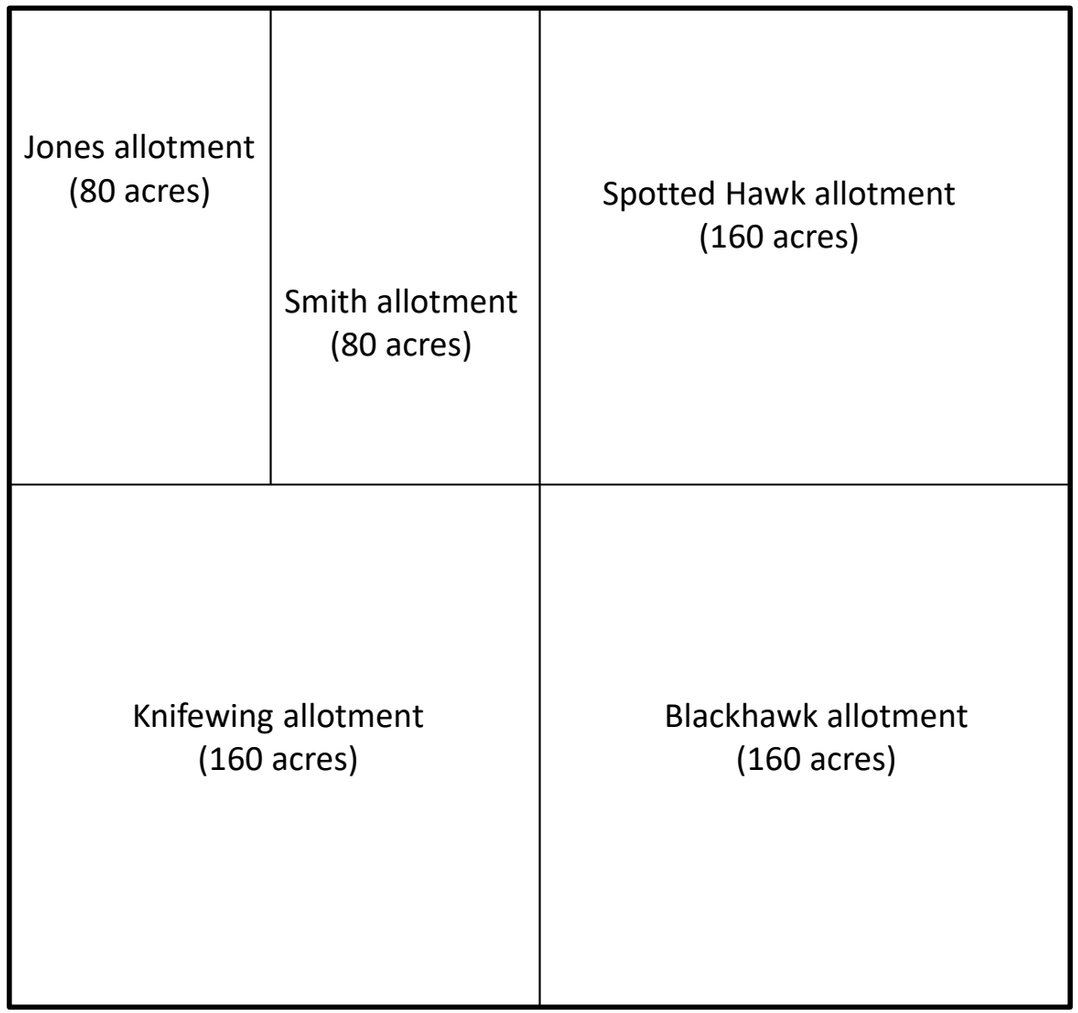
Rule of Capture
And
Corellative Rights

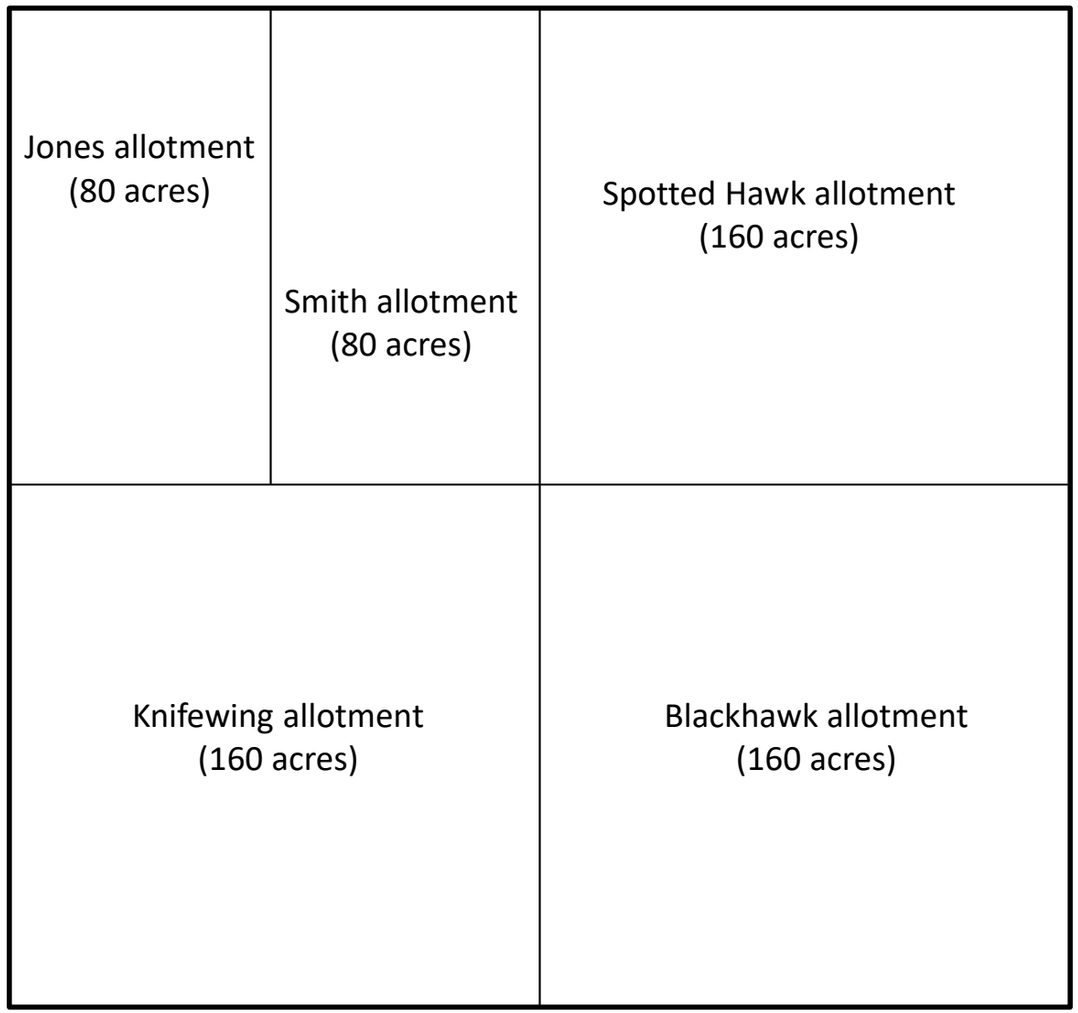
Consider a section of land (a square mile) with the following allottee mineral owners:



Say this is from before communitization agreements existed

Jones allotment (80 acres)	Smith allotment (80 acres)	Spotted Hawk allotment (160 acres)
Knifewing allotment (160 acres)		Blackhawk allotment (160 acres)

The Blackhawks are approached by a wildcat drilling company who wants to drill on their land…



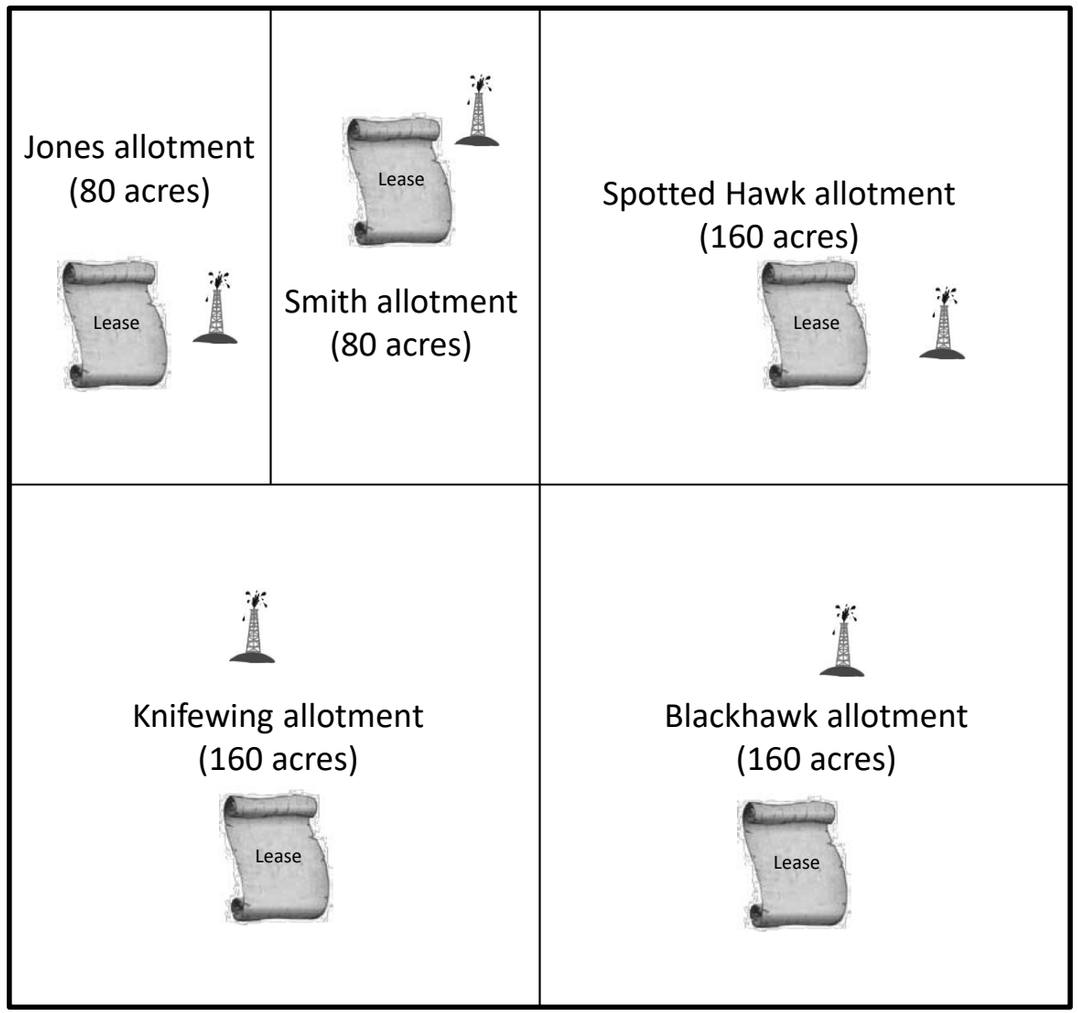
Blackhawks and Company A enter into a lease, and drill a well that hits oil

Jones allotment (80 acres)	Smith allotment (80 acres)	Spotted Hawk allotment (160 acres)
Knifewing allotment (160 acres)		Blackhawk allotment (160 acres)  

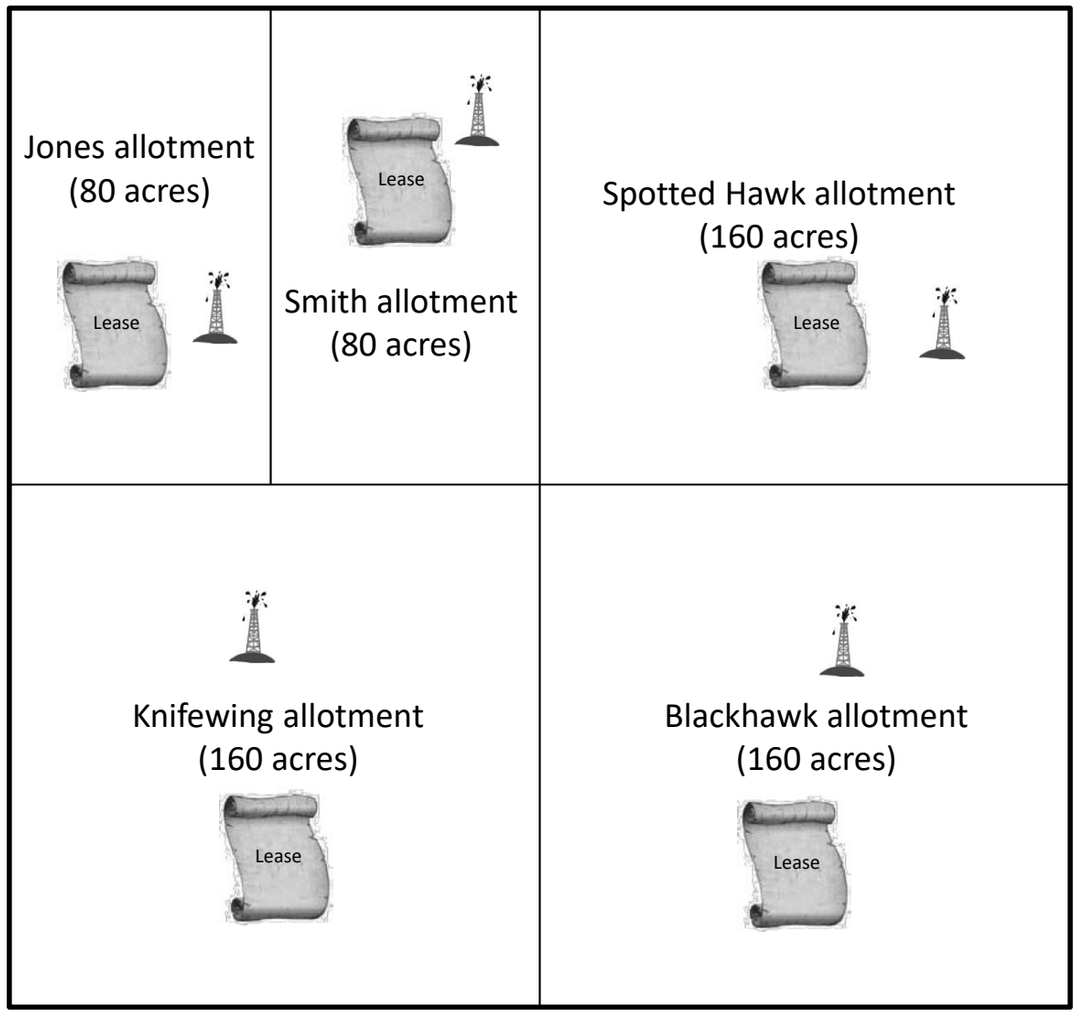
Blackhawks and Company A enter into a lease, and drill a well that hits oil. Result = $$$$

