

# FAIR PRODUCTION ALLOCATION FORMULAS

April 16, 2019

By: G. Wade Caldwell  
President, Texas Chapter, National Association of Royalty Owners  
**CALDWELL EAST & FINLAYSON PLLC**  
700 N. St. Mary's, Suite 1825  
San Antonio, Texas 78205  
(210) 228-3617 (ofc)  
[gcaldwell@ceflegalsa.com](mailto:gcaldwell@ceflegalsa.com)

# Ways To Combine Acreage For Horizontal Wells

- Pooling
- Production Sharing Agreements
- No Agreement (if lease allows)
  - *Questions on legality for -*
    1. *Allocation Permits*
    2. *Do old leases allow?*

# Advantages Of Production Sharing Agreements

- Different perspective – Pooling – combining land
- PSA – sharing revenue on wells
- Easier to limit than a Pooling Agreement – Can limit to –
  - *Horizontal Wells (exclude verticals)*
  - *Depths*
  - *Formations*
  - *Specific Wells*
- Does not tie up unused acreage
- Owners more willing to sign
- Issue – What if operator wants to commingle production?
  - *How to commingle if RI is different per well?*

# Types Of Allocation Formulas

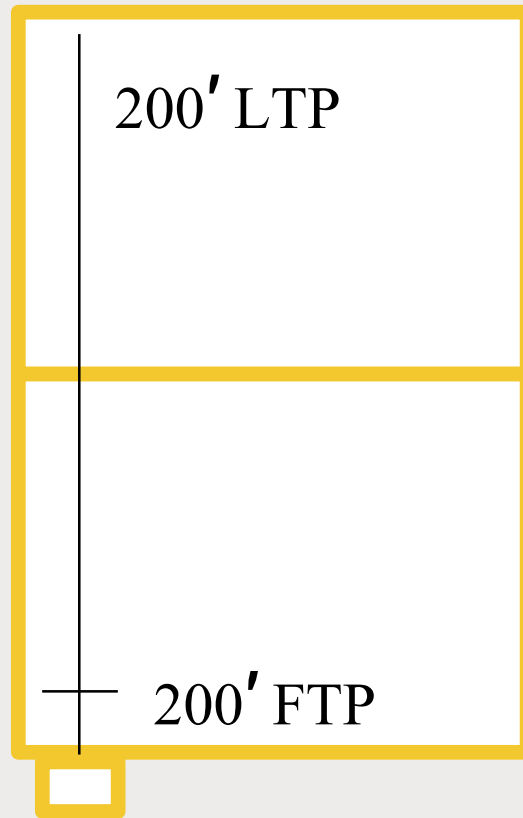
- First to Last Take Point (preferred)
- Surface Contribution
- Lengths of lateral or total borehole (rare)

# Factors Affecting The Type Of Allocation Formula To Choose

- Where is the well pad located?
- Will the planned lateral go the whole distance?
- Are there faults to avoid?
- What if there are problems after drilling?
- Is there a clear difference in productivity between the tracts?
- Is there room for future wells along lease lines?
- How much acreage do stacked laterals hold?

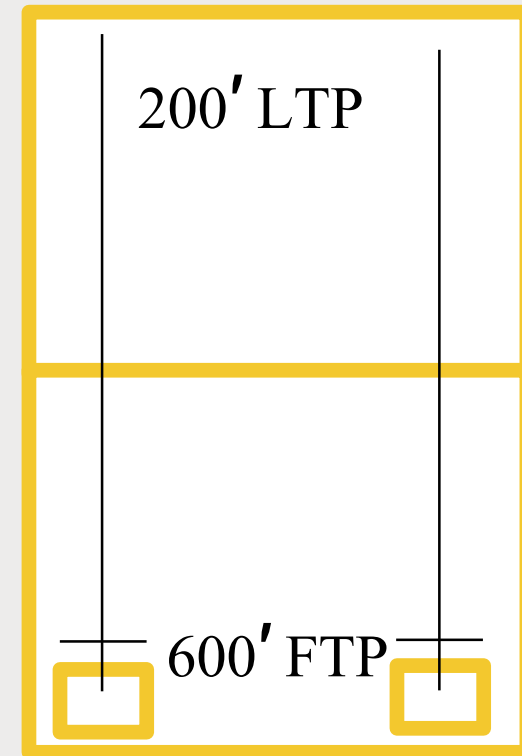
# Where Are The Well Pads Located?

