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SHORT TITLE: Oil and gas; modifying forced pooling regulations;
effective date.

STATE OF OKLAHOMA

1st Session of the 45th Legislature (1995)

SENATE BILL NO. 115

By: Williams (Don)

AS INTRODUCED

An Act relating to oil and gas; amending 52 O.S.

1991, Section 87.1, as amended by Section 17, Chapter 190, O.S.L. 1992 (52 O.S. Supp. 1994, Section 87.1), which relates to the common source of supply of oil and gas; modifying forced pooling procedures; modifying the scope and affect of pooling order; providing procedures for determination of fair market value of pooled interest; and providing an effective date.

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

SECTION 1. AMENDATORY 52 O.S. 1991, Section 87.1, as amended by Section 17, Chapter 190, O.S.L. 1992 (52 O.S. Supp. 1994, Section 87.1), is amended to read as follows:

Section 87.1 A. Whenever the production from any common source of supply of oil or natural gas in this state can be obtained only under conditions constituting waste or drainage not compensated by counterdrainage, then any person having the right to drill into and produce from such common source of supply may, except as otherwise authorized or in this section provided, take therefrom only such proportion of the oil or natural gas that may be produced therefrom without waste or without such drainage as the productive capacity of the well or wells of any such person considered with the acreage

properly assignable to each such well bears to the total productive capacities of the wells in such common source of supply considered with the acreage properly assignable to each well therein.

~~(a)~~ B. To prevent or to assist in preventing the various types of waste of oil or gas prohibited by statute, or any of said wastes, or to protect or assist in protecting the correlative rights of interested parties, the Corporation Commission, upon a proper application and notice given as hereinafter provided, and after a hearing as provided in said notice, shall have the power to establish well spacing and drilling units of specified and approximately uniform size and shape covering any common source of supply, or prospective common source of supply, of oil or gas within the State of Oklahoma; provided, that the Commission may authorize the drilling of an additional well or wells on any spacing and drilling unit or units or any portion or portions thereof or may establish, reestablish, or reform well spacing and drilling units of different sizes and shapes when the Commission determines that a common source of supply contains predominantly oil underlying an area or areas and contains predominantly gas underlying a different area or areas; provided further that the units in the predominantly oil area or areas shall be of approximately uniform size and shape, and the units in the predominantly gas area or areas shall be of approximately uniform size and shape, except that the units in the gas area or areas may be of nonuniform size and shape when they adjoin the units in the oil area or areas; provided further that the drilling pattern for such nonuniform units need not be uniform, and provided further that the Commission shall adjust the allowable production within said common source of supply, or any part thereof, and take such other action as may be necessary to protect the rights of interested parties.

C. Any order issued pursuant to the provisions hereof may be entered after a hearing upon the petition of any person owning an

interest in the minerals in lands embraced within such common source of supply, or the right to drill a well for oil or gas on the lands embraced within such common source of supply, or on the petition of the Conservation Officer of the State of Oklahoma. When such a petition is filed with the Commission, the Commission shall give at least fifteen (15) days' notice of the hearing to be held upon such petition by one publication, at least fifteen (15) days prior to the hearing, in some newspaper of general circulation published in Oklahoma County, and by one publication, at least fifteen (15) days prior to the date of the hearing, in some newspaper published in the county, or in each county, if there be more than one, in which the lands embraced within the application are situated. Except as to the notice of hearing on such a petition, the procedural requirements of Sections 86.1 et seq. of this title, shall govern all proceedings and hearings provided for by this section.

~~(b)~~ D. In case of a spacing unit of one hundred sixty (160) acres or more, no oil and/or gas leasehold interest outside the spacing unit involved may be held by production from the spacing unit more than ninety (90) days beyond expiration of the primary term of the lease.

