Property and Tax Issues Relating to Horizontal Wells

November 20, 2015

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Agenda

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Why now?

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Unit of property

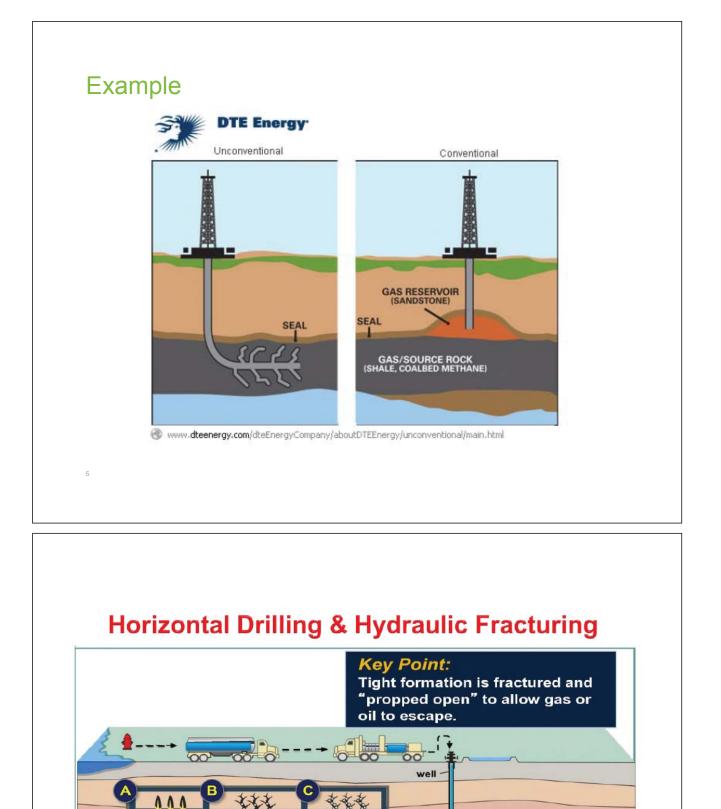
Oil and Gas Reserves included in the Depletion Computation

Why now?

Background

Horizontal Drilling

- History:
 - The past decade has seen an unprecedented boom in horizontal drilling in Texas and elsewhere as refinement of drilling and completion techniques has enabled the tapping of massive, previously uneconomic reserves trapped in shale.
 - Allows previously unproducible shale rock (a "tight" geologic formation) to be produced efficiently.
 - -Now must adapt traditional legal and regulatory concepts for vertical wells to horizontal wells.
- Horizontal well penetrates producing formation in a horizontal, as opposed to vertical, line. This allows increased exposure to the formation for, potentially, thousands of feet. Extended contact increases production.
- Operators are able to "turn" the drill bit to achieve horizontal trajectory.



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Propped

fractures

produce

natural gas.

Water, sand, and

fractures.

chemicals injected to open & "prop"

VVV

Horizontal

casing perforated.

6

Fracture pattern in shale

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First appeared as part of the conference materials for the 13^{th} Biennial Parker C. Fielder Oil and Gas Tax Conference session "Property and Tax Issues in Fracking"