

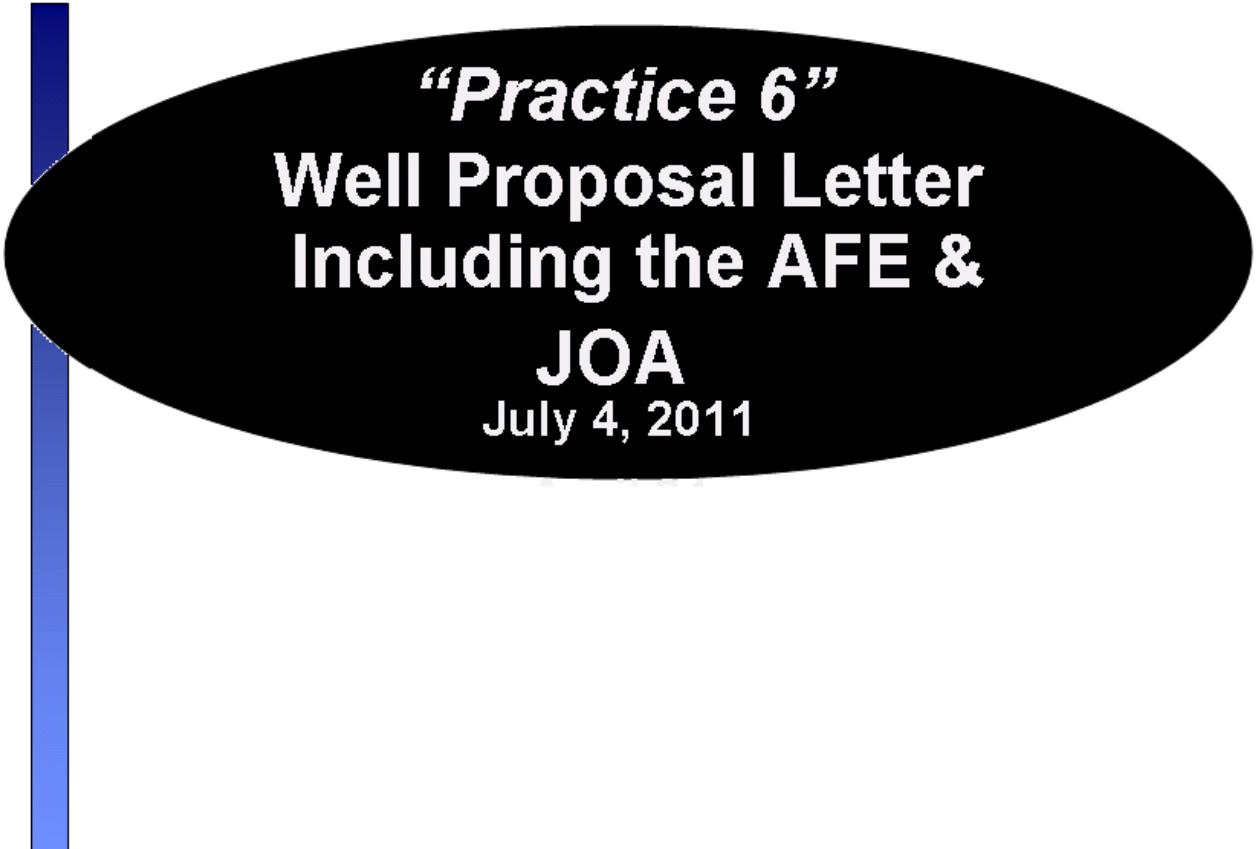
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Assume the date is July 4, 2011. Companies are very close to begin drilling operations but first the land professional must enter the last of our six rooms. Above the door to this room is a sign that says, "Well Proposal Letter, AFE and JOA." During this phase of land work, companies must make a formal proposal for the drilling of their well to all other oil companies that have interest in the drilling block or unit. This formal proposal will include the Well Proposal, a contract called a Joint Operating Agreement (JOA) and a form called an Authorization for Expenditure (AFE).

At this point and according to the New Mexico Commission rules, participants will have identified the spacing for the well they wish to drill and will have identified their optimal drill site location.

