



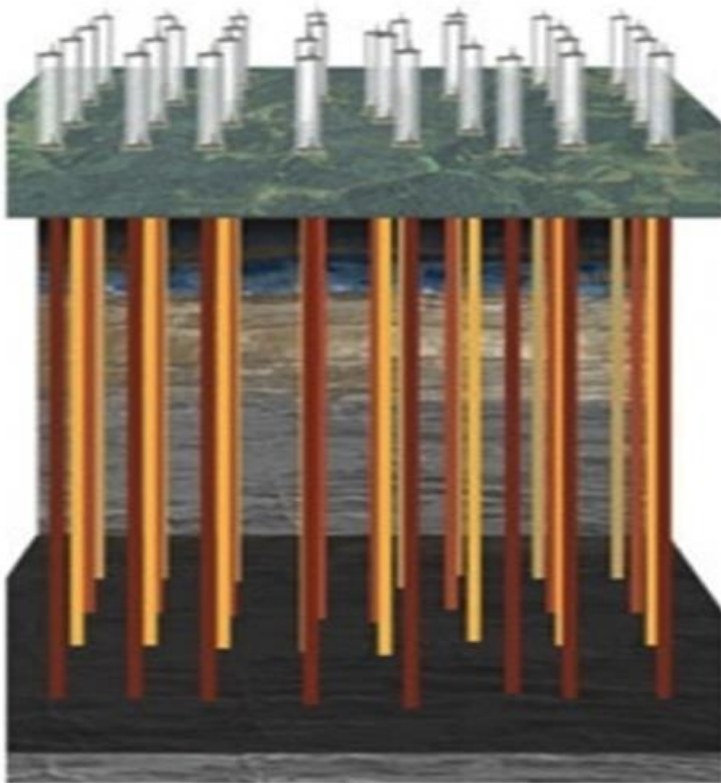
PJVA/CAPL

WELL PAD SHARING AGREEMENT

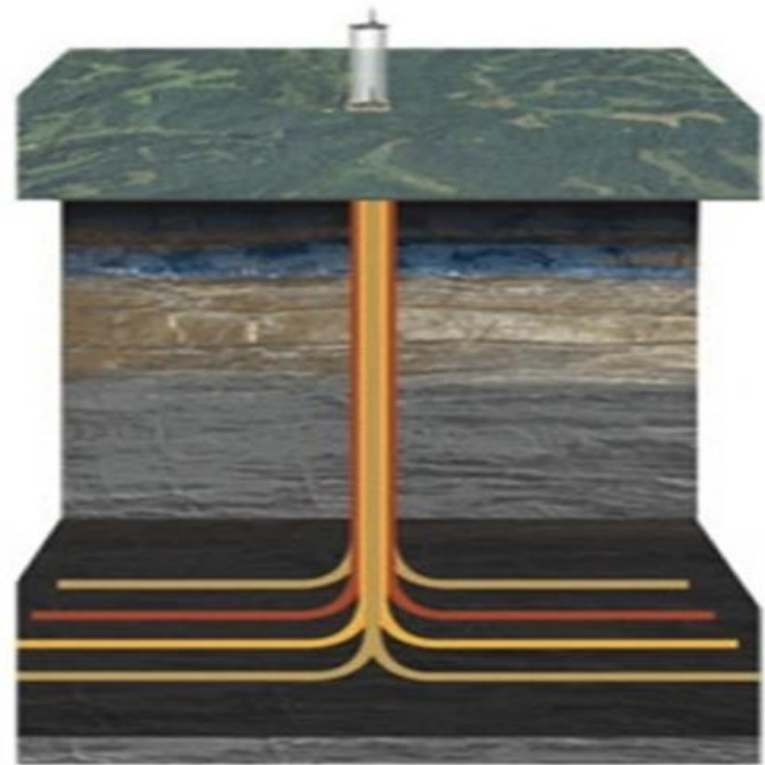
Michael Bruch and Lorraine Grant
GPAC/PJVA Joint Conference
Oct. 29, 2015



