

NDFO Federal Communitization Agreement (CA) Training

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BLM MT/Dakotas CA webpage

http://www.blm.gov/mt/st/en/prog/energy/oil_and_gas/reservoir_management/communitization.html



Objectives

- Review pertinent areas of the CA Handbook 3160-9
- Provide Do's and Don'ts of completing a CA



Federal CA Motto

KEEP IT SIMPLE!



Communitization Agreement Defined

- Communitization Agreement (CA) is an agreement between the Federal government and another party (usually the operator of the well) of a designated spacing unit determined by the State Oil and Gas Board which a Federal lease cannot be independently developed and operated in conformity with an established spacing pattern.
- The purpose of a CA is to protect the Federal mineral interest within the spacing unit and to provide a mechanism to ensure the proper Federal royalties are paid.



When to File a Communitization Agreement

- A CA must be filed based on the spacing unit as approved by the proper State oil and gas board when the spacing unit:
 - Contains a Federal lease or unleased Federal minerals
 - Contains (overlaps) a portion of a previously approved Federal CA (even if there are no Federal leases in the CA boundary.)
 - Is for a different formation



When a Communitization Agreement is NOT required

- CA covers 100% Federal minerals in only one lease
- 2nd or 3rd well in the same formation and spacing area has an approved CA (with approved spacing order increasing the well density)
- Duplicate CA covering the same area and formation as an approved CA



Requirements for Submittal of Communitization Agreement

- Submit at least 2 originally signed copies of the completed CA to be approved.
 - CA Handbook states 4 copies but due to computers and other technical resources only 2 copies are needed.

FOR NORTH DAKOTA AND SOUTH DAKOTA FEDERAL CAs ONLY!

- Only the operator signature is required if there is an approved spacing and pooling order on the lands.



Processing of the Communitization Agreements

- All CAs are processed in a date received order (starting with the oldest and processing through to the newest). This maintains fairness to all operators and maintains an order of processing for overlapping CAs.



Required Sections in a Communitization Agreement

- CA contract
- Exhibit A
- Exhibit B
- Recapitulation Table



KEEP IT SIMPLE!



Communitization Agreement Contract

- **Use Standard Federal Contract**
- **Do not** change any language in the contract except for the following areas:
 - Section I: CA land description
 - Section I: total acreage of CA
 - Section I: Field and pool name
 - Section I: type of communitized substance
 - Section I0: Effective date of the agreement



Communitization Agreement Contract

- **Section I: CA Legal Description**
 - Township and Range
 - Sections within the spacing unit
 - The legal description can indicate ALL if the spacing unit covers all of the lands in a section even though there may be lots or rivers involved.
 - County, State



Communitization Agreement Contract

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as “communitized area”) are described as follows:

Township 158 North, Range 94 West

Section: 1 All

Section: 12 All

Mountrail County, North Dakota

- If lots are in the legal description for the CA, do not enter in the acreage of the lots as part of the description. Everything additional added is something additional that needs to be reviewed for accuracy.



Communitization Agreement Contract

- **Section I: Acreage**
 - Total acreage of all lands contained within the CA boundary
 - The total acreage is based on the **official Federal oil and gas plat**



Communitization Agreement Contract

- **Section I: Field and Pool Name**

- The field and pool name from the spacing order should be entered in the contract.
- Only the pool the well is producing from must be entered in the space provided. Pools cannot be modified unless it has been authorized by appropriate State oil and gas board.
- For example: East Tioga – Bakken (correct)
- Bakken/Three Forks (incorrect)



Communitization Agreement Contract

- **Section I: Field and Pool Definition Discontinued**
 - Field-pool definition was included in previous versions of the approved contracts
 - This practice has been discontinued because NDIC is changing the field-pool definitions as information becomes available



Communitization Agreement Contract

- **Section I: Communitized Substance**
 - **For oil wells:** crude oil and associated natural gas must be used in this section (in the pdf contract on our website this choice is already inserted)
 - For gas wells: natural gas and associated liquid hydrocarbons



Communitization Agreement Contract

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as “communitized area”) are described as follows:

Township 158 North, Range 94 West

Section: 1 All

Section: 12 All

Mountrail County, North Dakota

Containing **1280.00** acres and this agreement shall include only the **East Tioga -Bakken** Pool underlying said lands and the **crude oil and associated natural gas** hereinafter referred to as “communitized substances”, producible from such pool.



