

## FLOOR AMENDMENT

HOUSE OF REPRESENTATIVES

State of Oklahoma

SPEAKER:

CHAIR:

I move to amend HB1909 \_\_\_\_\_  
Page 1-2 Section 1-2 Lines \_\_\_\_\_  
Of the printed Bill  
Of the Engrossed Bill

By deleting all of Sections 1 and 2 and by inserting in lieu thereof new  
Sections 1 through 8 to read as follows:

SEE ATTACHED

AMEND TITLE TO CONFORM TO AMENDMENTS

Amendment submitted by: Mike Jackson

Adopted: \_\_\_\_\_

\_\_\_\_\_  
Reading Clerk

1       "SECTION 1.       NEW LAW       A new section of law not to be  
2 codified in the Oklahoma Statutes reads as follows:

3       The Legislature finds that advances in horizontal drilling  
4 techniques for wells drilled and completed in shale formations in  
5 Oklahoma have advanced beyond the historical statutory spacing  
6 scheme found in Section 87.1 and Sections 287.1 through 287.15 of  
7 Title 52 of the Oklahoma Statutes, in particular with the use of  
8 extended length laterals. The Corporation Commission, as the agency  
9 charged with the protection of the correlative rights of those  
10 owning oil and gas interests in this state, the prevention of waste  
11 and the promotion of development of these Oklahoma resources, is  
12 constrained in its ability to adequately accomplish these goals by  
13 the limitations placed upon it by the existing statutory scheme. In  
14 order to prevent waste, better protect the correlative rights of the  
15 owners of oil and gas mineral interests and harmonize the historical  
16 regulatory scheme of our state with the expanding technology of  
17 drilling and completing horizontal wells in shale reservoirs in this  
18 state, the Legislature finds it necessary to modify the oil and gas  
19 regulatory scheme in Oklahoma as set forth in this act.

20       SECTION 2.       NEW LAW       A new section of law to be codified  
21 in the Oklahoma Statutes as Section 87.6 of Title 52, unless there  
22 is created a duplication in numbering, reads as follows:

23       A. Sections 2 through 5 of this act shall be known and may be  
24 cited as the "2011 Shale Reservoir Development Act".

1 B. As used in the 2011 Shale Reservoir Development Act:

2 1. "Allocation factor" means the percentage of costs,  
3 production or proceeds allocated to a unit affected by a multiunit  
4 horizontal well;

5 2. "Application" means a written request filed by an owner of  
6 the right to drill seeking approval to drill, complete and produce a  
7 multiunit horizontal well or to create a horizontal well  
8 unitization;

9 3. "Associated common source of supply" means a common source  
10 of supply which is subject to a drilling and spacing unit formed by  
11 the Corporation Commission and located in all or a portion of the  
12 lands in which the completion interval of a multiunit horizontal  
13 well is located, and which is immediately adjoining the shale common  
14 source of supply in which the completion interval of the multiunit  
15 horizontal well is located, and which is inadvertently encountered  
16 in the drilling of the lateral of such multiunit horizontal well  
17 when such well is drilled out of or exits, whether on one or  
18 multiple occasions, such shale common source of supply;

19 4. "Commission" means the Corporation Commission;

20 5. "Completion interval" means, for an open hole completion in  
21 a horizontal well, the interval from the point of entry to the  
22 terminus and, for a cased and cemented completion in a horizontal  
23 well, the interval from the first perforations to the last  
24 perforations;

1       6. "Horizontal well" means a well drilled, completed, or  
2 recompleted with one or more laterals in a shale reservoir in a  
3 manner in which, for at least one lateral, the horizontal component  
4 of the completion interval in the shale reservoir exceeds the  
5 vertical component thereof and the horizontal component extends a  
6 minimum of one hundred fifty (150) feet in the formation;

7       7. "Horizontal well unitization" means a unitization for a  
8 shale reservoir created pursuant to Section 5 of this act;

9       8. "Horizontal component" means the calculated horizontal  
10 distance from the point of entry to the terminus;

11       9. "Lateral" means the portion of the wellbore of a horizontal  
12 well from the point of entry to the terminus;

13       10. "Multiunit horizontal well" means a horizontal well in a  
14 shale reservoir wherein the completion interval of the well is  
15 located in more than one unit formed for the same shale reservoir,  
16 with the well being completed in and producing from such shale  
17 reservoir in two or more of such units;

18       11. "Plan of development" means the proposed plan for  
19 developing the shale reservoir unitized pursuant to Section 5 of  
20 this act, which plan, based upon the information and knowledge then  
21 available to the applicant, shall include:

- 22           a. a map or maps indicating the location of each existing  
23 well in the proposed unit and the anticipated location  
24 of each horizontal well proposed to be drilled in the

1           proposed unit that is anticipated to be necessary,  
2           based upon the information and knowledge then  
3           available to the applicant, for the full and efficient  
4           development and operation of the proposed unit for the  
5           recovery of oil and gas from the shale reservoir  
6           within the proposed unit,

7           b.   any applicable proposed allocation factor or factors  
8           for allocating the costs, production and proceeds from  
9           the proposed unit,

10          c.   the anticipated timing and anticipated sequence of  
11          drilling of each horizontal well in the proposed unit,  
12          and

13          d.   any other specific terms, provisions, conditions and  
14          requirements set forth in Section 5 of this act or  
15          determined by the Commission to be reasonably  
16          necessary or proper to effectuate or accomplish the  
17          purpose of Section 5 of this act;

