

ALTA MESA BOOSTS STACK PRODUCTION

The company's net production will increase by 4,000 boe/d to 17,600 boe/d, a 30% increase.

ARTICLE BY
DARREN BARBEE

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**Oil and Gas
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Publishing LLP
1616 S. Voss Rd.
Suite 1000
Houston, TX 77057
(713) 260-6400

The Alta Mesa family of companies has acquired additional interests in two dozen company-operated Stack wells, resulting in a production increase of more than 30%, Alta Mesa Holdings LP said.

Alta Mesa conducted a series of transactions through partners and subsidiaries, ultimately recognizing a PV-10 value of \$80 million for the wells.

The acquisition will contribute to EBITDAX and reserves in 2017, according to the privately held Alta Mesa.

The interest purchased by Alta Mesa adds 24 wells that were drilled and completed in 2016 under the terms of a joint development agreement (JDA) between Alta Mesa's subsidiary and BCE-Stack Development LLC, an affiliate of private-equity firm Bayou City Energy Management LLC. In third-quarter 2015, Alta Mesa's net production was 13,600 barrels of oil equivalent per day (boe/d), 70% oil. The transaction adds an additional 4 Mboe/d.

Initially, the deal involved Alta Mesa's partner High Mesa Inc., which purchased the wells from Bayou City's BCE-Stack Development before relinquishing them to Alta Mesa.

High Mesa then contributed the well interests to Alta Mesa Holdings with an effective date of Oct. 1.

In January 2016, BCE-Stack entered into a JDA with Alta Mesa's subsidiary, Oklahoma Energy Acquisitions LP, to finance the drilling of wells in the core of the Stack play in Kingfisher County, Okla.

Bayou City agreed to fund up to \$128 million in drilling with overruns picked up by Alta Mesa's subsidiary. In 2015, Alta Mesa acquired 19,000 net acres in Kingfisher County from Gstar Exploration Inc. (NYSE: GST) for \$46 million. The company's deal with Bayou enabled it to reduce risk in drilling the Kingfisher acreage.

The program initially called for the development of 40 wells in two tranches of 20 wells.



In connection with High Mesa's purchase of the wells and in recognition that they were previously subject to the JDA, Oklahoma Energy and BCE entered a second JDA on Dec. 31.

Under the terms of that JDA, when certain internal rate of return thresholds are reached, BCE's interest in each well it participates in will be reduced.

Seaport Global Securities said in November that it considered Alta Mesa the Osage drilling pioneer. The company had drilled more than 100 wells in the formation with costs of \$3.2 million for a 4,800 ft lateral. The company has at least 92,000 net acres in the Stack.

Recoveries are pegged at 640 Mboe, Seaport said.

"In our model, if we assume \$55 oil and \$3 gas, drillbit returns push north of 110%—these economics would essentially put the Osage [among] the top-return plays in the U.S. resource game if they come to fruition," Seaport said in a report.

Alta Mesa primarily operates in Oklahoma and Louisiana and is backed by private-equity partner Highbridge Principal Strategies LLC. □

Darren Barbee can be reached at dbarbee@hartenergy.com.