Ideal



Joe Neighborly - Owner

Real World



Joe Nimby - Owner

*May be moot - can drill backward and then make turn*

# So In Your Negotiations

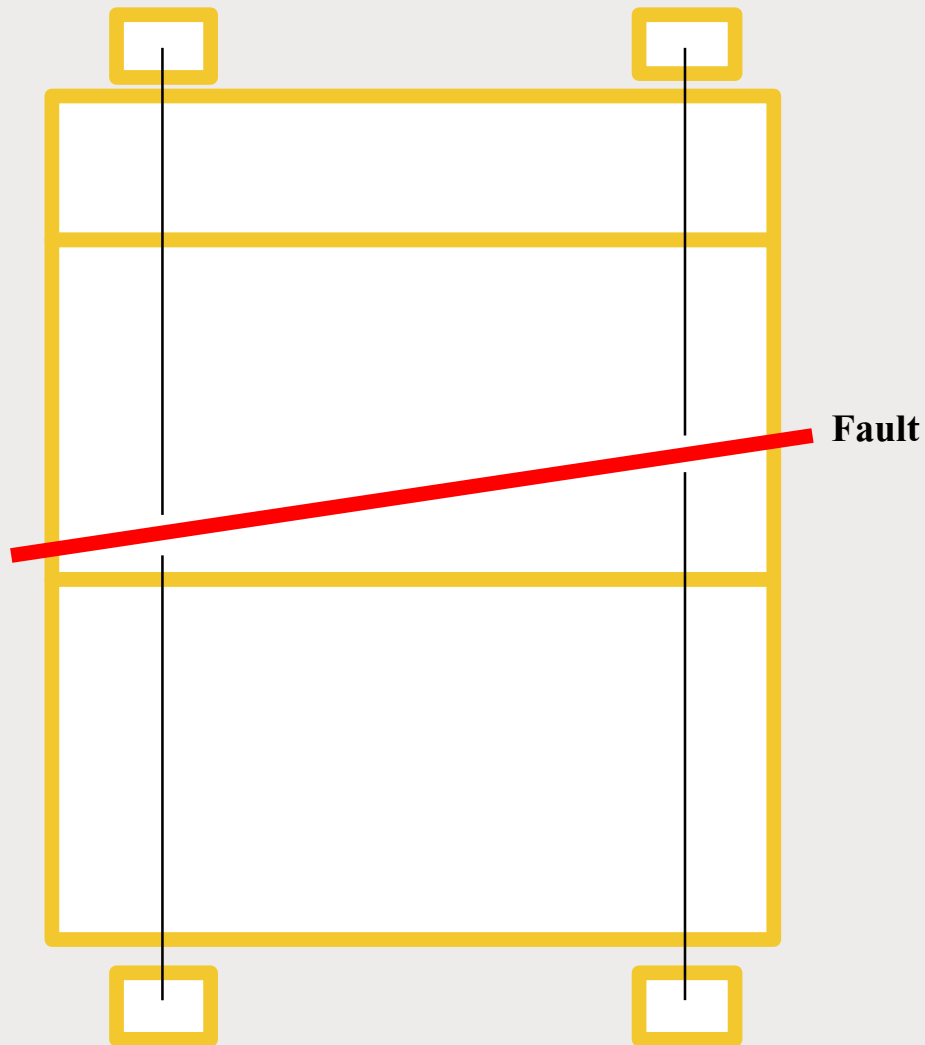
- Does the operator control off-lease acreage?
- Can you work out swaps with adjacent surface owners?
- Can they drill  $\frac{1}{2}$  of wells N-S and  $\frac{1}{2}$  S-N?
- Can they provide incentives to the adjacent owner to allow an off lease well pad?
  - *Put roads and pipelines on them also (if they want \$\$)*
  - *Rebuild fence or cattleguards*
  - *Buy water from them*

# Will Planned Lateral Go Full Distance?

- What if there are problems during drilling and the well does not reach total depth?
- Pre-Drill PSA – FTP to LTP
- Post-Drill PSA – May have to agree to surface contribution