Jones allotment (80 acres)	Smith allotment (80 acres)	Spotted Hawk allotment (160 acres)
Knifewing allotment (160 acres)		 Blackhawk allotment (160 acres) 

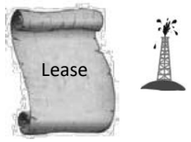
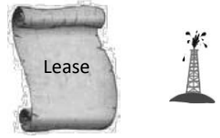
Others see the income that Blackhawk has gained and, figuring that adjacent tracts may also have oil…



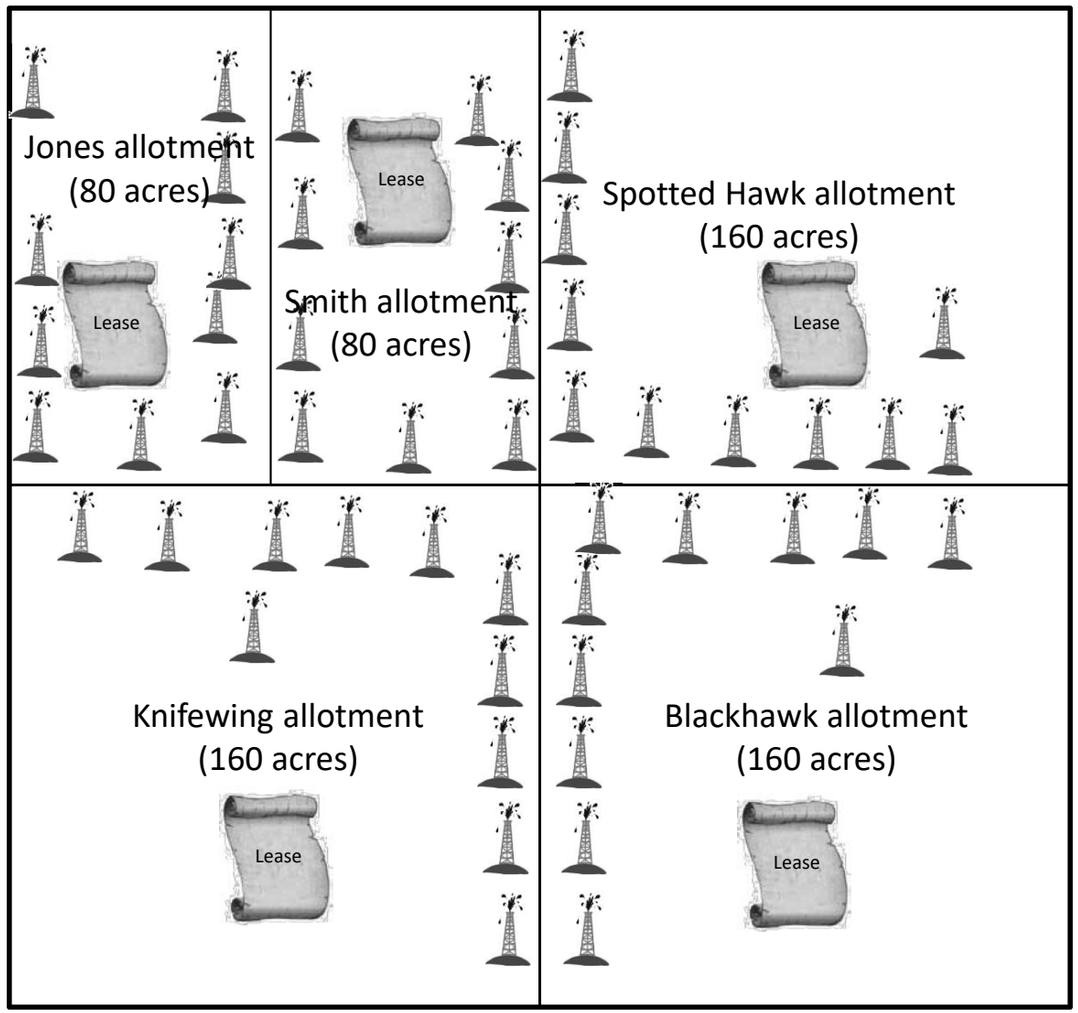
Now all lands are leased, the oil pool is being developed. All are content, until profit motives arise.



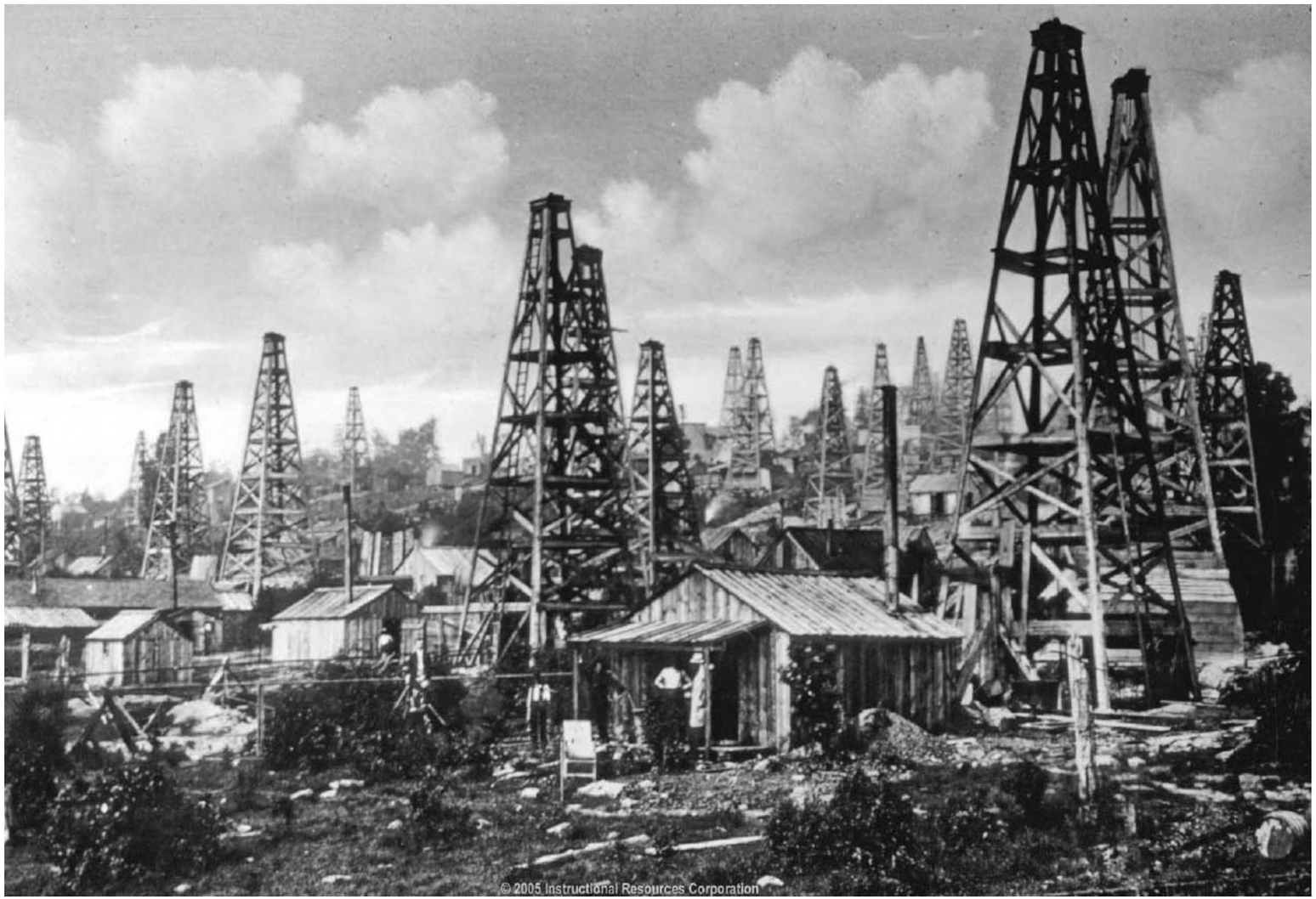
Oil pool development is ruled by “Rule of Capture.”
Means that if you can capture it, it’s yours.

