

Pad Site Sharing Agreement Draft 2 Update



January 18, 2017



Pad Site Sharing Agreement

- PSSA allows the sharing of liabilities and facilities amongst multiple owners on a pad drilling multiple wells
- Industry Task Force working for 2+ years
- Draft 1 of the agreement went out in April 2016 for industry comment
- Huge response with many good thoughts
- Draft 2 was released for industry comment Nov. 3, 2016

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- PSSA allows the sharing of liabilities and facilities amongst multiple owners on a pad drilling multiple wells
- Industry Task Force working for 2+ years
- Draft 1 of the agreement went out in April 2016 for industry comment
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But also:

- Industry feedback showed some confusion around the use of this agreement

PSSA – Areas of Confusion

- Confusion #1 – When do you need it?
- Confusion #2 – Single Site Operator
- Confusion #3 – Changing clauses
- Confusion #4 – Overriding land agreements
- Confusion #5 - Liability and insurance

PSSA – Confusion #1 – When Do You Need It?

So you are an operator planning to drill several wells from a pad site.
Do you need a PSSA?

- There are 3 basic types of arrangements for a pad with a single operator

PSSA – Confusion #1 – When Do You Need It?

**1 Pad Owner
With 100% WI**



STOP
You do NOT
need a PSSA

**1 Land
Agreement
with Multiple
Owners**



STOP
You do NOT
need a PSSA

**Land Agmt
handles all
Liabilities &
sharing of
Facilities**

**2 or more
Interest Sets*
with Multiple
Owners**

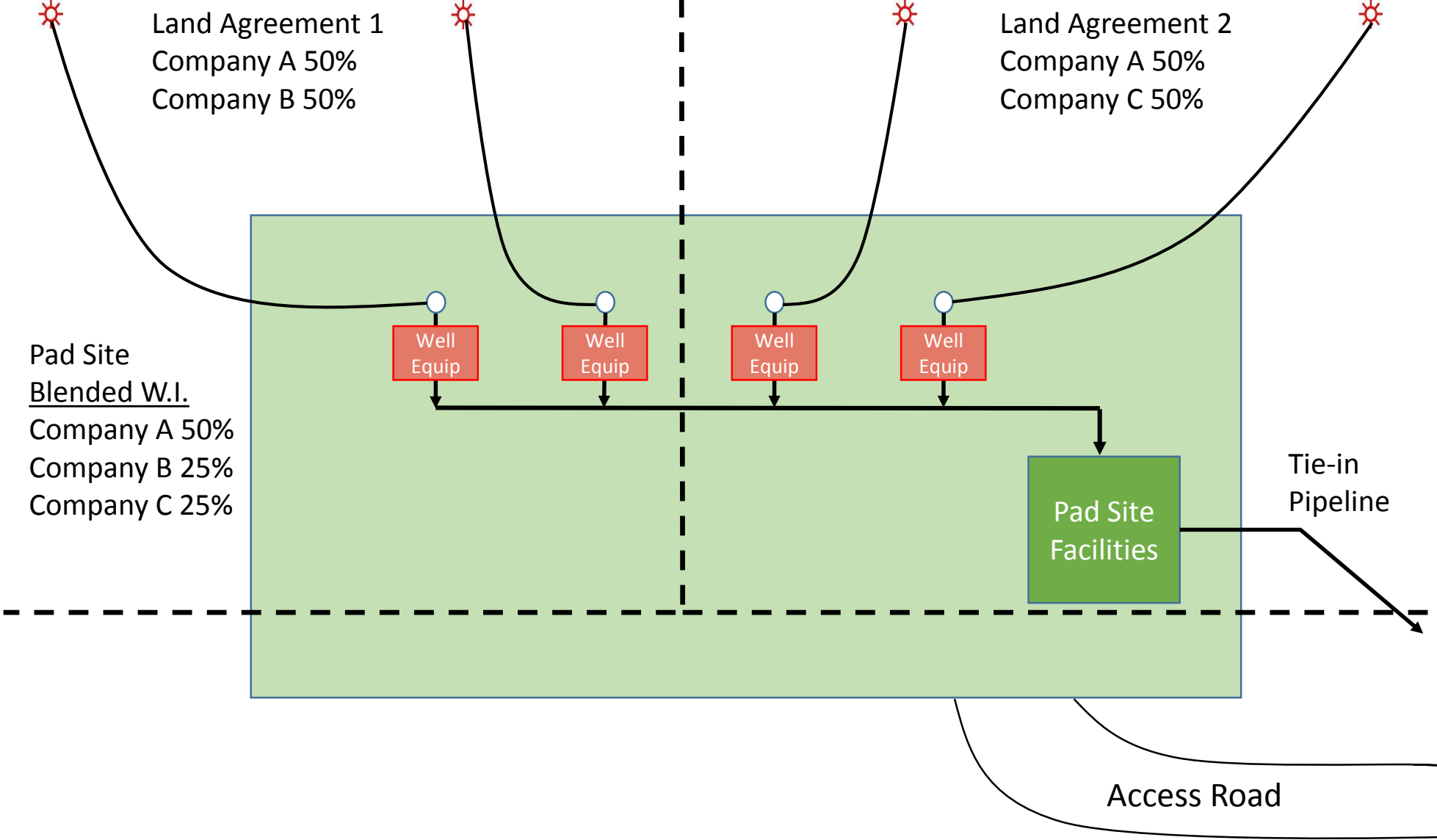


Now
You need a
PSSA

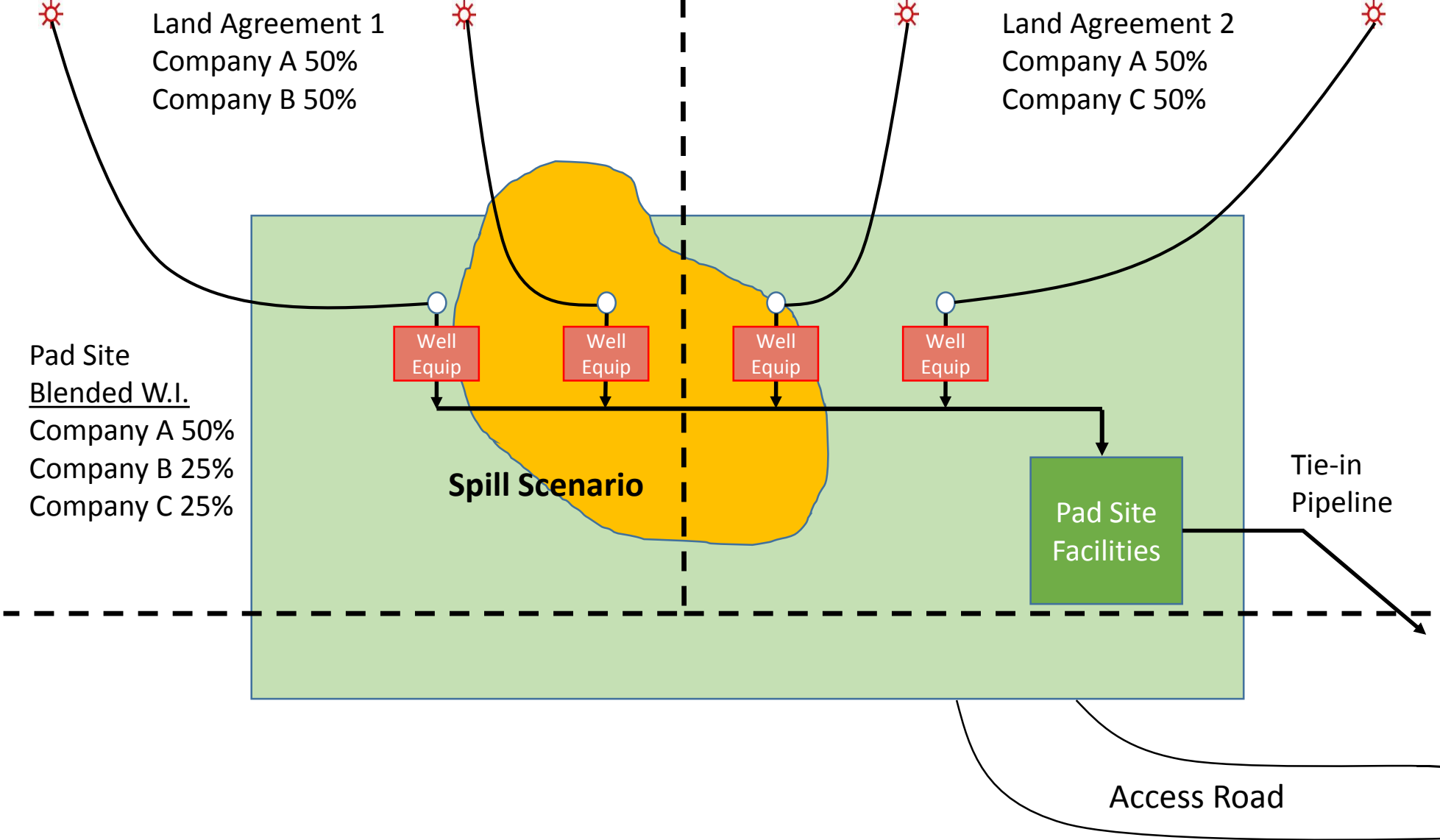
**Land Agmts do NOT
handle Liabilities &
sharing of Facilities
between Land Agmts**