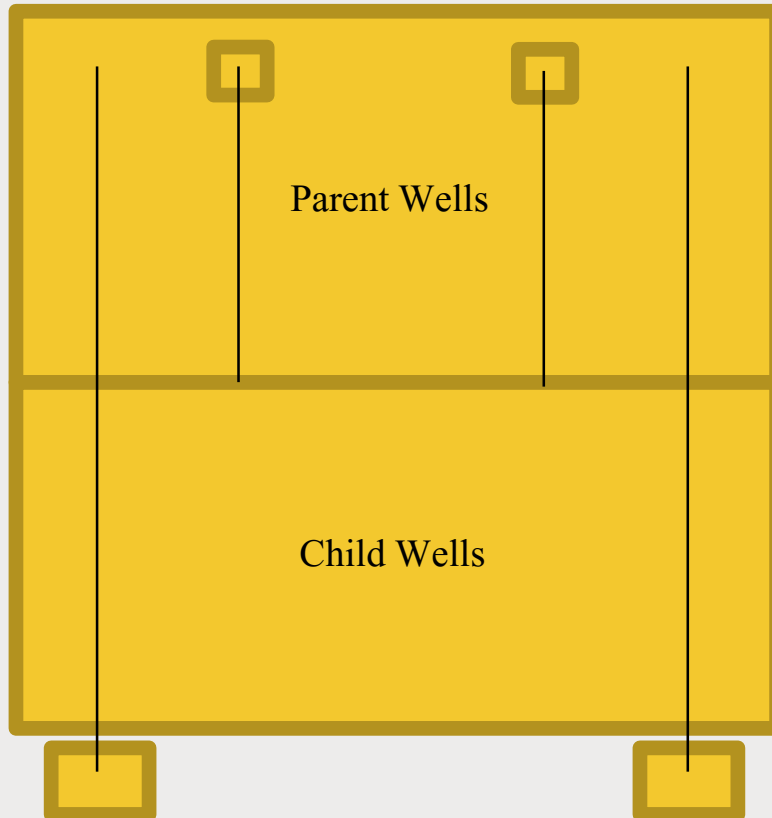
# Are There Faults To Avoid?



- May need to take in additional acreage
- Drilling commitments equal on both sides of fault?

