

# Pad Site Sharing Agreement Draft 2 Update



November 2, 2016





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- Industry feedback show confusion around the use of this agreement
  - The Task Force has not done a good enough job explaining the PSSA
  - We want to fix that now if we can

# PSSA – Confusion #1 – When Do You Need It?

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  - Two operators each experts in drilling wells in different formations
  - Neither will allow the other operator to drill their wells
- **Don’t Share a Pad**
  - There will be challenging operational, safety and liability issues between two operators

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- If necessary, some customization of the agreement to accommodate multiple operators and resulting complexities is possible
- Refer to Draft 2 PSSA Annotations Addendum for further details

# PSSA – Confusion #1 – When Do You Need It?

So when do you need a PSSA?

- That is best answered with: When do you **NOT** need it
- There are 3 basic types of arrangements for a pad with a single operator

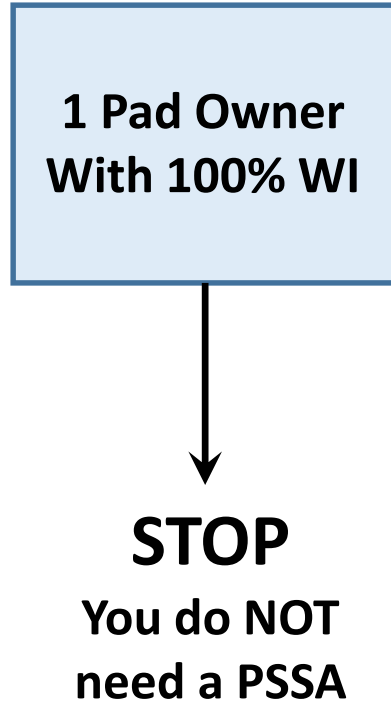


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**1 Pad Owner  
With 100% WI**

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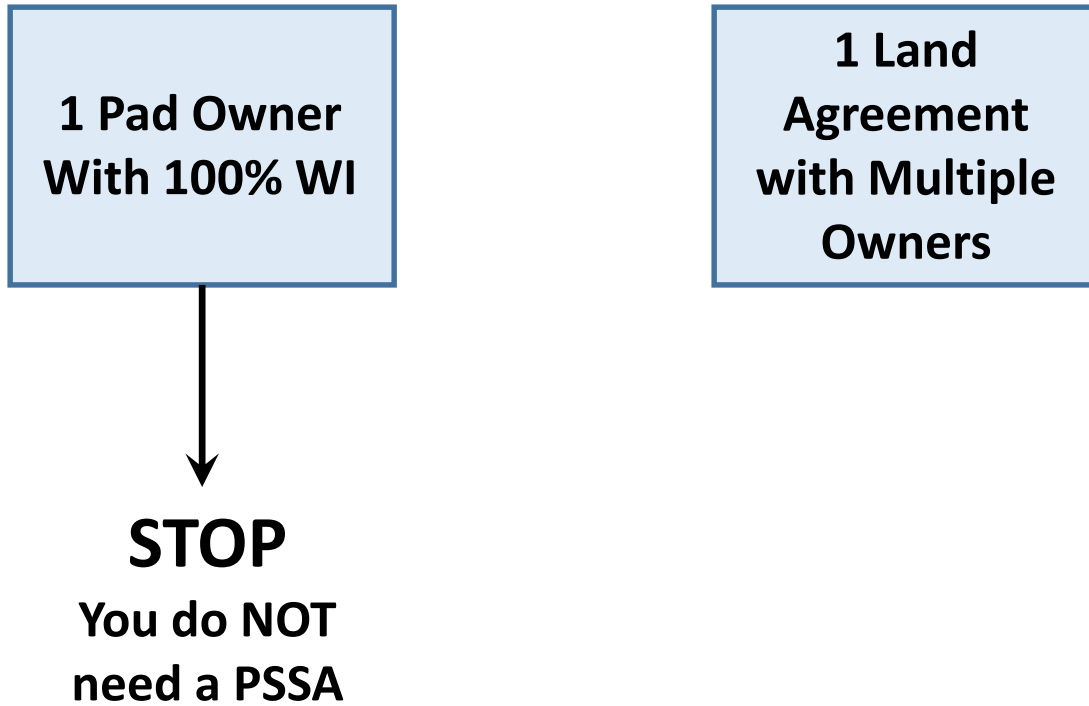


```
graph TD; A["1 Pad Owner  
With 100% WI"] --> B["STOP  
You do NOT  
need a PSSA"]
```



**STOP**  
You do NOT  
need a PSSA

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**STOP**  
You do NOT  
need a PSSA

**1 Land  
Agreement  
with Multiple  
Owners**



**STOP**  
You do NOT  
need a PSSA

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**STOP**  
You do NOT  
need a PSSA

Land Agmt  
handles all  
Liabilities &  
sharing of  
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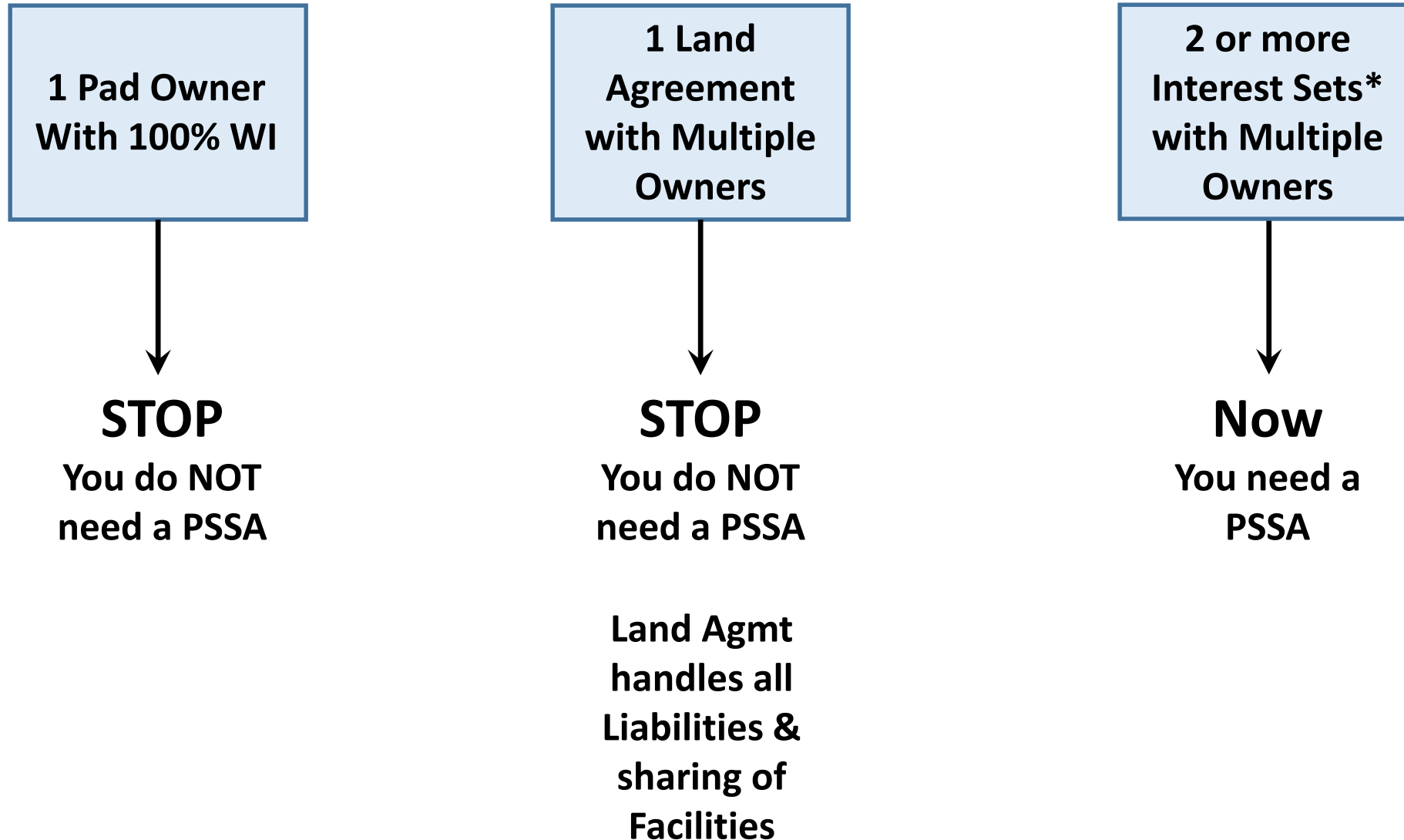
**STOP**  
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need a PSSA

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handles all  
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**2 or more  
Interest Sets\*  
with Multiple  
Owners**

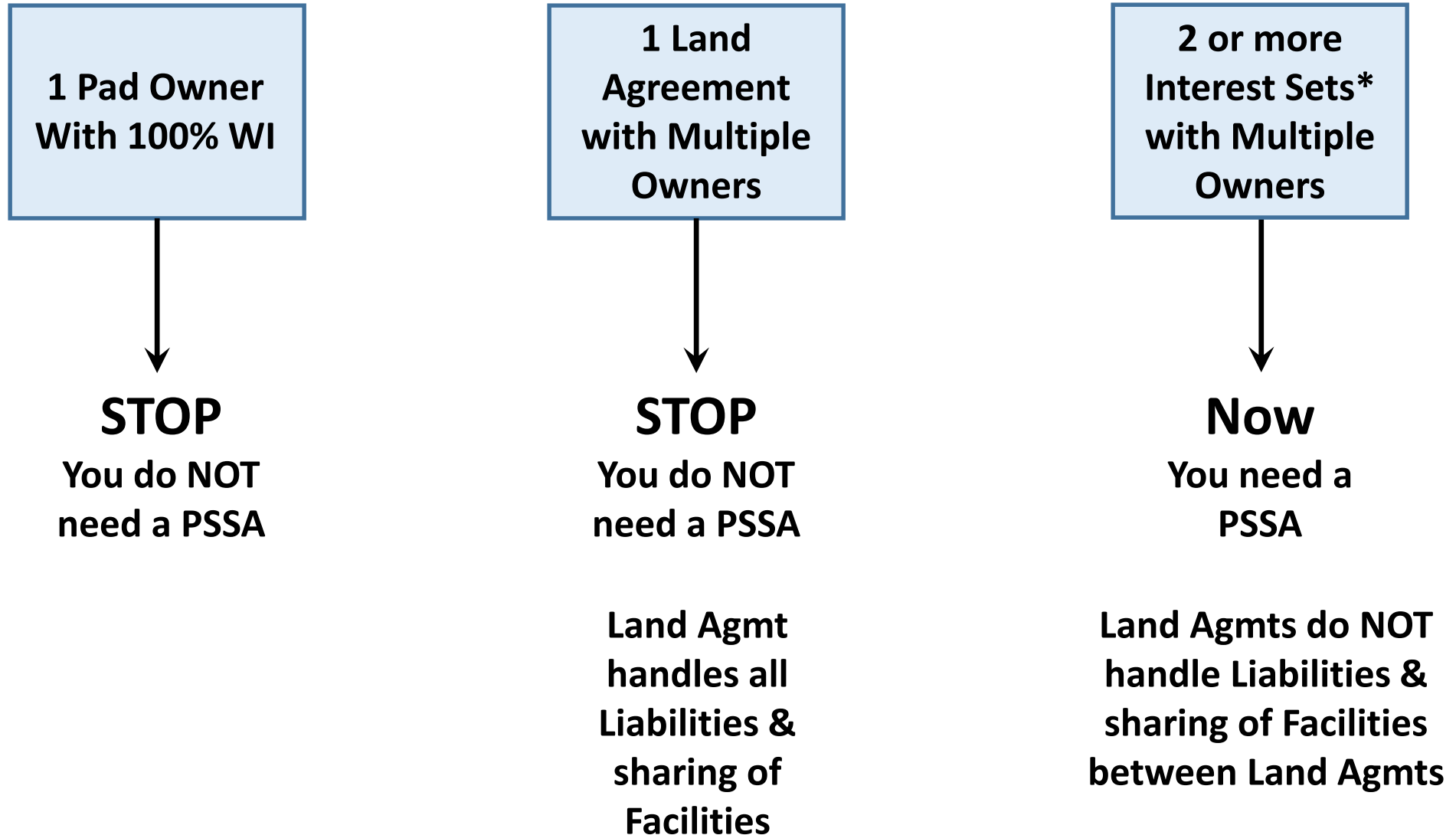
\* Any combination of 2 or more 100% WI and/or Land Agreements

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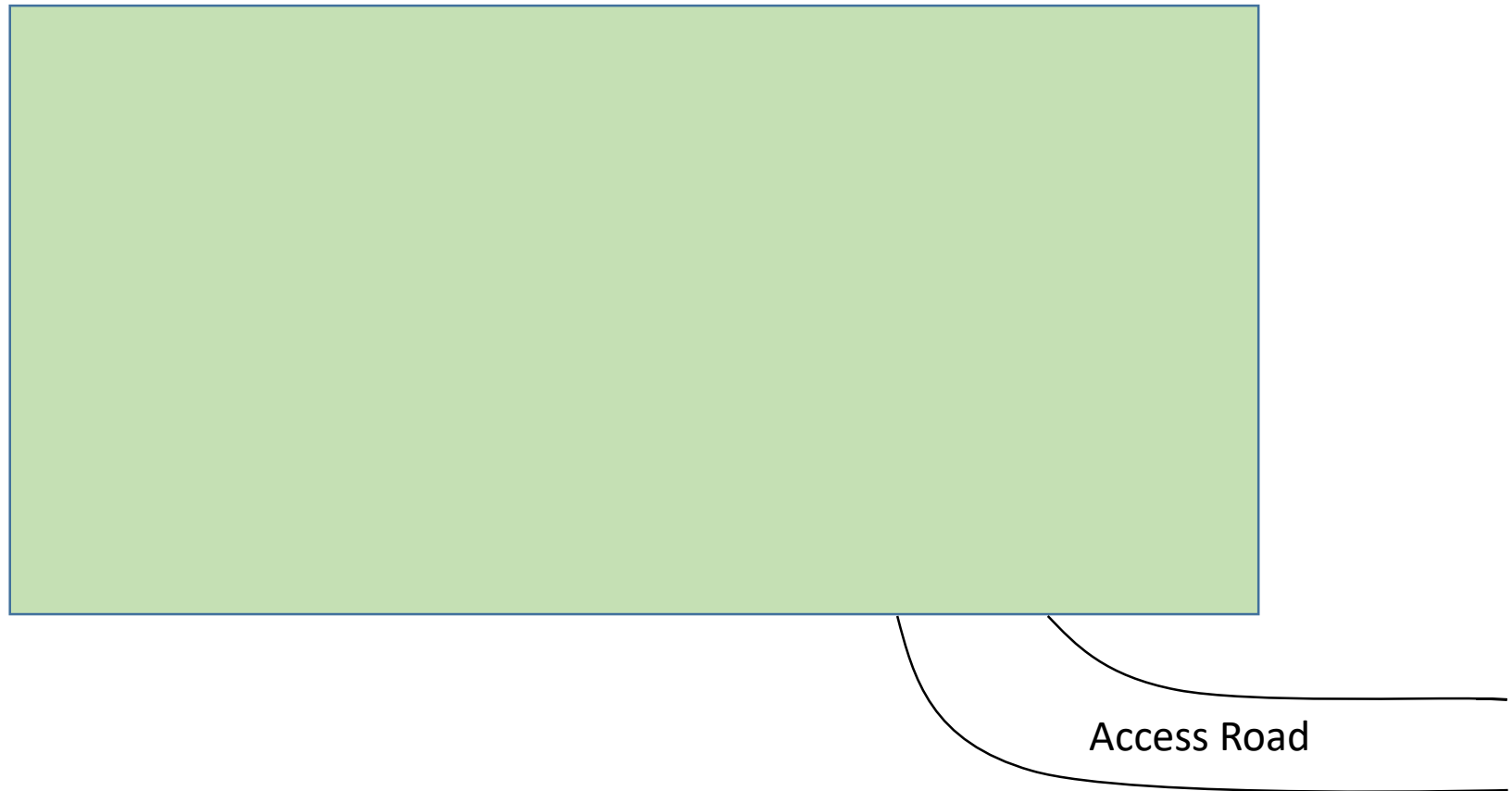