Jones allotment (80 acres) 	 Smith allotment (80 acres)	Spotted Hawk allotment (160 acres) 
 Knifewing allotment (160 acres) 		 Blackhawk allotment (160 acres) 

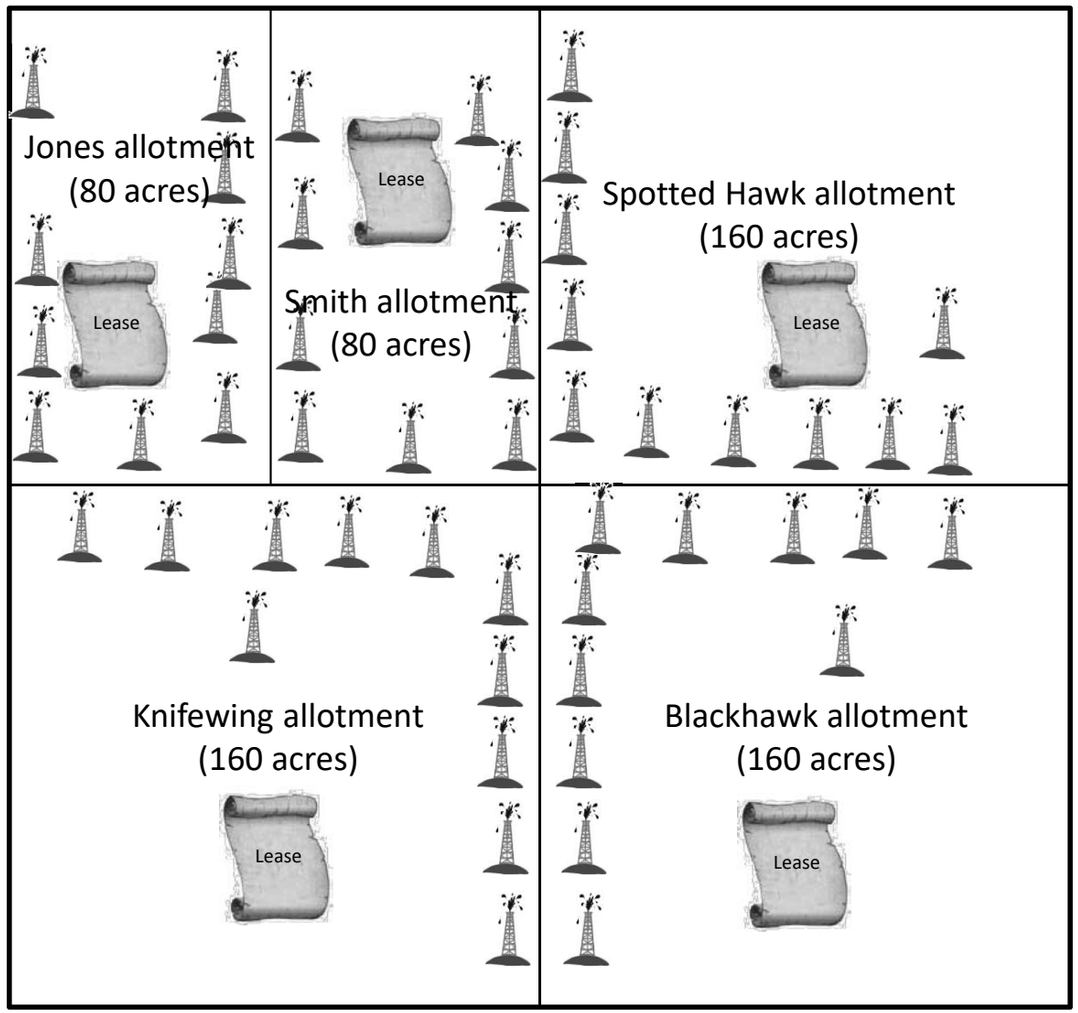
So to protect their own oil and to develop that of their neighbors, everyone installs several lease line wells.