Participants must also assume that the leasehold ownership in the unit and well they are proposing is as follows:

Participant's Interest	33.33334%
Aertex Oil & Gas	15.00000%
Yonkers Oil & Gas Company	18.55555%
Corby Oil & Gas, Inc.	15.00000%
Sunmeadow Oil & Gas, Inc.	18.11111%

With this information in hand, participants must prepare their “Well Proposal Packet.” This packet will include:

- A Well proposal letter with Consent and Non-consent notice
- A Copy of the JOA cover page and Exhibit “A”
- A Copy of the AFE showing estimated costs for drilling and completing the well.

Preparing the Well Proposal Letter

Unit sizes often involve more than one tract of land. Thus, several leases must be acquired from the appropriate mineral owners. As in the Crimson Ranch Prospect, several oil companies were competing to acquire those leasehold interests and each of those companies would now have an interest in the proposed well that is going to be drilled.

Prior to drilling a well, the operator will prepare a well proposal package to send to each of the other companies. This package will usually contain a well proposal letter, an Authorization for Expenditure (AFE) and a Joint Operating Agreement (JOA).

The letter is more than just a cover letter. It will establish several vital aspects that the other companies must know including: well name, location, depth and estimated costs for drilling the well. Each letter will also break down the estimated proportionate costs that the companies must pay if they choose to participate. Another important aspect of the letter is that it asks each company to make an election to either participate or make an election not to participate in the drilling of the well.

A sample well proposal letter follows. Assume this sample letter was prepared by Shepherd Oil and Gas Inc., the proposed operator of their well and being sent to Jacksonville Hydrocarbons, Inc. Use this letter as a sample for the letter you will draft. Assume that you are sending your letter to Yonkers Oil & Gas. In order to properly prepare this letter, you must determine the total estimated cost of your operation and Yonkers’ estimated proportionate share of these costs.

Preparing the AFE

An AFE is also included in the well proposal package. It is an estimated breakdown of the costs for drilling and completing a proposed well. The AFE will set out two columns of estimated costs. The first column is entitled “Dry Hole” costs. These types of costs pertain to all activities that happen prior to making a determination that the well should be completed. Therefore, all costs associated with constructing the well site and drilling the well would be dry hole costs. The second column refers to “Completion Costs.” This column

refers to all costs associated with completing the well. Associated completion costs would be items like fracturing, production, tubing and casing. A spread sheet entitled "Price Index for Drilling and Completing a Well" follows the AFE. Use the dollar amounts on this chart to determine the estimated costs for drilling and completing your well in the Crimson Ranch Prospect. You can determine the type of cost, either "Completion" or "Dry Hole," from this Price Index sheet. Simply find the item listed on and AFE and then use the Price Index to locate the specific cost for the item.

In order to prepare the AFE, participants must assume the following: In this part of the country, companies can drill on average 190 feet per day. It will take each company approximately 15 days to construct a drill site and it will take each company approximately 30 days to complete a well. Assume you wish to drill to a depth of 8,740 feet. Calculate how many days it will take you to drill your well. Certain estimated costs will be based on this number.

Preparing the JOA Cover Page and Exhibit "A"

The JOA is an agreement between the parties that wish to drill the proposed well and will set out the terms for the joint operations for the particular property. Although many different operating agreements may be used in the oil and gas industry, the AAPL Model Form Operating Agreement has become the standard within the industry. The Model Form 610 (1989 Version) contains nineteen pages within the body of the contract along with the various exhibits which are attached.

Preparing the JOA cover page is usually straight forward. The date and operator name must be listed along with the legal description of the drilling unit. This would be described as the "Contract Area." Usually, the contract area only covers those lands found within the proposed drilling unit.

The Exhibit "A" will identify all companies which have an interest in the well being proposed. Their percentage of interest in this proposed operation must also be set forth and is usually calculated by dividing the acreage they are contributing to the unit by the total acreage in the unit. For example, assume Corby Oil and Gas is contributing two leases that total 18.5 net acres. The unit size is 320 acres. The calculation would be $18.5/320 = 5.78125\%$.