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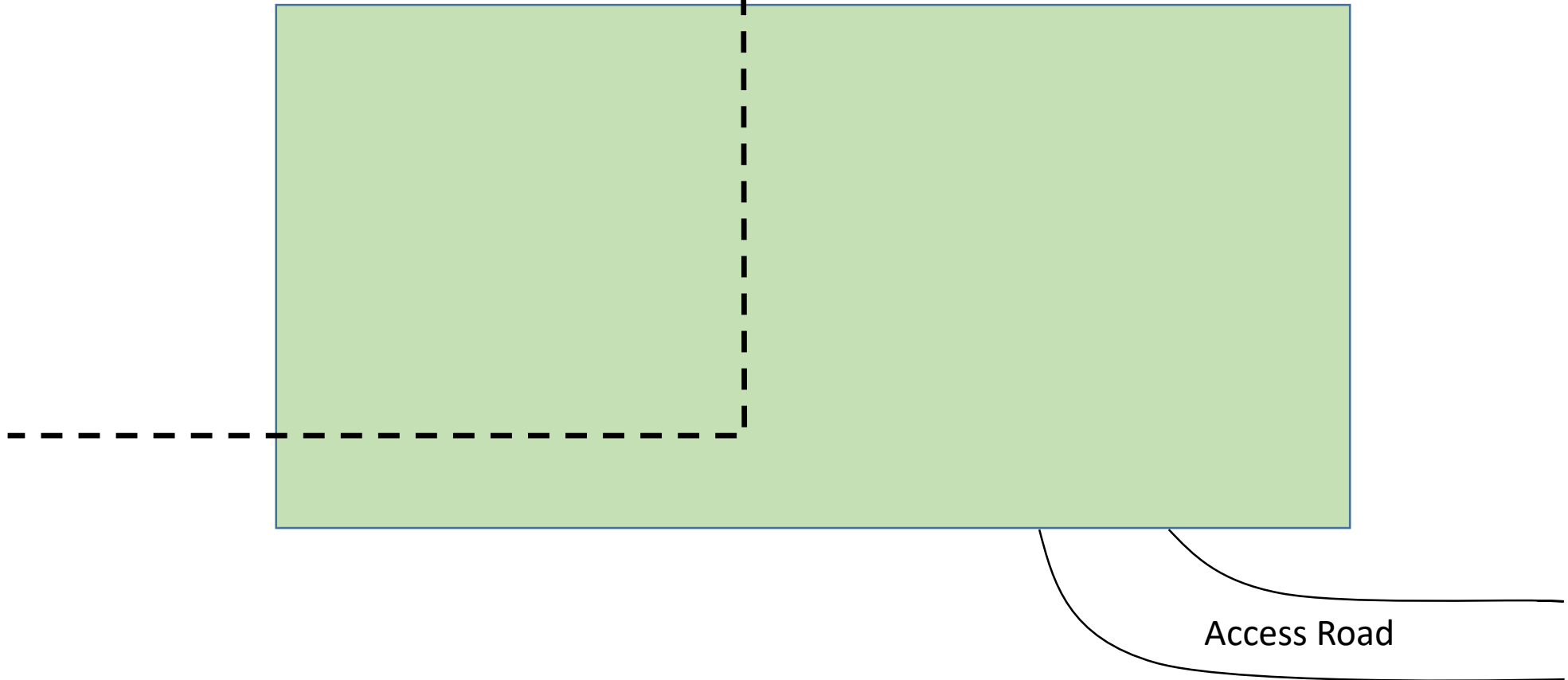
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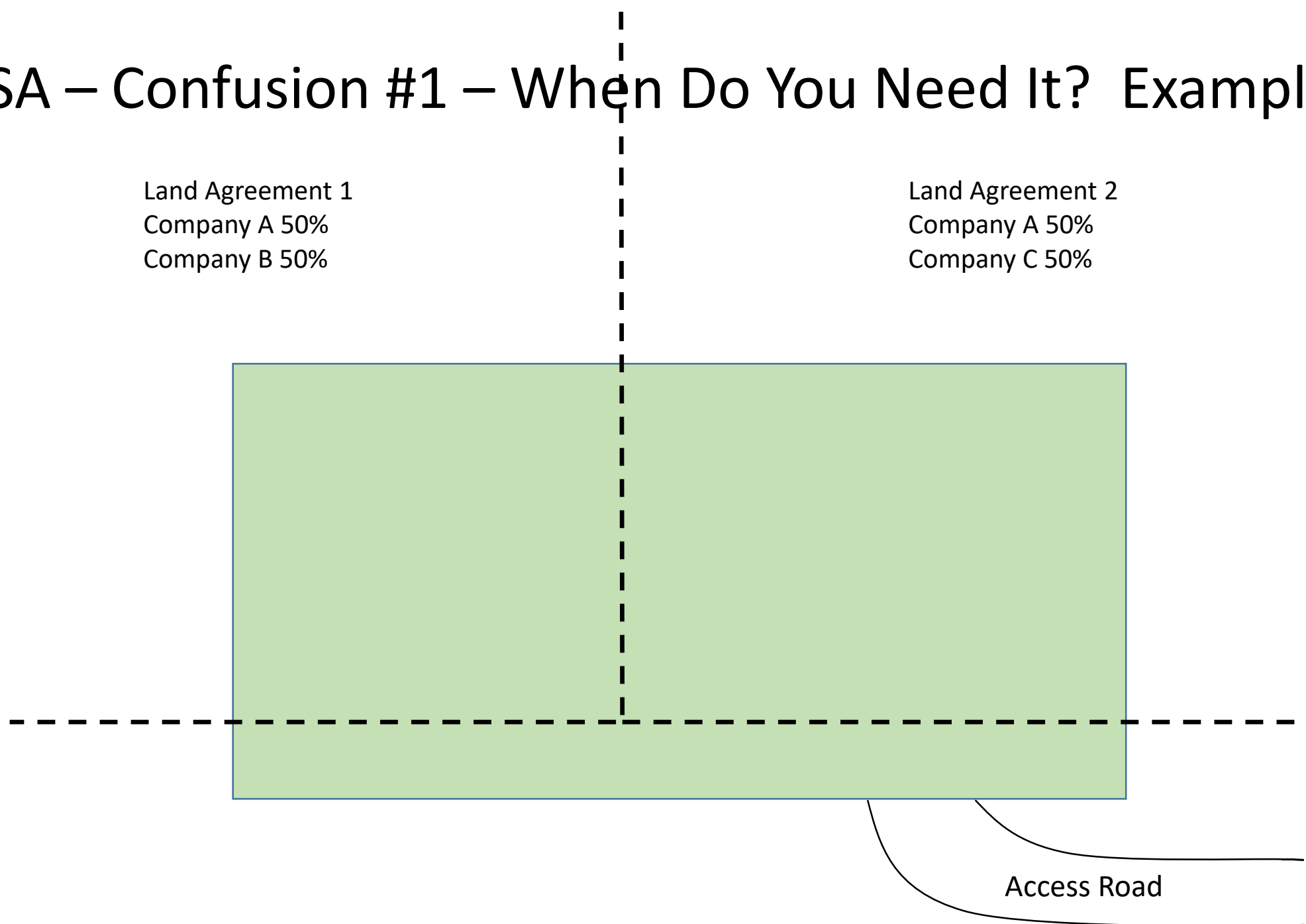


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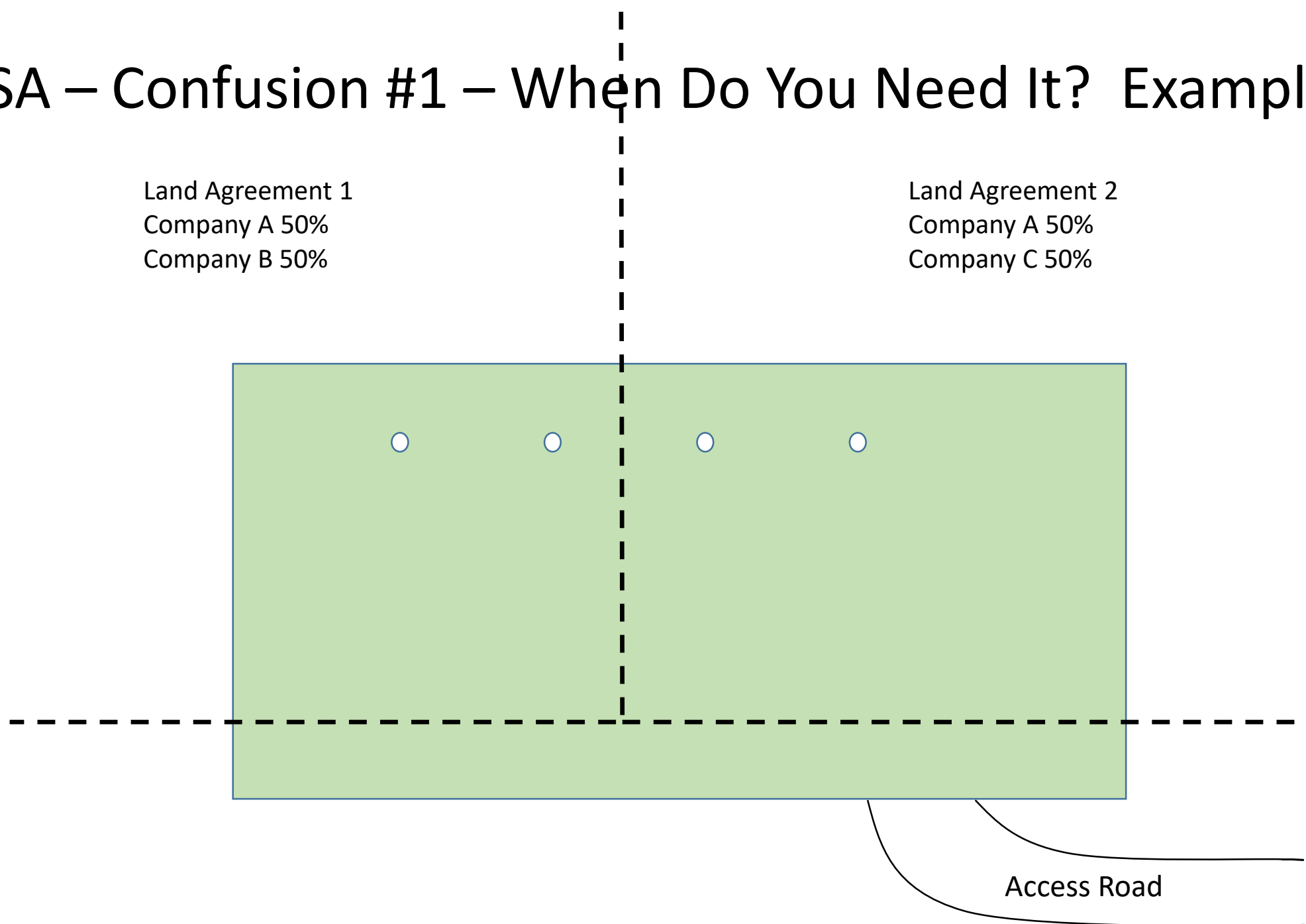
Land Agreement 1  
Company A 50%  
Company B 50%