* Any combination of 2 or more 100% WI and/or Land Agreements

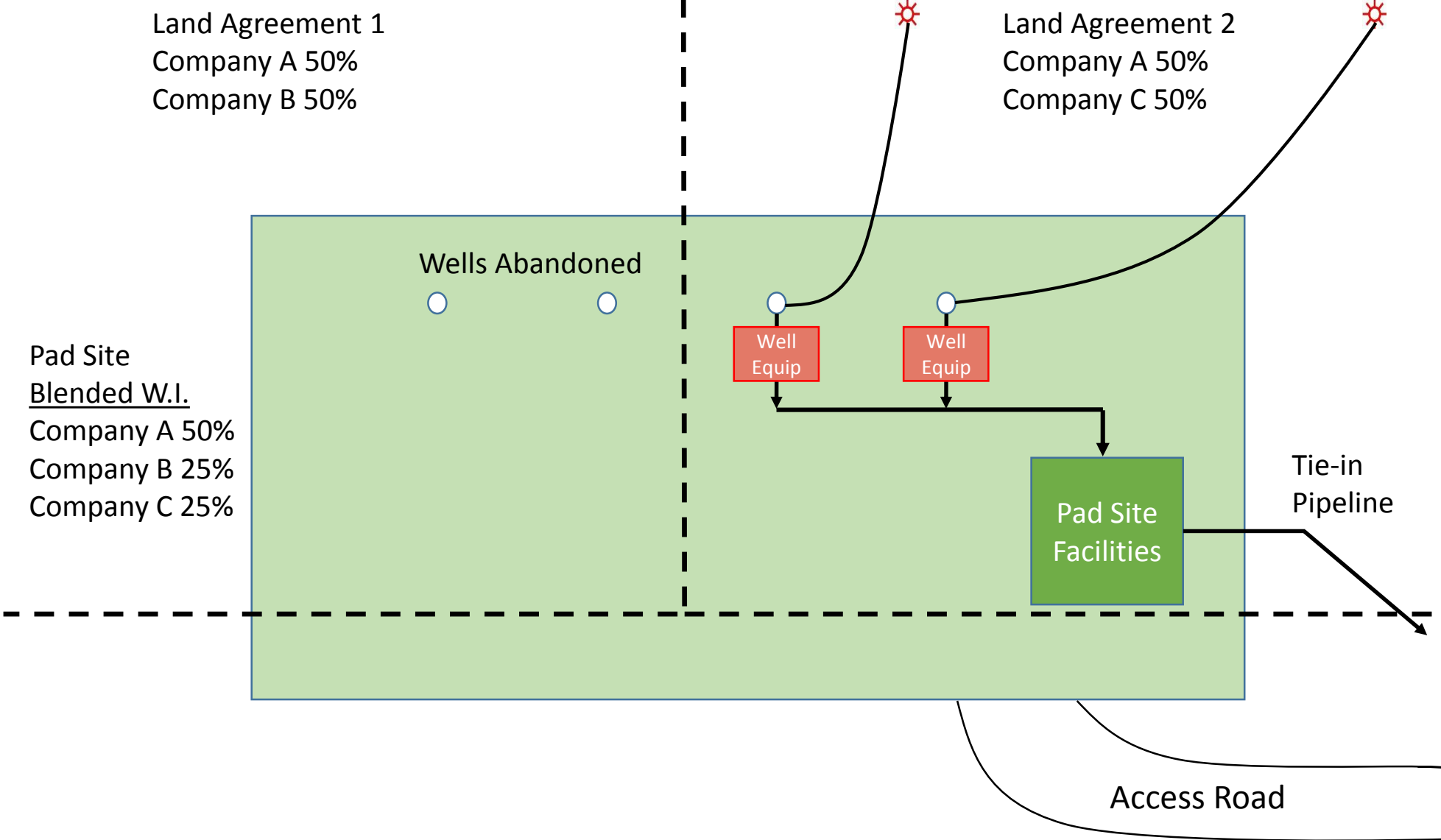
PSSA – Confusion #1 – When Do You Need It? Example