~~(c)~~ E. In establishing a well spacing or drilling unit for a common source of supply thereunder, the acreage to be embraced within each unit shall not exceed six hundred forty (640) acres for a gas well plus ten percent (10%) tolerance, unless a governmental section contains more than six hundred forty (640) acres in which case the unit may comprise the entire section. Provided, however, fractional sections along the state boundary line and within the townships along the boundary where the survey west of the Indian Meridian meets the survey east of the Cimarron Meridian may be spaced with adjoining section unit, and the shape thereof shall be determined by the Commission from the evidence introduced at the

hearing, and the following facts, among other things, shall be material:

~~(1)~~ 1. The lands embraced in the actual or prospective common source of supply; ~~(2)~~ the

2. The plan of well spacing then being employed or contemplated in said source of supply; ~~(3)~~ the

3. The depth at which production from said common source of supply has been or is expected to be found; ~~(4)~~ the

4. The nature and character of the producing or prospective producing formation or formations; and ~~(5)~~ any

5. Any other available geological or scientific data pertaining to said actual or prospective source of supply which may be of probative value to said Commission in determining the proper spacing and well drilling unit therefor, with due and relative allowance for the correlative rights and obligations of the producers and royalty owners interested therein.

F. The order establishing such spacing or drilling units shall set forth: ~~(1)~~ the

1. The outside boundaries of the surface area included in such order; ~~(2)~~ the

2. The size, form, and shape of the spacing or drilling units so established; ~~(3)~~ the

3. The drilling pattern for the area, which shall be uniform except as hereinbefore provided; and ~~(4)~~ the

4. The location of the permitted well on each such spacing or drilling unit.

To such order shall be attached a plat upon which shall be indicated the foregoing information.

G. Subject to other provisions of this act, Section 81 et seq. of this title, the order establishing such spacing or drilling units shall direct that no more than one well shall thereafter be produced from the common source of supply on any unit so established, and

that the well permitted on that unit shall be drilled at the location thereon as prescribed by the Commission, with such exception as may be reasonably necessary where it is shown, upon application, notice and hearing in conformity with the procedural requirements of Sections 86.1 et seq. of this title, and the Commission finds that any such spacing unit is located on the edge of a pool and adjacent to a producing unit, or for some other reason that to require the drilling of a well at the prescribed location on such spacing unit would be inequitable or unreasonable. Whenever such an exception is granted, the Commission shall adjust the allowable production for said spacing unit and take such other action as may be necessary to protect the rights of interested parties.

H. Any well spacing or drilling unit for a common source of supply thereunder which exceeds six hundred forty (640) acres for a gas well plus ten percent (10%) tolerance or exceeds the total amount of acreage contained in a governmental section, and is not in production or in the process of drilling development on the effective date of this act shall be de-spaced. However, fractional sections along the state boundary line and within the townships along the boundary where the survey west of the Indian Meridian meets the survey east of the Cimarron Meridian may be spaced with adjoining section unit, and the shape thereof shall be determined by the Commission.

~~(d)~~ I. The Commission shall have jurisdiction upon the filing of a proper application therefor, and upon notice given as provided in subsection ~~(a) above~~ B of this section, to decrease the size of the well spacing units or to permit additional wells to be drilled within the established units, upon proper proof at such hearing that such modification or extension of the order establishing drilling or spacing units will prevent or assist in preventing the various types of wastes prohibited by statute, or any of said wastes, or will

protect or assist in protecting the correlative rights of persons interested in said common source of supply, or upon the filing of a proper application therefor to enlarge the area covered by the spacing order, if such proof discloses that the development or the trend of development indicates that such common source of supply underlies an area not covered by the spacing order and such proof discloses that the applicant is an owner within the area or within a drilling and spacing unit contiguous to the area covered by the application.

J. The Commission shall not establish well spacing units of more than forty (40) acres in size covering common sources of supply of oil, the top of which lies less than four thousand (4,000) feet below the surface as determined by the original or discovery well in said common source of supply. The Commission shall not establish well spacing units of more than eighty (80) acres in size covering common sources of supply of oil, the top of which lies less than nine thousand nine hundred ninety (9,990) feet and more than four thousand (4,000) feet below the surface as determined by the original or discovery well in said common source of supply.

~~(e)~~ K. The drilling of any well or wells into any common source of supply for the purpose of producing oil or gas therefrom, after a spacing order has been entered by the Commission covering such common source of supply, at a location other than that fixed by said order is hereby prohibited. The drilling of any well or wells into a common source of supply, covered by a pending spacing application, at a location other than that approved by a special order of the Commission authorizing the drilling of such well is hereby prohibited. The operation of any well drilled in violation of any spacing so entered is also hereby prohibited.