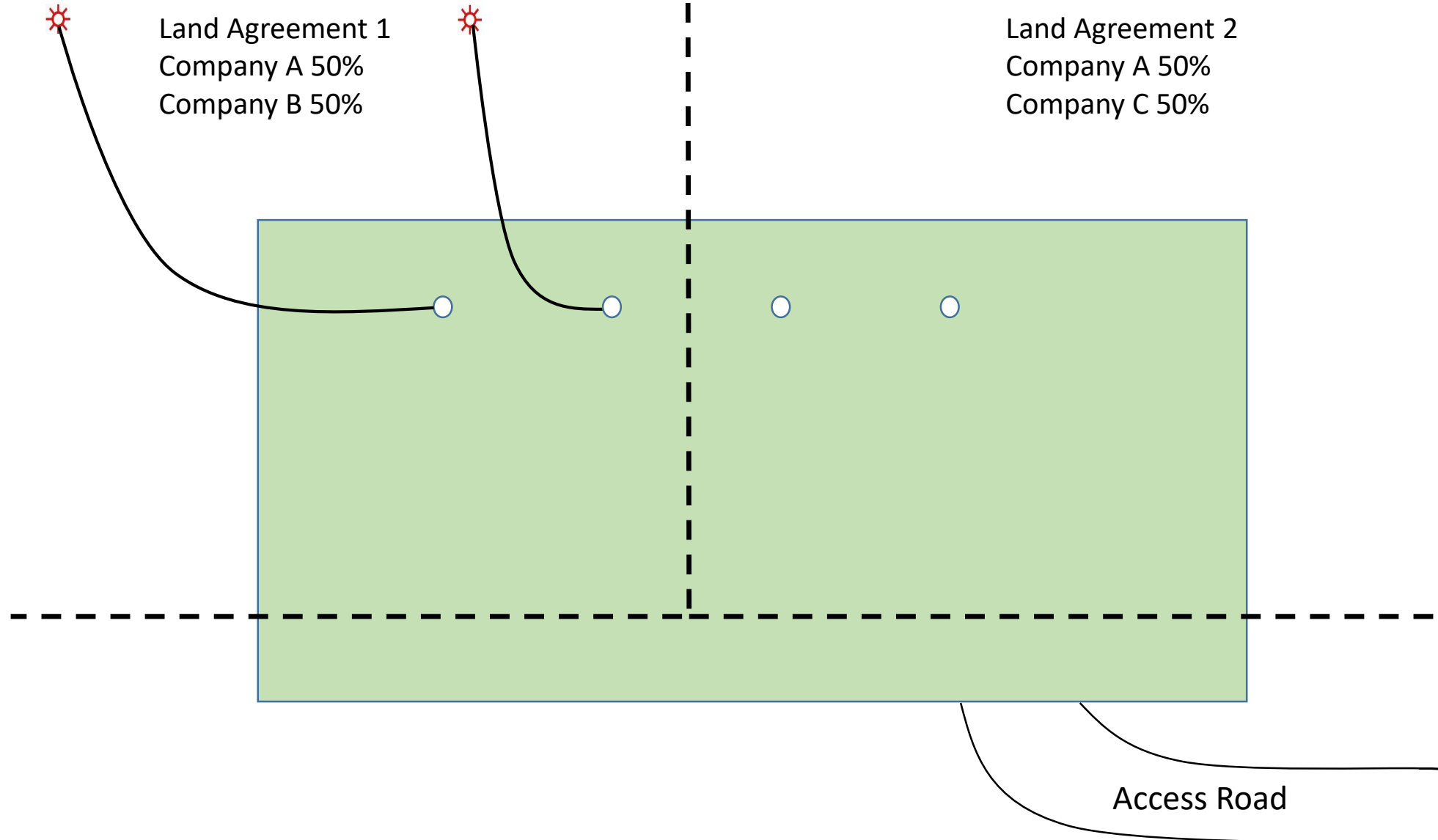
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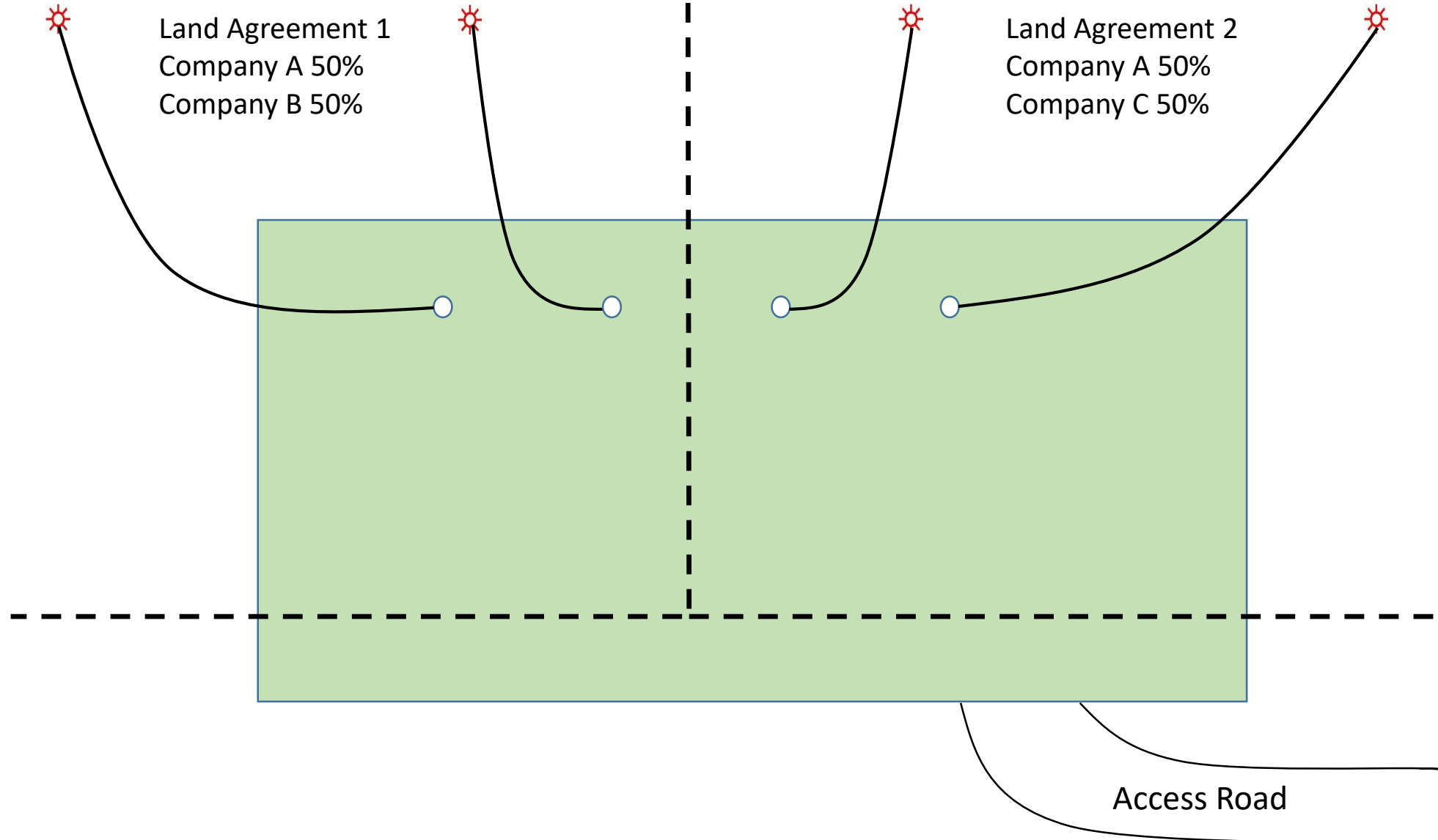
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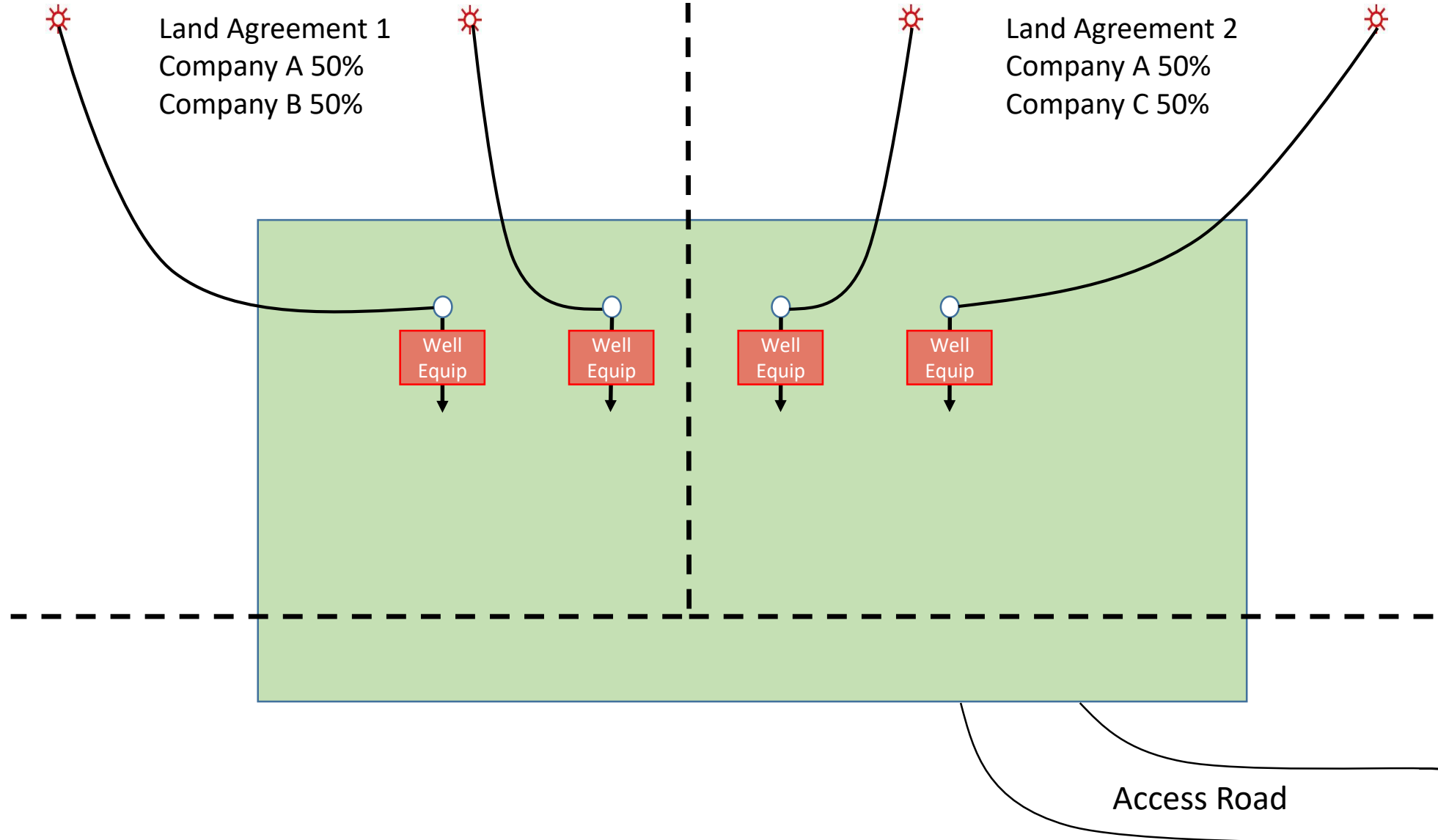
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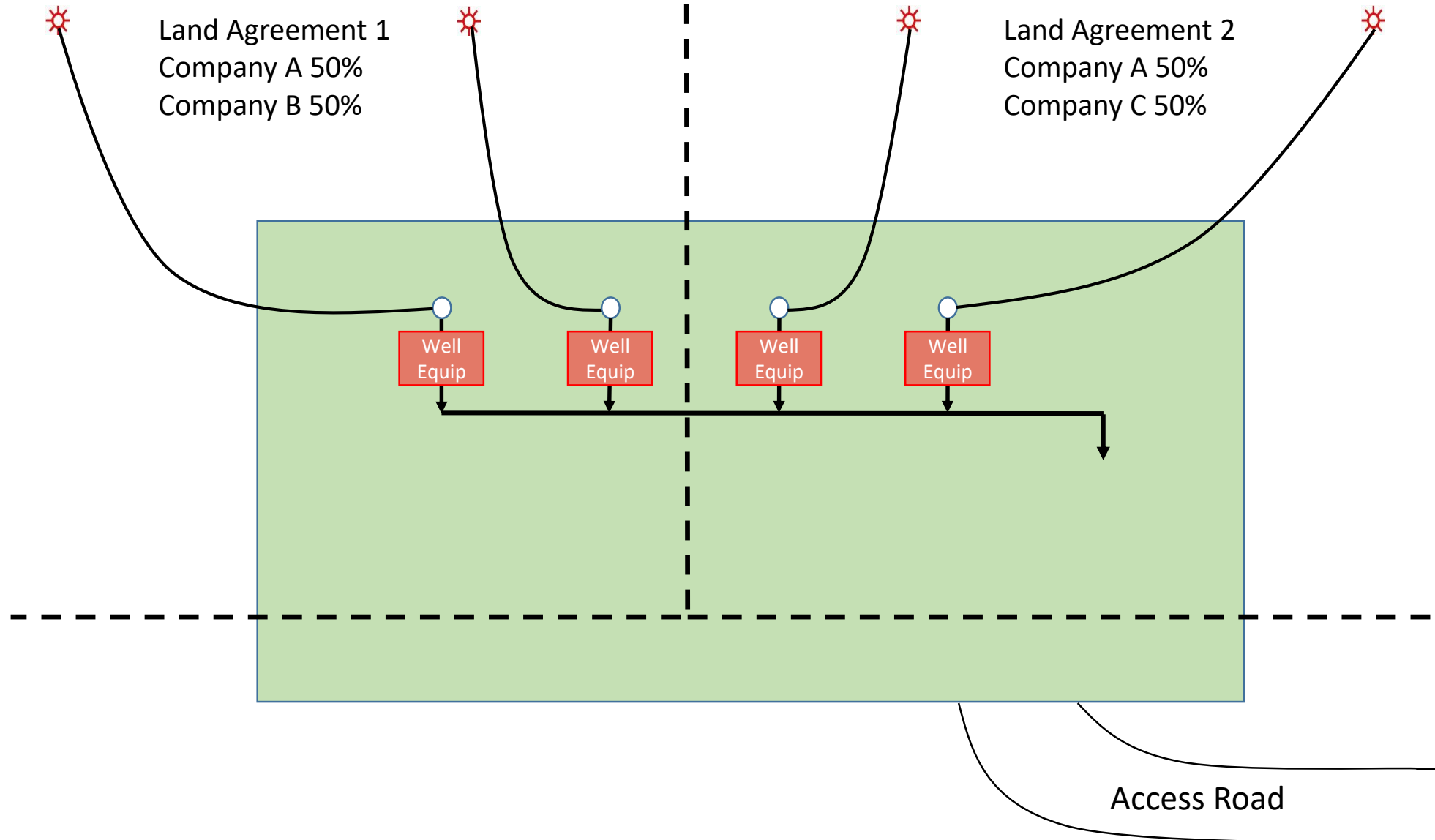


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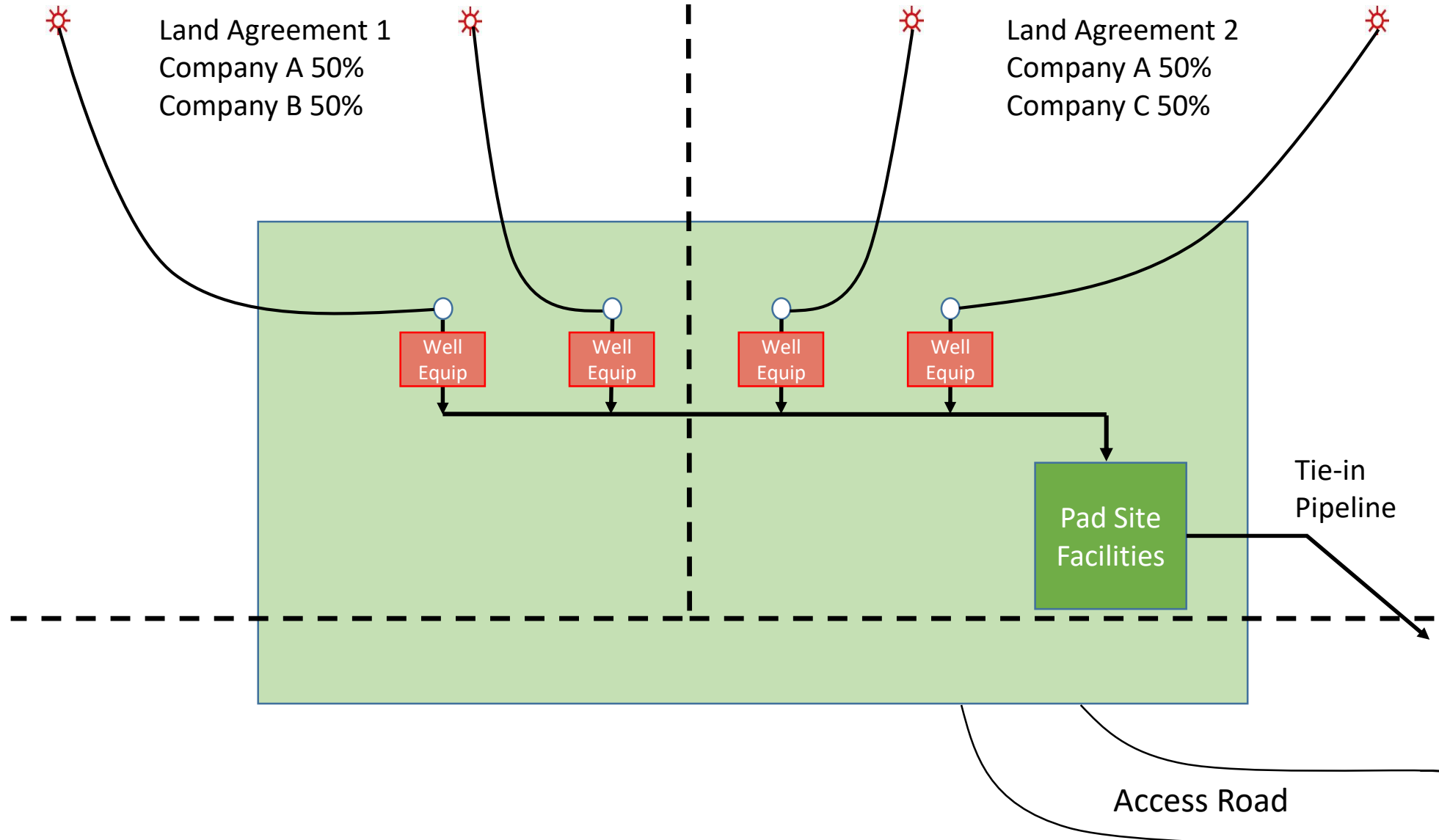