PSSA – Confusion #1 – When Do You Need It? Example



PSSA – Confusion #1 – When Do You Need It? Example



PSSA – Confusion #2 - Single Site Operator

First question: **Does a shared pad makes sense?**

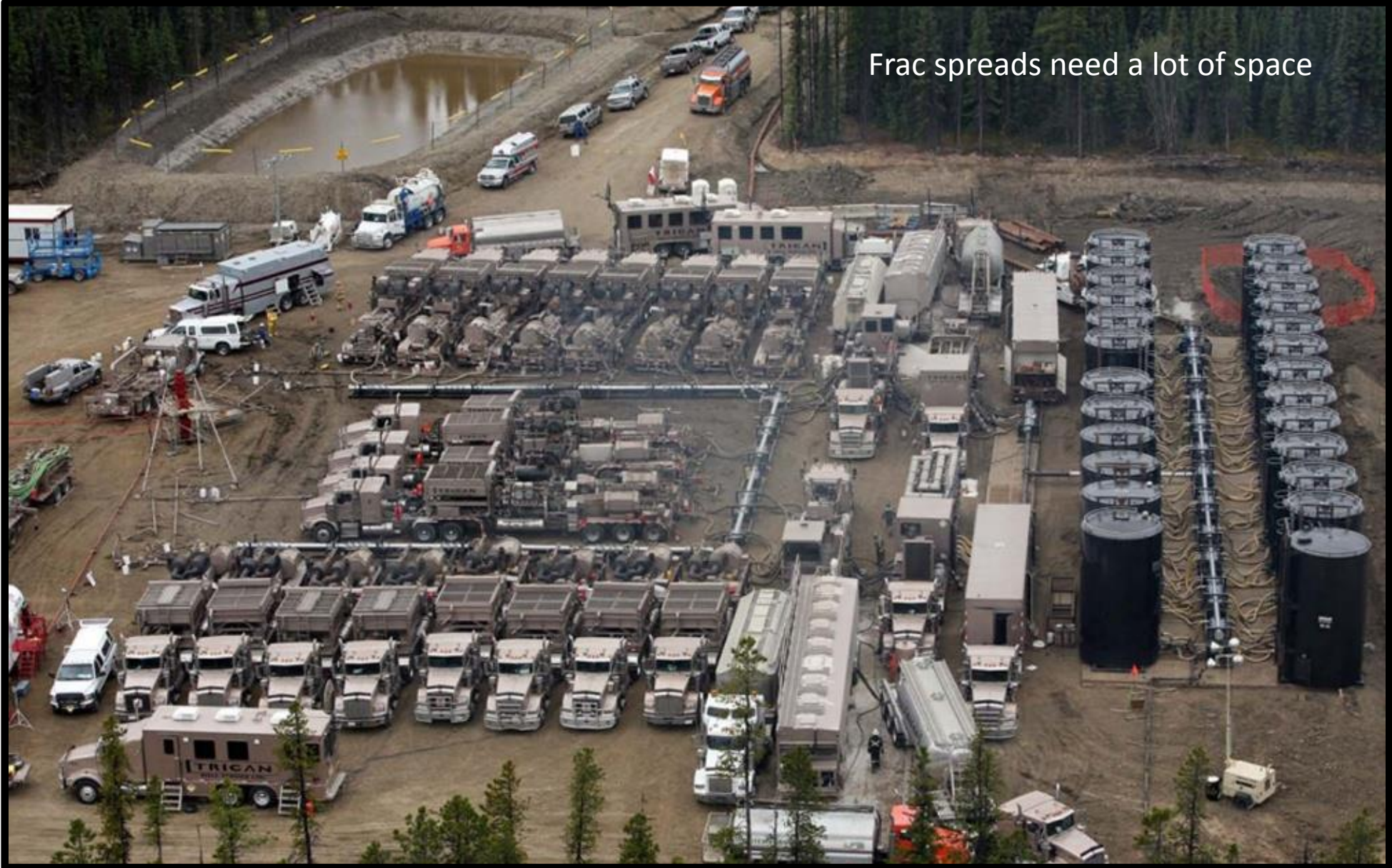
- Need to avoid situations where two parties have no natural business reason to work together, for example:
 - Two operators each experts in drilling wells in different formations
 - Neither will allow the other operator to drill their wells

PSSA – Confusion #2 - Single Site Operator

First question: **Does a shared pad makes sense?**

- Need to avoid situations where two parties have no natural business reason to work together, for example:
 - Two operators each experts in drilling wells in different formations
 - Neither will allow the other operator to drill their wells
- In these situations: **Don't Share a Pad**
 - There will be challenging operational, safety and liability issues between two operators
 - Provincial HSE regulations require a single operator to be the “Prime Contractor” responsible for a work site.

PSSA – Confusion #2 - Single Site Operator



Frac spreads need a lot of space

PSSA – Confusion #2 - Single Site Operator

Other potential problems:

- A non-operating party to a Land Agreement may wish to drill a well under an Independent Operations Notice (ION)
 - The pad site operator could drill the well, or
 - The non-operating party could acquire its own surface lease and drill from its own operated pad
- A lack of surface land availability might force multiple operators to share the same space. Instead of trying to share one lease, they might acquire adjacent surface leases and have a joint use agreement to share space

PSSA – Confusion #2 - Single Site Operator

- Sharing a pad site makes sense when wells are drilled and facilities constructed by a single operator
- The Task Force has found that most existing pads are planned and executed with a single operator and the PSSA is designed accordingly
- Refer to the PSSA Annotations Addendum in Draft 2 for further discussion on this subject

