Calculating the Daily Production Average for a Low-Producing Lease

The daily production average in a three-month period for a lease equals to the total oil production for all three months. This amount is divided by the number of “well days” within those three months. A “well day” is one well producing for one day.

Example:

An oil lease has several producing wells for the months of December, January and February, as shown below.

MONTH	BARRELS PRODUCED	SUB-TOTAL OF BARRELS FOR EACH MONTH	WELL NUMBER	NUMBER OF DAYS WELL IS PRODUCING	SUB-TOTAL OF “WELL DAYS” FOR EACH MONTH
December	180 Barrels		1	20 Days	
December	100 Barrels		2	10 Days	
December	220 Barrels		3	30 Days	
Sub-Total		500 Barrels			60 Days
January	480 Barrels		1	28 Days	
January	0		2	0 Days	
January	520 Barrels		3	31 Days	
Sub-Total		1,000 Barrels			59 Days
February	250 Barrels		1	28 Days	
February	200 Barrels		2	20 Days	
February	300 Barrels		3	31 Days	
Sub-Total		750 Barrels			79 Days
GRAND TOTALS		2,250 Barrels			198 Days

- Total amount of barrels produced for December, January and February was 2,250 and the number of “well days” the oil wells produced was 198.

- The daily production average is calculated by dividing 2,250 barrels by 198 “well days,” which equals to 11.36 barrels per day.

- This lease qualifies as a low-producing oil lease and is subject to a tax credit.