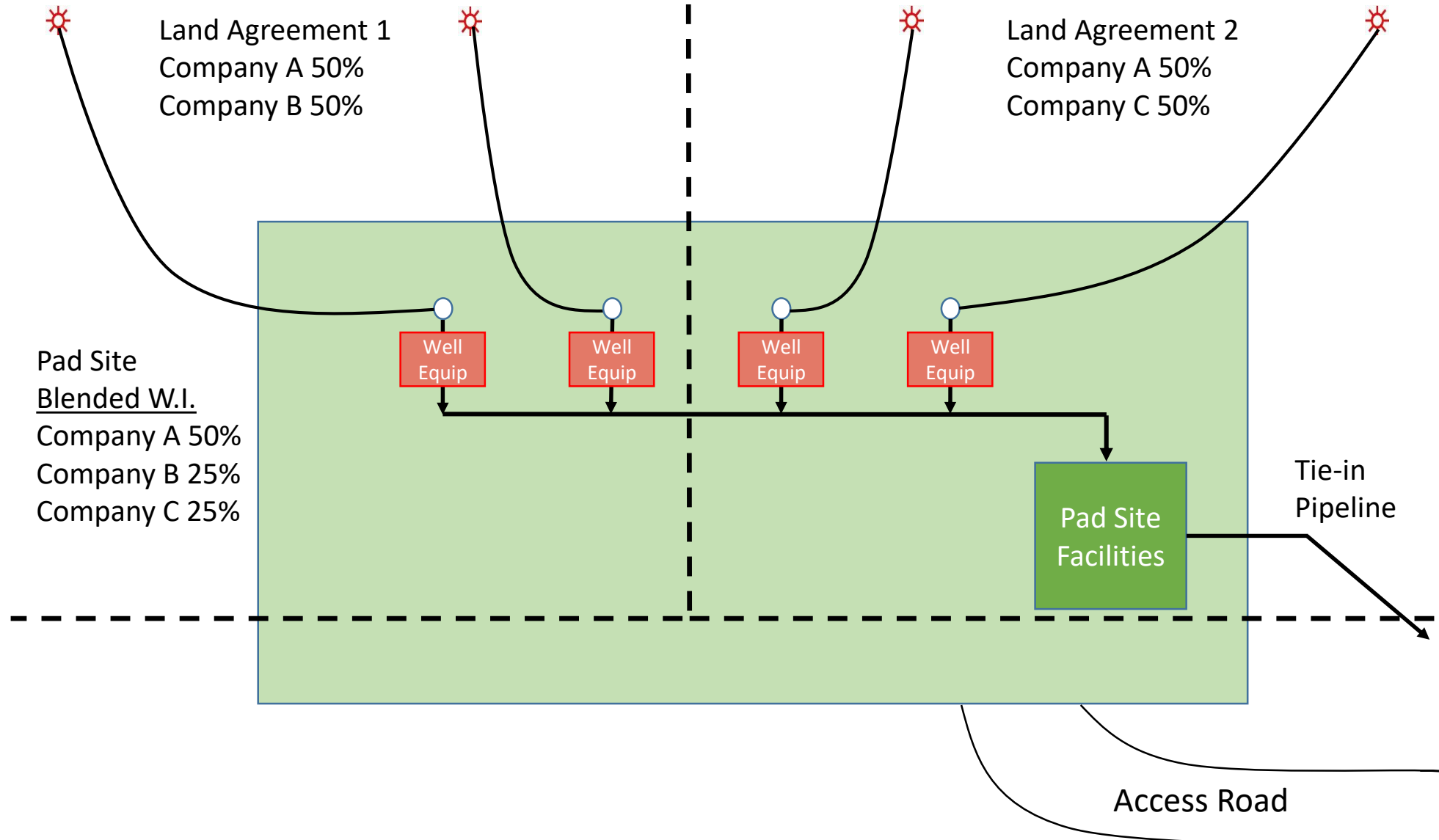
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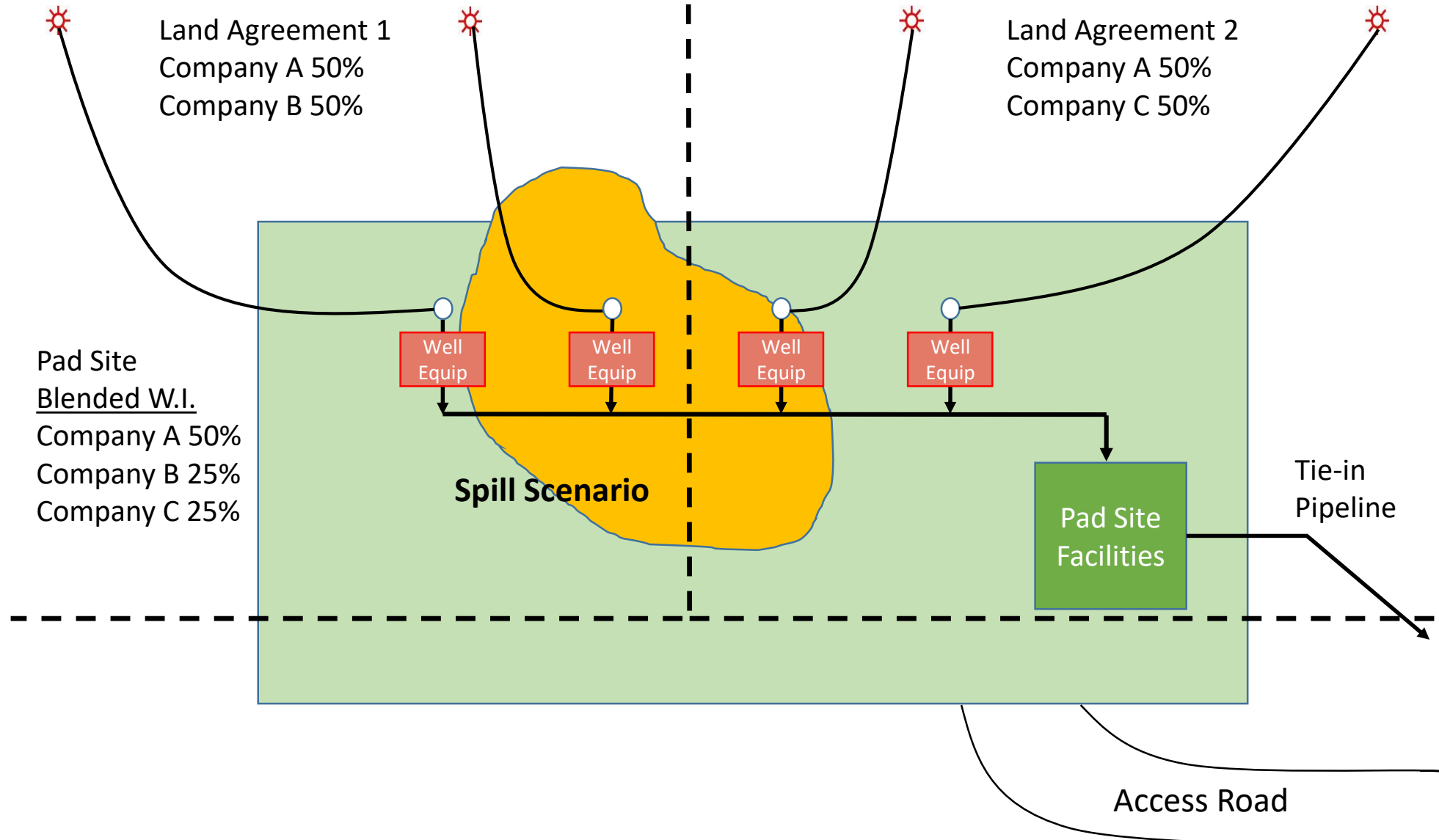
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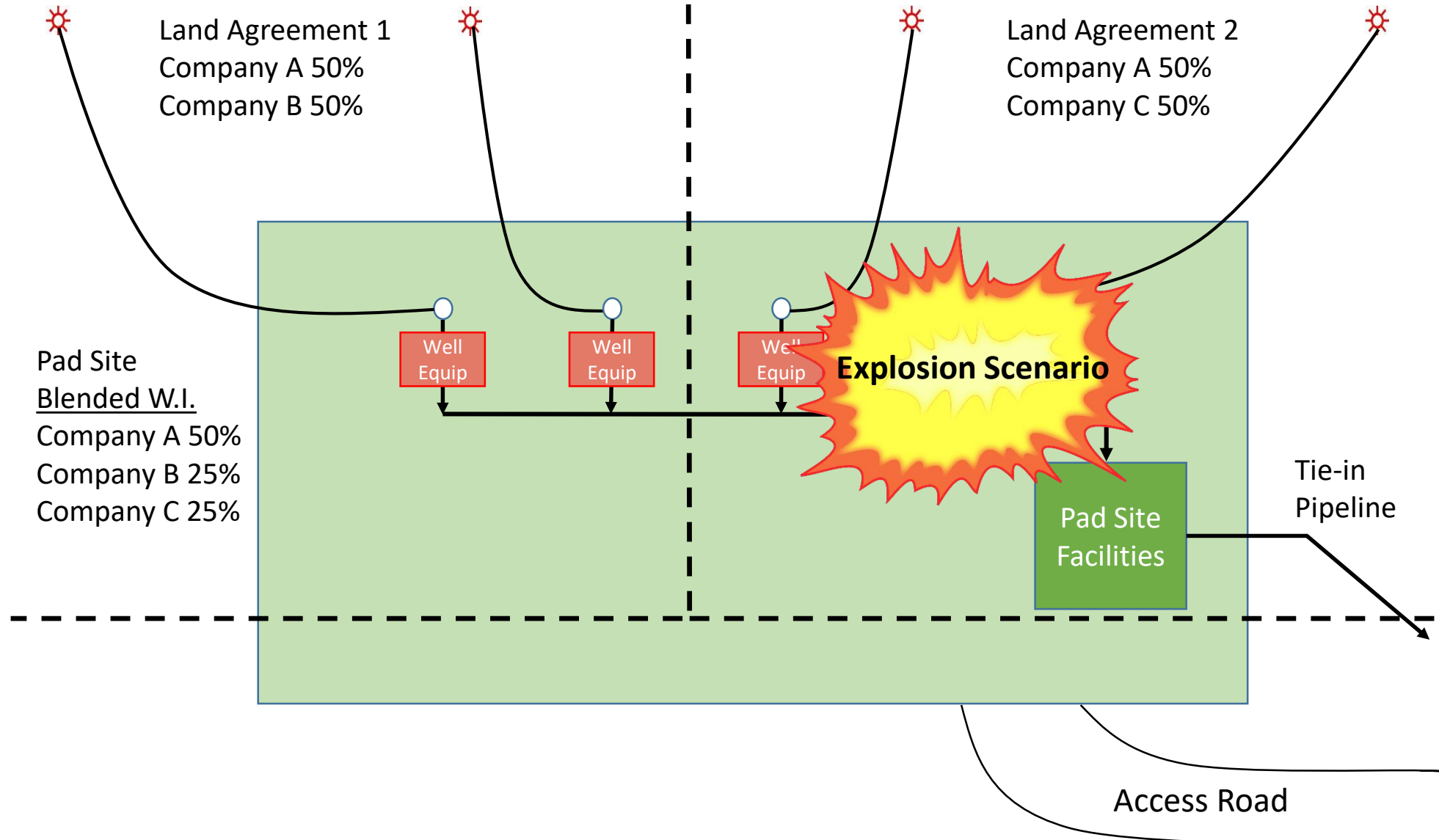
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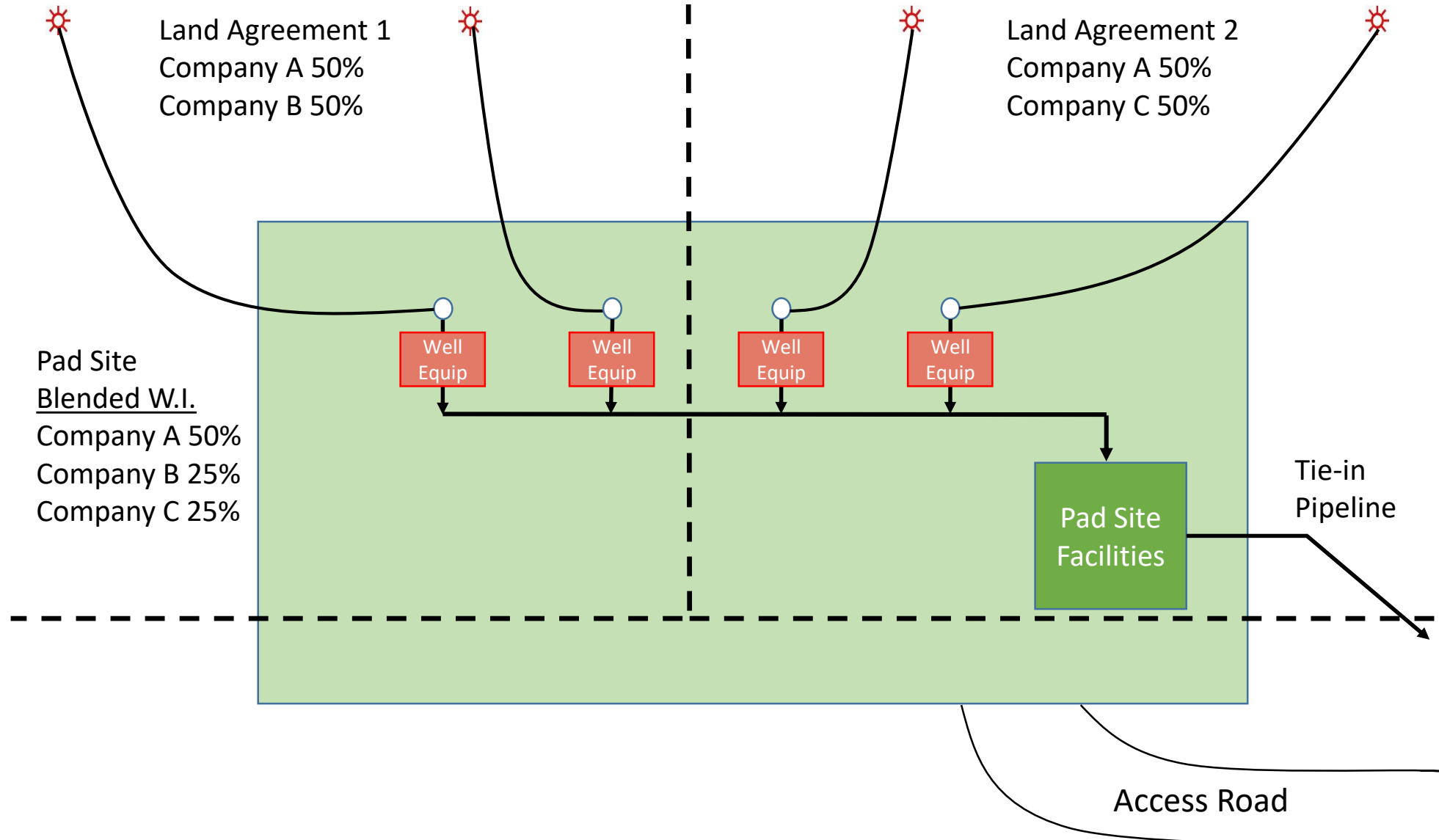
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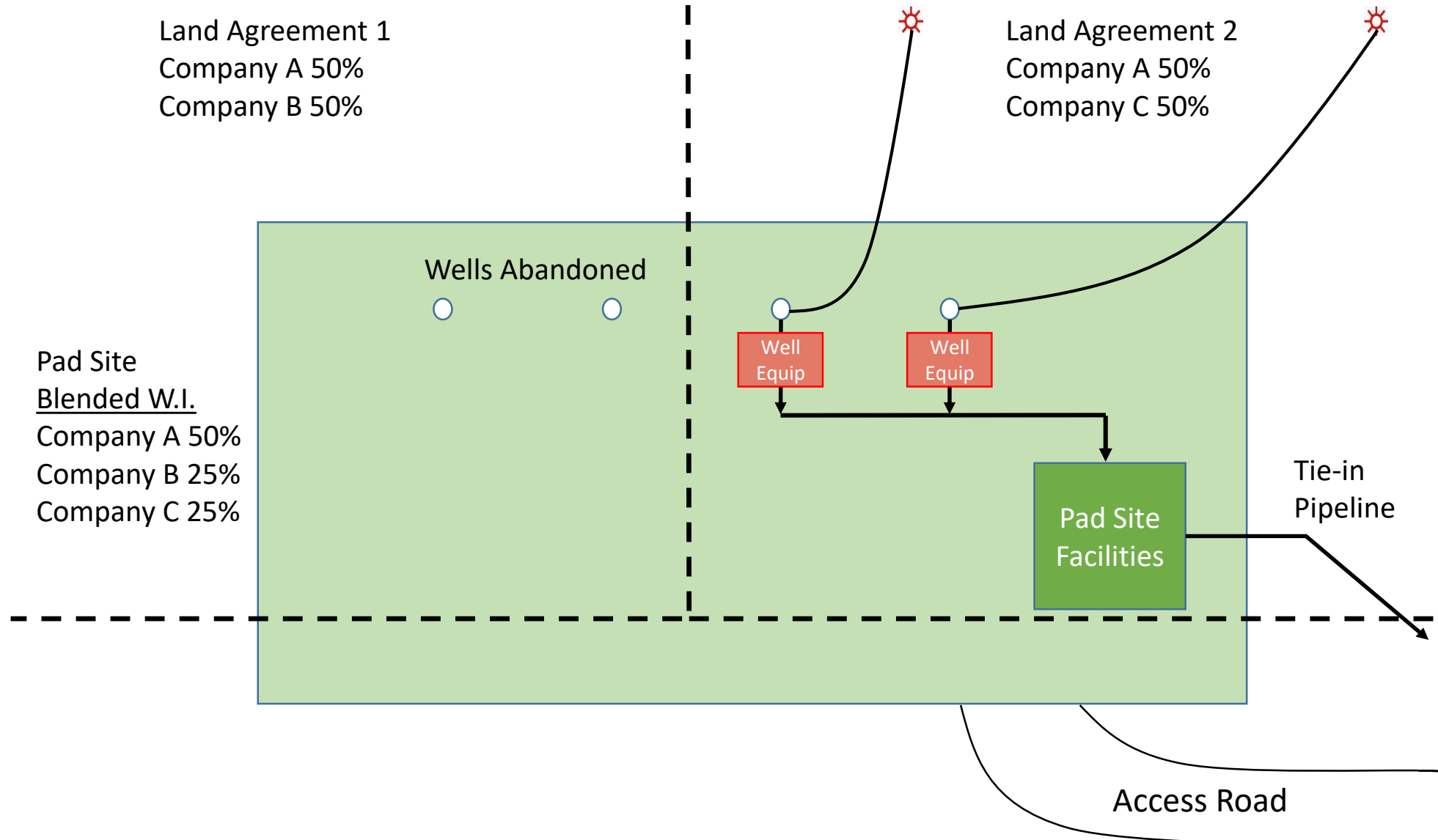
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With 100% WI**