Sample Well Proposal Letter

Date: February 7, 2010

RE: Proposed Drilling Operation
Well Name: **McKenzie 1-7**
Section 7, Township 2 North, Range 4 West
Eddy County, New Mexico

Ladies and Gentlemen:

Enclosed for your review and approval is an AFE for the above-referenced along with the cover page and Exhibit "A" to the Joint Operating Agreement. Shepherd Oil & Gas, Inc. proposes the drilling, completing and equipping of the McKenzie 1-7 well to a total depth of 8,300 feet. The total estimated cost of this operation is \$ _____.

Your proportionate share is \$ _____.

Please make your election to participate by indicating below and return one original copy of this letter stating your election to the undersigned at the letterhead address. Should you choose to participate, please include one originally executed AFE and JOA signature page as well. Please note that an election not to participate in the drilling of this well shall be deemed a non-consenting election and therefore you will be considered a Non-Drilling Party under the terms of the Joint Operating Agreement and therefore subject to Article VIII. Please also note that failure to give such notice within 30 days will also be deemed an election not to participate.

Shepherd Oil and Gas, Inc.

Jeffrey Greene
Landman

Jacksonville Hydrocarbons, Inc. hereby elects and agrees:

_____ to participate in the drilling and completion with its current working interest
_____ to be considered a Non-Drilling Party

By: _____
Title: _____
Date: _____

Well Proposal Letter

AUTHORIZATION FOR EXPENDITURE

Crimson Ranch Prospect

Well Name _____
 Legal Location _____
 Proposed Total Depth _____

County _____
 State _____

INTANGIBLE COSTS	Dry Hole	Completion	Total
Cased Hole Logs and Perforations			
Casing Crew Tongs and Tools			
Cementing/Cementing Services			
Company Labor			
Dry Hole Overhead - for _____ days			
Completion Overhead - for _____ days			
Completion Unit - for _____ days			
Construction day rate - for _____ days			
Contingencies			
Contract Labor - Services / Repairs / Installn			
Core Services			
Damages / Right of Way / Cleanup			
Downhole Equipment Rental			
Drill Bits			
Drilling Costs day work - for _____ days			
Drilling Fuel - for _____ days			
Drilling Overhead - for _____ days			
Engineering Consulting Services - for _____ days			
Fracturing / Acidizing			
Freight and Trucking			
Geologic Consulting Services for _____ days			
Land, Legal, Title Services for 10 days			
Mud & Chemicals			
Mud Logger / Equipment - for _____ days			
Open Hole Logs			
Permitting/Archeology			
Plug and Abandon Costs			
Rentals - Housing / Communication - for _____ days			
Rig Up/Rig Down			
Roads / Location / Pits			
Surface Production Equipment / Dehydration			
Water / Completion Fluids			
Water and Water Hauling, Freight & Trucking			
Water Well / Pumps / Flowlines			
Welding Trucking Roustabout Labor			
Well Insurance, Legal			
TOTAL INTANGIBLE COSTS			

TANGIBLE COSTS	Dry Hole	Completion	Total
Downhole Equipment / Packers			
Fittings, Values, Connections			
Flowlines and Connections			
Gas Sales - Measurement / Equipment			
Improvements - Gates / Roads / Fences			
Installation Costs			
Conductor Casing - for 50 feet - 14" Steel			
Surface Casing - 600' - 9 5/8"			
Intermediate & Production Tubing _____ feet - 7"			
Production Tubing - for _____ feet 2 7/8 x 4.7#			
Pumping Unit, Motor, Control Panel			
Rods and Pumps			
Separator/Heater-Treater			
Surface Equipment Rentals - for _____ days			
Tank Battery			
Wellhead Equipment			

TOTAL TANGIBLE COSTS			
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TOTAL TANGIBLE AND INTANGIBLE COSTS			
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Price Index for Drilling and Completion Costs

