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“The Madison Prospect”

This study is designed to examine several oil and gas contracts including:

- Seismic Option Agreements
- Geophysical Agreements
- Confidentiality Agreements
- Joint Venture Agreements
- Letter Agreements
- The Oil and Gas Lease
- Area of Mutual Interest Agreements
- Farmouts
- Surface Contracts
- Joint Operating Agreements
- Unit Operating Agreements

In doing so, most of these contracts will be examined in the context of developing a hypothetical “exploratory area” (wildcat area) in Montrose County, North Dakota.

The Madison Prospect

For the purpose of this study, assume that the area to be developed is a six section area called “**The Madison Prospect.**” Two companies, Sunrise Oil & Gas and Venture Oil & Gas, are competing companies that have an interest in the area. Other companies have drilled several very successful vertical wells a few miles to the north and south of the area. The producing horizon in each of these wells was located between 11,000 to 12,000 feet.



Over the course of putting the area together, both companies must enter into and negotiate several different contracts. It is in this framework that each of the contracts will be studied.

By the end of the study and through various contracts, four other companies, Windjammer Petroleum, Horizon Oil & Gas, Monroe Oil & Gas and Supreme Oil Well Drilling and Completions will become involved in the development of the Madison Prospect.



Sunrise Oil & Gas is a mid-size, independent oil company. The Madison Prospect is one of several drilling prospects in which they have interest. Because it is located in such a "wildcat" area and the risks are high, Sunrise's management has only allocated \$10 million dollars toward the development of the prospect.

Venture Oil & Gas is a smaller oil company that has been negatively impacted by the economy. Venture's management, also concerned about the risk in drilling in this area, has allocated \$8 million dollars toward the prospect.

Windjammer Petroleum is a small geological firm. Windjammer has never acquired a lease nor do they employ any land experts. Over the years, they have made millions by simply spotting prospective areas and investing in the area, allowing the exploration company to do the land work.

Horizon Oil and Gas is a small start up company with substantial investment money backing their success. Their initial business plan is to locate drillable prospects and then buy in the area as a non-operator partner.

Monroe Oil & Gas is an independent, family owned oil and gas company. They are well respected in the industry because of their integrity, honest dealings and because of their successful "sound decisions" made in the past. Wildcat drilling is how James Monroe IV, the founder of the company, made his millions.

Supreme Oil Well Drilling & Completions is the most reliable and cost effective Drilling and Completion Company in three counties. Sunrise, Venture, Horizon and Monroe use them for all of their well

drilling and completion needs in the area. Over the years, Supreme has been competitive, trustworthy and honest.

Counting the Cost

Drilling an oil or natural gas well can be very expensive. Costs drive everything and, in developing the Madison Prospect (which is an exploratory or wildcat area), costs will become the catalyst for several contracts.

Before any well can be deemed "successful", many pieces to the puzzle must come together. Title work must be done; oil and gas leases must be acquired; consulting fees must be paid; seismic survey studies must be completed; the appropriate permits must be in hand; an environmental impact study might be required; surface agreements must be settled; and drilling costs, well completion costs, pipelines and infrastructure costs must be paid. The price tag can be staggering!

For the purpose of this study, assume that the chart below represents costs that could be incurred while drilling a well in the Madison Prospect. "Low end" costs can run \$5.5 million per well and "high end" costs can exceed \$6 million per well.

			Low end costs	High end costs
Lease Acquisition:	\$100 - \$500 per acre	@160 acres	\$ 16,000	\$ 80,000
Consultant's fees:	\$10,000 per visit		\$ -	\$ 20,000
Title Attorney:	\$10,000		\$ 10,000	\$ 10,000
An Environmental Impact Statement	\$35,000 per location		\$ -	\$ 35,000
Drilling Costs:	\$500 per foot	from 11,000 to 12,000'	\$ 4,840,000	\$ 5,445,000
Well Completion Costs:	\$400,000		\$ 400,000	\$ 400,000
Pipelines and infrastructure:	\$100,000		\$ 100,000	\$ 100,000
*Settle surface damages:	\$5,000 - \$30,000		\$ 5,000	\$ 30,000
Location surveyed:	\$1,000		\$ 1,000	\$ 1,000
Permit for drilling:	\$1,500		\$ 1,500	\$ 1,500
			Total	\$ 5,500,000
				\$ 6,000,000

*Costs can include: clean up of the location, building all weather roads to the location, building cattle gaps or gates, and/or loss of crops on a per acre basis.