

BEFORE THE OIL AND GAS CONSERVATION COMMISSION
STATE OF IDAHO

In the Matter of Application for Integration of All) Docket No. 2014-OGR-01-02
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)
Section 9, Township 8 North, Range 4 West, Boise)
Meridian, Payette County, Idaho; Proposed)
Kauffman #1-9.)
ALTA MESA SERVICES, LP, Applicant.)
_____)

I. PROCEDURAL BACKGROUND

Applicant Alta Mesa Services, LP (“Alta Mesa”) initiated the above-entitled matter on September 10, 2014, by filing its Application with the Oil and Gas Conservation Commission (“Commission”) to integrate the unleased mineral interests of James R. Goss and for authority to produce the proposed well and to share the costs of such well between the working interest owners and royalty owners in the spacing unit.

The Commission issued the Notice of Hearing on October 6, 2014. The Commission held a hearing on this matter at a special meeting on October 21, 2014. Alta Mesa was represented by 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 §§ 47-322 and 67-5246(1) and IDAPA 04.11.01.740.

II. FINDINGS OF FACT

1. Alta Mesa proposes integrating Mr. Goss' mineral interests in the spacing unit described as Section 9, Township 8 North, Range 4 West, Boise Meridian, Payette County, Idaho ("Spacing Unit"). The proposed unit contains approximately 640 acres. (Application, p. 1.)¹
2. Alta Mesa proposes drilling the Kaufmann #1-9 well in the Northwest Quarter of Section 9, Township 8 North, Range 4 West, B.M. The well was administratively approved as an exceptional well location. (Application, pp.1-2.)
3. Alta Mesa seeks to be the operator of the well in the Spacing Unit. (Application, p. 2.)
4. Alta Mesa owns oil and gas leases and agreements with other working interest owners in the Spacing Unit. (Application, p. 2.)
5. Ruth Maule Murphy is the owner of record of minerals in the Spacing Unit. Mr. Goss is the remaining unleased heir of Ms. Murphy. (Hearing Testimony; Application, Ex. B.)
6. Mr. Goss' mineral interests comprise approximately 0.83 acres (approximately 4% of 20 acres) in the Spacing Unit. (Hearing Testimony; Application, Exs. B and E.)
7. David Pepper, Idaho Land Supervisor for Alta Mesa, requested that Butch Clancy, a contract landman, attempt to locate Mr. Goss. Mr. Clancy summarized his findings in a resume of efforts submitted with Alta Mesa's Application. Mr. Clancy obtained the contact information for Mr. Goss and other heirs on June 2, 2014. Mr. Clancy mailed a lease to all the Murphy heirs on June 20, 2014. On August 4, 2014, Mr. Goss called Mr. Clancy and said he would sign the lease and mail it to Mr. Clancy. On August 22, 2014, Mr. Clancy attempted to locate Mr. Goss in Spokane, Washington. In Spokane, Mr. Clancy spoke to Mr. Goss' mother and sister, but he was not able to locate Mr. Goss.

¹ The pages of the Alta Mesa's Application are unnumbered, but the Application pages will be referenced in the Final Order as if they are numbered.

On August 28, 2014, Mr. Goss called Mr. Clancy, and Mr. Goss requested that further contact go through him and that Mr. Clancy not contact his mother or sister. (Application, Ex. B.)

8. On September 15, 2014, David Goss informed Alta Mesa's attorney that he was representing Mr. Goss and that all communication regarding Mr. Goss' mineral interest should go through him. Alta Mesa's attorney provided a copy of the application materials to David Goss via email. (Ex. A.)

9. Prior to the hearing, Mr. Goss asked David Goss to no longer represent him. (Hearing Testimony.)

10. Alta Mesa mailed application materials to Mr. Goss at addresses in Spokane, WA and Anchorage, AK. The letter sent to the Spokane, WA address was accepted, but the letter sent to Anchorage, AK was returned to the sender. (Ex. B; Hearing Testimony.)

11. Alta Mesa published Notice of the Hearing in the Spokane Spokesman-Review newspaper prior to the hearing. (Ex. E; Hearing Testimony.)

12. Mr. Goss' mineral interests in the Spacing Unit are presently unleased and uncommitted. Alta Mesa requests the following three alternatives for Mr. Goss 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. C), and receive compensation in the amount of a bonus of \$100.00 per acre and 1/8th royalty, in lieu of the right to participate in the working interest in the unit. If Mr. Goss fails to make an election within a fifteen (15) day response period, he will be deemed to have elected to lease under the same terms as if he had elected to lease his minerals.

b. Participate as a working interest owner 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 (Application, Ex. C) and the Authorization for Expenditures (Ex. D).

c. Participate as a nonconsenting working interest owner subject to a risk factor penalty applied against Mr. Goss' 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 Mr. Goss as if he 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. 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.*

3. 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.*

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

5. The Commission designates the Kauffman #1-9 well as the authorized well in the Spacing Unit.

6. The Commission concludes the three alternatives for Mr. Goss to participate in the Spacing Unit are just and reasonable. The form lease proposed by Alta Mesa (Ex. C) contains reasonable terms to govern the relationship between Alta Mesa and Mr. Goss if he elects to lease or if he fails to make an election under this Final Order. The AAPL Operating Agreement (Application, Ex. C) and Authorization for Expenditures (Ex. D) contain just and reasonable terms to govern the relationship between Alta Mesa and Mr. Goss in the event Mr. Goss elects to participate as a working interest owner or nonconsenting working interest owner.

7. Alta Mesa requests that the Commission impose a risk factor penalty that would apply against Mr. Goss' mineral interest if he elects to participate as a nonconsenting working interest owner, but does 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 Mr. Goss elects to participate in the Spacing Unit as a nonconsenting working interest owner, it is just and reasonable for the nonconsenting working interest owner to receive a 1/8th royalty out of his 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. Mr. Goss' mineral interests in Section 9, Township 8 North, Range 4 West, B.M., Payette, County, Idaho, are integrated into the Spacing Unit.
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 alternatives for Mr. Goss 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. C), and receive compensation in the amount of a bonus of \$100.00 per acre and 1/8th royalty, in lieu of the right to participate in the working interest in the unit. If Mr. Goss fails to make an election within the fifteen (15) day response period set forth in this Order, he will be deemed to have elected to lease under the same terms as if he had elected to lease their minerals.
 - b. Participate as a working interest owner 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 (Application, Ex. C) and the Authorization for Expenditures (Ex. D).
 - c. Participate as a nonconsenting working interest owner subject to a risk factor penalty of 300% applied against Mr. Goss' interest for the initial well and any subsequent well. The terms of the uniform modified AAPL Operating Agreement (Application, Ex. C) and the Authorization for Expenditures (Ex. D) 1-D will apply if Mr. Goss participates as a

nonconsenting working interest owner. The risk factor penalty will be applied to the proportionate cost and expense of drilling, completing and equipping the well, which would have been born by Mr. Goss as if he had paid his proportionate costs and expenses prior to drilling the well. Nonconsenting working interest owners will receive a royalty of 1/8th from their proportionate share of production, and will receive their full share 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 he had initially agreed to pay costs of drilling and operating the well.

4. Mr. Goss will have fifteen (15) days from issuance of this Final Order to make an election and communicate his 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 3rd 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