18          12.   "Point of entry" means the point at which the borehole of a  
19          horizontal well first intersects the top of the shale reservoir;

20          13.   "PRSA" means the Production Revenue Standards Act, Sections  
21          570.1 through 570.15 of Title 52 of the Oklahoma Statutes;

22          14.   "Shale reservoir" means a common source of supply which is  
23          a shale formation that is so designated by the Commission through  
24

1 rule or order, and shall also include any associated common source  
2 of supply as defined in this section;

3 15. "Terminus" means the end point of the borehole of a  
4 horizontal well in the shale reservoir;

5 16. "Wellbore royalty interest" means, for each separate  
6 multiunit horizontal well, the sum of resulting products of each  
7 affected unit's royalty share for that unit, as defined by the PRSA,  
8 multiplied by that unit's allocation factor for production and  
9 proceeds;

10 17. "Wellbore royalty proceeds" means the proceeds or other  
11 revenue derived from or attributable to any production of oil and  
12 gas from the multiunit horizontal well multiplied by the wellbore  
13 royalty interest;

14 18. "Unit" means a drilling and spacing unit for a single  
15 common source of supply created pursuant to Section 87.1 of Title 52  
16 of the Oklahoma Statutes or a horizontal well unitization created  
17 pursuant to Section 5 of this act;

18 19. "Unit's royalty contribution factor" means the royalty  
19 share for an affected unit, as defined by PRSA, multiplied by that  
20 unit's allocation factor, then divided by the total wellbore royalty  
21 interest; and

22 20. "Vertical component" means the calculated vertical distance  
23 from the point of entry to the terminus.

24

1       SECTION 3.       NEW LAW       A new section of law to be codified  
2 in the Oklahoma Statutes as Section 87.7 of Title 52, unless there  
3 is created a duplication in numbering, reads as follows:

4       Corporation Commission Jurisdiction.

5       The Corporation Commission shall have jurisdiction, upon the  
6 filing of a proper application therefor, to permit the drilling,  
7 completing and producing of a multiunit horizontal well in  
8 conformity with Section 4 of this act, or to create a horizontal  
9 well unitization in conformity with Section 5 of this act, if the  
10 Commission finds that the multiunit horizontal well or the  
11 horizontal well unitization will prevent waste and will protect the  
12 correlative rights of the owners of oil and gas rights.

13       SECTION 4.       NEW LAW       A new section of law to be codified  
14 in the Oklahoma Statutes as Section 87.8 of Title 52, unless there  
15 is created a duplication in numbering, reads as follows:

16       A. Under the conditions contained in this section, the  
17 Corporation Commission is authorized to allow multiunit horizontal  
18 wells in order to prevent waste and protect the correlative rights  
19 of the owners of oil and gas rights.

20       B. Ownership, Allocation of Costs, Commingled Production, and  
21 Proceeds.

22       The Commission shall require the allocation of the reasonable  
23 drilling, completion and production costs associated with a  
24 multiunit horizontal well to each of the affected units which the

1 well actually penetrates within the completion interval and shall  
2 further require the allocation of the commingled production and  
3 proceeds from the completion interval of a multiunit horizontal  
4 well, with any allocation to be in a manner that will prevent waste  
5 and protect the correlative rights of the owners of the oil and gas  
6 rights in each of the affected units which the well actually  
7 penetrates within the completion interval.

8       1. The allocation factor for each affected unit shall be  
9 determined by dividing the length of the completion interval located  
10 within the affected unit by the entire length of the completion  
11 interval in the subject multiunit horizontal well. The Commission  
12 shall have the authority to adjust the allocation factors, based  
13 upon reasonable testimony and evidence presented to the Commission,  
14 if necessary to prevent waste and adequately protect the correlative  
15 rights of the owners of the oil and gas rights in each of the  
16 affected units.

17       2. Each party who participates as a working interest owner in a  
18 multiunit horizontal well shall own an undivided interest in all  
19 portions of the wellbore of the well and in the equipment on or in  
20 the well in the same ratio that the party's allocated portion of the  
21 total costs of the well and equipment bears to the total costs of  
22 the well and equipment. The ownership of undivided interest  
23 described in this paragraph shall not affect or prejudice the  
24



1 ownership of oil and gas rights of the affected owners outside of  
2 the shale reservoir for the multiunit horizontal well.

3       3. A multiunit horizontal well shall be treated as a well in  
4 each of the affected units and shall be subject to all of the rules  
5 otherwise applicable to any other well in any of the affected units.  
6 In allowing a multiunit horizontal well, the Commission, under  
7 Section 87.1 of Title 52 of the Oklahoma Statutes, may grant any  
8 necessary exceptions to the permitted well location tolerances in  
9 each of the affected units for the well and permit the well as an  
10 additional well in each of the affected units. When an owner has  
11 drilled or proposes to drill a multiunit horizontal well or wells  
12 and the owners of a present right to drill in any of the affected  
13 units have not agreed to pool their interests in the unit for the  
14 affected common sources of supply, the Commission, under Section  
15 87.1 of Title 52 of the Oklahoma Statutes, may, upon the filing of a  
16 proper application therefor, require the owners to pool their  
17 interests in each affected unit on a unitwide basis as to the  
18 respective unit in regard to the development involving the portion  
19 of the multiunit horizontal well or wells located within the  
20 affected unit. Furthermore, if the Commission has previously  
21 entered an order pooling the interests of owners in an affected unit  
22 in which a multiunit horizontal well or wells have been drilled or  
23 are proposed to be drilled, the Commission, under Section 87.1 of  
24 Title 52 of the Oklahoma Statutes, may, upon the filing of a proper

1 application therefor, amend the pooling order to the extent  
2 necessary to have the pooling order cover the development involving  
3 the portion of the multiunit horizontal well or wells located within  
4 the affected unit.

