

Calculation Notes and Tips

You will be faced with solving mathematical puzzles in setting up wells. Your company purchases a well and that acquisition may not provide you with a division order title opinion, or for that matter, any opinion at all! Your company requires a burden break down to correctly allocate burdens – what do you do!

If you don't have any files, contact the partners in the well for information they can provide. See if they can give you a burden breakdown for their interest. Any information you can gather will save you a lot of time.

Look for an old division order. Many times, the older division orders reflected calculations. Now our computer systems do the calculations and only a decimal is reflected.

Below is an example of a well that all you have is a division of interest:

| | GWI | Net |
|-------------------------|-----------------|-------------------|
| Royalty Owners | | .1250000 R |
| Ginny Albert | | .0001202 O |
| Tiffini Powell | | .0001202 O |
| Sherry Robinson | | .0001202 O |
| Vicki Henline | | .0001202 O |
| Martin Energy | | .0027750 O |
| Angela Cartner | | .0078558 O |
| Barbara Gray | | .0157104 O |
| Stacy Robinson Drilling | .3647050 | .3057060 W |
| Bisel Production | .2705900 | .2367660 W |
| Lucky Drilling | <u>.3647050</u> | <u>.3057060</u> W |
| | 1.0000000 | 1.0000000 |

I decided to check the leasehold nets of the working interest owners and this is what I found

| | | | |
|-------------------------|-----------------|-------------------|------------------------------|
| Stacy Robinson Drilling | .3647050 | .3057060 W | $.305706/.364705 = .8382282$ |
| Bisel Production | .2705900 | .2367660 W | $.236766/.270590 = .8749991$ |
| Lucky Drilling | <u>.3647050</u> | <u>.3057060</u> W | $.305706/.364705 = .8382282$ |

Bisel Production is only burdened by the royalty – they bear no overrides on their interest. Since Stacy and Lucky Drilling have identical working and leasehold nets, I am safe in assuming they bear the overrides 50-50.

(leasehold net: see Power Point file)

Double check your data source –

When working with numbers, you want to make sure the number you are trying to work with is accurate. Sometimes attorneys will make mistakes in typing their calculations, the answer may be correct – but – the formula could be mistyped. Double check his/her opinion, make sure it totals 100%.

If you have spent a lot of time working on a formula and it's not working,

STOP!

Review your source of data and make sure it's accurate.

Decimal converting to acres –

How do you identify acreage for a royalty owner if all you have is a decimal?

First, you have to know the exact acreage of the unit. You need to know the lease royalty:

Charla Curran is receiving a decimal of .0007295 in the Smith #1 well. The unit acreage is 642.60 net acres. She signed a lease for 3/16ths royalty. What is her acreage?

$$.0007295 \times 642.60 / .1875 = 2.5 \text{ net acres}$$

This method is useful if you are communicating the calculation to the owner. Usually they know their acres and you can verify by a reverse formula.

Looking for un-locatable owners :

This process is becoming more difficult due to privacy laws. First, if an envelope comes back and it is a window envelope, verify the address is bad, first. The post office uses laser reading lights to scan mail, sometimes the window will reflect and can give a bad reading and it will kick the check or other mail, out. We started sending post cards to the address advising, "The post office has advised this address is incorrect. If this notice is in error, please notify the undersigned to prevent further delay of your mail." This has saved a lot of checks from getting placed in suspense.

Be careful with the forwarding address labels, too. We have experienced errors from the post office and checks were incorrectly forwarded to the wrong addressee. Post cards are convenient in this regard, too. Of course, you need to follow your company's guidelines in any of these suggestions.

The internet is a useful tool to find family members that may have information. The title opinion is an excellent source for finding family connections. Check for your owner in the tract. Sometimes these people may not have the same last name but could be related to children of past neighbors. Numbers will tell you a relation, as well. When a decimal is split in thirds or other fraction, many times those owners are related.

Be careful about Googling someone's name to find your lost owner. You don't want to send checks to the wrong person. Try to verify the owner by searching through a family member. Be sure to make good notes!! You may have to explain how you found that owner and after time, could have forgotten. Due to Sox requirements, we have to back up all of our changes.

And, don't forget to CHECK THE LEASE. It will be *really embarrassing* if you had the address all the time on the lease.