L. When two or more separately owned tracts of land are embraced within an established spacing unit for a common source of supply, or where there are undivided interests separately owned

therein, or both such separately owned tracts and undivided interests embraced within such established spacing unit, the owners ~~thereof~~ of the right to drill and produce may validly pool ~~their~~ interests and develop their ~~lands~~ interests within that common source of supply as a unit.

M. Where, ~~however~~, such owners have not agreed to pool their interests and where one such separate owner has drilled or proposes to drill a well on said unit to the common source of supply, the Commission, to avoid the drilling of unnecessary wells, or to protect correlative rights, shall, upon a proper application therefor and a hearing thereon, require ~~such~~ the owners of the right to drill and produce to pool and develop their ~~lands~~ interests in the common source of supply in the spacing unit as a unit, subject to the following provisions:

1. The applicant shall exercise due diligence to give ~~all the such~~ owners ~~whose addresses are known or could be known through the exercise of due diligence~~ and the holders of encumbrances on any such owner's interest at least fifteen (15) days' notice by mail, return receipt requested. The applicant shall also give notice by one publication, at least fifteen (15) days prior to the hearing, in some newspaper of general circulation published in Oklahoma County, and by one publication, at least fifteen (15) days prior to the date of the hearing, in some newspaper published in the county, or in each county, if there be more than one, in which the lands embraced within the spacing unit are situated. The applicant shall file proof of publication and an affidavit of mailing with the Commission prior to the hearing. ~~All orders~~

2. After notice and hearing, any order requiring such pooling shall be made ~~after notice and hearing, and shall be~~ upon such terms and conditions as are just and reasonable and will afford to the owner of such ~~tract~~ interest in the unit the opportunity to recover

or receive without unnecessary expense his or her just and fair share of the oil and gas.

3. All orders requiring such pooling shall at a minimum provide the owner of the right to drill and produce the option to participate in the drilling of the proposed well, or, in lieu thereof, to transfer to the applicant by operation of law for fair market value a fee simple determinable interest in the right to drill to and produce from the named common sources of supply subject to the following terms:

- a. The drilling of the initial well shall be commenced within one hundred eighty (180) days of the date of the order. The order shall terminate upon the failure to timely commence such drilling or, if commenced, upon the failure to establish production in paying quantities from any common source of supply named in the order.
- b. If impenetrable substances or other mechanical difficulties are encountered during the drilling of a well, then drilling operations shall be deemed continuous if the drilling of a replacement well is commenced no later than ninety (90) days after such an occurrence.
- c. If production in paying quantities from the initial wellbore is established in any common source of supply named in the order, the term of the order shall be extended for as long thereafter as oil, gas or other hydrocarbons are produced in paying quantities from any common source of supply named in such an order after which the order shall terminate.
- d. Upon completion of the initial well the order shall terminate as to all common sources of supply named in

the order which are below the deepest producing common source of supply.

- e. If production in paying quantities shall temporarily cease from any cause, the order shall not terminate if operations to restore production in paying quantities or to drill a replacement well are commenced within ninety (90) days. The order shall terminate unless production in paying quantities is restored by such operations from any common source of supply remaining subject to the order at the time such operations were commenced.
- f. Upon completion of a producing well, the operator shall exercise due diligence in marketing the oil, gas and other hydrocarbons produced from the well.
- g. Except as hereinafter provided in subparagraph h of this paragraph, the drilling of any additional wells to any common source of supply remaining subject to the order shall be commenced no later than two (2) years after the date of the order. After completion of such a well, the order shall terminate outside existing wellbores as to all nonproducing common sources of supply named in the order which have not been completed in any wellbore drilled pursuant to the order.
- h. The drilling of any additional well as an increased density well in any unit producing in paying quantities from a common source of supply named in the order shall be commenced no later than five (5) years after the date of the order. The order shall terminate five (5) years after the date of the order as to all rights to drill and produce outside any existing wellbores.

i. The drilling of any well pursuant to an order requiring such pooling shall be in accordance with the rules of the Commission.