5 4. The application shall include:

6 a. the approximate anticipated location of the proposed  
7 multiunit horizontal well or wells,

8 b. a map or maps indicating the location of each  
9 currently existing well in each affected unit which is  
10 the subject of the application and the anticipated  
11 location of each multiunit horizontal well currently  
12 proposed to be drilled in each affected unit as a  
13 result of the application and any other horizontal  
14 well not included in the current application, but  
15 anticipated to be necessary, based upon the  
16 information and knowledge then available to the  
17 applicant, for the full and efficient development and  
18 operations of the shale reservoir within the affected  
19 units if the well or wells are approved by the  
20 Commission upon the filing of a proper application at  
21 a future date, and

22 c. any applicable proposed allocation factor or factors  
23 for allocating the costs, production and proceeds from  
24

1                   each proposed multiunit horizontal well under the  
2                   application.

3           5.   Production from the completion interval of the shale  
4 reservoir from each of the affected units in which a multiunit  
5 horizontal well is completed may be commingled in the wellbore of  
6 the well and produced to the surface. The commingled production  
7 from a multiunit horizontal well shall be allocated to each of the  
8 affected units based upon the allocation factors approved by the  
9 Commission.

10          6.   In granting an application for a multiunit horizontal well  
11 or wells, the Commission shall find, based on the testimony and  
12 evidence presented, that given the information and knowledge then  
13 available, the proposed multiunit horizontal well or wells will  
14 prevent waste, protect correlative rights and likely will aid in the  
15 full and efficient development of each of the affected units.

16          7.   The wellbore royalty proceeds for a multiunit horizontal  
17 well shall be allocated to each affected unit by multiplying the  
18 royalty contribution factor of the unit by the wellbore royalty  
19 proceeds, with the resulting product being the royalty proceeds for  
20 that unit. Each royalty interest owner in an affected unit shall be  
21 entitled to receive the owner's proportionate royalty share of the  
22 allocated royalty proceeds for that unit.

23          8.   The multiunit horizontal well shall be subject to the  
24 provisions of the Product Revenue Standards Act (PRSA). The

1 operator of the multiunit horizontal well shall be the designated  
2 royalty distributor pursuant to the PRSA for the multiunit  
3 horizontal well, unless there is a diversity of operators in the  
4 affected units from which the multiunit horizontal well is producing  
5 and another operator in each of the affected units agrees to perform  
6 separately the PRSA royalty distribution functions for the unit.

7 C. Application, Notice and Retained Jurisdiction.

8 Application for approval of a multiunit horizontal well shall be  
9 in a form prescribed by the Commission. The application, and the  
10 notice of hearing on the application, shall be served no less than  
11 fifteen (15) days prior to the date of the hearing, by regular mail,  
12 upon each person or governmental entity having the right to share in  
13 production from each of the affected units covered by the  
14 application, as well as other persons or governmental entities  
15 required by the rules of the Commission. Upon approval of a  
16 multiunit horizontal well, the Commission shall retain jurisdiction  
17 over the well. The retained jurisdiction of the Commission set  
18 forth herein shall neither preclude nor impair the right of any  
19 affected party to obtain through the district courts of this state  
20 any remedy or relief available at law or in equity for injuries  
21 caused by any action or inaction of the applicant, operator or any  
22 other affected party.

1       SECTION 5.       NEW LAW       A new section of law to be codified

2 in the Oklahoma Statutes as Section 87.9 of Title 52, unless there  
3 is created a duplication in numbering, reads as follows:

4       A.   Horizontal Well Unitization for Shale Reservoirs.

5       Under limited circumstances and conditions contained in this  
6 section, the Corporation Commission is authorized to unitize a shale  
7 reservoir for the drilling of horizontal wells to the end that a  
8 greater ultimate recovery of oil and gas may be had therefrom, waste  
9 is prevented, and the correlative rights of the owners are  
10 protected. Unless and until a unit created pursuant to this section  
11 is effective, nothing in this section shall prohibit the drilling of  
12 a horizontal well within a drilling and spacing unit created  
13 pursuant to Section 87.1 of Title 52 of the Oklahoma Statutes.

14       B.   Prerequisites for Unitization.

15       Upon the filing of an appropriate application, and after notice  
16 and hearing, the Commission shall determine if:

17       1.   The proposed unitization of the shale reservoir is  
18 reasonably calculated to increase the ultimate recovery of oil and  
19 gas from the shale reservoir through the use of horizontal well  
20 technology to drill one or more horizontal wells in the unit;

21       2.   The use of horizontal well technology to drill the  
22 horizontal well or wells in the shale reservoir is feasible, will  
23 prevent waste, will protect correlative rights and will with  
24 reasonable probability result in the increased recovery of

1 substantially more oil and gas from the shale reservoir within the  
2 unit than would otherwise be recovered;

3 3. The estimated additional cost, if any, of conducting the  
4 horizontal well operations is not anticipated to exceed the value of  
5 the additional oil and gas to be recovered; and

6 4. The unitization and the use of horizontal well technology to  
7 drill one or more horizontal wells is for the common good and will  
8 result in the general advantage of the owners of the oil and gas  
9 rights within the unit.