Communitization Agreement Contract

- **Section 10: Effective date of Agreement**
 - The date of the agreement must **ALWAYS** be **on** or **before** the date the well went into production
 - Non-producing wells – select a date that would be relatively close to the date of production or the spud date.
 - **REMEMBER**, the CA is only valid for a maximum of 2 years from the date selected in Section 10 unless the CA goes into production; therefore, you will want to give yourself the most time possible.



Communitization Agreement Contract - Overlapping

- **Overlapping CAs**

- There is a separate contract to use for those CAs that overlap an existing CA.
- The contract adds in additional language in Section I for density of wells within the spacing unit and the description of the existing CA.
- The allocation for the existing CA will be remain in effect.



Communitization Agreement Contract - Overlapping

- **Section I: Overlapping CAs input**
 - Must provide the Spacing Order and Pooling Order Number
 - The Township/Range/Sections and lands involved in the existing CA
 - Field name and pool for the existing CA
 - Existing Federal CA serial number



Communitization Agreement Contract - Overlapping

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

T. 153 N, R. 91 W, 5th PM, ND

Section 3: S/2

Section 4: S/2

Section 9: N/2

Section 10: N/2

Mountrail County, North Dakota

containing 1280.00 acres. This agreement is in conformance with the North Dakota Industrial Commission's Spacing Order No. 20476 and Pooling Order No. 14383. This agreement shall include only the Sanish - Bakken pool underlying said lands and the crude oil and associated natural gas, hereinafter, referred to as "communitized substances," producible from such pool. In the event the North Dakota Industrial Commission makes any further order amending Spacing Order No. 20476 and Pooling Order No. 14383, or authorizing increased density Bakken Formation wells within the boundary of this agreement, this agreement and the allocation of production provided herein, shall apply to all such increased density wells.

All of Section 9 and All of Section 10, Township 153 North, Range 91 West, are communitized as to crude oil and associated natural gas producible from the Bakken Formation via CA NDM 98883. Any production from this CA will be allocated and shared on the basis currently in effect (communitized basis) and not on the basis that is established under this agreement.



Communitization Agreement Contract

- **Operator Signature**

- An authorized representative for the operator of the well must originally sign and date the final page of the CA contract
- The name of the operator of the well on the final page of the contract must **MATCH** the appropriate State Oil and Gas Board and AFMSS records
- The operator signature **must** be notarized



Communitization Agreement

Exhibit A

- Plat (map) of the CA boundary, the mineral status of lands contained within this boundary, different tracts the lands have been segregated into and the well location
- **MUST USE THE OFFICIAL FEDERAL OIL AND GAS PLAT FOR THE EXHIBIT A!**