<i>Item</i>	<i>Type of Cost</i>	<i>Cost</i>
Cased Hole Logs and Perforations	Completion	\$ 15,000
Casing Crew Tongs and Tools	Dry Hole	\$ 12,000
Casing Crew Tongs and Tools	Completion	\$ 10,000
Cementing/Cementing Services	Dry Hole	\$ 19,000
Cementing/Cementing Services	Completion	\$ 95,000
Company Labor	Dry Hole	\$ 25,000
Company Labor	Completion	\$ 10,000
Dry Hole Overhead - for _____ days	Dry Hole	\$ 500 per day
Completion Overhead - for _____ days	Completion	\$ 500 per day
Completion Unit - for _____ days	Completion	\$ 3,800 per day
Construction day rate - for _____ days	Dry Hole	\$12,500 per day
Contingencies	Dry Hole	\$ 20,000
Contingencies	Completion	\$ 5,000
Contract Labor - Services / Repairs / Installn	Dry Hole	\$ 15,000
Contract Labor - Services / Repairs / Installn	Completion	\$ 8,000
Core Services	Dry Hole	\$ 7,000
Damages / Right of Way / Cleanup	Dry Hole	\$ 10,500
Damages / Right of Way / Cleanup	Completion	\$ 10,000
Downhole Equipment / Packers	Completion	\$ 38,000
Downhole Equipment Rental	Dry Hole	\$ 65,000
Downhole Equipment Rental	Completion	\$ 20,000
Drill Bits	Dry Hole	\$ 62,000
Drilling Costs day work - for _____ days	Dry Hole	\$ 17,500 per day
Drilling Fuel - for _____ days	Dry Hole	\$ 2,700 per day
Drilling Overhead - for _____ days	Dry Hole	\$ 500 per day
Engineering Consulting Services - for _____ days	Dry Hole	\$ 1,300 per day
Engineering Consulting Services - for _____ days	Completion	\$ 1,300 per day
Fittings, Values, Connections	Completion	\$ 17,000
Flowlines and Connections	Completion	\$ 15,000
Fracturing / Acidizing	Completion	\$ 125,000
Freight and Trucking	Completion	\$ 25,000
Gas Sales - Measurement / Equipment	Completion	\$ 15,000
Geologic Consulting Services for _____ days	Dry Hole	\$ 1,300 per day
Geologic Consulting Services for _____ days	Completion	\$ 1,300 per day
Improvements - Gates / Roads / Fences	Completion	\$ 12,000
Installation Costs	Completion	\$ 15,000
Land, Legal, Title Services for 10 days days	Dry Hole	\$ 1,300 per day
Mud & Chemicals	Dry Hole	\$ 92,000
Mud Logger / Equipment - for _____ days	Dry Hole	\$ 1,300 per day
Open Hole Logs	Dry Hole	\$ 32,000
Permitting/Archeology	Dry Hole	\$ 10,000
Permitting/Archeology	Completion	\$ 10,000
Plug and Abandon Costs	Dry Hole	\$ 30,000
Conductor Casing 14" Steel	Completion	\$ 40.00 per foot
Surface Casing - for 600 feet / 9 5/8"	Dry Hole	\$ 30.00 per foot
Intermediate & Production Casing _____ feet - 7"	Completion	\$ 30.00 per foot
Production Tubing - for _____ feet 2 7/8"	Completion	\$ 6.00 per foot
Pumping Unit, Motor, Control Panel	Completion	\$ 65,000
Rentals - Housing / Communication - for _____ days	Dry Hole	\$ 2,200 per day
Rig Up/Rig Down	Dry Hole	\$ 65,000
Roads / Location / Pits	Dry Hole	\$ 20,000
Roads / Location / Pits	Completion	\$ 5,000
Rods and Pumps	Completion	\$ 17,485
Separator/Heater-Treater	Completion	\$ 20,000
Surface Equipment Rentals - for _____ days	Dry Hole	\$ 3,200 per day
Surface Equipment Rentals	Completion	\$ 20,000
Surface Production Equipment / Dehydration	Completion	\$ 7,000
Tank Battery	Completion	\$ 24,000
Water / Completion Fluids	Completion	\$ 20,000
Water and Water Hauling, Freight & Trucking	Dry Hole	\$ 50,000
Water Well / Pumps / Flowlines	Dry Hole	\$ 14,000
Welding Trucking Roustabout Labor	Dry Hole	\$ 10,000
Welding Trucking Roustabout Labor	Completion	\$ 10,000
Well Insurance, Legal	Dry Hole	\$ 15,000
Well Insurance, Legal	Completion	\$ 500
Wellhead Equipment	Dry Hole	\$ 24,000
Wellhead Equipment	Completion	\$ 35,000