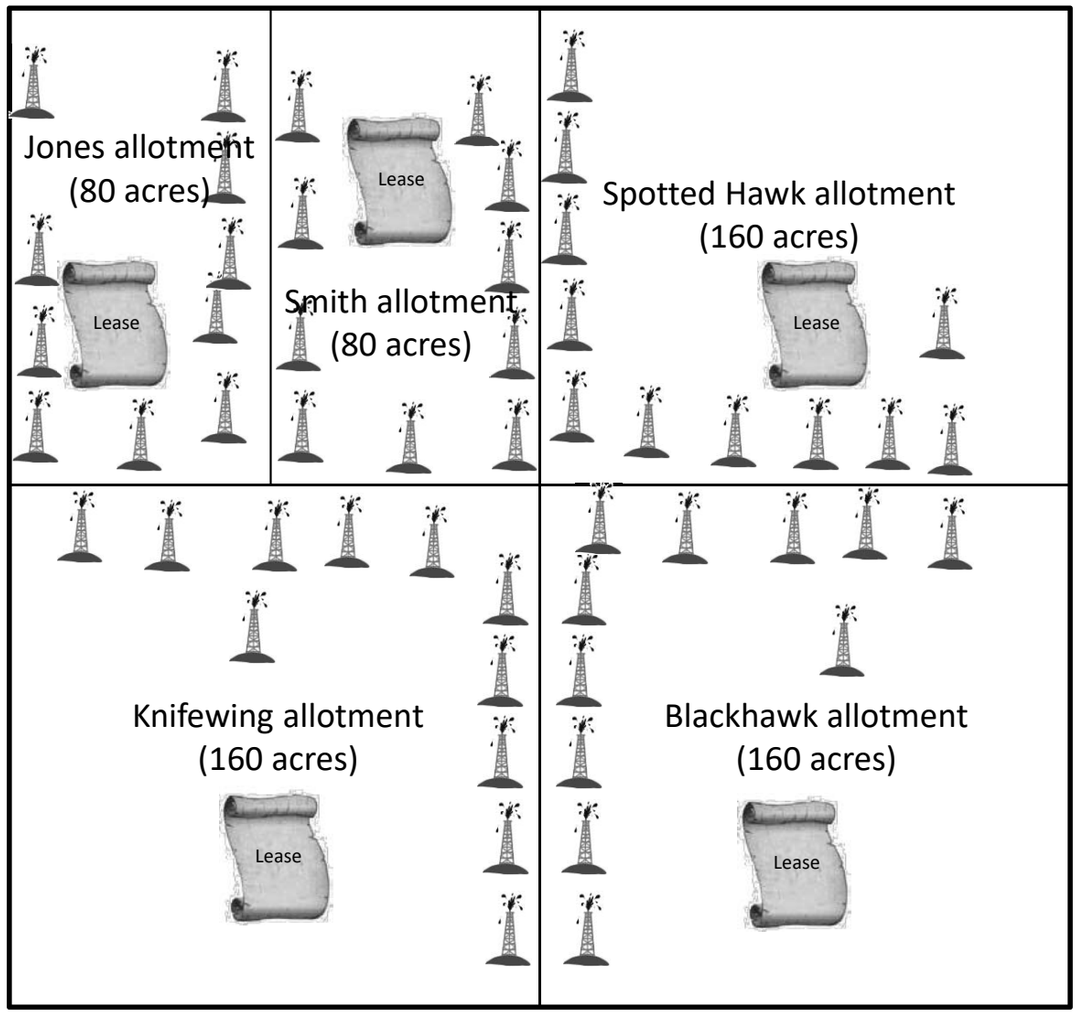
In real life it looked like this:



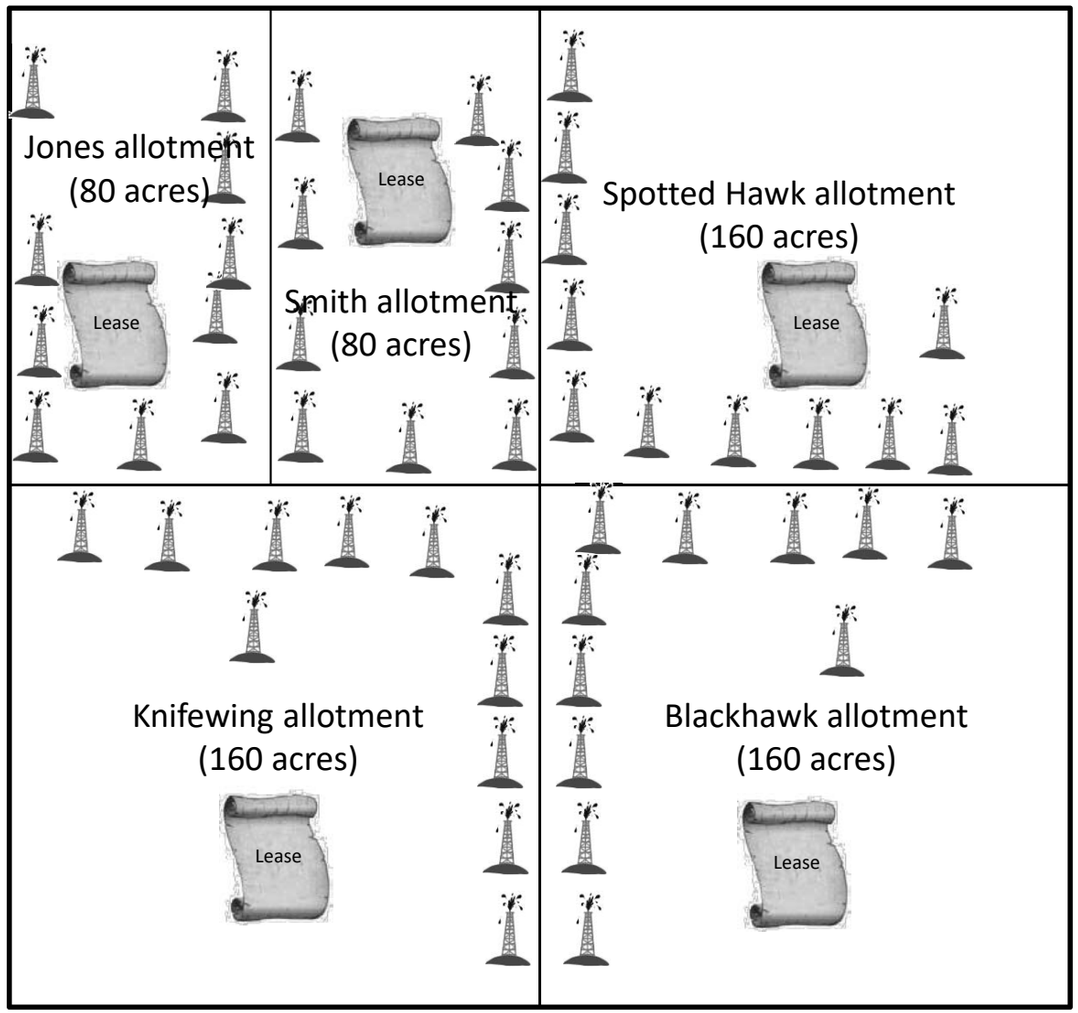
This oil development scheme is very inefficient. Engineering requires way fewer wells to develop an oil pool.