Communitization Agreement

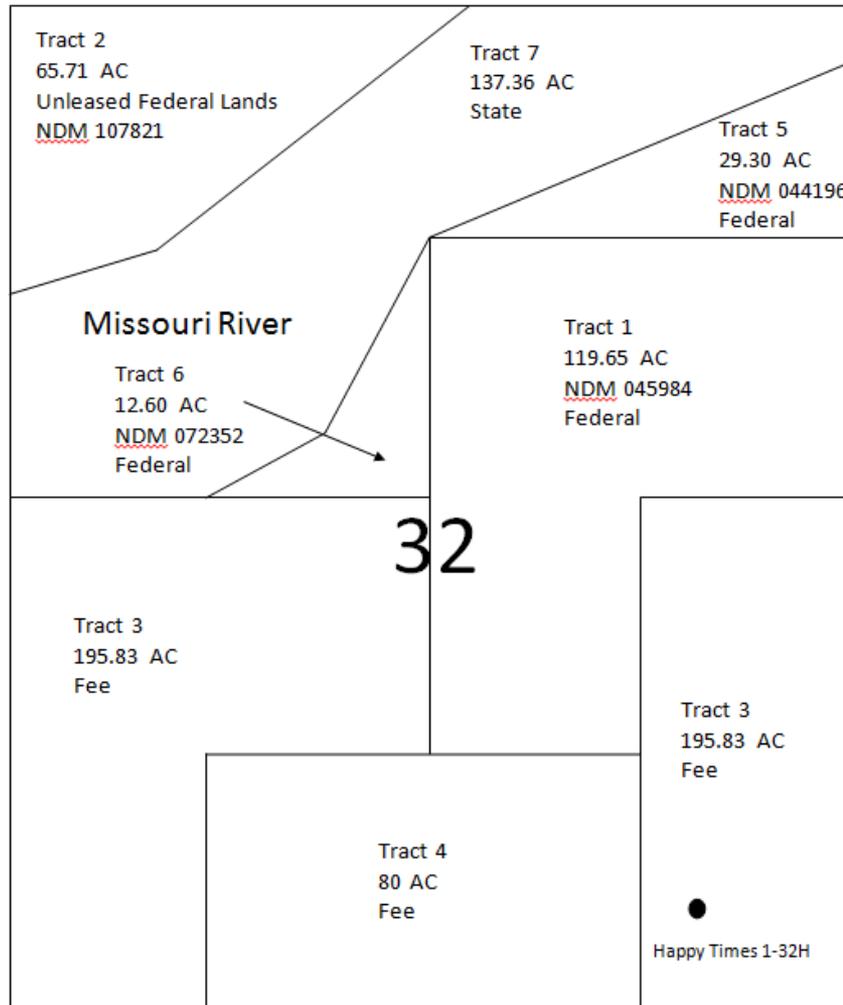
Exhibit A

- Everything in Exhibit A and Exhibit B are based on Tract descriptions, NOT lease descriptions.
 - If a lease description falls within the designated tract, then that lease will be described using the tract description.
 - If a fee lease falls within two separate designated tracts, then the lease will have to be stated in each tract and the descriptions will be based on the tract descriptions.



Exhibit A Example

EXHIBIT A
T. 154 N., R. 95 W., 5TH PM
SEC. 32 LOTS 1-8, SENE, S2SW, SE (ALL)
MCKENZIE & WILLIAMS COUNTY



Communitization Agreement

Exhibit A

- All bodies of water must match the official Federal acreage.
- If a river is involved in the approved spacing unit, you must the river location on our official Federal oil and gas plats.



Communitization Agreement

Exhibit A

- Unleased Federal land – must not be drilled into until leased and an APD has been submitted!
- BLM creates an Unleased Lands Account (ULA) to receive the production royalties from an approved CA.
- An ULA will be created once the CA has been submitted. The ULA serial number will be added to the CA Exhibits during adjudication.



Communitization Agreement

Exhibit A

- Header: CA legal description, Field-Pool name, County and State
- Plat of the lands within the CA boundary (**Must use the official Federal oil and gas plat**)
- Tract Number
- Tract type (Federal, State, Fee)
- Federal lease serial number
- Total acreage in tract
- Well name and well location



KEEP IT SIMPLE!



Communitization Agreement

Exhibit A

- Federal leases **cannot** be split into two different tracts if they are the same lease
- Federal leases **cannot** be split into Parts A and B because of less than 100% mineral ownership.
 - A less than 100% Federal mineral ownership tract must be designated as a Federal tract.



Communitization Agreement

Exhibit A

- Each Federal lease must have its own tract
- If a tract is Federal and Fee, it is considered Federal
- If a tract is State and Fee, it is considered State
- It is preferable not to have a lot of small tracts. The more complicated the tracts, the more review required. Keep your tracts as simple as possible



KEEP IT SIMPLE!