**STOP**  
You do NOT  
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**STOP**  
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Land Agmt  
handles all  
Liabilities &  
sharing of  
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**2 or more  
Interest Sets\*  
with Multiple  
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**Now**  
You need a  
PSSA

Land Agmts do NOT  
handle Liabilities &  
sharing of Facilities  
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\* Any combination of 2 or more 100% WI and/or Land Agreements



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- A non-operating party to a Land Agreement may wish to drill a well under an Independent Operations Notice (ION)
  - The pad site operator could drill the well, or
  - The parties need to find a unique solution still satisfying the Prime Contractor requirements

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  - The pad site operator could drill the well, or
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- A lack of surface land availability might force multiple operators to share the same space

# PSSA – Confusion #2 - Single Site Operator

- Solution:

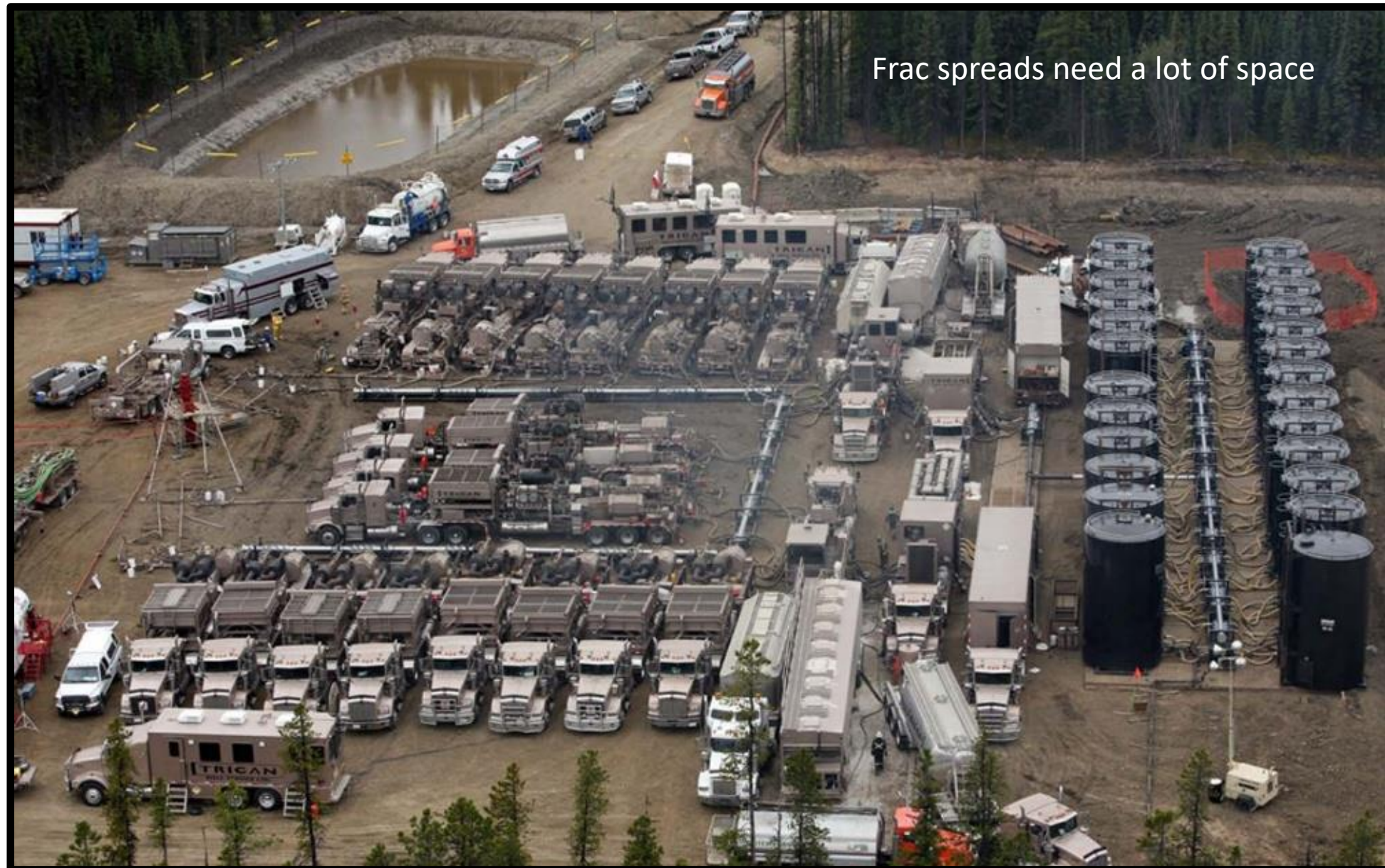
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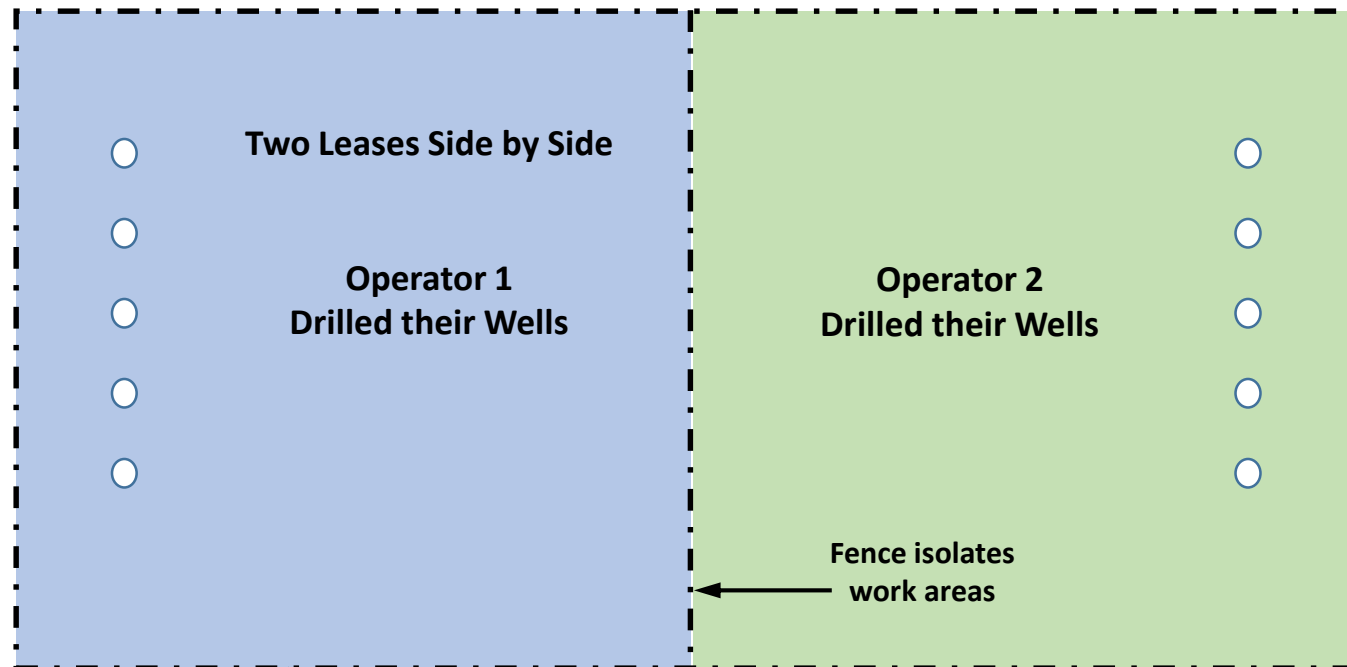




