14. Alta Mesa published notice of its Application in the Idaho Statesman, Argus Observer, and Independent Enterprise, and provided proof of publication of such notices to the Commission. (Ex. 4.)

15. The mineral interests owned by the Integrated Persons in the Spacing Unit are presently unleased and uncommitted. Alta Mesa requests the following three alternatives for the Integrated Persons to participate in the Spacing Unit. (Ex. 1, pp. 2-3.)

a. Execute and deliver to Alta Mesa an oil and gas lease consistent with the proposed lease form provided by Alta Mesa (Ex. 1), and receive compensation in the amount of a bonus of \$100.00 per acre<sup>4</sup> and 1/8<sup>th</sup> royalty, in lieu of the right to participate in the working interest in the unit. If the Integrated Persons fail to make an election within a fifteen (15) day response period, they will be deemed to have elected to lease under the same terms as if they had elected to lease their minerals.

b. Participate as working interest owners in the cost of drilling, testing, and completion of the test well drilled by Alta Mesa subject to the terms of the uniform modified AAPL Operating Agreement (Ex. 1-C) and the Authorization for Expenditures Ex. (1-D).

---

<sup>4</sup> Alta Mesa orally amended its application at the hearing to provide a bonus of \$100.00 per acre.

c. Participate as nonconsenting working interest owners subject to a risk factor penalty applied against the Integrated Persons' interest. The risk factor penalty will be applied to the proportionate costs and expense of drilling, completing and equipping the well, which would have been born by the Integrated Persons as if they had paid their proportionate costs and expenses prior to drilling the well. Alta Mesa proposes a risk factor penalty of 300% for the initial well and any subsequent wells.

### III. CONCLUSIONS OF LAW

1. The Commission has authority in this matter pursuant to the Oil and Gas Conservation Act, chapter 3, title 47, Idaho Code.

2. Pursuant to Idaho Code § 47-321, the Commission is authorized to establish spacing units. Idaho Code §47-321(a) provides:

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. The size of the spacing units shall not be smaller than the maximum area that can be efficiently and economically drained by one (1) well; provided, that if, at the time of a hearing to establish spacing units there is not sufficient evidence from which to determine the area that can be efficiently and economically drained by one (1) well, the commission may make an order establishing temporary spacing units for the orderly development of the pool pending the obtaining of the information required to determine what the ultimate spacing should be.

3. The standard spacing unit size for gas wells is 640 acres. IDAPA 20.07.02.330.02. The spacing unit "shall be one governmental section or lot(s) equivalent thereto, upon which there is not located, and of which no part is attributed to, any other well completed in or drilling in the same pool." *Id.*

4. Based on the evidence provided in this matter, establishing the spacing unit consisting of approximately 640 acres in the East Half of Section 33 and the West Half of Section 34, both in Township 9 North, Range 4 West, B.M., Payette County, Idaho, will "result in the efficient and

economic development of the pool.” Idaho Code § 47-321(b). Establishing a cross unit spacing unit will also protect the correlative rights of mineral owners in the unit. *See* Idaho Code § 47-319(2).

5. The Commission is authorized to consider integration applications and to issue integration orders pursuant to Idaho Code § 47-322. The Commission, “upon the application of any interested person, shall make an order integrating all tracts or interests in the spacing unit for the development and operation thereof and for the sharing of production therefrom.” Idaho Code §47-322(a). An “integration order shall be upon terms and conditions that are just and reasonable.” *Id.*

6. The operations of a well upon any portion of a spacing unit under an integration order “shall be deemed for all purposes the conduct of such operations upon each separately owned tract in the unit by the several owners thereof.” Idaho Code § 47-322(b). The “portion of production allocated to a separately owned tract included in a spacing unit shall, when produced, be deemed, for all purposes, to have been actually produced from such tract by a well drilled thereon.” *Id.*

7. Based on the substantial evidence in record, the Commission concludes it is appropriate to integrate the mineral interests of the Integrated Persons into Spacing Unit for the development and operation of the unit pursuant to Idaho Code § 47-322.

8. The Commission designates the Kauffman #1-34 well as the authorized well in the Spacing Unit.

9. The Commission concludes the three alternatives for the Integrated Persons to participate in the Spacing Unit are just and reasonable. The form lease proposed by Alta Mesa (Ex. 1) contains reasonable terms to govern the relationship between Alta Mesa and the Integrated Persons, if the Integrated Persons elect to lease or if they fail to make an election under this order. The AAPL Operating Agreement (Ex. 1-CA) and Authorization for Expenditures (Ex. 1-D) contain just and reasonable terms to govern the relationship between Alta Mesa and the Integrated Persons in

the event the Integrated Persons elect to participate as working interest owners or nonconsenting working interest owners.