# What If There Are Problems After Drilling:

- Part of Lateral caves in?
- Parent/Child Well Issues

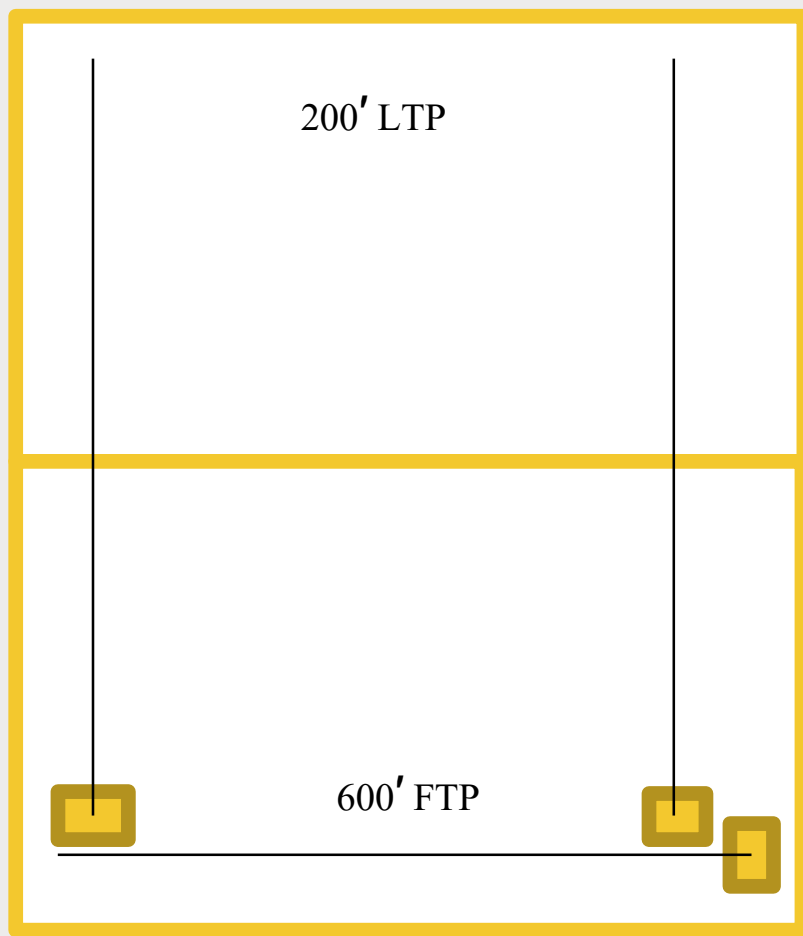


- Consider post-completion testing and then setting formula

# Is There A Clear Difference In Productivity?

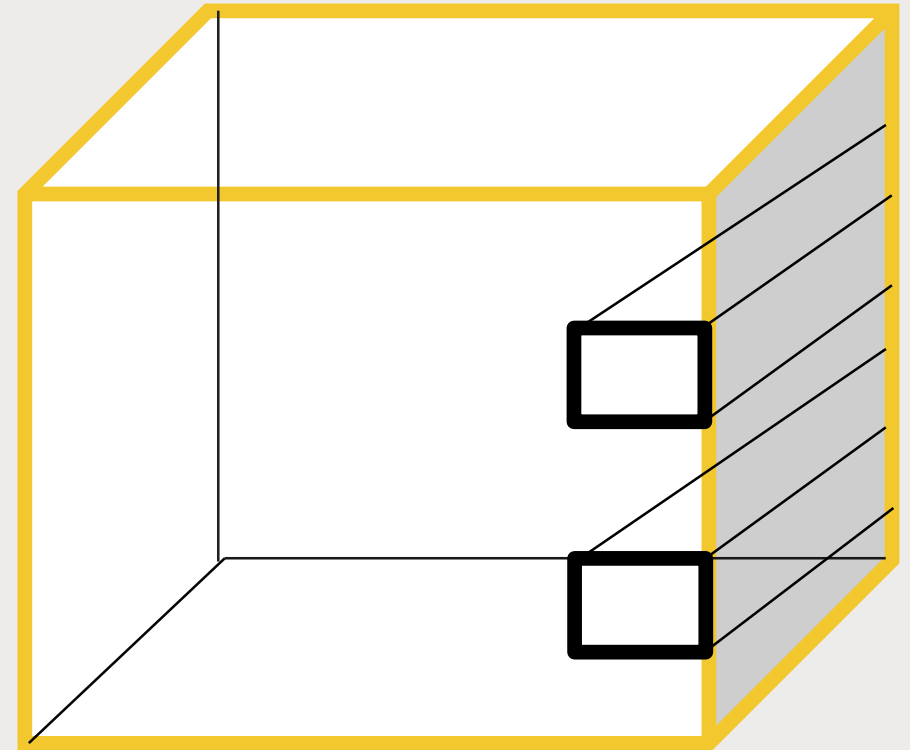
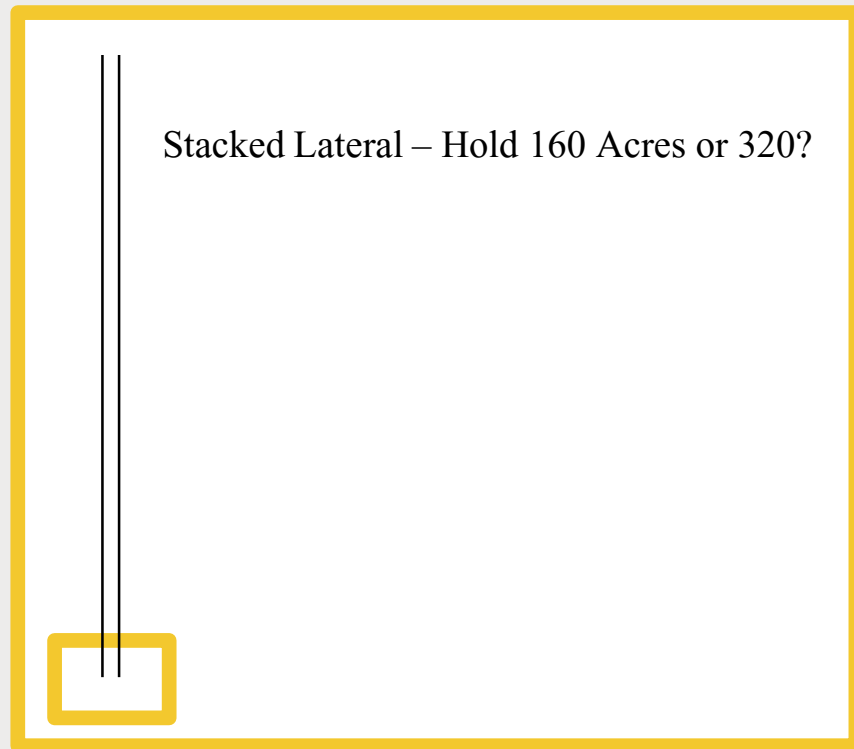
- Risk of fluctuation – No adjustments
- Known differences – Try to reconfigure drilling unit

# Is There Room For Future Wells Along Lease Lines?



- Exclude lease line wells from PSA
- Another argument against acreage contribution formula

# Should Stacked Laterals Get Their Own Separate Retained Acreage?



On 3 dimensional view why should stacked lateral hold 2x surface acreage?

# Conclusion

- Prepare early – Horizontal Development requires cooperation
- Landmen – Try to get pooling or PSA authority –
- Owners – Try to retain that authority
- FTP to LTP – Generally the best – Reflects actual drainage
- Pre-approve units in lease
- Look ahead – How get well pads off lease?