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Example 1

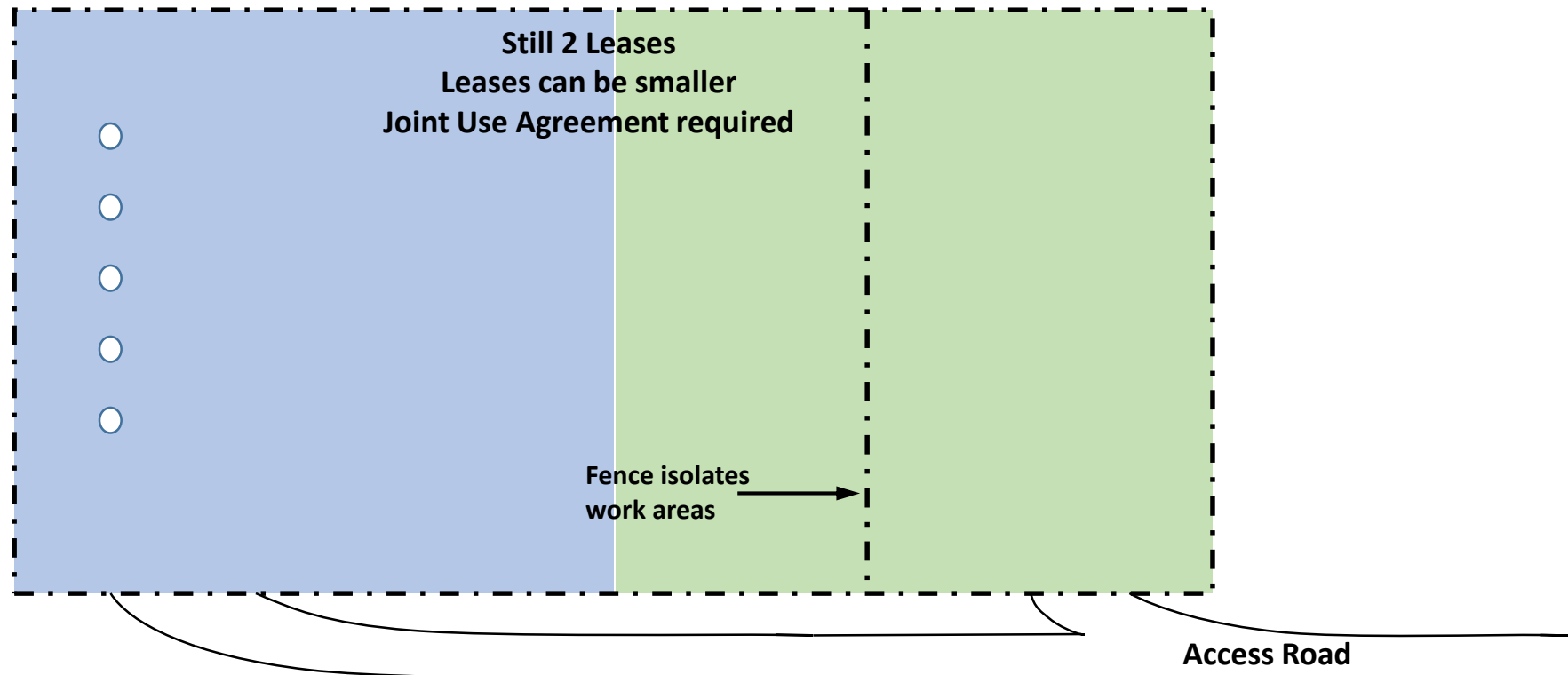


Access Road

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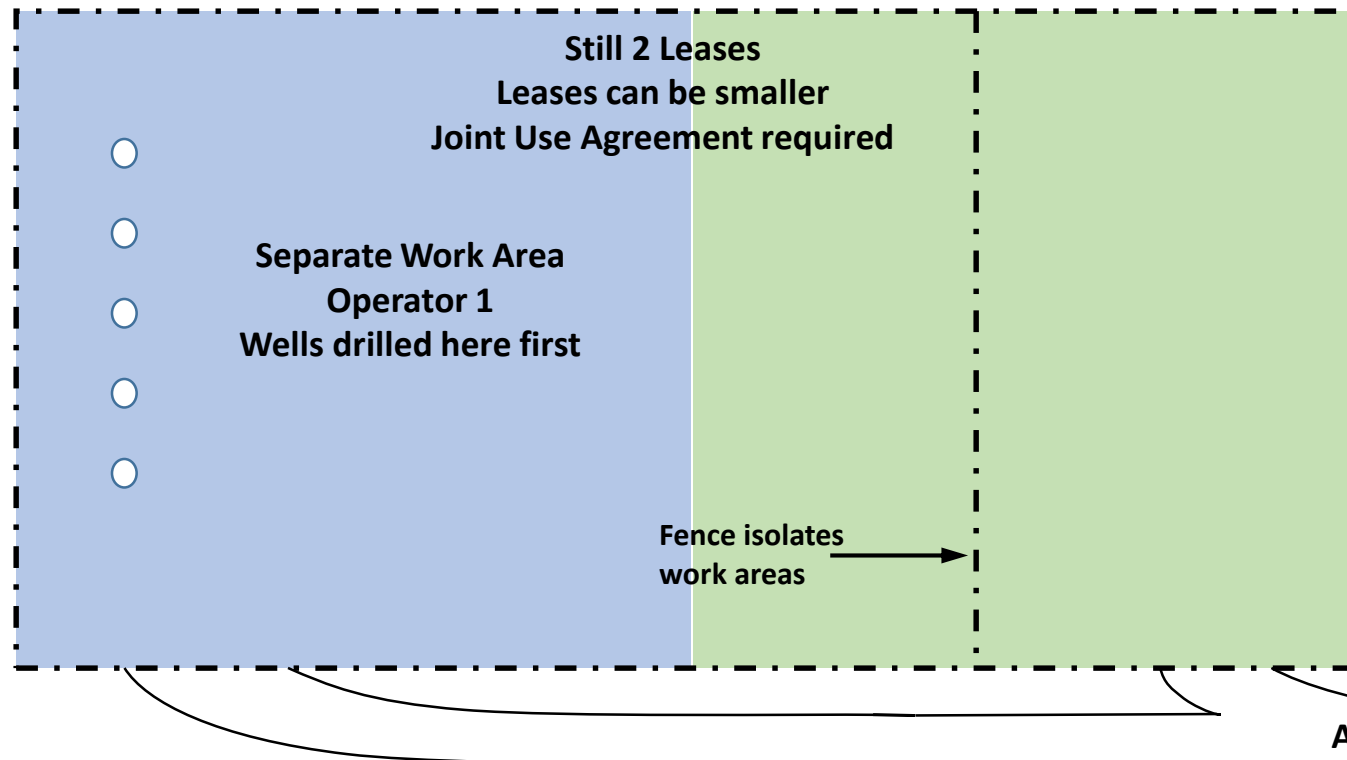
Example 2



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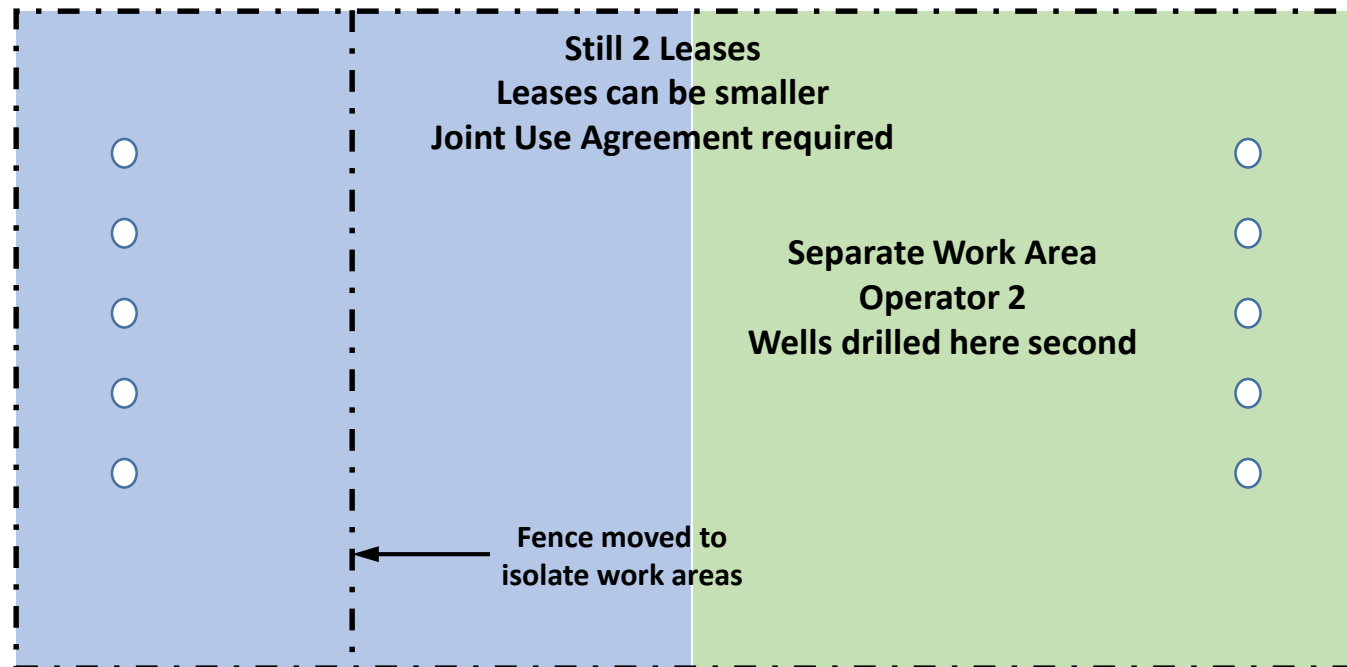
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Example 2



# PSSA – Confusion #3 – Changing Clauses

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with Multiple  
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- Remember – this is an 80% solution but changes may be required in some situations
- Annotations provide:
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  - Considerations when contemplating a change
- Annotations are extensive and developed to provide alternate considerations

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# PSSA – Confusion #3 – Changing Clauses **Example 1**

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# PSSA – Confusion #3 – Changing Clauses Example 1

- **Facility cost** is minor compared to other well costs

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# PSSA – Confusion #3 – Changing Clauses Example 1

- **Facility cost** is minor compared to other well costs
- PSSA simplifies Facility WI using well count
  - Facility WI = Number of wells x well WI
  - Default method

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# PSSA – Confusion #3 – Changing Clauses Example 1

- **Facility cost** is minor compared to other well costs
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  - Default method
- However, Facility WI could be based on throughput
  - Facility WI = well flowrate x well WI

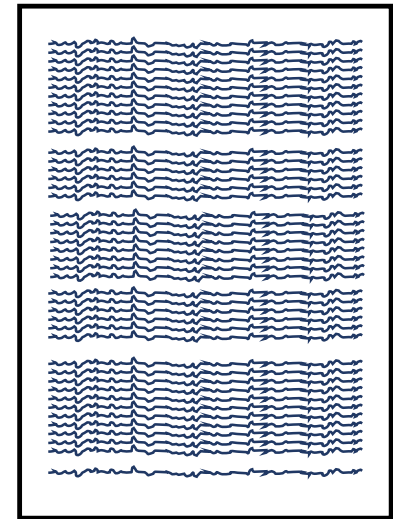
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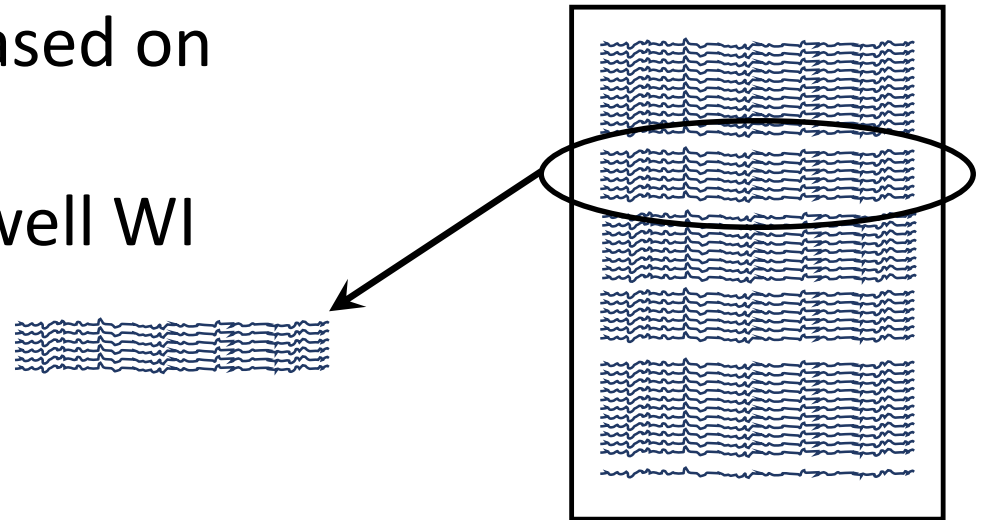
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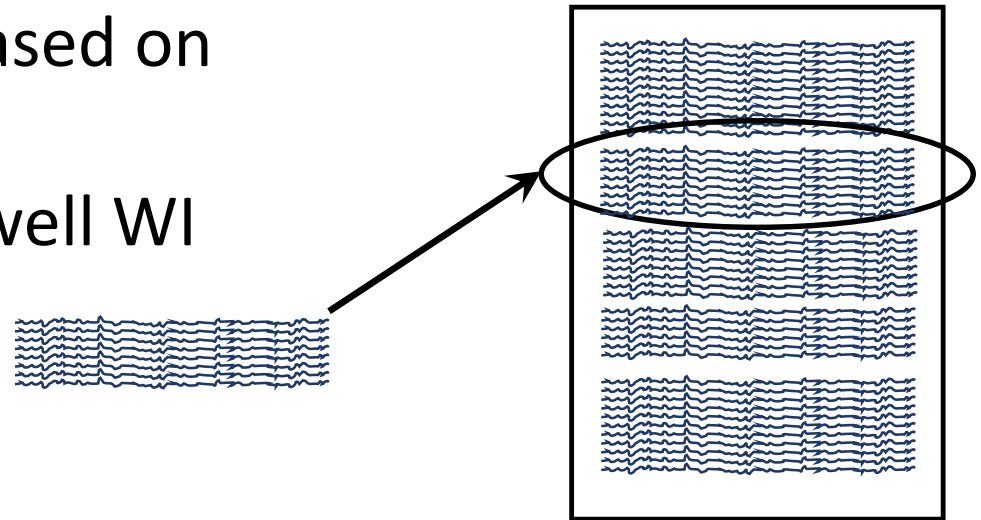
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## PSSA – Confusion #3 – Changing Clauses **Example 2**

- **Operating cost** of pad and facilities is minor

**2 or more  
Interest Sets\*  
with Multiple  
Owners**

# PSSA – Confusion #3 – Changing Clauses Example 2

- **Operating cost** of pad and facilities is minor
- PSSA simplifies Opex using well count

Division of Interest (DOI)

- $DOI = \text{Number of wells} \times \text{well WI}$
- Default method

2 or more  
Interest Sets\*  
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# PSSA – Confusion #3 – Changing Clauses Example 2

- **Operating cost** of pad and facilities is minor
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## Division of Interest (DOI)

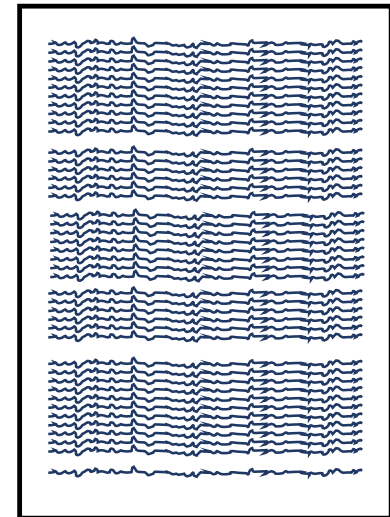
- $\text{DOI} = \text{Number of wells} \times \text{well WI}$
- Default method
- However, DOI could be based on throughput
  - $\text{Throughput DOI} = \text{well flowrate} \times \text{well WI}$
  - Annual equalization
  - Burdensome if many pads

2 or more  
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# PSSA – Confusion #3 – Changing Clauses Example 2

- **Operating cost** of pad and facilities is minor
- PSSA simplifies Opex using well count
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  - Default method
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  - $\text{Throughput DOI} = \text{well flowrate} \times \text{well WI}$
  - Annual equalization
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- Simply change that clause