10. Alta Mesa requests that the Commission impose a risk factor penalty that would apply against the interests of the Integrated Persons if they elect to participate as nonconsenting working interest owners, but do not participate in the risk and cost of the drilling and operation of the well. The Commission has authority to establish terms and conditions for such participation under Idaho Code § 47-322(c). The Commission concludes that Alta Mesa's requested risk factor penalty of 300% of the costs of the well is reasonable due to the risk and costs of drilling the well. The Commission further concludes that, in the event the Integrated Persons elect to participate in the Spacing Unit as nonconsenting working interest owners, it is just and reasonable for nonconsenting working interest owners to receive a 1/8<sup>th</sup> royalty out of their proportionate share of production until Alta Mesa has recovered its costs and the risk factor penalty out of the nonconsenting working interest owners' proportionate share of production. After that, the nonconsenting working interest owner will be liable for further costs of the well as if they had initially agreed to pay costs of drilling and operating the well.

#### IV. ORDER

Alta Mesa's Application is APPROVED as follows:

1. The Commission designates the Spacing Unit in the East Half of Section 33 and the West Half of Section 34, both in Township 9 North, Range 4 West, B.M., Payette County, Idaho. The Spacing Unit comprises approximately 640 acres.
2. Alta Mesa is designated as the operator of the well in the Spacing Unit and has authority to drill, equip, and operate the well in the Spacing Unit.

3. The mineral interests of the Integrated Persons in the 160-acre tract located in the Southwest Quarter of the Northwest Quarter, the North Half of the Southwest Quarter, and the Southeast Quarter of the Southwest Quarter, Section 34, Township 9 North, Range 4 West, B.M., Payette, County, Idaho, are integrated into the Spacing Unit.

4. The alternatives for the Integrated Persons to participate in the Spacing Unit are:

a. Execute and deliver to Alta Mesa an oil and gas lease consistent with the proposed lease form provided by Alta Mesa (Ex. 1), and receive compensation in the amount of a bonus of \$100.00 per acre<sup>5</sup> and 1/8<sup>th</sup> royalty, in lieu of the right to participate in the working interest in the unit. If the Integrated Persons fail to make an election within the fifteen (15) day response period set forth in this Order, they will be deemed to have elected to lease under the same terms as if they had elected to lease their minerals.

b. Participate as working interest owners in the cost of drilling, testing, and completion of the test well drilled by Alta Mesa subject to the terms of the uniform modified AAPL Operating Agreement (Ex. 1-C) and the authorization for expenditures (Ex. 1-D).

c. Participate as nonconsenting working interest owners subject to a risk factor penalty of 300% applied against the Integrated Persons' interest for the initial well and any subsequent well. The terms of the uniform modified AAPL Operating Agreement (Ex. 1-C) and the authorization for expenditures (Ex. 1-D) will apply if the Integrated Persons participate as nonconsenting working interest owners. The risk factor penalty will be applied to proportionate cost and expense of drilling, completing and equipping the well, which would have been born by the Integrated Persons as if they had paid their proportionate costs and expenses prior to drilling the well. Nonconsenting working interest owners will receive a royalty of 1/8<sup>th</sup> from their proportionate share of production, and will receive their full share

---

<sup>5</sup> Alta Mesa orally amended its application at the hearing to provide a bonus of \$100.00 per acre.

of production only after Alta Mesa has recovered its costs and the risk factor penalty out of the nonconsenting working interest owners' share of production. After that, the nonconsenting working interest owner will be liable for further costs of the well as if they had initially agreed to pay costs of drilling and operating the well.

5. To provide the Integrated Persons with notice of their alternatives for participation in the Spacing Unit, Alta Mesa must publish notice of this Final Order once a week for two weeks in a newspaper serving the county where the spacing unit is located in order to provide the Integrated Persons with notice of this Final Order.

6. The Integrated Persons will have fifteen (15) days from issuance of this Final Order to make an election and communicate their election in writing to Alta Mesa.

#### V. PROCEDURES FOR FINAL ORDERS

This is a final order of the Commission. Any party may file a motion for reconsideration of this final order within fourteen (14) days of the service date of this order. The Commission will dispose of the petition for reconsideration within twenty-one (21) days of its receipt, or the petition will be considered denied by operation of law. *See Idaho Code § 67-5246(4).*

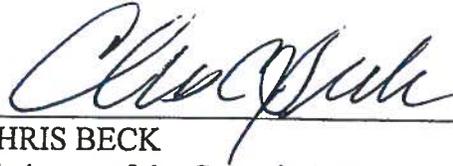
Pursuant to Idaho Code §§ 67-5270 and 67-5272 any party aggrieved by this final order or orders previously issued in this case may appeal this final order and all previously issued orders in this case to district court by filing a petition in the district court of the county in which: (1) a hearing was held, (2) the final agency action was taken, (3) the party seeking review of the order resides, or (4) the real property or personal property that was the subject of the agency action is attached.

An appeal must be filed within twenty-eight (28) days (1) of the service date of this final order, (2) of an order denying petition for reconsideration, or (3) the failure within twenty-one

(21) days to grant or deny a petition for reconsideration, whichever is later. See Idaho Code § 67-5273. The filing of an appeal to district court does not itself stay the effectiveness or enforcement of the order under appeal.

DATED this 3<sup>rd</sup> day of November, 2014.

IDAHO OIL AND GAS CONSERVATION COMMISSION



CHRIS BECK  
Chairman of the Commission

Countersigned:



THOMAS M. SCHULTZ, JR.  
Secretary to the Commission and  
Director of the Idaho Department of Lands