10 Upon making these findings, the Commission may enter an order  
11 creating the unit and providing for the unitized operation of the  
12 shale reservoir described in the order, all upon terms and  
13 conditions as may be shown by the evidence to be fair, reasonable,  
14 equitable and which are necessary or proper to protect and safeguard  
15 the respective rights and obligations of the several persons  
16 affected, including royalty owners, owners of overriding royalties  
17 and others, as well as the lessees. The application shall set forth  
18 a description of the proposed unit with a map or plat thereof  
19 attached, shall allege the existence of the facts required to be  
20 found by the Commission as provided in this subsection and shall  
21 have attached thereto a recommended plan of development which is  
22 applicable to the proposed unit and which is fair, reasonable and  
23 equitable.

24 C. Size of the Unit.

1 Each unit shall be two governmental sections. However, the  
2 Commission may expand the size of the unit by including additional  
3 governmental sections up to a maximum unit size of four governmental  
4 sections, if for good cause shown the Commission finds the expansion  
5 of the unit size beyond two governmental sections is necessary to  
6 prevent waste, to protect correlative rights and will result in the  
7 increased recovery of substantially more oil and gas from the shale  
8 reservoir than would otherwise be recovered based upon, but not  
9 necessarily limited to:

- 10 1. Geological features existing within the proposed unit;
- 11 2. The proposed location or orientation of the horizontal  
12 wells;
- 13 3. The length of the laterals of the proposed horizontal wells;
- 14 4. The proposed use of multilateral wells; or
- 15 5. Any combination thereof.

16 D. Ownership of Oil and Gas Rights within the Unit.

17 Where there are, or may thereafter be, two or more separately  
18 owned tracts within the unit, each owner of oil and gas rights  
19 within the unit shall own an interest in the unit of the same  
20 character as the ownership of the owner in the separately owned  
21 tract. From and after the effective date of the order of the  
22 Commission creating the unit and subject to the provisions of any  
23 pooling order covering the unit, the interest of each owner in the  
24 unit shall be defined as the percentage of interest owned in each

1 separate tract by the owner, multiplied by the proportion that the  
2 acreage in each separately owned tract bears to the entire acreage  
3 of the unit. The costs incurred in connection with and the  
4 production and proceeds from the wells in the unit shall be  
5 allocated to each separate tract in the unit and shall be borne or  
6 shared by the owners in each separate tract based upon and  
7 determined by the interest of each owner in the tract. However, if  
8 a well or wells already exist within the area of the proposed unit  
9 which are producing or have produced or appear to be productive from  
10 the shale reservoir being unitized, the Commission may adjust the  
11 sharing of future costs incurred in connection with and future  
12 production and proceeds from any existing well or any subsequent  
13 well in the proposed unit in any manner deemed necessary by the  
14 Commission in order to protect the correlative rights of the owners  
15 within the proposed unit, including providing for the sharing of  
16 future costs incurred in connection with and future production and  
17 proceeds from any existing well or any subsequent well in a manner  
18 different from any other well in the unit so long as the various  
19 methods of sharing future costs, production and proceeds from the  
20 existing and subsequent wells in the proposed unit prevents waste  
21 and protects the correlative rights of all the affected owners. For  
22 the purpose of this section, any owner or owners of oil and gas  
23 rights in and under an unleased tract of land within the unit,  
24 unless the owner has relinquished the drilling rights or working



1 interest of the owner in the applicable shale reservoir in the tract  
2 of land under a pooling order entered by the Commission which order  
3 remains in effect, shall be regarded as a lessee to the extent of a  
4 seven-eighths (7/8) interest in and to the rights and a lessor to  
5 the extent of the remaining one-eighth (1/8) interest therein.

6 E. The Plan of Development.

7 The application shall include a proposed plan of development.  
8 Based upon the facts and conditions found to exist with respect to a  
9 proposed unit, the Commission shall determine the necessary terms,  
10 provisions, conditions and requirements to be included in the plan  
11 of development for the unit. If a well or wells already exist  
12 within the area of the proposed unit which are producing or have  
13 produced or appear to be productive from the shale reservoir being  
14 unitized, the plan of development shall also include:

15 1. Any adjustments to the sharing of future costs incurred in  
16 connection with future development and production, and the sharing  
17 of proceeds, from any existing well or any subsequent well which the  
18 Commission determines to be necessary in order to be fair,  
19 reasonable and equitable, and to protect the correlative rights of  
20 the owners, considering the existing development in and the prior  
21 and anticipated future production from the shale reservoir within  
22 the proposed unit; and

23 2. The procedure and basis upon which existing wells, equipment  
24 and other properties of the several lessees within the unit area are

1 to be taken over and used for unit operations, including the method  
2 of arriving at the compensation therefor, or of otherwise  
3 proportionately equalizing or adjusting the investment of the  
4 several lessees in the project as of the effective date of unit  
5 operation.