Pad Drilling Benefits

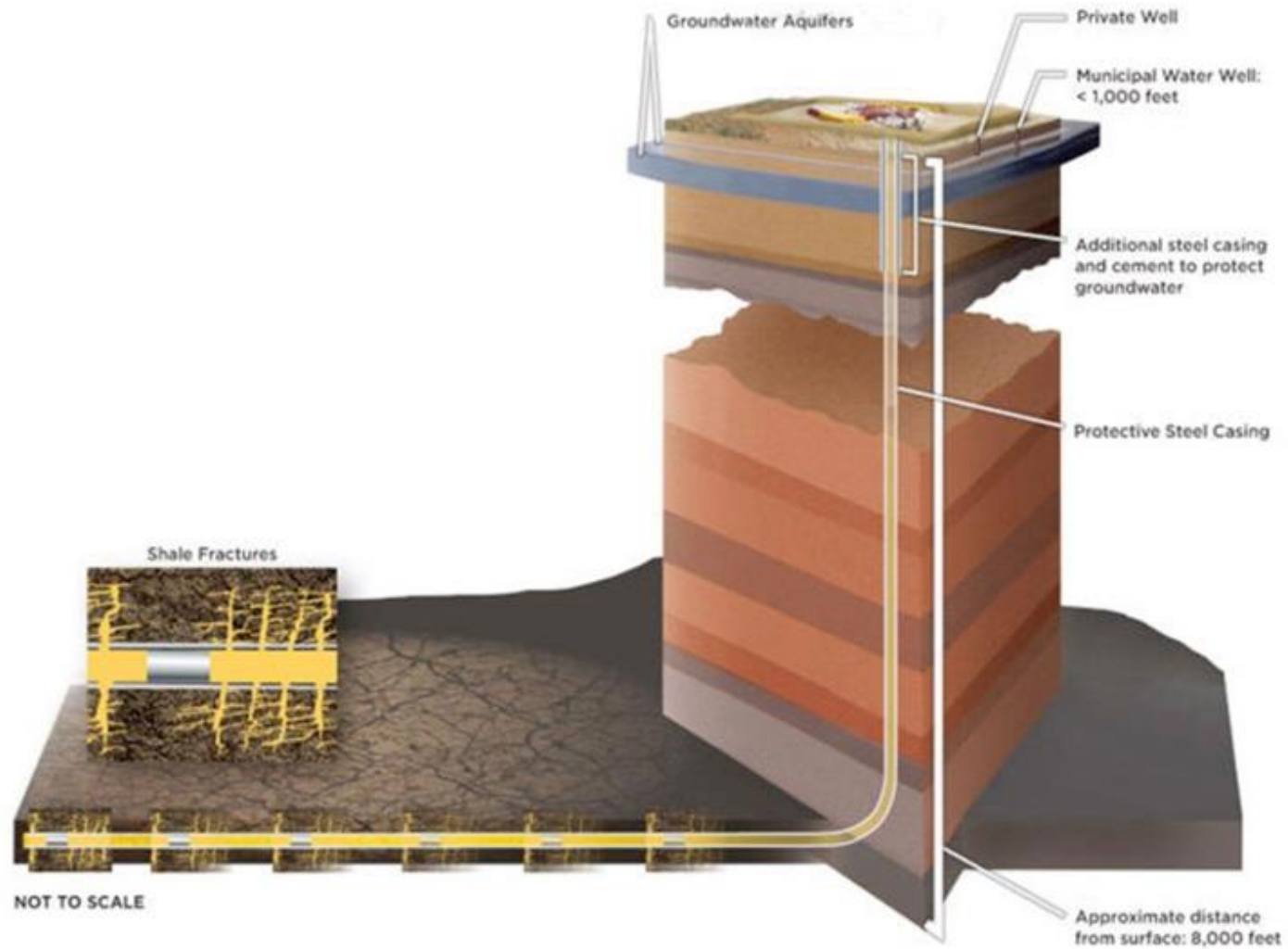


**Traditional Vertical Well Spacing:
32 Separate Padsites Needed For 32 Wells.**



**Idealized Horizontal Well Spacing:
1 Padsite Yields Up To 32 Wells.**

Horizontal Well



Walking Drilling Rig on Pad



Horizontal Well Frac Spread

Hydraulic Fracturing

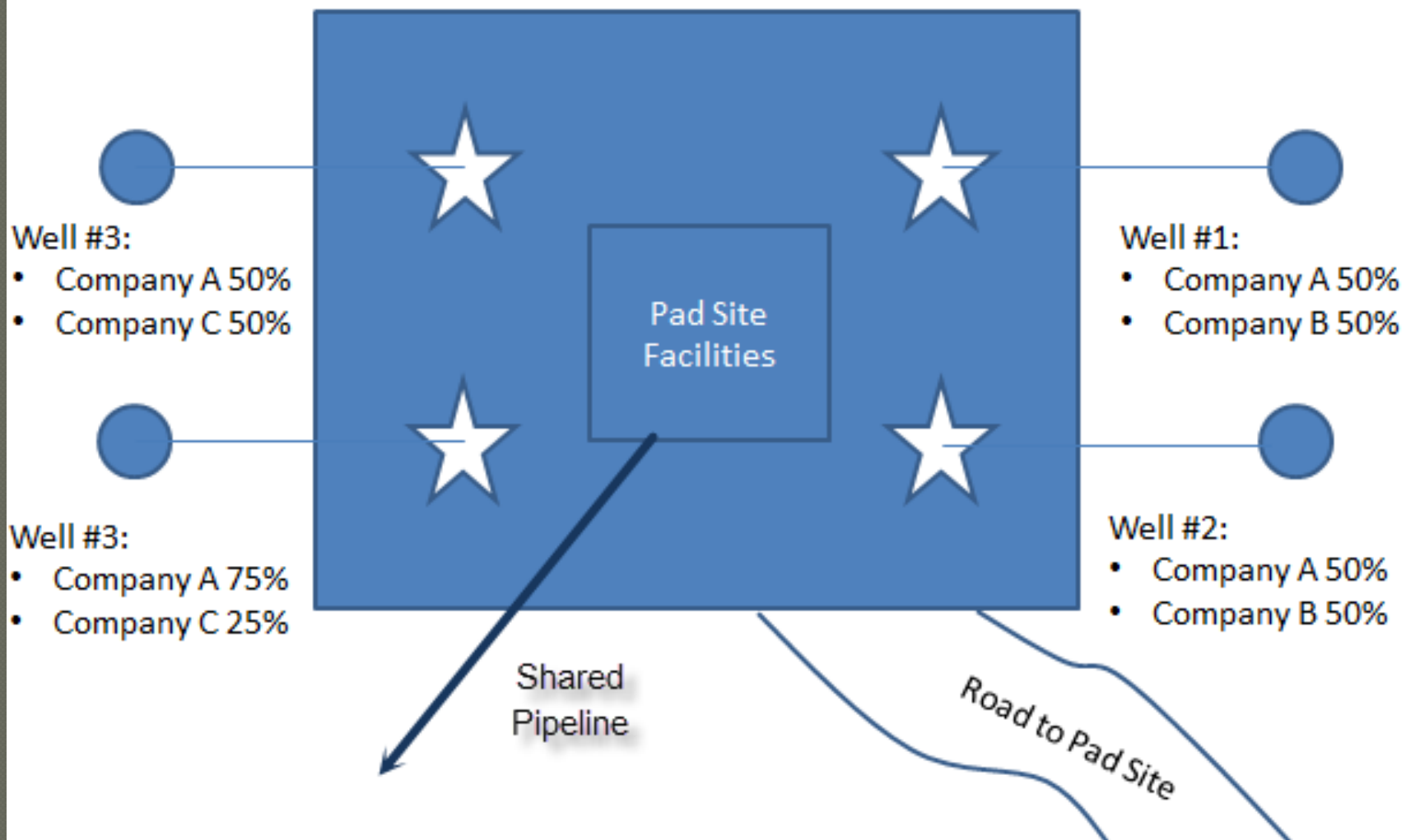


Courtesy of the Michigan Department of Environmental Quality.

Producing Well Pad



Pad Site Operated by Company A



Well Pad Sharing Agreement

What is it?

- A new PJVA-CAPL model agreement to manage the relationship of Well Pad owners when a Pad serves different interest sets.
 - Balances needs of Pad Operator with the needs of the mineral land Operator and Joint Operators;
 - Balances needs of large and small companies; and
 - Offers the parties the flexibility to customize for their own particular needs.

Why is this document important?

- Industry is drilling increasingly from shared well Pads where wells and shared facilities are not held in common interests. Suitable agreements to govern these Pads are typically not prepared.
- An industry standard agreement will:
 - i. reduce cycle time and effort
 - ii. bring clarity to the issues of liabilities, Operatorship, and conduct of Pad site operations
 - iii. focus negotiations on substantive business terms
 - iv. stream-line administrative processes.