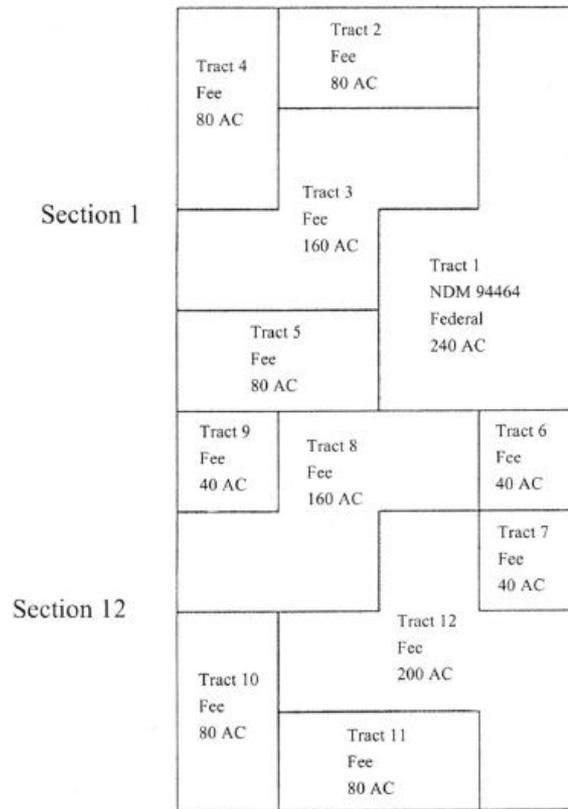
Communitization Agreement

Exhibit A

EXHIBIT "A"

Plat of communitized area covering T158 N, R 94 W; Sec. 1: All and Sec. 12: All, East Tioga - Bakken pool,
Mountrail County, North Dakota

T 158 N - R 94 W



East Tioga 1-12H



Communitization Agreement

Exhibit A - Overlapping

- The lands in the overlapping existing Federal CA are notated as one tract
- The rest of the lands are segregated into tracts just like a standard Exhibit A



Communitization Agreement

Exhibit A - Overlapping

Tract 4 State 160 AC		Tract 1 Federal NDM 102121 CA 640 AC	
Tract 5 Federal NDM 98475 160 AC	Tract 6 Fee 80 AC 2	1	
Tract 7 Fee 320 AC			
Tract 9 Fee 320 AC	Tract 5 Federal NDM 98475 160 AC	Tract 3 Fee 480 AC	Tract 2 Federal NDM 95791 160 AC
	11		12
Tract 8 State 240 AC			

Communitization Agreement

Exhibit B

- Is a formal description of all of the tracts involved in the CA as laid out in Exhibit A.
- Each tract describes the mineral lease information for all parties and all leases involved.



Communitization Agreement

Exhibit B

- **Exhibit B Formal Format for each lease within each tract:**
 - Tract Number
 - Lease serial number
 - Lease Date
 - Lease Term
 - Lessor
 - Present Lessee
 - Description of Land Committed
 - Number of Acres
 - Royalty Rate
 - Name and Percent WI Owners



Communitization Agreement

Exhibit B

NORTH DAKOTA & SOUTH DAKOTA CAs ONLY!

- Elimination of the following fields from Exhibit B (originally required by the manual):
 - Original lessee
 - Pooling Clause (with approved pooling order)
 - Overriding Royalty Owners & Interest
 - The information was determined to add no additional value for the amount of work required by both parties in the agreement.



Communitization Agreement

Exhibit B

- Unacceptable items:
 - “Confidential” in any fields in Exhibit B
 - Self-certification of any tracts contained in Exhibit B.



Communitization Agreement

Exhibit B

- All tracts in Exhibit B must match those in Exhibit A
 - Federal leases **cannot** be split into two different tracts for the same lease.
 - Federal leases with less than 100% mineral ownership **cannot** be split into tracts A and B
 - One tract for each Federal lease
 - All leases within a tract must have the tract description (not lease description) and the gross acreage of the tract
 - Operator may include net acreage



Communitization Agreement

Exhibit B

- Header:
 - date CA approved (from Section 10 of the contract)
 - CA legal description, Field name - Pool name, County and State
- Operator Name
- Each Tract must include:
 - Tract number for each tract in Exhibit A
 - Required formatted fields for each tract must be used
 - For every lease in every tract
 - If fee leases are located in more than one tract, the lease has to be listed in each tract



KEEP IT SIMPLE!



Communitization Agreement

Exhibit B

EXHIBIT "B"

To Communitization Agreement dated February 1, 2012, embracing
Township 158 North, Range 94 West Section 1 and 12 All
East Tioga – Bakken pool
Mountrail County, North Dakota.