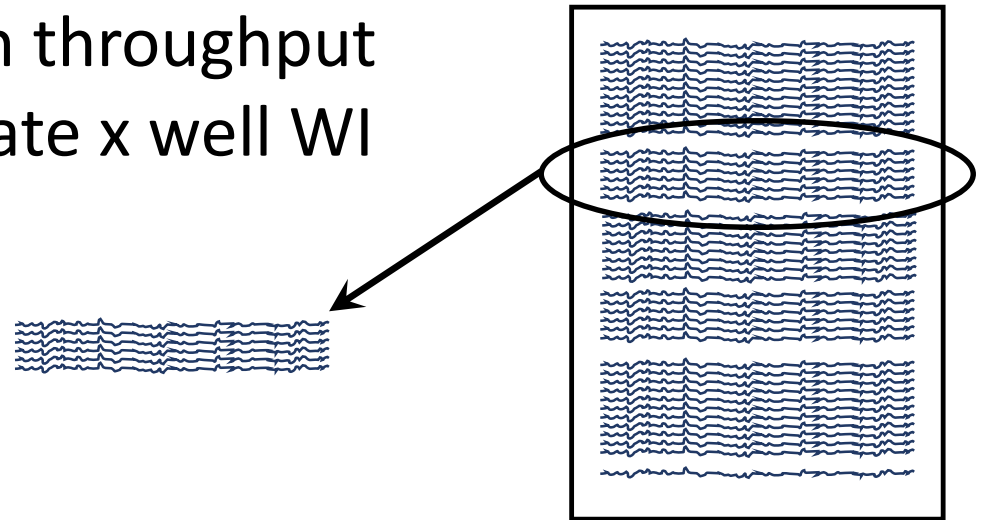
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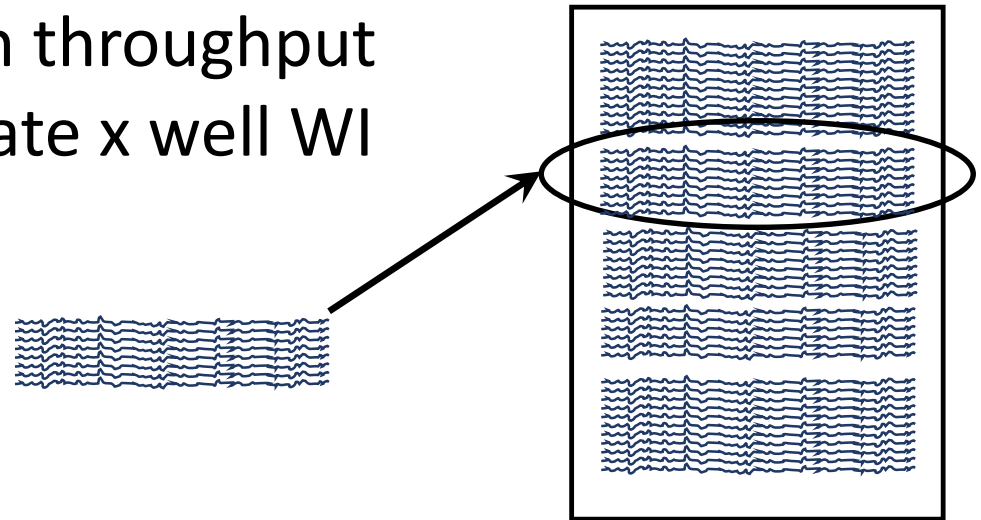




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# PSSA – Confusion #4 – Overriding Land Agreements

- Why should a PSSA override the Land Agreements?

**2 or more  
Interest Sets\*  
with Multiple  
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# PSSA – Confusion #4 – Overriding Land Agreements

- Why should a PSSA override the Land Agreements?
- The PSSA places constraints on the Land Agreements only to the extent necessary to:

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Interest Sets\*  
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# PSSA – Confusion #4 – Overriding Land Agreements

- Why should a PSSA override the Land Agreements?
- The PSSA places constraints on the Land Agreements only to the extent necessary to:
  - Comply with site operator/prime contractor requirements

**2 or more  
Interest Sets\*  
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# PSSA – Confusion #4 – Overriding Land Agreements

- Why should a PSSA override the Land Agreements?
- The PSSA places constraints on the Land Agreements only to the extent necessary to:
  - Comply with site operator/prime contractor requirements
  - Govern shared assets e.g. blended WI, cost equalizations, expansion, ROFR's

**2 or more  
Interest Sets\*  
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# PSSA – Confusion #4 – Overriding Land Agreements

- Why should a PSSA override the Land Agreements?
- The PSSA places constraints on the Land Agreements only to the extent necessary to:
  - Comply with site operator/prime contractor requirements
  - Govern shared assets e.g. blended WI, cost equalizations, expansion, ROFR's
  - Address liability issues across the agreements

**2 or more  
Interest Sets\*  
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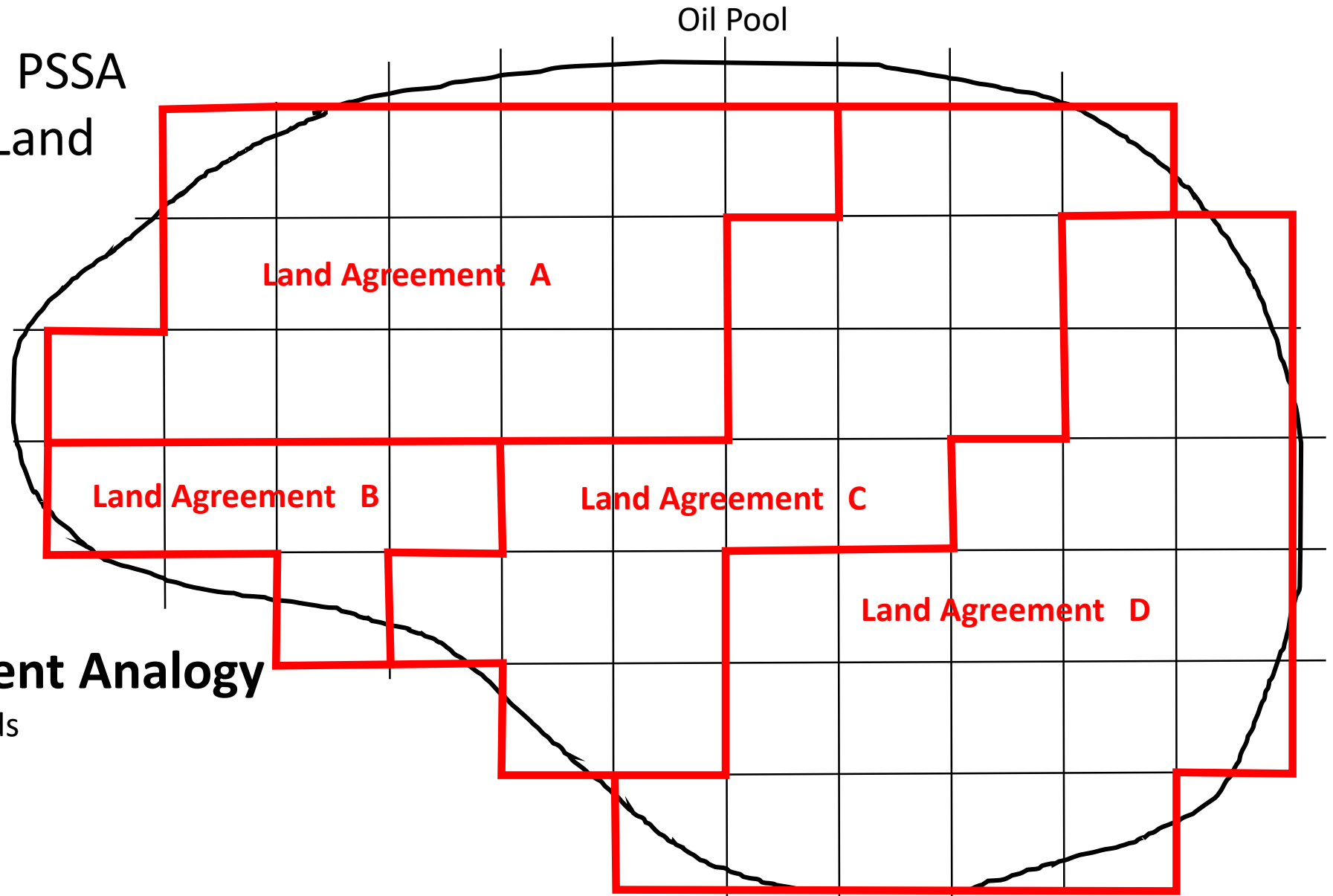
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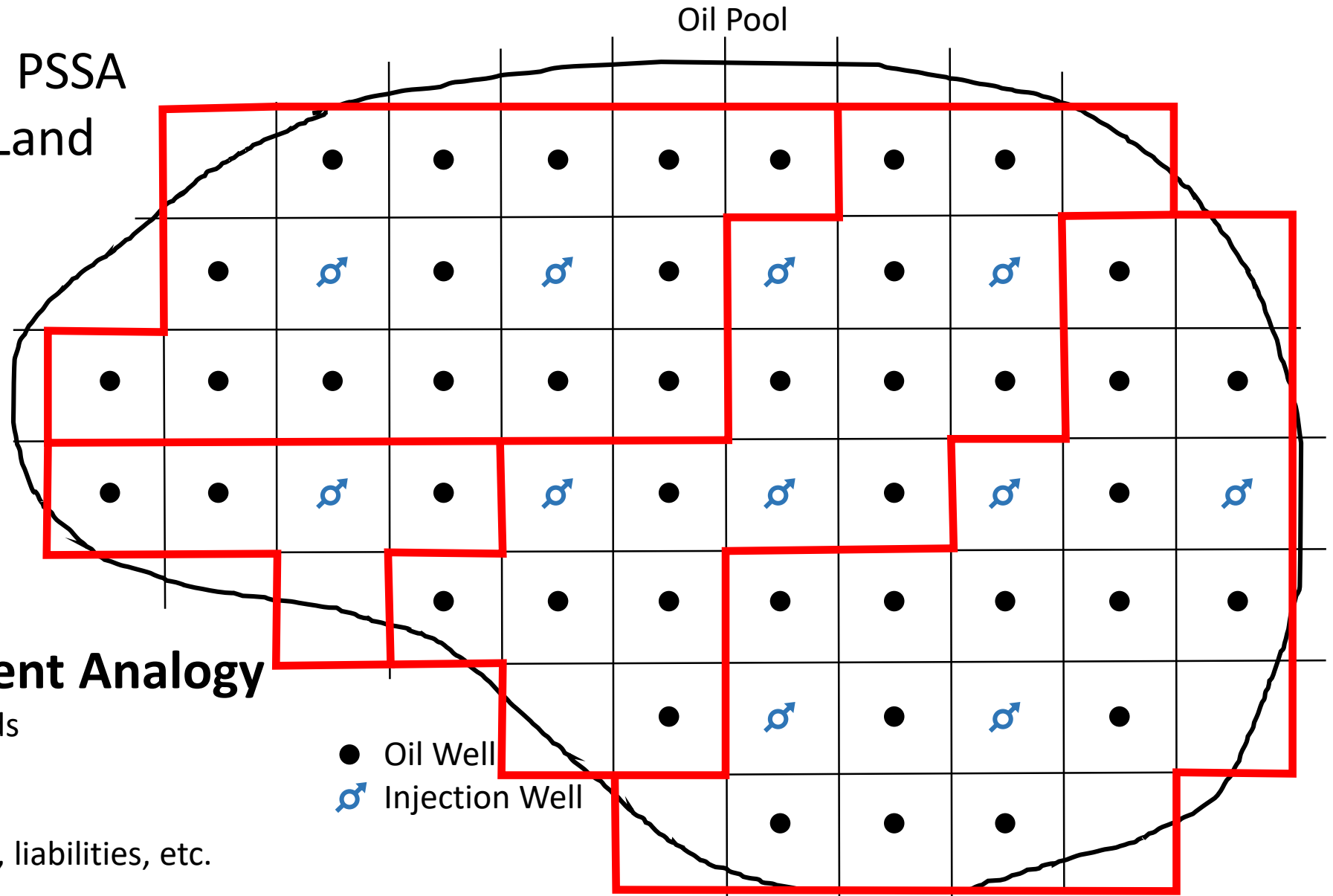
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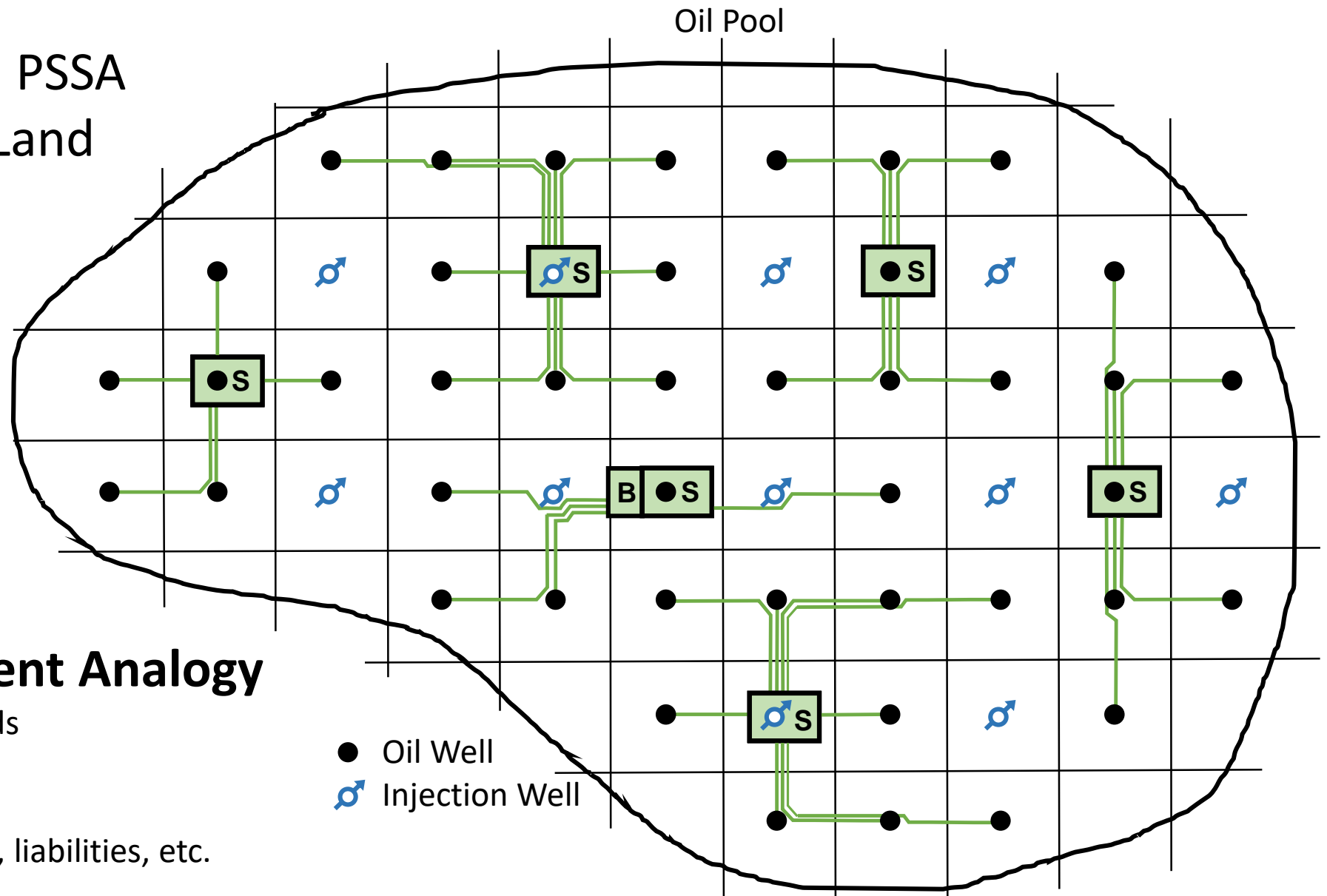