6 F. Order of the Commission.

7 The order of the Commission creating the unit shall:

- 8 1. Designate the size and shape of the unit;
- 9 2. Set forth the drilling pattern and setbacks for the unit,  
10 including the permitted well location tolerances for the permitted  
11 wells within the unit;
- 12 3. Approve and adopt the plan of development for the unit, with  
13 a copy thereof attached to the order;
- 14 4. Designate the unit operator; and
- 15 5. Provide for the conditions upon which the unit, and the  
16 order creating the unit, shall terminate.

17 G. Consent by Owners.

18 No order of the Commission creating a unit pursuant to this  
19 section shall become effective unless and until the proposed  
20 unitization has been consented to in writing, and the written  
21 consent submitted to the Commission, by lessees of record of not  
22 less than sixty-three percent (63%) of the working interest in the  
23 shale reservoir in the area to be included in the unit and by owners  
24 of record of not less than sixty-three percent (63%), exclusive of

1 any royalty interest owned by any lessee or by any subsidiary of any  
2 lessee, of the one-eighth (1/8) royalty interest in the shale  
3 reservoir in the area to be included in the unit in an express  
4 writing separate from the oil and gas lease. The Commission shall  
5 make a finding in the order creating the unit as to whether the  
6 requisite consent has been obtained. Where the requisite consent  
7 has not been obtained at the time the order creating the unit is  
8 entered, the Commission shall, upon application and notice, hold any  
9 additional and supplemental hearings as may be requested or required  
10 to determine if and when the requisite consent has been obtained and  
11 the date the unitization will become effective. In the event  
12 lessees and royalty owners, or either, owning the required  
13 percentage interest in and to the unit area have not so consented to  
14 the unitization within a period of six (6) months from and after the  
15 date on which the order creating the unit is entered, the order  
16 creating the unit shall cease to be of further force and effect and  
17 shall be revoked by the Commission.

18 H. Notice.

19 The application for the creation of a horizontal well  
20 unitization for a shale reservoir under this section, and the notice  
21 of hearing on the application, shall be served no less than fifteen  
22 (15) days prior to the date of the hearing, by regular mail, upon  
23 each person or governmental entity having the right to share in  
24 production from the proposed unit covered by the application, as

1 well as other persons or governmental entities required by  
2 Commission rules. Any person aggrieved by any order of the  
3 Commission made pursuant to this section may appeal therefrom to the  
4 Supreme Court of the State of Oklahoma upon the same conditions,  
5 within the same time and in the same manner as is provided for in  
6 Title 52 of the Oklahoma Statutes, for the taking of appeals from  
7 the orders of the Commission made thereunder.

8 I. Pooling of the Unit.

9 From and after the effective date of an order creating a unit  
10 pursuant to this section and subject to the provisions of the order  
11 in regard to the matters to be found by the Commission in the  
12 creation of the unit and the provisions of the applicable plan of  
13 development, an owner of the right to drill for and produce oil or  
14 gas from the unit may request the Commission to pool the oil and gas  
15 interests of the owners in the unit on a unitwide basis pursuant to  
16 the provisions of subsection (e) of Section 87.1 of Title 52 of the  
17 Oklahoma Statutes in regard to the development of the unit involving  
18 a horizontal well or wells.

19 J. Effect on Existing Spacing Units and Pooling Orders.

20 From and after the effective date of an order creating a unit  
21 pursuant to this section, the operation of any well producing from  
22 the shale reservoir within the unit defined in the order by persons  
23 other than the unit operator, or except in the manner and to the  
24 extent provided in the order shall be unlawful and is hereby

1 prohibited. Once the order of the Commission creating a unit  
2 pursuant to this section becomes effective, the unit so created  
3 shall supersede any drilling and spacing unit previously formed by  
4 the Commission pursuant to Section 87.1 of Title 52 of the Oklahoma  
5 Statutes for the same shale reservoir within the area of the new  
6 unit. Any pooling order which was entered by the Commission  
7 pursuant to subsection (e) of Section 87.1 of Title 52 of the  
8 Oklahoma Statutes covering any drilling and spacing unit superseded  
9 by a unit created pursuant to this section and which was in effect  
10 at the time of the creation of the unit shall remain in full force  
11 and effect as to any oil and gas interests in the shale reservoir  
12 which were relinquished and transferred by operation of law under  
13 the pooling order. However, further development of the shale  
14 reservoir in the area of the unit created pursuant to this section  
15 shall not be subject to any of the other provisions of any prior  
16 pooling order, but shall be governed by and pursuant to the order  
17 creating the unit, including the applicable plan of development, and  
18 any subsequent pooling order covering the unit.

19 K. Payment of Proceeds.

20 Units created pursuant to this section shall be subject to the  
21 terms and provision of the PRSA.

22 L. The Commissioners of the Land Office.

23 The Commissioners of the Land Office, or other proper board or  
24 officer of the state having the control and management of state

1 land, and the proper board or officer of any political, municipal,  
2 or other subdivision or agency of the state, are hereby authorized  
3 and shall have the power on behalf of the state or of any political,  
4 municipal, or other subdivision or agency thereof, with respect to  
5 land or oil and gas rights subject to the control and management of  
6 the respective body, board, or officer, to consent to or participate  
7 in any unitization adopted pursuant to the 2011 Shale Reservoir  
8 Development Act.