PSSA – Confusion #3 – Changing Clauses

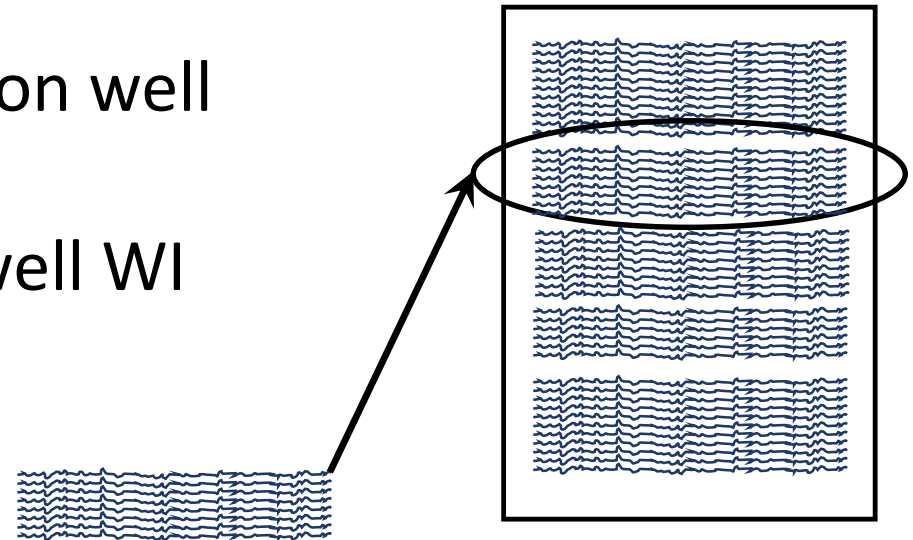
- Owners may want to change certain clauses in the PSSA
- **This can be done**
- Remember – the PSSA in its base form is an 80% solution but changes may be required in some situations
- PSSA annotations are extensive and provide guidance for dealing with unusual situations

2 or more
Interest Sets*
with Multiple
Owners

PSSA – Confusion #3 – Changing Clauses Example 1

- **Shared Facility capital cost** is usually minor compared to well costs
- PSSA default method simplifies Facility WI using well count
 - Facility WI = Number of wells x well WI
- However, Facility WI could be based on well productivity
 - Facility WI = well test flowrate x well WI
- Simply change that clause

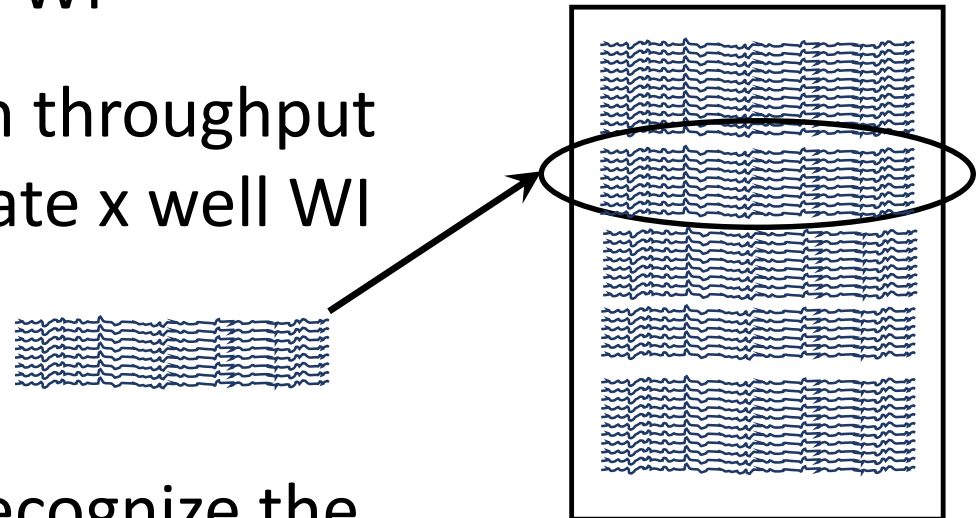
2 or more
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PSSA – Confusion #3 – Changing Clauses Example 2

- **Operating cost** of pad and facilities is usually minor
- PSSA default method simplifies Opex using well count Division of Interest (DOI)
 - $DOI = \text{Number of wells} \times \text{well WI}$
- However, DOI could be based on throughput
 - $\text{Throughput DOI} = \text{well flowrate} \times \text{well WI}$
 - Annual equalization
 - Burdensome if many pads
- Simply change that clause but recognize the consequences of doing so

2 or more
Interest Sets*
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Owners



PSSA – Confusion #4 – Overriding Land Agreements

Why should a PSSA override the Land Agreements?