Operator of Communitized Area: T&M's Oil Company

DESCRIPTION OF LEASES COMMITTED

TRACT NO. 1

Lease Serial Number:	<u>NDM94464</u>	
Lease Date:	May 1, 2005	
Lease Term:	Ten (10) Years	
Lessor:	United States of America	
Present Lessees:	Petro-Hunt LLC	
Lands Committed:	<u>Township 158 North, Range 94 West, 5th P.M.</u> Section 1: Lot 1, <u>SENE</u> , SE	
Number of Acres:	240.00 acres (gross) / 120.00 acres (net)	
Royalty Rate:	12.50%	
Name and Percent WI Owner:	Petro-Hunt LLC	100.00000%
Lease Date:	November 5, 2007	
Lease Term:	Three (3) Years	
Lessor:	Tom & Karen <u>Mylastname</u> , husband and wife	
Present Lessees:	XYZ Oil and Gas Company	
Lands Committed:	<u>Township 158 North, Range 94 West, 5th P.M.</u> Section 1: Lot 1, <u>SENE</u> , SE	
Number of Acres:	240.00 acres (gross) / 80.00 acres (net)	
Royalty Rate:	16.67%	
Name and Percent WI Owner:	XYZ Oil and Gas Company	50.00000%
	Mercedes Resources, Inc.	45.00000%
	Amen Oil, Inc.	5.00000%



Communitization Agreement

Exhibit B - Overlapping

- The tract with the existing CA only includes the following (vice the formatted fields):
 - Existing Federal CA serial number of the existing CA
 - Legal description of the tract
 - Total number of acres in the tract
 - Name of the Operator of the CA
 - Exact language: All production allocated to this tract is to be further allocated in accordance with the terms of CA NDM 102121. CA NDM 102121 consists of all of Section 1, T. 150 N, R. 97 W, 5th PM, ND.

(use the Federal CA serial number and exact land description for the existing CA).



Communitization Agreement

Exhibit B - Overlapping

- Existing CA tract stands alone
- Do not reiterate all of the tracts within the existing CA in the new Exhibit B
- The rest of the tracts involved in Exhibit B are handled according to the standard procedures.



Communitization Agreement

Exhibit B – Overlapping

EXHIBIT B

To Communitization Agreement dated July 8, 2010, embracing:

Township 150 North, Range 97 West

Section: 1 All

Section: 2 All

Section: 11 All

Section 12 All

Boonie County, North Dakota

Operator of Communitized Area: Hero Inc

DESCRIPTION OF LEASES COMMITTED

Tract No. 1

Existing Communitization Agreement: NDM 102121
Description of Land Committed: Township 150 North, Range 97 West, 5th PM, ND
Section: 1 All
Number of Acres: 640.00 AC
Operator of Communitization Agreement: Villain Corporation

All production allocated to this tract is to be further allocated in accordance with the terms of CA NDM 102121. CA NDM 102121 consists of all of Section 1, T. 150 N, R. 97 W, 5th PM, ND.

Tract No. 2

Lease Serial No. NDM 95791
Lease Date: October 1, 2007
Lease Term: 10 years
Lessor: United States of America NDM-2284
Present Lessee: Healthy Super Heroes R Us LLC
Description of Land Committed: Township 150 North, Range 97 West, 5th P.M.
Section 12: NE
Number of Acres: 160.00 AC
Royalty Rate: 12.50%
Name and Percent WI Owners: Healthy Super Heroes R Us LLC 100%



Communitization Agreement Recapitulation Table

- A table that provides the proportionate percentage of allocation of each tract to their proportionate percentage of land within the spacing unit (total land in the tract as to the total acreage in the entire CA).



Communitization Agreement Recapitulation Table

- 3 columns of information:
 - Tract No.
 - » Corresponds to Exhibit A & B Tracts
 - No. of Acres Committed to CA
 - » Recorded to 2 decimal places
 - Percentage of Interest in CA
 - » Recorded to 4 decimal places
 - Total Acres & Interest in CA



Communitization Agreement Recapitulation Table

RECAPITULATION

Tract No.	No. of Acres Committed	Percentage of Interest in Communitized Area
1 NDM 94464	240.00	18.7500%
2	80.00	6.2500%
3	160.00	12.5000%
4	80.00	6.2500%
5	80.00	6.2500%
6	40.00	3.1250%
7	40.00	3.1250%
8	160.00	12.5000%
9	40.00	3.1250%
10	80.00	6.2500%
11	80.00	6.2500%
12	200.00	15.6250%
Total	1280.00	100.0000%



Communitization Agreement Recapitulation Table - Overlapping

- The recapitulation table is setup using the same procedures as a standard CA.
 - The tract with the existing CA is indicated the same way as any other tract.



Questions?????