Rounding decimals ending in a 5 -

We have always been taught to round up when a number ends in 5. You divide a decimal three ways and they all end in 5. You have a decimal of .0003857. You split it three ways and the individual decimal, in thirds, equals .000128567. Your computer system requires seven decimal places. If you rounded the decimal up as expected, to .0001286, you would be off by .0000001. Why so picky? Computer systems are sensitive and if you don't equal what the previous number was, it will reject the transfer. Every system is different and most computer systems will do the rounding. But, if you are building a spreadsheet, then you will have to do your own rounding. You have to pick which sister or brother you want to give the extra decimal to. You get a grumbling phone call from the loser. Explain about computer systems, the fickle creatures, and the difference it will make in his check:

“Sir, the difference of .0000001 on \$100,000 is a penny”

If it is working interest owners that you need to wiggle numbers*. If you are of in the fourth or fifth decimal, you have made a mistake in your formula – keep checking.

*(*Check with your company policy in this regard)*

Land Administration “Stories from the trenches”

Guardianships

Phone call:

Young lady called one day and said “I received notice from the IRS that you are reporting income under my social security number and they have assessed penalties and interest for failing to report this income, I don’t know who you are or have ever been paid by you”.

This owner number had this woman’s name, c/o her aunt, and the checks were mailed to her aunt’s address. The aunt was also in the well with her own interest. The little girl, at the time, lost her mother to cancer and was married to a man that was not the father of the girl. Since she was a minor, the mother asked that the checks be mailed c/o her sister. She thought her sister would make sure the revenue would be set aside for her daughter. The little girl grew up, became an adult and married and had children of her own. The aunt continued to cash the checks and pocket the money for herself. The ownership was never in a guardianship, but probably some sympathetic analyst changed the name c/o the aunt and directed the checks thinking she was doing a good deed.

This type of situation should be approved by your management. To avoid the continuation of payments in a guardianship after the minor has turned 18, a copy of a birth certificate should be requested and an expiration date should be inserted in the name field. This will alert a bank that is taking the checks for deposit, that this minor has reached age and will increase liability for that bank if they cash that check.

Example: Evelyn H. Bell, Guardian for Sherry Bell, a minor
Expires 4-7-2020

Know your descent and distribution laws of each producing state you work!

Phone call: I was visiting my step-father and he said that I should be receiving payment from you for my mom’s royalty income. He said he and my sister are getting revenue but I’m not.

- 1) This was a well that my company had acquired. This was an estate in Texas. A man died that was receiving income from the well as his separate property. The well also had his last name as the well name, which clued me that it was inherited through his family. In Texas, a spouse gets a share of their partner’s interest, but it is paid as a Life Estate. Upon their death, the Life Estate is extinguished and the revenue goes to the prior owner’s biological or adopted children.
- 2) The analyst at that company was not aware of the laws in Texas, or, failed to put “Life Estate” when setting up the name. This woman remarried and then died without a will.
- 3) An affidavit was done for the deceased woman, filled out by a daughter who conveniently left off sister’s name as a child of the woman. The death certificate is going to show a spouse (always check for marital status!) so she had to put the step-

father's name on the affidavit. The estate was split between the woman's husband and the daughter listed on the affidavit.

- 4) The husband of the dead woman, and the daughter were not entitled to this interest and incorrect payments had been made. The over payments were sizeable.

Lesson: Know the descent and distribution laws of the state, get the guidance of your supervisor or manager to accept Affidavits of Heirship if it is a sizeable estate. Check and see if there have been more wells drilled on the property that could have changed the conditions of an Affidavit of Heirship. If you accept an Affidavit do some detective work and back up the information. Ask point blank questions, such as "Was Dad or Mom married previously and had children from that marriage?" Some people are hesitant to come out and point blank lie. I have found many omitted children in this manner. You can tell from their hesitation in answering, have your radar on. Call relatives of the deceased if they are in the well and see what they can confirm. *Be courteous in your questions.*

Don't be afraid to call owners! The extra step you take cuts down the liability of your company for incorrect payments.

Non-operated Wells

Your company will receive division orders as a non-operator. These division orders will come from the Operator and/or from the purchaser of the production. As an analyst, you are required to verify the decimal. If the Operator has provided a copy of a title opinion and their spreadsheet, you will need to verify that decimal interest against your company's records. It may already be set up in your company's computer system, or, you need to consult with your landman, depending on your company's procedures.

Decimal Problems:

If the decimal does not match you need to verify these possible scenarios:

- A) Does the decimal include some non-consent that your company agreed to take, or, maybe your company was not credited with this interest? You need to check with your landman or review his well file if you can't find notes on your well master.
- B) Has the well paid out? Check the effective date of the division order for a clue. IF the well has paid out, your company's interest can reduce if you have taken a farm-out from another company, or, non-consent interest.
- C) Your records are incorrect. Many times the landman estimates the revenue decimal and doesn't know until title is reviewed and an opinion is prepared. Provide him or her with this information for verification. Sometimes this occurs in acquisitions. A certain interest was represented, but after a new well is drilled, the errors can surface.