Recommendation Proposals Compulsory Pooling Study Group

May 31, 2013

When to Compel Pooling

- Retain current law that allows for voluntary and compulsory pooling.

- **<u>Recommendation:</u>** (retain existing language)
- N.C.G.S. § 113-393. Development of lands as drilling unit by agreement or order of Commission.

  (a) Integration of Interests and Shares in Drilling Unit. – When two or more separately owned tracts of land are embraced within an established drilling unit, the owners thereof may agree validly to integrate their interests and to develop their lands as a drilling unit. Where, however, such owners have not agreed to integrate their interests, the Commission shall, for the prevention of waste or to avoid drilling of unnecessary wells, require such owners to do so and to develop their lands as a drilling unit.

Fair and Reasonable Offer

- **<u>Recommendation:</u>**
- Colorado: No order pooling an unleased nonconsenting mineral owner shall be entered by the commission. . . over protest of such owner until the commission shall have received evidence that such unleased mineral owner shall have been tendered a reasonable offer to lease upon terms no less favorable than those currently prevailing in the area at the time application for such order is made.

Minimum Voluntary Agreement

- **<u>Recommendation</u>:**

Cost Sharing

- The Study Group has already recommended the options approach for leased owners.

- **<u>Recommendation for Unleased Landowners:</u>**
- The compelled owner has the following options once a pooling order has issued:
  - Share in Costs as a Participating Owner: The oil and gas interest owner pays its share of the costs of drilling, equipping, and operating the well as the costs are incurred.
  - Surrender of Working Interest: The oil and gas interest owner surrenders its working interest in the well in exchange for reasonable consideration, which may be a combination of a bonus payment and royalty interest.
  - Risk Penalty: The oil and gas interest owner may have its portion of the costs of drilling, equipping, and operating the well carried by the other interest owners until the production stage, but will be charged a risk penalty to be determined by the Commission.

Statutory Pugh Clause

- Provides that drilling or production on leased land that is pooled will not maintain the lease as to land that is not within the unit.

- **<u>Recommendation:</u>**
- Arkansas: "The term of an oil and gas, or oil or gas, lease extended by activities on lands in one section or pooling unit, whether established by rule or by order of the Oil and Gas Commission or the lease, shall not be extended to sections or pooling units under the lease where there has been no activity."

Time Limitations in Pooling Order

- **<u>Recommendation:</u>**
- Texas: "A unit is automatically dissolved: (1) one year after its effective date if no production or drilling operations have been had on the unit; (2) six months after the completion of a dry hole on the unit; or (3) six months after cessation of production from the unit."

Special Lands

- **Recommendation:**