

ENGROSSED HOUSE
BILL NO. 1660

By: Rice of the House

and

Easley of the Senate

An Act relating to oil and gas; amending 52 O.S. 1991, Section 287.4, which relates to unitized management of common sources of supply; providing certain financing provisions for certain lessees in a plan of unitization; establishing a penalty provision; providing parameters of penalty; and declaring an emergency.

BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

SECTION 1. AMENDATORY 52 O.S. 1991, Section 287.4, is amended to read as follows:

Section 287.4 The order of the Commission shall define the area of the common source of supply or portion thereof to be included within the unit area and prescribe with reasonable detail the plan of unitization applicable thereto.

Each unit and unit area shall be limited to all or a portion of a single common source of supply. Only so much of a common source of supply as has been defined and determined to be productive of oil and gas by actual drilling operations may be so included within the unit area.

A unit may be created to embrace less than the whole of a common source of supply only where it is shown by the evidence that the

area to be so included within the unit area is of such size and shape as may be reasonably required for the successful and efficient conduct of the unitized method or methods of operation for which the unit is created, and that the conduct thereof will have no material adverse effect upon the remainder of such common source of supply.

The plan of unitization for each such unit and unit area shall be one suited to the needs and requirements of the particular unit dependent upon the facts and conditions found to exist with respect thereto. In addition to such other terms, provisions, conditions and requirements found by the Commission to be reasonably necessary or proper to effectuate or accomplish the purpose of this act, and subject to the further requirements hereof, each such plan of unitization shall contain fair, reasonable and equitable provisions for:

(a) The efficient unitized management or control of the further development and operation of the unit area for the recovery of oil and gas from the common source of supply affected. Under such a plan the actual operations within the unit area may be carried on in whole or in part by the unit itself, or by one or more of the lessees within the unit area as unit operator subject to the supervision and direction of the unit, dependent upon what is most beneficial or expedient. The designation of the unit operator shall be by vote of the lessees in the unit in a manner provided in the plan of unitization and not by the Commission.

(b) The division of interest or formula for the apportionment and allocation of the unit production, among and to the several separately owned tracts within the unit area such as will reasonably permit persons otherwise entitled to share in or benefit by the production from such separately owned tracts to produce or receive, in lieu thereof, their fair, equitable and reasonable share of the unit production or other benefits thereof. A separately owned tract's fair, equitable and reasonable share of the unit production

shall be measured by the value of each such tract for oil and gas purposes and its contributing value to the unit in relation to like values of other tracts in the unit, taking into account acreage, the quantity of oil and gas recoverable therefrom, location on structure, its probable productivity of oil and gas in the absence of unit operations, the burden of operation to which the tract will or is likely to be subjected, or so many of said factors, or such other pertinent engineering, geological, or operating factors, as may be reasonably susceptible of determination. Unit production as that term is used in this act shall mean and include all oil and gas produced from a unit area from and after the effective date of the order of the Commission creating the unit regardless of the well or tract within the unit area from which the same is produced.

(c) The manner in which the unit and the further development and operation of the unit area shall or may be financed and the basis, terms and conditions on which the cost and expense thereof shall be apportioned among and assessed against the tracts and interests made chargeable therewith, including a detailed accounting procedure governing all charges and credits incident to such operations. ~~Upon and subject to such terms and conditions as to time and rate of interest as may be fair to all concerned, reasonable~~ Reasonable provision shall be made in the plan of unitization for carrying or otherwise financing lessees who are unable to promptly meet their financial obligations in connection with the unit by establishing a fair rate of interest to all concerned based upon the terms and conditions as to time and by establishing a penalty provision which shall be defined as the total expenses minus any cash contributions received as follows:

1. One hundred percent (100%) of that portion of the cost of aboveground surface equipment beyond the wellhead connections, including but not limited to stock tanks, separators, treaters, pumping equipment and piping, plus one hundred percent (100%) of the

share of the cost of operation of the unit which shall be subject to the established rate of interest;

2. Three hundred percent (300%) of that portion of the costs and expenses of drilling wells in the unitized area, including but not limited to staking, well site preparation, rigging up or drilling and reworking, deeping or plugging back and testing and completing the wells; and

3. Three hundred percent (300%) of that portion of the costs and expenses of the underground pipeline systems, expenses for injected substances and any other incurred expenses which are not recoupable in the further development and operation of the unit area.

(d) The procedure and basis upon which wells, equipment and other properties of the several lessees within the unit area are to be taken over and used for unit operations, including the method of arriving at the compensation therefor, or of otherwise proportionately equalizing or adjusting the investment of the several lessees in the project as of the effective date of unit operation.

(e) The creation of an operating committee to have general overall management and control of the unit and the conduct of its business and affairs and the operations carried on by it, together with the creation or designation of such other subcommittees, boards or officers to function under authority of the operating committee as may be necessary, proper or convenient in the efficient management of the unit, defining the powers and duties of all such committees, boards or officers and prescribing their tenure and time and method for their selection.

(f) The time when the plan of unitization shall become and be effective.

(g) The time when and conditions under which and the method by which the unit shall or may be dissolved and its affairs wound up.

SECTION 2. It being immediately necessary for the preservation of the public peace, health and safety, an emergency is hereby declared to exist, by reason whereof this act shall take effect and be in full force from and after its passage and approval.

Passed the House of Representatives the 2nd day of March, 1995.

Speaker of the House of
Representatives

Passed the Senate the ____ day of _____, 1995.

President of the Senate