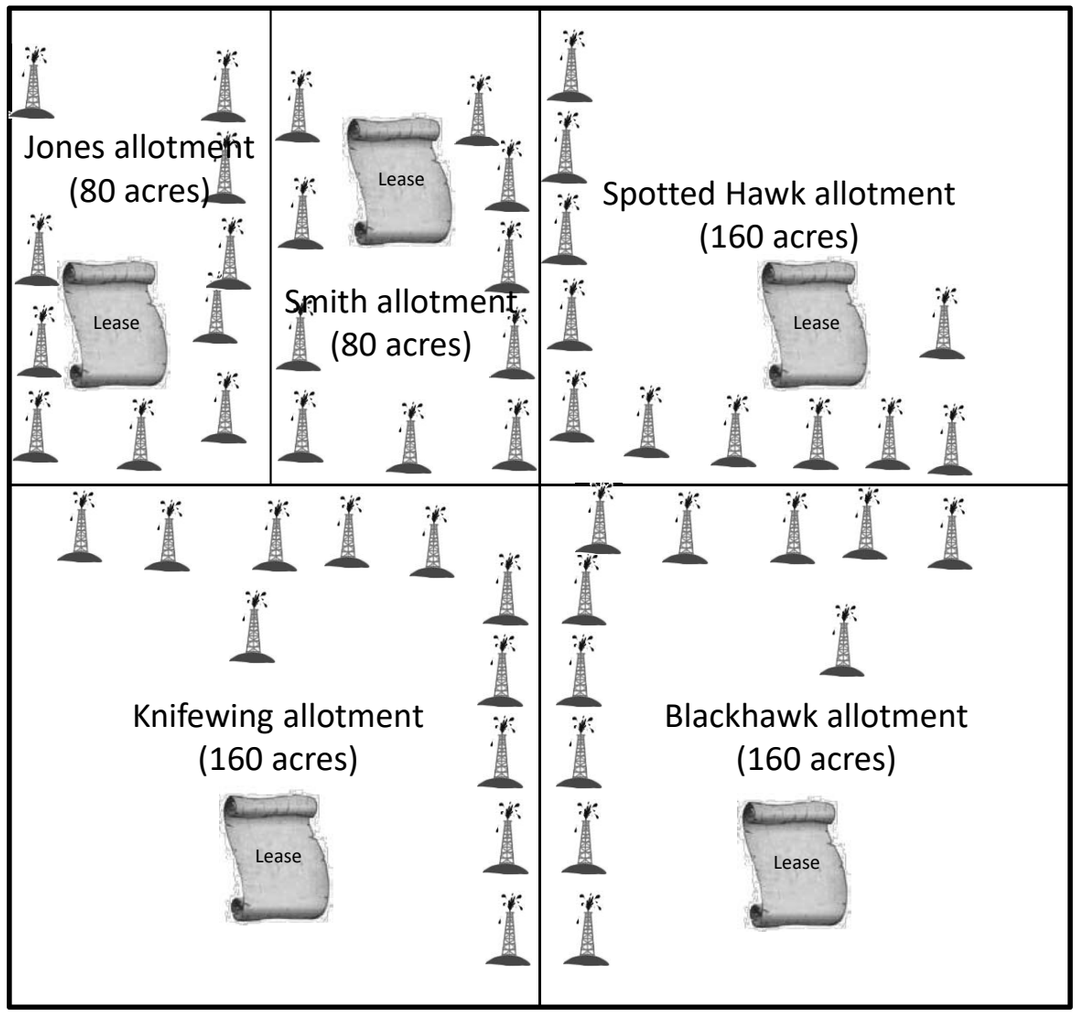
Not only are the wells expensive to drill, this dense drilling pattern results in something called “hydraulic discontinuity”…



Hydraulic discontinuity is when pumping the pool too hard causes a reduction in the recovery percentage



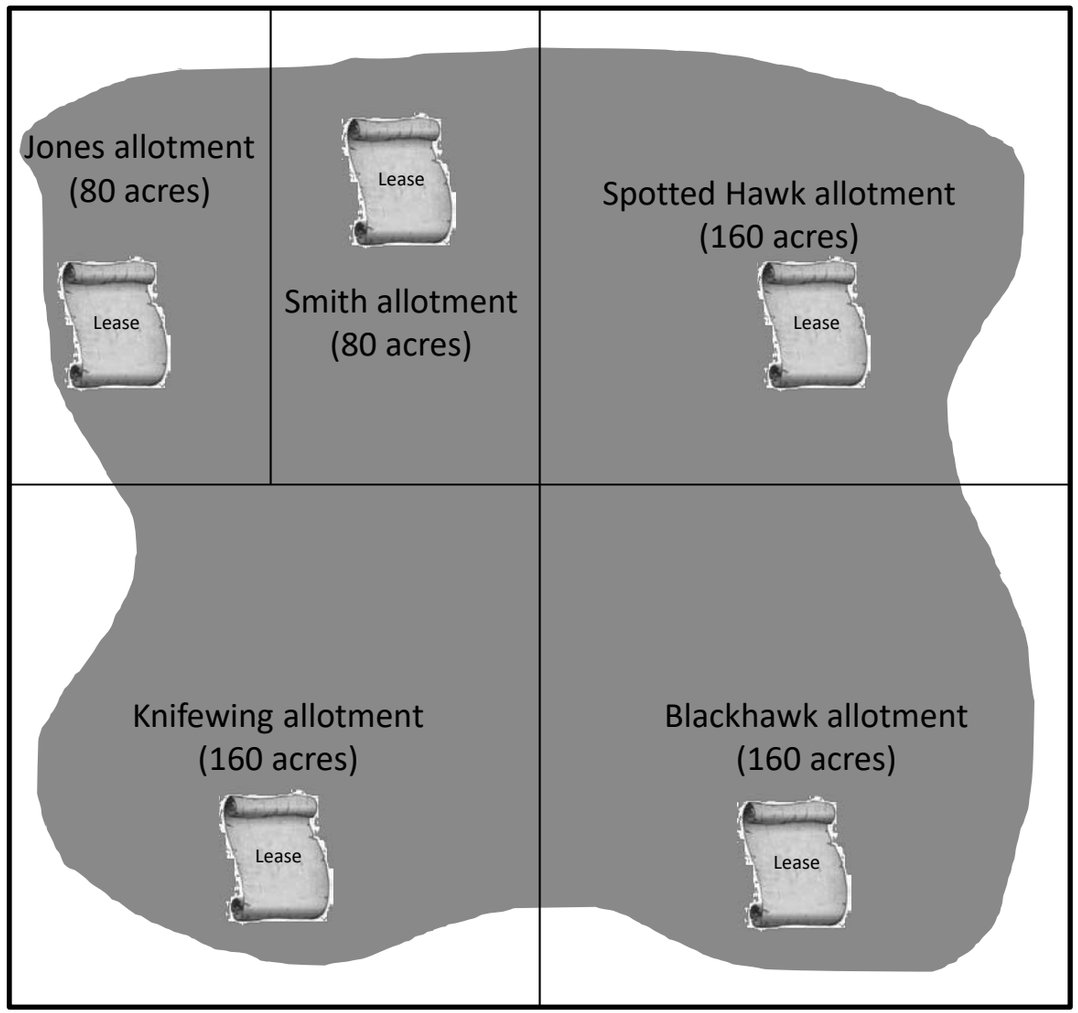
The powers of the day sought a more efficient development scheme and so came correlative rights and communitization



