

POOLING AND UNITIZATION: A PRIMER

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TO POOL OR NOT

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- A decision point in the drafting of each oil and gas lease is whether to include a pooling clause and, if so, what parameters to include.
- A pooling clause appears in the vast majority of Texas oil and gas leases.
- This presentation will cover purposes of pooling, issues that should be considered, and, some guidance on drafting a pooling clause that states the parties' agreed upon pooling terms.

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WHAT IS A POOLED UNIT?

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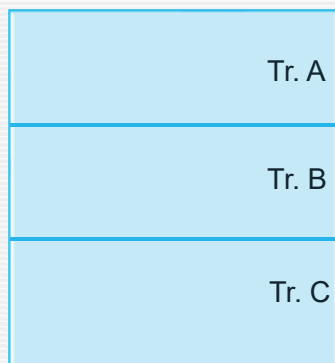
- Pooling is the joinder of separately owned leases covering different tracts of land for development as a single tract or "pool".
 - Pooling requires specific authorization by lessor by a lease or a separate agreement such as declaration of unit.
- Generally:
 - Pooled unit is treated as a single tract/lease for purposes of drilling, development and sharing of revenues.
 - Production proceeds are allocated to the separate leases based upon acreage contributed to the pooled unit (ratio)

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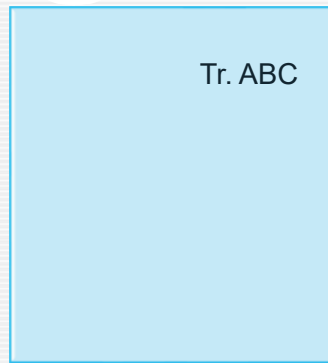
DIFFERENT TRACTS V. DIFFERENT LEASES

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Different Owners
Different Tracts
3 Leases
Pooled Unit Is Needed

v.



Different Undivided Mineral Owners
One Tract
3 Leases
No Pooled Unit Needed

A owns undivided 1/3
B owns undivided 1/3
C owns undivided 1/3

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TYPES OF UNITS

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“Unit” does not always mean “pooled unit”.

There are other types of units, including:

- Drilling Units
- Proration Units
- Force Pooled Units
- Fieldwide/Enhanced Recovery Units
- Specially Defined Units in the Lease Instruments

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WHAT IS AN ENHANCED RECOVERY UNIT?

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- Statutory: An enhanced recovery unit is formed to conduct enhanced recovery operations under the state’s unitization statute. TEX. NAT. RES. CODE ANN. Chapter 101.
- Adopted 1949: First versions of the statute covered gas cycling only. Later expanded to all enhanced methods.
- In many cases the unit will cover an entire field which gives rise to the commonly used term - “fieldwide unit” as a synonym.

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