Property and Tax Issues Relating to Horizontal Wells

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Agenda

Why now?

Unit of property

Oil and Gas Reserves included in the Depletion Computation

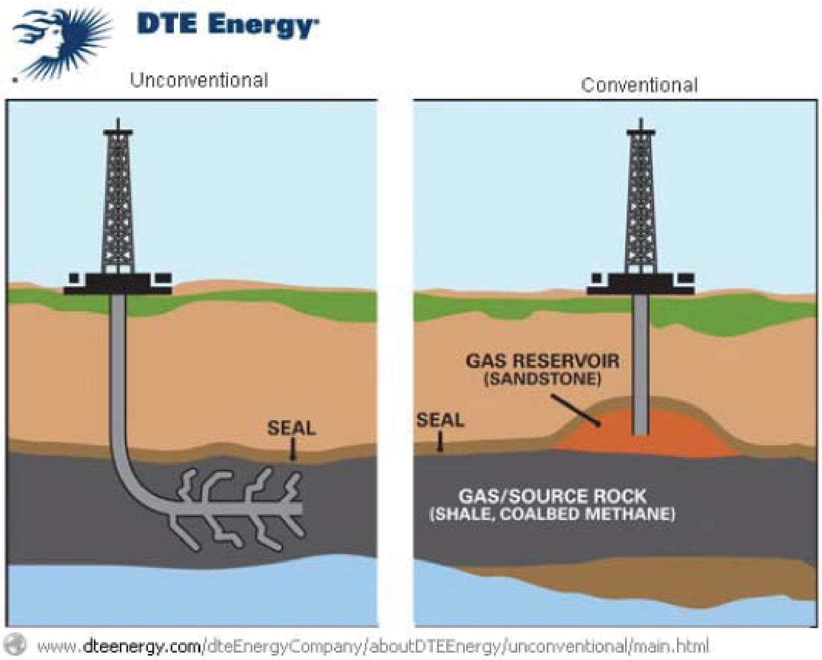
Why now?

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.

Example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Unconventional
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SEAL
GAS RESERVOIR (SANDSTONE)
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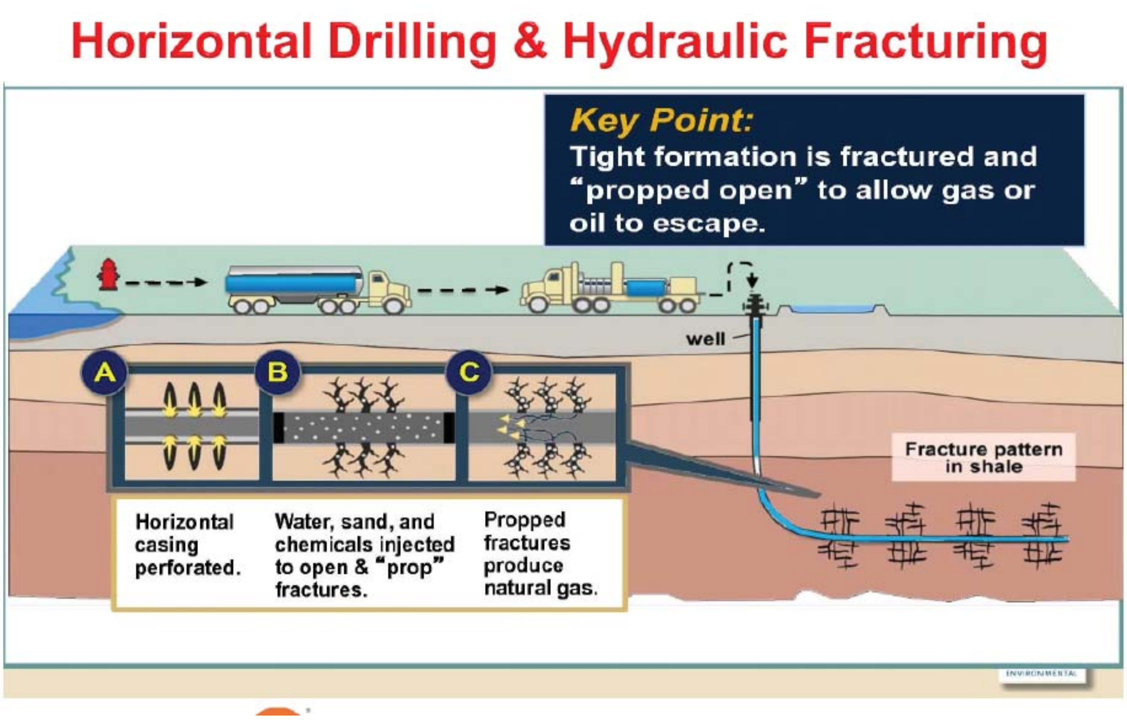
Horizontal Drilling & Hydraulic Fracturing
Key Point:
Tight formation is fractured and "propped open" to allow gas or oil to escape.
well
A
B
C
Fracture pattern in shale
Horizontal casing perforated.
Water, sand, and chemicals injected to open & "prop" fractures.
Propped fractures produce natural gas.

Title search: Property and Tax Issues Relating to Horizontal Wells

Also available as part of the eCourse
[Domestic Tax Issues for Oil & Gas]()

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