What started this project?

- An industry focus group in 2014 determined that many companies were facing similar issues and challenges with shared Well Pads.
- PJVA and CAPL boards approved a joint task force project in 2014 with PJVA as the owner.

Who is involved?

- **Representatives of major stakeholders (PJVA, CAPL, CAPLA, Legal, PASC) on the task force to increase alignment and awareness.**
- **Task Force Members are:**
 - PJVA – Keith Brereton (Brereton & Assoc.), Michael Bruch (Chairman/ConocoPhillips), Jonathan Cassetta (Cenovus), Steffany Colvinns (Vermilion), Rein Evelein (Jupiter), Lorraine Grant (ConocoPhillips), Amy Oliverio (Enerplus), Gary Shepherdson (Apache), Beth Swift-Hill (Westbrick)
 - CAPL- Jeff Brewer (Shell), Kim Hurtig (Nexen), Jim MacLean (Talisman), Susan Levy (Velvet)
 - CAPLA Liaison – Norine Miller (Ember)
 - AER Liason – Mark Taylor
 - Legal Liaisons - Richard Grant (Gowlings) and Danica Doucette-Preville (Gowlings)
 - PASC Liaison - Earl Robins
 - Surface Liaisons - Susan Gramlich (Husky), Allan Goosney (CAPL FAM project)

Target Timing

- First draft by 1st quarter, 2016
 - post on PJVA and CAPL websites for comments
- Final document by 4th quarter, 2016

Well Pad Sharing Issues

Single Operator on a Pad

- OH&S “Prime Contractor” requirements major driver
- Operator of shared padsite and facilities controls all operations on the site
- Independent operations by a joint operator should be on a separate pad
- May constrain rights of owners under mineral land agreements to conduct independent ops

Well Pad Sharing Issues

Interaction With Mineral Land Agreements

- Pad Sharing Agreement amends mineral land agreements
- Provide for Reversionary Interests (penalty payout interests)
- What about Production Facility Notices?

Well Pad Sharing Issues

Define What is Shared on a Pad

- ◉ Surface Lease
- ◉ Access Road
- ◉ Surface Facilities to be shared by Pad Wells
- ◉ Tie-in Pipeline(s)

Well Pad Sharing Issues

Determination of Shared Pad Working Interest

- Equals mineral land agreement ownership if all wells are under the same agreement
- Otherwise blended ownership based on well count/well ownership or other agreed upon method
- Important to separately track capital investment in wells versus shared facilities

Well Pad Sharing Issues

Enlargement, Termination, Abandonment

- New wells on existing pad:
 - Is expansion required?
 - Owners of new wells pay?
 - option to equalize or pay a fee?
- Impact of well abandonments on pad ownership?
- Pad and shared facility abandonment
 - Who pays? Dealing with early departure? Security? Abandonment Fee?

More Issues...

- ◉ Permitted/Non-permitted Use
- ◉ Health, Safety and Environment
- ◉ Insurance, Liability and Indemnification, Default and Remedies, Confidentiality
- ◉ Forecast of Operations, Expenditure Limitations
- ◉ Transfer of Ownership Interest

Well Pad Sharing Agreement Structure

- Start with an Industry recognized platform: Use PJVA Model CO&O Agreement
- Incorporate interactions with Mineral Land agreements that govern wells on the Pad
- Add/modify clauses to address unique business requirements for pad sharing
- Streamline to be fit for purpose and easy to implement
- Incorporate by reference the PASC Distribution of Shared Pad Cost Accounting Guideline (currently in Draft)

Fit For Purpose Agreement

- 80/20 Rule: Simple, easy to use model agreement suitable for 80%+ of the pads we develop
- Use PJVA CO&O agreement for pads requiring more complicated sharing of capital and operating costs

Related Regulatory & Industry Developments

- Emerging AER Play Development Plan requirements
- Changing environmental, permitting and stakeholder engagement requirements
- Coordinate with current PJVA CO&O, Draft 2015 CAPL Operating Procedure and Draft PASC Well Pad Cost Sharing update projects

PJVA/CAPL Well Pad Sharing Agreement