9 M. Retained Jurisdiction.

10 Upon the creation of a unit pursuant to this section, and  
11 approval of the plan of development in connection therewith, the  
12 Commission shall retain jurisdiction over the unit and the plan of  
13 development. The retained jurisdiction of the Commission set forth  
14 herein shall neither preclude nor impair the right of any affected  
15 party to obtain through the district courts of this state any remedy  
16 or relief available at law or in equity for injuries caused by any  
17 action or inaction of the applicant, operator or any other affected  
18 party.

19 SECTION 6. AMENDATORY 52 O.S. 2001, Section 87.1, as  
20 amended by Section 2, Chapter 331, O.S.L. 2007 (52 O.S. Supp. 2010,  
21 Section 87.1), is amended to read as follows:

22 Section 87.1 Whenever the production from any common source of  
23 supply of oil or natural gas in this state can be obtained only  
24 under conditions constituting waste or drainage not compensated by

1 counterdrainage, then any person having the right to drill into and  
2 produce from such common source of supply may, except as otherwise  
3 authorized or in this section provided, take therefrom only such  
4 proportion of the oil or natural gas that may be produced therefrom  
5 without waste or without such drainage as the productive capacity of  
6 the well or wells of any such person considered with the acreage  
7 properly assignable to each such well bears to the total productive  
8 capacities of the wells in such common source of supply considered  
9 with the acreage properly assignable to each well therein.

10 (a) To prevent or to assist in preventing the various types of  
11 waste of oil or gas prohibited by statute, or any ~~of said~~ wastes, or  
12 to protect or assist in protecting the correlative rights of  
13 interested parties, the Corporation Commission, upon a proper  
14 application and notice given as hereinafter provided, and after a  
15 hearing as provided in ~~said~~ the notice, shall have the power to  
16 establish well spacing and drilling units of specified and  
17 approximately uniform size and shape covering any common source of  
18 supply, or prospective common source of supply, of oil or gas within  
19 the State of Oklahoma; provided, that the Commission may authorize  
20 the drilling of an additional well or wells on any spacing and  
21 drilling unit or units or any portion or portions thereof or may  
22 establish, reestablish, or reform well spacing and drilling units of  
23 different sizes and shapes when the Commission determines that a  
24 common source of supply contains predominantly oil underlying an

1 area or areas and contains predominantly gas underlying a different  
2 area or areas; provided further that the units in the predominantly  
3 oil area or areas shall be of approximately uniform size and shape,  
4 and the units in the predominantly gas area or areas shall be of  
5 approximately uniform size and shape, except that the units in the  
6 gas area or areas may be of nonuniform size and shape when they  
7 adjoin the units in the oil area or areas; provided further that the  
8 drilling pattern for such nonuniform units need not be uniform, and  
9 provided further that the Commission shall adjust the allowable  
10 production within ~~said~~ the common source of supply, or any part  
11 thereof, and take such other action as may be necessary to protect  
12 the rights of interested parties. Any order issued pursuant to the  
13 provisions hereof may be entered after a hearing upon the petition  
14 of any person owning an interest in the minerals in lands embraced  
15 within such common source of supply, or the right to drill a well  
16 for oil or gas on the lands embraced within such common source of  
17 supply, or on the petition of the Conservation Officer of the State  
18 of Oklahoma. When such a petition is filed with the Commission, the  
19 Commission shall give at least fifteen (15) days' notice of the  
20 hearing to be held upon such petition by one publication, at least  
21 fifteen (15) days prior to the hearing, in some newspaper of general  
22 circulation published in Oklahoma County, and by one publication, at  
23 least fifteen (15) days prior to the date of the hearing, in some  
24 newspaper published in the county, or in each county, if there be



1 more than one, in which the lands embraced within the application  
2 are situated. Except as to the notice of hearing on such a  
3 petition, the procedural requirements of ~~Sections~~ Section 86.1 et  
4 seq. of this title, shall govern all proceedings and hearings  
5 provided for by this section.

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

11 (c) In establishing a well spacing or drilling unit for a  
12 common source of supply thereunder, the acreage to be embraced  
13 within each unit may include acreage from more than one governmental  
14 section, but shall not exceed six hundred forty (640) acres for a  
15 gas well plus ten percent (10%) tolerance, unless ~~a~~ the unit is a  
16 governmental section and the governmental section contains more than  
17 six hundred forty (640) acres in which case the unit may comprise  
18 the entire section. Provided, however, fractional sections along  
19 the state boundary line and within the townships along the boundary  
20 where the survey west of the Indian Meridian meets the survey east  
21 of the Cimarron Meridian may be spaced with adjoining section unit,  
22 and the shape thereof shall be determined by the Commission from the  
23 evidence introduced at the hearing, and the following facts, among  
24 other things, shall be material: (1) The lands embraced in the

1 actual or prospective common source of supply; (2) the plan of well  
2 spacing then being employed or contemplated in ~~said~~ the source of  
3 supply; (3) the depth at which production from ~~said~~ the common  
4 source of supply has been or is expected to be found; (4) the nature  
5 and character of the producing or prospective producing formation or  
6 formations; and (5) any other available geological or scientific  
7 data pertaining to ~~said~~ the actual or prospective source of supply  
8 which may be of probative value to ~~said~~ the Commission in  
9 determining the proper spacing and well drilling unit therefor, with  
10 due and relative allowance for the correlative rights and  
11 obligations of the producers and royalty owners interested therein.