4. The Commission shall determine the fair market value of the interest being pooled after considering all relevant evidence. Relevant evidence shall include, but not be limited to, leases, farmout agreements, joint operating agreements, production information, geological or scientific data and transactions between any parties, governmental and private, whether by private treaty, auction, public offering or otherwise. In weighing the evidence, the Commission shall consider, among other things, the passage of time, the term of years, the nature and quantity of any conveyed rights, the limitations placed on the right to drill and produce, the proximity to the unit for the interest being pooled and any other information or condition that may have probative value in determining the fair market value of a pooled interest.

5. The portion of the production allocated to the owner of each tract or ~~interests~~ interest included in a well spacing unit formed by a ~~pooling~~ spacing order or resulting from an order requiring pooling of the right to drill and produce shall, when produced, be considered as if produced by such owner from the separately owned tract or interest by a well drilled thereon.

6. Such pooling order of the Commission shall make definite provisions for the payment of cost of the development and operation, which shall be limited to the actual expenditures required for such purpose not in excess of what are reasonable, including a reasonable charge for supervision. In the event of any dispute relative to such costs, the Commission shall determine the proper costs after due notice to interested parties and a hearing thereon.

7. The operator of such unit, in addition to any other right provided by the pooling order or orders of the Commission, shall have a lien on the mineral leasehold estate or rights owned by the

other owners therein and upon their shares of the production from such unit to the extent that costs incurred in the development and operation upon said unit are a charge against such interest by order of the Commission or by operation of law. Such liens shall be separable as to each separate owner within such unit, and shall remain liens until the owner or owners drilling or operating the well have been paid the amount due under the terms of the pooling order. The Commission is specifically authorized to provide that the owner or owners drilling, or paying for the drilling, or for the operation of a well for the benefit of all shall be entitled to production from such well which would be received by the owner or owners for whose benefit the well was drilled or operated, after payment of royalty, until the owner or owners drilling or operating the well have been paid the amount due under the terms of the pooling order or order settling such dispute. No part of the production or proceeds accruing to any owner of a separate interest in such unit shall be applied toward payment of any cost properly chargeable to any other interest in said unit.

N. For the purpose of this section, the owner or owners of oil and gas rights in and under an unleased tract of land shall be regarded as a lessee to the extent of a seven-eighths (7/8) interest in and to said rights and a lessor to the extent of the remaining one-eighth (1/8) interest therein.

O. Should the owners of separate tracts or interests embraced within a spacing unit fail to agree upon a pooling of their interests and the drilling of a well on the unit, and should it be established by final, unappealable judgment of a court of competent jurisdiction that the Commission is without authority to require pooling as provided for herein, then, subject to all other applicable provisions of this act, the owner of each tract or interest embraced within a spacing unit may drill on his separately owned tract, and the allowable production therefrom shall be that

portion of the allowable for the full spacing unit as the area of such separately owned tract bears to the full spacing unit.

In the event a producing well or wells are completed upon a unit where there are, or may thereafter be, two or more separately owned tracts, each royalty interest owner shall share in all production from the well or wells drilled within the unit, or in the gas well rental provided for in the lease covering such separately owned tract or interest in lieu of the customary fixed royalty, to the extent of such royalty interest owner's interest in the unit. Each royalty interest owner's interest in the unit shall be defined as the percentage of royalty owned in each separate tract by the royalty owner, multiplied by the proportion that the acreage in each separately owned tract or interest bears to the entire acreage of the unit.

~~(f)~~ P. Notwithstanding any provision of this section to the contrary, the Corporation Commission shall have jurisdiction upon the filing of a proper application therefor, and upon notice given as provided in subsection ~~(a) above~~ B of this section, to establish spacing rules for horizontally drilled oil wells whereby horizontally drilled oil wells may have well spacing units established of up to six hundred forty (640) acres plus tolerances and variances as allowed for gas wells pursuant to subsection ~~C~~ E of this section. For purposes of this subsection a "horizontally drilled oil well" shall mean an oil well drilled, completed or recompleted in a manner in which the horizontal component of the completion interval in the geological formation exceeds the vertical component thereof and which horizontal component extends a minimum of one hundred fifty (150) feet in the formation. The Corporation Commission shall promulgate rules necessary for the proper administration of this subsection.

SECTION 2. This act shall become effective November 1, 1995.

45-1-0211

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