

How to find an Oil and Gas Investment Drilling Prospect

Many investors know they can invest in publicly traded oil and gas. Investing through a stock portfolio into these oil and gas stocks provide an individual investor the ability to invest as little or as much as desired and can be made online or through a licensed stock broker. Most stock brokers are unaware or unwilling to mention that there are a number of direct investments in oil and gas drilling programs that can be made specifically into a well or group of oil wells.

Since there isn't a public system of direct oil well investments, most individuals will never have the opportunity to invest directly into an oil or gas well drilling program. Investing directly into oil and gas wells has been a mystery for years primarily because in order to invest, you must be a member of the "investment club" or investment partnership to be able to participate. I will explain a little further of some of the specifics of oil well investing.

Independent oil and gas companies spend significant capital developing oil and gas prospects through geological research and evaluation. If successful, these drilling prospects will produce crude oil and/or natural gas in commercial quantities. The Texas Alliance of Energy Producers has stated "Independents have drilled 96% of wells in Texas, and produced 88% of the oil and gas in Texas. These independent oil and gas companies rely heavily on investment partnerships to provide the needed capital to fully develop oil fields and produce oil and gas in commercial quantities.

When an oil or gas company has completed the preliminary synopsis, they will put together what is known in the industry as a "drilling prospect" which contains an overview of the potential drilling location. These drilling prospects are usually only available to select "investment clubs" or partnerships which have the sufficient capital to drill and complete the well. It may be difficult to find these investment partnerships since they are generally comprised of a small group of high net worth individual investors. The individual members will review the merits of the drilling program and if the project looks viable, they will commit to the funding of the well.

Most independent oil and gas companies do not have sufficient working capital to be able to drill each and every well on which they have developed a prospect. They will, however, agree to share in the profits of the producing well in exchange for funding. Generally, the oil company will keep a small interest in the well and will assign the bulk of the proceeds from production to the investors or investment group. This helps to develop multiple oil drilling prospects while producing hydrocarbons from a number of oil and gas wells in the field.

Although direct investments in oil and gas wells may be financially beneficial, there are other significant factors which should be considered prior to making such an investment. Due to the inherent risk involved, most partnerships will require each investor to be accredited prior to joining the partnership and making an investment. There are times when drilling results in non-production or a dry hole and each investor should be financially positioned to handle such risk. In order to offset the risk associated with drilling domestic oil and gas wells, the U.S. Government has offered investors a fairly significant tax advantage for these types of investments.

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