12 The order establishing such spacing or drilling units shall set  
13 forth: (1) the outside boundaries of the surface area included in  
14 such order; (2) the size, form, and shape of the spacing or drilling  
15 units so established; (3) the drilling pattern for the area, which  
16 shall be uniform except as hereinbefore provided; and (4) the  
17 location of the permitted well on each such spacing or drilling  
18 unit. To such order shall be attached a plat upon which shall be  
19 indicated the foregoing information. Subject to other provisions of  
20 ~~this act, Sections 81~~ Section 86.1 et seq. of this title, the order  
21 establishing such spacing or drilling units shall direct that no  
22 more than one well shall thereafter be produced from the common  
23 source of supply on any unit so established, and that the well  
24 permitted on that unit shall be drilled at the location thereon as

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

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

23 (d) The Commission shall have jurisdiction upon the filing of a  
24 proper application therefor, and upon notice given as provided in

1 subsection (a) ~~above~~ of this section, to decrease the size of the  
2 well spacing units or to permit additional wells to be drilled  
3 within the established units, or to increase the size or modify the  
4 shape of the well spacing units, upon proper proof at such hearing  
5 that such modification or extension of the order establishing  
6 drilling or spacing units will prevent or assist in preventing the  
7 various types of wastes prohibited by statute, or any of ~~said~~ the  
8 wastes, or will protect or assist in protecting the correlative  
9 rights of persons interested in ~~said~~ the common source of supply, or  
10 upon the filing of a proper application therefor to enlarge the area  
11 covered by the spacing order, if such proof discloses that the  
12 development or the trend of development indicates that such common  
13 source of supply underlies an area not covered by the spacing order  
14 and such proof discloses that the applicant is an owner within the  
15 area or within a drilling and spacing unit contiguous to the area  
16 covered by the application. Except in the instance of reservoir  
17 dewatering as described herein, the Commission shall not establish  
18 well spacing units of more than forty (40) acres in size covering  
19 common sources of supply of oil, the top of which lies less than  
20 four thousand (4,000) feet below the surface as determined by the  
21 original or discovery well in ~~said~~ the common source of supply, and  
22 the Commission shall not establish well spacing units of more than  
23 eighty (80) acres in size covering common sources of supply of oil,  
24 the top of which lies less than nine thousand nine hundred ninety

1 (9,990) feet and more than four thousand (4,000) feet below the  
2 surface as determined by the original or discovery well in ~~said~~ the  
3 common source of supply. In the instance of reservoir dewatering to  
4 extract oil from reservoirs having initial water saturations at or  
5 above fifty percent (50%), the Commission may establish drilling and  
6 spacing units not to exceed six hundred forty (640) acres in size.

7 (e) The drilling of any well or wells into any common source of  
8 supply for the purpose of producing oil or gas therefrom, after a  
9 spacing order has been entered by the Commission covering such  
10 common source of supply, at a location other than that fixed by ~~said~~  
11 the order is hereby prohibited. The drilling of any well or wells  
12 into a common source of supply, covered by a pending spacing  
13 application, at a location other than that approved by a special  
14 order of the Commission authorizing the drilling of such well is  
15 hereby prohibited. The operation of any well drilled in violation  
16 of any spacing so entered is also hereby prohibited. When two or  
17 more separately owned tracts of land are embraced within an  
18 established spacing unit, or where there are undivided interests  
19 separately owned, or both such separately owned tracts and undivided  
20 interests embraced within such established spacing unit, the owners  
21 thereof may validly pool their interests and develop their lands as  
22 a unit. Where, however, such owners have not agreed to pool their  
23 interests and where one such separate owner has drilled or proposes  
24 to drill a well on ~~said~~ the unit to the common source of supply, the

1 Commission, to avoid the drilling of unnecessary wells, or to  
2 protect correlative rights, shall, upon a proper application  
3 therefor and a hearing thereon, require such owners to pool and  
4 develop their lands in the spacing unit as a unit. The applicant  
5 shall give all the owners whose addresses are known or could be  
6 known through the exercise of due diligence at least fifteen (15)  
7 days' notice by mail, return receipt requested. The applicant shall  
8 also give notice by one publication, at least fifteen (15) days  
9 prior to the hearing, in some newspaper of general circulation  
10 published in Oklahoma County, and by one publication, at least  
11 fifteen (15) days prior to the date of the hearing, in some  
12 newspaper published in the county, or in each county, if there be  
13 more than one, in which the lands embraced within the spacing unit  
14 are situated. The applicant shall file proof of publication and an  
15 affidavit of mailing with the Commission prior to the hearing. All  
16 orders requiring such pooling shall be made after notice and  
17 hearing, and shall be upon such terms and conditions as are just and  
18 reasonable and will afford to the owner of such tract in the unit  
19 the opportunity to recover or receive without unnecessary expense  
20 ~~his~~ the owner's just and fair share of the oil and gas. The portion  
21 of the production allocated to the owner of each tract or interests  
22 included in a well spacing unit formed by a pooling order shall,  
23 when produced, be considered as if produced by such owner from the  
24 separately owned tract or interest by a well drilled thereon. Such

