Barnett Well Economics

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Assumptions

- Oil yield: 1.20 bbl/MMcf
- GPL yield: 6.36 Gal/MMcf
- Economic limit: 0.03 MMcf/d
- Basis to Henry Hub: -$0.40/MMBtu
- WTI price: $80/bbl
- GPL/WTI price: 48%
- Water cut: 50% of oil yield (bbl)
- Water disposal: 1.5 $/bbl
- Royalty rate: 20%
- Lease cost/acre: $3,000
- Severance tax rate: 7.5%
- Spacing: 40 acres
- Marginal tax rate: 35%
- Depletion: $0.04/Mcf
- Inflation rate: 2.5%
- Abandonment: $75,000
- Drilling cost (CAPEX): $2,940,000 (20% tangible)
- Related CAPEX factor: 13%
- Expense/well/yr: $25,000 (+13% overhead)
- Gathering cost: $0.40/MMcfd

Average Well Breakeven

Only best tiers viable at low prices.
Worst tiers not viable at likely prices.

Impact of Eliminating IDC Allowances
Distribution of Qi for 2010 Wells

- Tier 1 average well 10% IRR breakeven: $3.45
- Some Tier 2 wells economic at $3.45 or less
- These Tier 1 wells economic at more than $3.45

Distribution of Tier 1 Profiles

- Average profile ($3.45 breakeven at 10% IRR)
- 10% profile ($7.90 breakeven at 10% IRR)
- 90% profile ($2.43 breakeven at 10% IRR)

Sensitivity to Inputs

Simulation for a Tier 1 Well

- Tornado Graph of IRR - % Impact by Input
- Simulation for a Tier 1 Well
Assumptions that yield 10% IRR at $4/MMBtu for HH

- Oil yield: 179 bbl/MMcf
- GPL yield: 6.36 Gal/MMcf
- Economic limit: 0.03 MMCf/d
- Basis to Henry Hub: -$0.40/MMBtu
- WTI price: $80/bbl
- GPL/WTI price: 48%
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Summary

• 10-Tier approach
• Only top tiers are viable at low prices
  – Most sensitive to gas price & CAPEX
• Worse tiers can be viable if they are rich in oil
  – Most sensitive to oil price & CAPEX