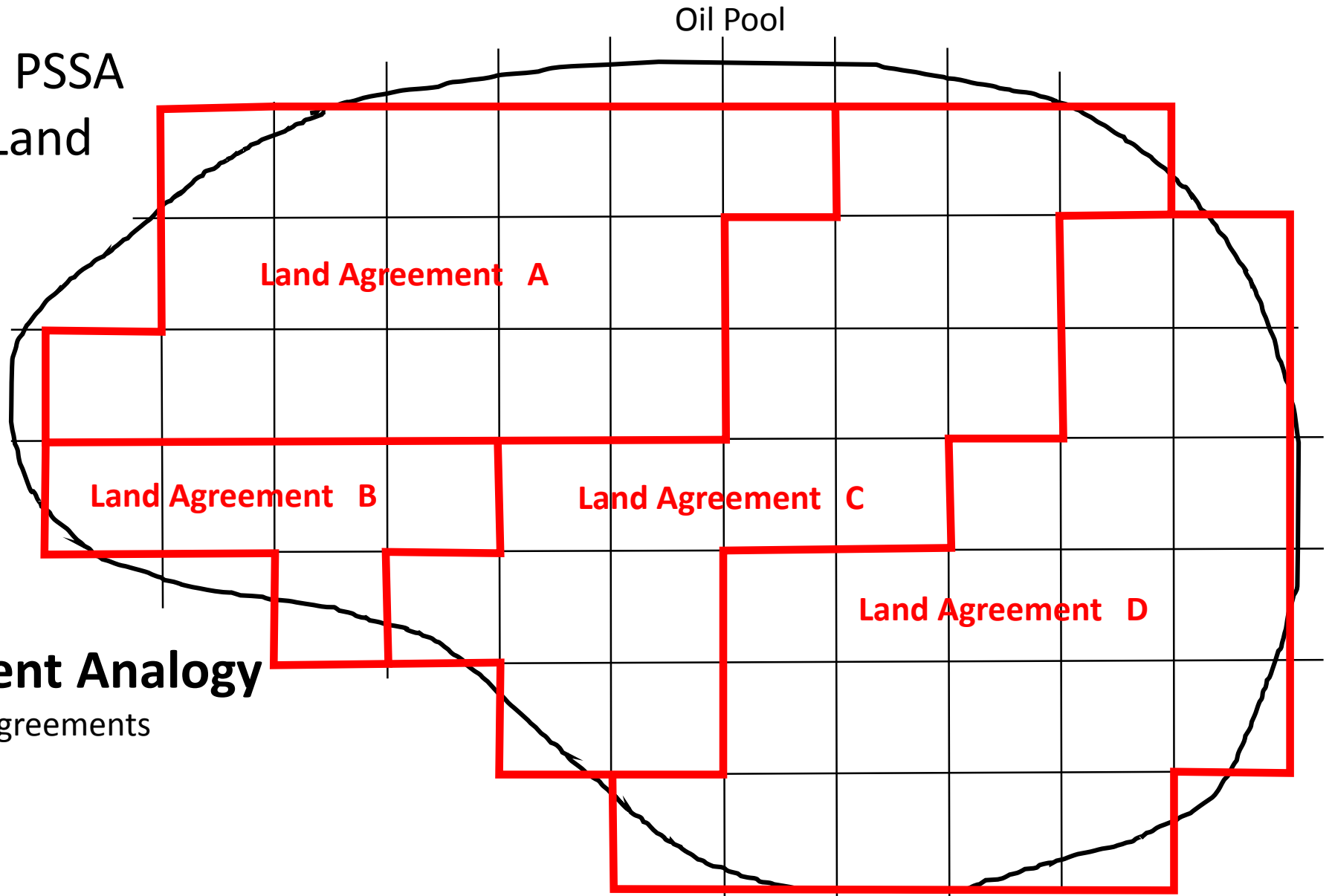
The PSSA places constraints on the Land Agreements only to the extent necessary to:

- Address liability and indemnity issues across the agreements
- Comply with site operator/prime contractor requirements
- Govern shared assets e.g. blended WI, cost equalizations, expansion