A.A.P.L. FORM 610-1989

MODEL FORM OPERATION AGREEMENT

OPERATING AGREEMENT

DATED

_____, 20__

OPERATOR _____

CONTRACT AREA _____

COUNTY OR PARISH OF _____ **STATE OF** _____

Exhibit "A"
to the Operating Agreement
Description of Contract Area

Interest Owner

Percentage of Interest

Total

On-Line Classes

Critical Legal Concepts Related to the Land Profession

Crucial information dealing with a myriad of critical concepts surrounding the land profession and the oil and gas industry are covered in this class. Subject matter covers state specific title issues and statutes that impact how oil and gas interests are interpreted, calculated and maintained; specific language in conveyances and how each word or the placement of the words impact the conveyance outcome; and state specific legal concepts surrounding doctrines of oil, gas, royalty, trespass, pooling, types of ownerships, and ownership theories.

A Comprehensive Study of the Oil & Gas Lease, Lease Obligations and Lease Clauses

This class is perhaps the best resource available for those wanting to learn about the management of a company's oil and gas lease assets. It is designed to offer specialized instruction for the landman, land tech. and lease or title analyst as they deal with particular lease and lease related issues.

A Comprehensive Study of Property Ownership and Transferring Title

This course takes an in-depth and thorough look at property ownership beginning with the origins of ownership in the United States. Other topics include: differing types of property ownership such as real property, personal property, community property, separate property, homestead laws or dower estates; the rules surrounding mineral and royalty ownership including surface, divided and undivided interests; the rules for conveying property; varying types of conveyances, testate and intestate succession laws and the many types of title transfers that result from court actions.

Contracts Used by Petroleum Land Management

Contracts are the heart and soul of the oil and gas industry which uses a number of unique agreements in order to explore for, develop, produce, and market oil and gas. This course will provide an understanding of contract law and is designed for all oil and gas professionals or those having a desire to work directly or indirectly in land or land administration. Contracts examined will include the Joint Venture Agreement, Area of Mutual Interest Agreement, Seismic Agreements, Surface Agreements, unit operating agreements, unit agreements, the AAPL Joint Operating Agreement and the Farmout Agreement.

An Introduction to Petroleum Land Management

Choosing a career as an oil and gas landman or land administration professional is a job path that is highly sought by many individuals. These types of jobs can be rewarding both personally and financially, offering an income that can be substantially greater than many other professions that require far more training. This class is excellent for those wishing to examine the subjects and tasks the land professional is called upon to manage, including: land and mineral ownership in the United States, leasing available minerals, land strategies, pooling, unitization, and searching for and drilling for oil and gas.

Calculating your Division of Interest

This on-line class comes with both a textbook and the Calculating Your Division of Interest Workbook and will be of tremendous value in helping the land professional calculate all types of interests, including net mineral acres, royalty, net revenue, gross working, and overriding royalty interest. Chapters also include unit calculations, calculating payouts, non-consents, farmouts, and calculating overrides based on farmout language.

Mastering Lease Obligations

This class provides the most practical, applicable, hands-on instruction available for those who administer the oil and gas lease and whose jobs are affected by the lease. The class will deal with several lease clauses including: the granting clause, habendum clause, Pugh clause, force majeure clause, operations clause, shut-in clause and rental clause.

Critical Legal Concepts

Crucial information dealing with a myriad of critical concepts surrounding the land profession and the oil and gas industry are covered in this class. Subject matter covers state specific title issues and statutes that impact how oil and gas interests are interpreted, calculated, and maintained; specific language in conveyances and how each word or the placement of the words impact the conveyance outcome; and state-specific legal concepts surrounding doctrines of oil, gas, royalty, trespass, pooling, types of ownerships, and ownership theories.

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