1 pooling order of the Commission shall make definite provisions for  
2 the payment of cost of the development and operation, which shall be  
3 limited to the actual expenditures required for such purpose not in  
4 excess of what are reasonable, including a reasonable charge for  
5 supervision. In the event of any dispute relative to such costs,  
6 the Commission shall determine the proper costs after due notice to  
7 interested parties and a hearing thereon. The operator of such  
8 unit, in addition to any other right provided by the pooling order  
9 or orders of the Commission, shall have a lien on the mineral  
10 leasehold estate or rights owned by the other owners therein and  
11 upon their shares of the production from such unit to the extent  
12 that costs incurred in the development and operation upon ~~said~~ the  
13 unit are a charge against such interest by order of the Commission  
14 or by operation of law. Such liens shall be separable as to each  
15 separate owner within such unit, and shall remain liens until the  
16 owner or owners drilling or operating the well have been paid the  
17 amount due under the terms of the pooling order. The Commission is  
18 specifically authorized to provide that the owner or owners  
19 drilling, or paying for the drilling, or for the operation of a well  
20 for the benefit of all shall be entitled to production from such  
21 well which would be received by the owner or owners for whose  
22 benefit the well was drilled or operated, after payment of royalty,  
23 until the owner or owners drilling or operating the well have been  
24 paid the amount due under the terms of the pooling order or order

1 settling such dispute. No part of the production or proceeds  
2 accruing to any owner of a separate interest in such unit shall be  
3 applied toward payment of any cost properly chargeable to any other  
4 interest in ~~said~~ the unit.

5 For the purpose of this section, the owner or owners of oil and  
6 gas rights in and under an unleased tract of land shall be regarded  
7 as a lessee to the extent of a seven-eighths (7/8) interest in and  
8 to ~~said~~ the rights and a lessor to the extent of the remaining  
9 one-eighth (1/8) interest therein. Should the owners of separate  
10 tracts or interests embraced within a spacing unit fail to agree  
11 upon a pooling of their interests and the drilling of a well on the  
12 unit, and should it be established by final, unappealable judgment  
13 of a court of competent jurisdiction that the Commission is without  
14 authority to require pooling as provided for herein, then, subject  
15 to all other applicable provisions of this act, the owner of each  
16 tract or interest embraced within a spacing unit may drill on his or  
17 her separately owned tract, and the allowable production therefrom  
18 shall be that portion of the allowable for the full spacing unit as  
19 the area of such separately owned tract bears to the full spacing  
20 unit.

21 In the event a producing well or wells are completed upon a unit  
22 where there are, or may thereafter be, two or more separately owned  
23 tracts, each royalty interest owner shall share in all production  
24 from the well or wells drilled within the unit, or in the gas well



1 rental provided for in the lease covering such separately owned  
2 tract or interest in lieu of the customary fixed royalty, to the  
3 extent of such royalty interest owner's interest in the unit. Each  
4 royalty interest owner's interest in the unit shall be defined as  
5 the percentage of royalty owned in each separate tract by the  
6 royalty owner, multiplied by the proportion that the acreage in each  
7 separately owned tract or interest bears to the entire acreage of  
8 the unit.

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

1       SECTION 7.       AMENDATORY       52 O.S. 2001, Section 287.3, is  
2 amended to read as follows:

3       Section 287.3   If upon the filing of a petition therefor and  
4 after notice and hearing, all in the form and manner and in  
5 accordance with the procedure and requirements hereinafter provided,  
6 the Corporation Commission shall find (a) that the unitized  
7 management, operation and further development of a common source of  
8 supply of oil and gas or portion thereof is reasonably necessary in  
9 order to effectively carry on pressure maintenance or repressuring  
10 operations, cycling operations, water flooding operations, or any  
11 combination thereof, or any other nonprimary production form of  
12 joint effort calculated to substantially increase the ultimate  
13 recovery of oil and gas from the common source of supply; and (b)  
14 that one or more of ~~said~~ the unitized methods of operation as  
15 applied to such common source of supply or portion thereof are  
16 feasible, will prevent waste and will with reasonable probability  
17 result in the increased recovery of substantially more oil and gas  
18 from the common source of supply than would otherwise be recovered;  
19 and (c) that the estimated additional cost, if any, of conducting  
20 such operations will not exceed the value of the additional oil and  
21 gas so recovered; and (d) that such unitization and adoption of one  
22 or more of such unitized methods of operation is for the common good  
23 and will result in the general advantage of the owners of the oil  
24 and gas rights within the common source of supply or portion thereof

1 directly affected, it shall make a finding to that effect and make  
2 an order creating the unit and providing for the unitization and  
3 unitized operation of the common source of supply or portion thereof  
4 described in the order, all upon such terms and conditions, as may  
5 be shown by the evidence to be fair, reasonable, equitable and which  
6 are necessary or proper to protect, safeguard, and adjust the  
7 respective rights and obligations of the several persons affected,  
8 including royalty owners, owners of overriding royalties, oil and  
9 gas payments, carried interests, mortgagees, lien claimants and  
10 others, as well as the lessees. The petition shall set forth a  
11 description of the proposed unit area with a map or plat thereof  
12 attached, must allege the existence of the facts required to be  
13 found by the Commission as hereinabove provided and shall have  
14 attached thereto a recommended plan of unitization applicable to  
15 such proposed unit area and which the petitioner or petitioners  
16 consider to be fair, reasonable and equitable.

17 SECTION 8. It being immediately necessary for the preservation  
18 of the public peace, health and safety, an emergency is hereby  
19 declared to exist, by reason whereof this act shall take effect and  
20 be in full force from and after its passage and approval."

21

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