**2 or more
Interest Sets*
with Multiple
Owners**

PSSA – Confusion #4 – Overriding Land Agreements

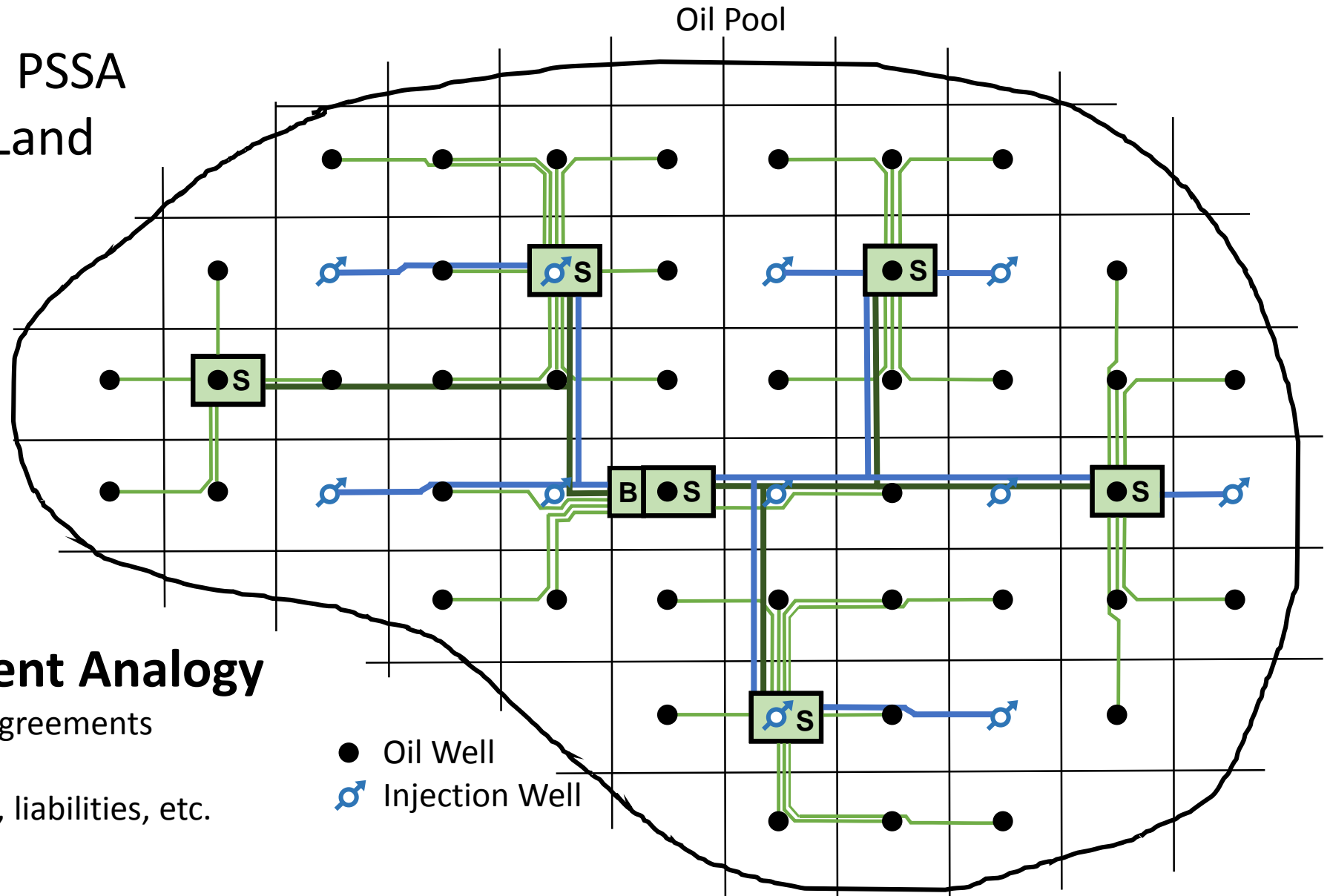
- Why should a PSSA override the Land Agreements?



- **Unit Agreement Analogy**
 - Multiple Land Agreements
 - Single Operator

PSSA – Confusion #4 – Overriding Land Agreements

- Why should a PSSA override the Land Agreements?



- **Unit Agreement Analogy**
 - Multiple Land Agreements
 - Single Operator
 - Shared facilities, liabilities, etc.
 - Blended WI