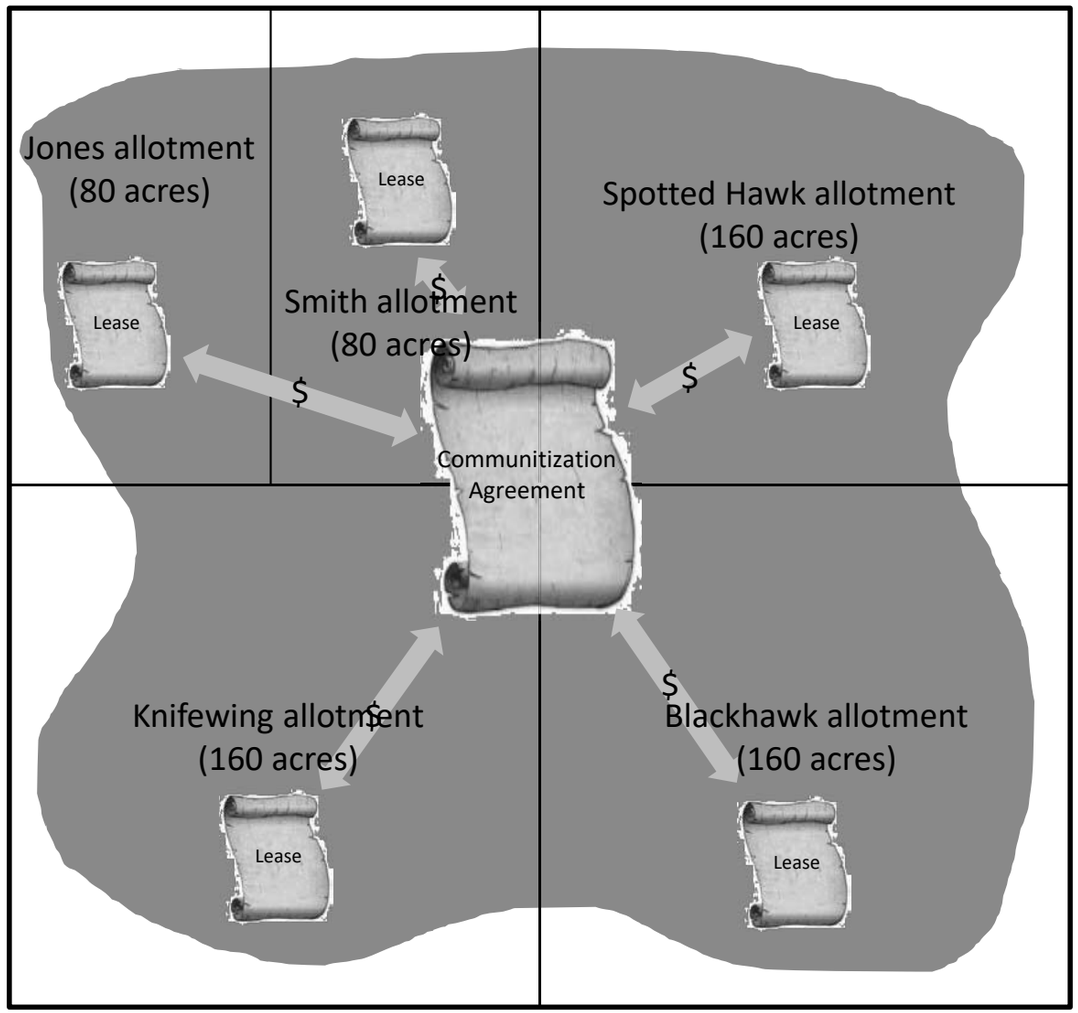
Correlative rights and communitization start here, before all the crazy wells are drilled

Jones allotment (80 acres) 	 Smith allotment (80 acres)	Spotted Hawk allotment (160 acres) 
Knifewing allotment (160 acres) 		Blackhawk allotment (160 acres) 

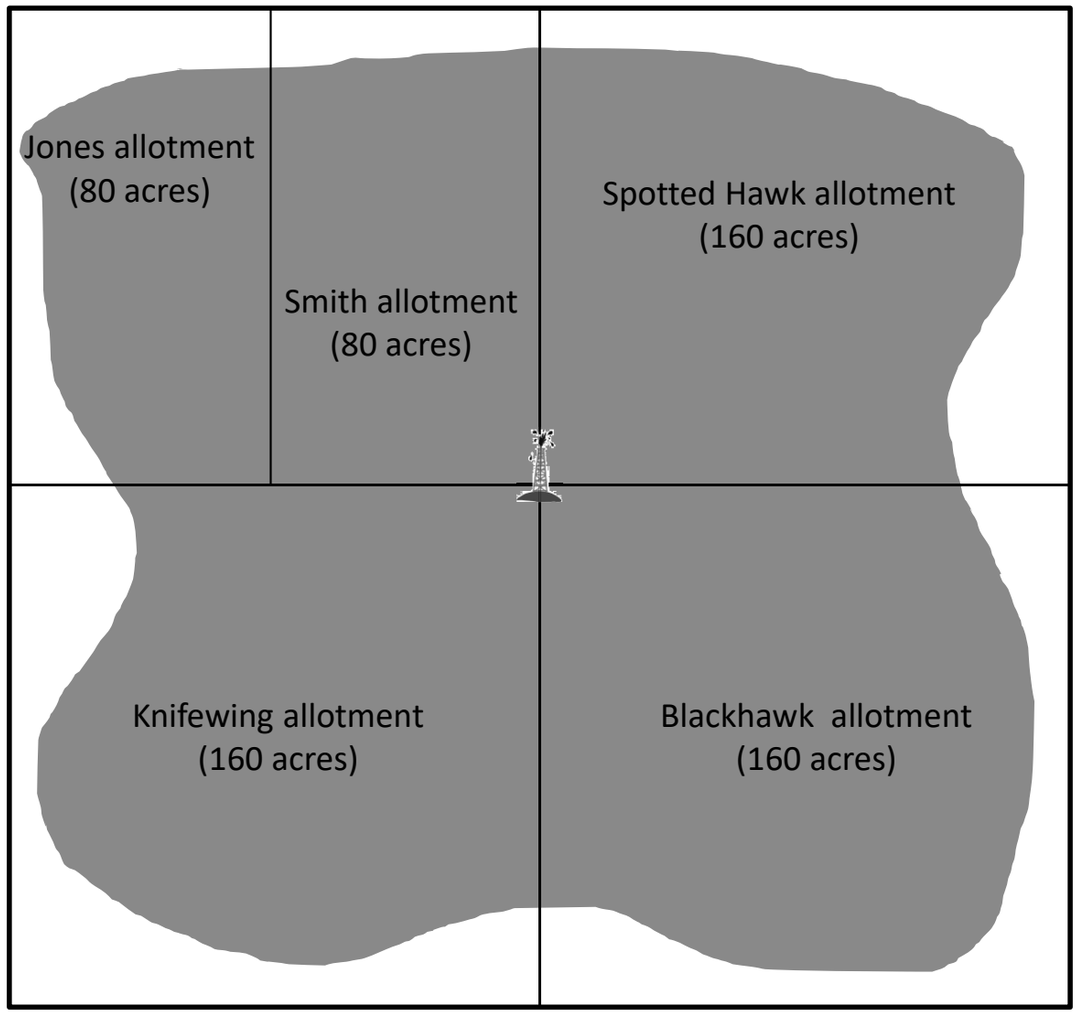
Correlative rights recognizes that an oil pool underlies the community's land, and that all owners have rights to share in the profit thereof