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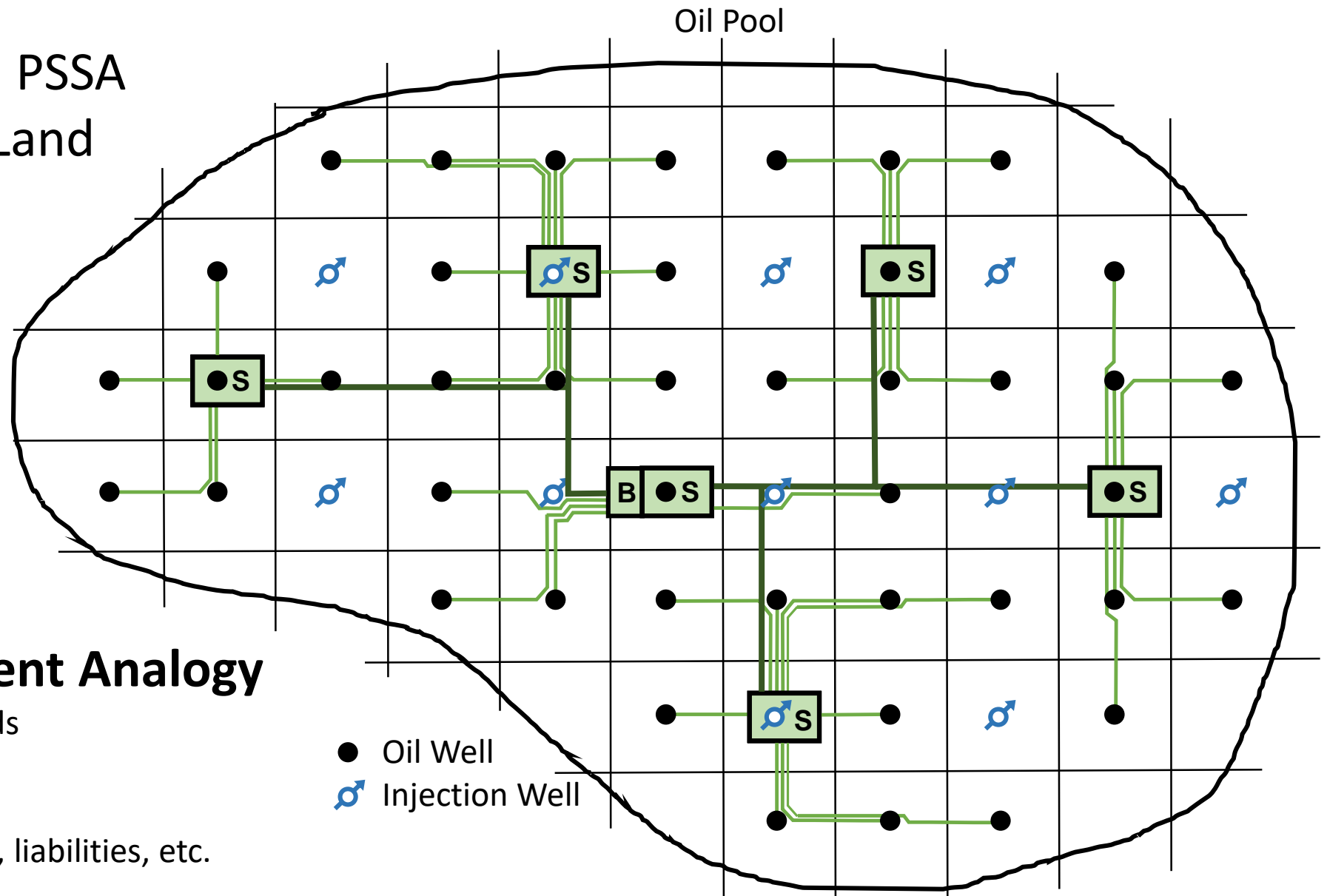


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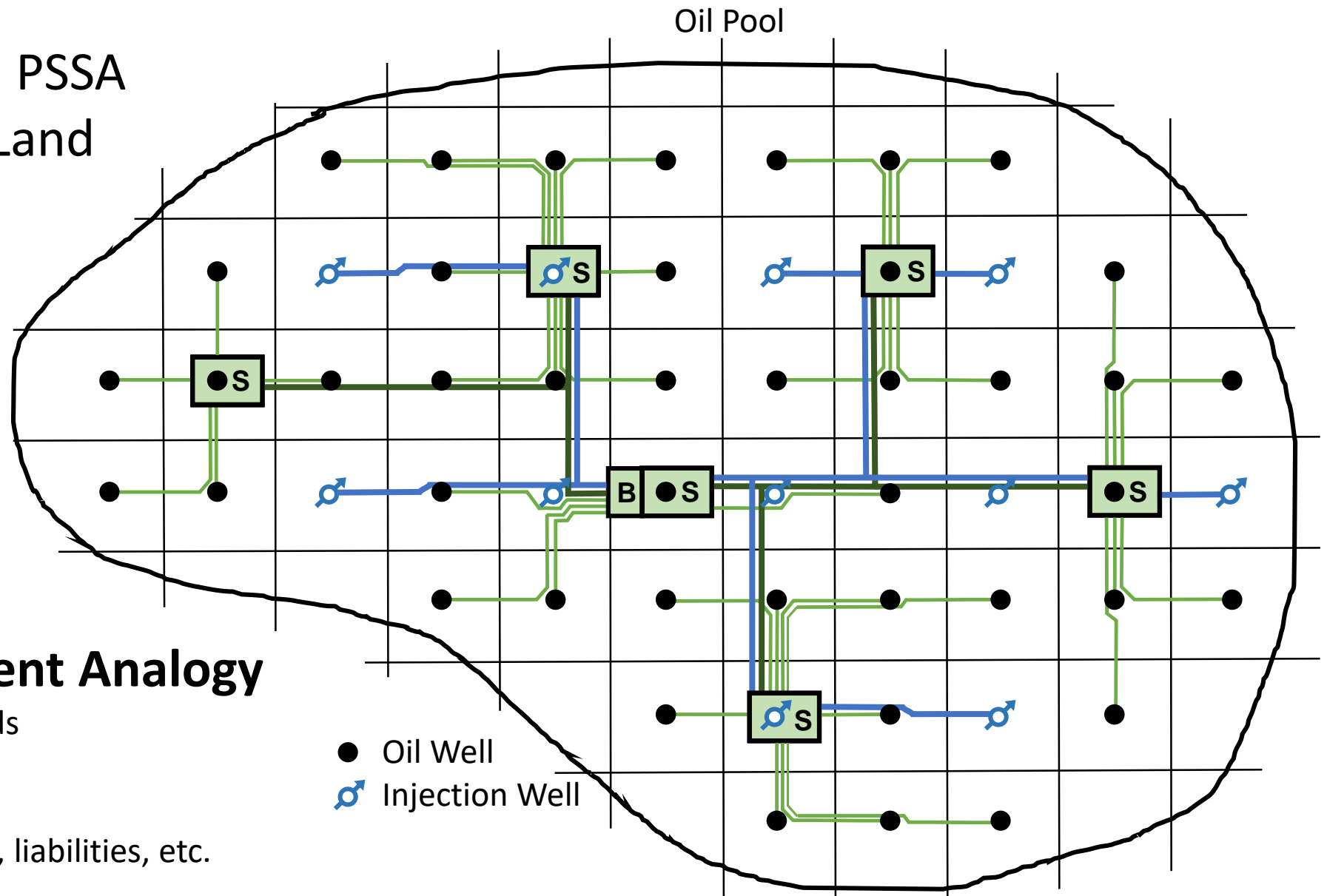


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# PSSA – Confusion #5 – Liability and Insurance

Why does the PSSA need to deal with liability and insurance requirements? The Land Agreements already deal with these.

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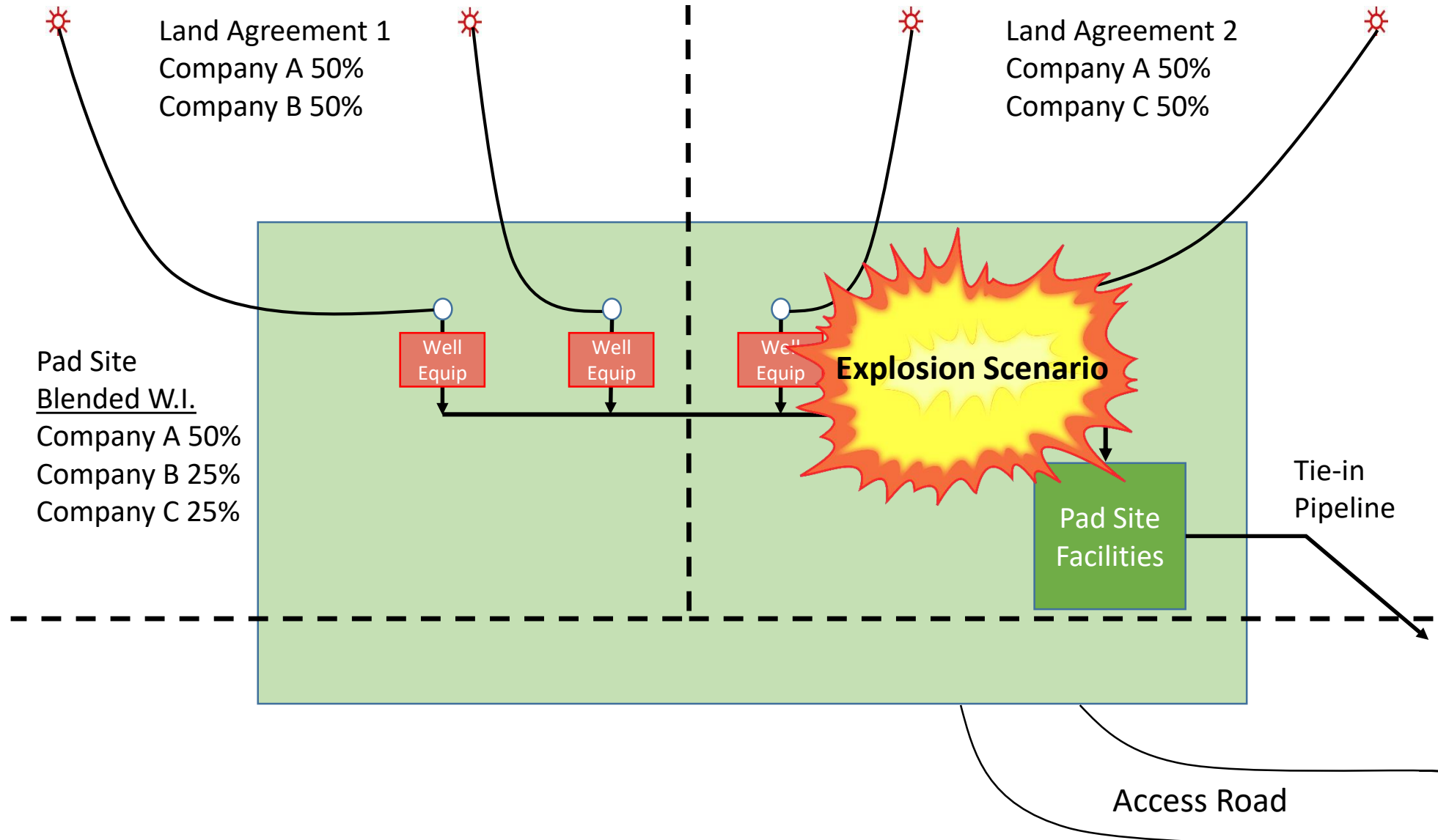
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- A Land Agreement does not adequately address liability between sets of Owners with two or more agreements that are sharing surface land and equipment.
- For example, what if an incident involving a well under one agreement causes damage to wells under a different agreement, and/or to the shared pad lease and equipment?



# PSSA – Confusion #5 – Liability and Insurance



# PSSA – Confusion #6 – PASC Accounting Procedure

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- Users choose which PASC edition to use
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- PASC Accounting Procedure should be read in conjunction with the PASC AG-19 Guideline - Accounting for Shared Pad Site Costs

# PSSA Draft 2 – How We Got Here

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- Draft 2 issued November 2, 2016 and posted on the PJVA and CAPL websites

# PSSA Draft 2 Highlights – Head Agreement

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- Modest edits and modifications were made to the text and annotations based on comments

# PSSA Draft 2 Highlights – Operating Procedure

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- Clause 604 Liability and Indemnification Obligations Respecting Land Activities – changes to strengthen and clarify cross-liability obligations

# PSSA Draft 2 Highlights – Operating Procedure

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- As noted in the responses to comments, including this content would add layers of complexity that would deter industry from using the PSSA
- Users of the PSSA are in the best position to customize the document for their situations. If you need to do this, the annotations provide valuable information.

# PSSA Draft 2 Highlights - Appendices

Many changes made to the text and annotations based on the comments to enhance outcomes and clarity

Appendix I Sharing of Operating Costs

Appendix II Accounting Procedure

Appendix III Capacity Usage

Appendix IV Investment Values

Appendix V Enlargement

Appendix VI Abandonment

# PSSA Draft 2 Highlights– Appendix VI

## Abandonment

# PSSA Draft 2 Highlights– Appendix VI

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- Clarifies that well abandonments are governed by Land Agreements and pad site abandonment is governed by the PSSA

# PSSA Draft 2 Highlights– Appendix VI

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- Clarifies that well abandonments are governed by Land Agreements and pad site abandonment is governed by the PSSA
- Clarifies use of Phase I and Phase II environmental assessments to allocate reclamation and remediation work appropriately to well abandonments versus pad site abandonment



# PSSA Draft 2 Highlights– Appendix VI

## Abandonment

- Clarifies that well abandonments are governed by Land Agreements and pad site abandonment is governed by the PSSA
- Clarifies use of Phase I and Phase II environmental assessments to allocate reclamation and remediation work appropriately to well abandonments versus pad site abandonment
- Clause 104 (c) deals with abandonment funds being put into a trust account. Concerns were expressed in the comments about the use of a trust account for the retention of funds. Owners can easily override this provision if desired. The drafting committee will consider additional feedback on this issue from the Draft 2 review process.

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It's a voluntary choice to assume risk

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Comment in a way in which resources are used most efficiently

- Provide a single coordinated response from a company, vs individual responses or separate, potentially inconsistent JV and Land responses.
- The most helpful comments identify the concern, why it is a concern and how it might be fixed
- Avoid drafting preference comments that say the same thing in a different way

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- Complete the Appendices for some real pads in your company
- Velvet did this for 3 pads with positive results
- Velvet learnings:
  - PSSA was easy to use for the pads tested
  - Highlighted the need for communications amongst all departments
  - Facilitated applications to AER for multi-well pad identifiers
  - Multi-well pad identifiers enable reduction in LMR/LLR levies

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Thank You!

# Pad Site Sharing Agreement Draft 2 Update



November 2, 2016