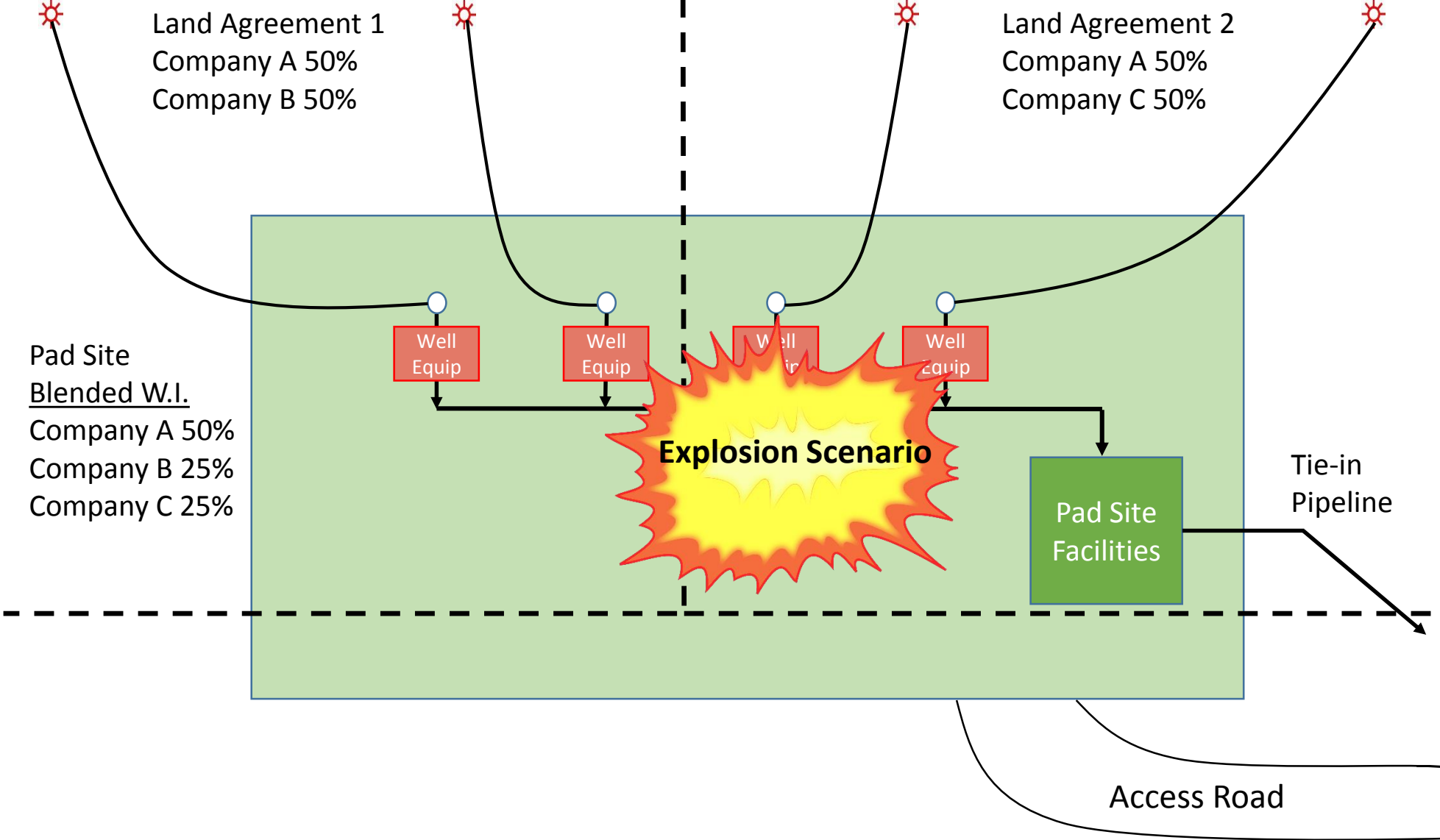
PSSA – Confusion #5 – Liability and Insurance

Why does the PSSA need to deal with liability and insurance requirements?

- A Land Agreement does not adequately address liability between sets of Owners with two or more agreements that are sharing surface land and equipment.
- For example, what if an incident involving a well under one agreement causes damage to wells under a different agreement, and/or to the shared pad lease and equipment?

**2 or more
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Owners**

PSSA – Confusion #5 – Liability and Insurance



Questions?

Pad Site Accounting

- PASC has developed a draft “Accounting for Shared Pad Site Costs” Accounting Guideline (AG-19)
- PASC and the PSSA Task Force are working together to ensure these documents are complementary
- There were many comments on the Draft 1 PSSA related to accounting many of which are or will be addressed in AG-19
- Lynda MacNeill is a member of the AG-19 committee and will speak to accounting issues in the PSSA and AG-19.

Doing Nothing Is Not An Option

- Number of shared well pads without agreements is growing
- Absence of agreements introduces risk
 - No contractual obligations re indemnity & liability
 - No rules for ongoing management of Facility
 - Uncertain status of Non-Operators and use of shared pad
 - Application of normal negligence test to Operator
- Doing nothing is not actually doing nothing

It's a voluntary choice to assume risk

How You Can Help

Comment in a way in which resources are used most efficiently

- Provide a single coordinated response from a company, vs individual responses or separate, potentially inconsistent JV and Land responses.
- The most helpful comments identify the concern, why it is a concern and how it might be fixed
- Avoid drafting preference comments that say the same thing in a different way

How You Can Help

Encourage your company to 'lab test' the document to see how it works

- Complete the Appendices for some real pads in your company
- Velvet did this for 3 pads with positive results
- Velvet learnings:
 - PSSA was easy to use for the pads tested
 - Highlighted the need for communications amongst all departments
 - Facilitated applications to AER for multi-well pad identifiers
 - Multi-well pad identifiers enable reduction in LMR/LLR levies

How You Can Help

- PSSA Draft 2 is now available at the CAPL and PJVA web sites at:
<http://landman.ca/resources/industry-news/> and
<https://pjva.ca/index.php?page=agreements/index.php>
- Posted at the web sites:
 - Draft 2 clean copy
 - Draft 2 red-line to Draft 1
 - Draft 1 matrix of comments & responses, company names removed
 - Copy of Nov. 2, 2016 PJVA slide presentation
 - Copy of April 2016 slide presentation with Article by Article discussion
- PASC AG-19 is available for review and comment on the PASC website
- Comments on PSSA Draft 2 and PASC AG-19 are due by Friday Feb. 10, 2017

PSSA Task Force

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Rein Evelein, Jupiter (PJVA)
Veronique Giry (AER)
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Thank You!

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