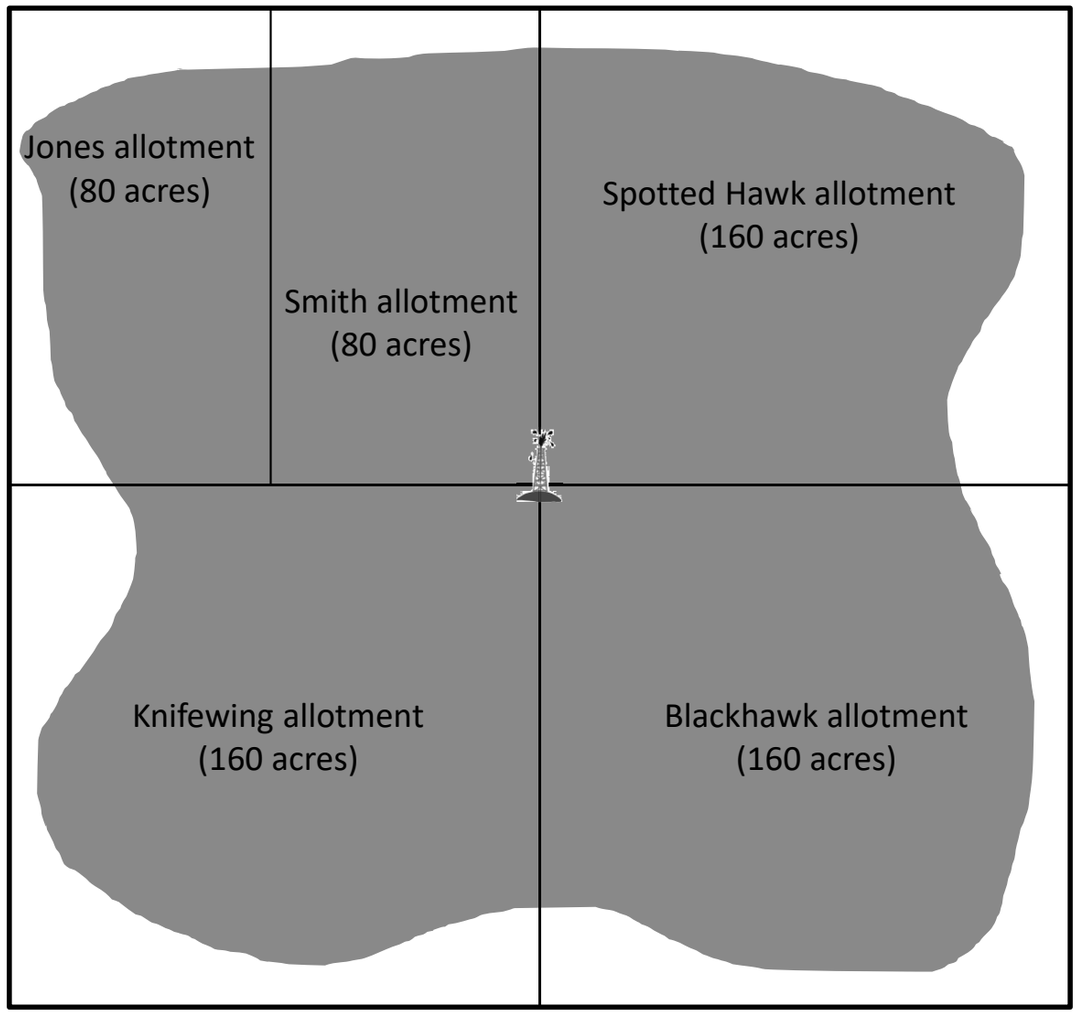
A communitization agreement is established that ties all the individual leases together and defines how revenues will be shared among them



Now we don’t need all the protective, rule-of-capture wells because the CA dictates terms of revenue sharing.



The cost of development drops dramatically (orders of magnitude), recovery percentages are maximized, and…

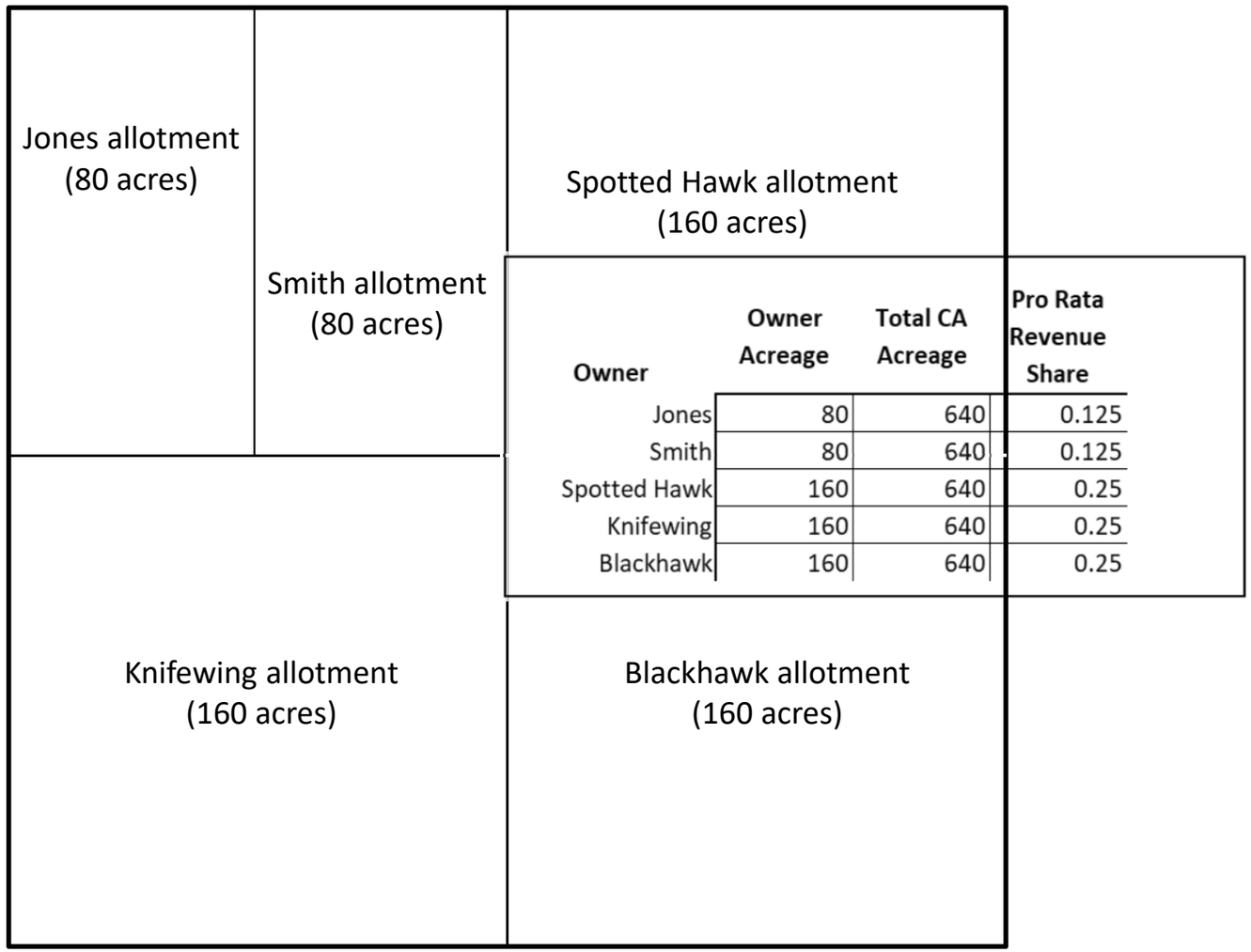


Environmental effects are minimized, as seen in this single modern pump jack with subdued paint, noise control, erosion mitigation…



State Spacing Orders

The communitization agreement (CA) typically defines individual revenue share as an acreage-based pro rata calculation



Owner	Owner Acreage	Total CA Acreage	Pro Rata Revenue Share
Jones	80	640	0.125
Smith	80	640	0.125
Spotted Hawk	160	640	0.25
Knifewing	160	640	0.25
Blackhawk	160	640	0.25