

1 laterals. The Corporation Commission, as the agency charged with
2 the protection of the correlative rights of those owning oil and gas
3 interests in this state and the prevention of waste and promotion of
4 development of these Oklahoma resources, is constrained in its
5 ability to adequately accomplish these goals by the limitations
6 placed upon it by the existing statutory scheme. In order to
7 prevent waste, better protect the correlative rights of the owners
8 of oil and gas mineral interests, and harmonize our state's
9 historical regulatory scheme with the expanding technology of
10 drilling and completing horizontal wells in shale reservoirs in this
11 state, the Legislature finds it necessary to modify Oklahoma's oil
12 and gas regulatory scheme as set forth in this act.

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

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

18 B. Definitions. As used in Sections 2 through 5 of this act:

19 1. "Allocation factor" means the percentage of costs,
20 production or proceeds allocated to a unit affected by a multi-unit
21 horizontal well;

22 2. "Application" means a written request filed by an owner of
23 the right to drill seeking approval to drill, complete and produce a
24

1 multi-unit horizontal well or to create a horizontal well
2 unitization;

3 3. "Associated common source of supply" means a common source
4 of supply which is subject to a drilling and spacing unit formed by
5 the Corporation Commission and located in all or a portion of the
6 lands in which the completion interval of a multi-unit horizontal
7 well is located, and which is immediately adjoining the shale common
8 source of supply in which the completion interval of the multi-unit
9 horizontal well is located, and which is inadvertently encountered
10 in the drilling of the lateral of such multi-unit horizontal well
11 when such well is drilled out of or exits, whether on one or
12 multiple occasions, such shale common source of supply;

13 4. "Commission" means the Corporation Commission;

14 5. "Completion interval" means, for an open hole completion in
15 a horizontal well, the interval from the point of entry to the
16 terminus and, for a cased and cemented completion in a horizontal
17 well, the interval from the first perforations to the last
18 perforations;

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

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

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

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

7 10. "Multi-unit horizontal well" means a horizontal well in a
8 shale reservoir wherein the completion interval of such well is
9 located in more than one unit formed for the same shale reservoir,
10 with such well being completed in and producing from such shale
11 reservoir in two or more of such units;

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

16 a. a map or maps indicating the location of each existing
17 well in the proposed unit and the anticipated location
18 of each horizontal well proposed to be drilled in the
19 proposed unit that is anticipated to be necessary,
20 based upon the information and knowledge then
21 available to the applicant, for the full and efficient
22 development and operation of the proposed unit for the
23 recovery of oil and gas from the shale reservoir
24 within the proposed unit,

- 1 b. any applicable proposed allocation factor or factors
2 for allocating the costs, production and proceeds from
3 the proposed unit,
4 c. the anticipated timing and anticipated sequence of
5 drilling of each horizontal well in the proposed unit,
6 and
7 d. any other specific terms, provisions, conditions and
8 requirements set forth in Section 5 of this act or
9 determined by the Commission to be reasonably
10 necessary or proper to effectuate or accomplish the
11 purpose of Section 5 of this act;

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

14 13. "PRSA" means the Production Revenue Standards Act, Sections
15 570.1 through 570.15 of Title 52 of the Oklahoma Statutes;

16 14. "Shale reservoir" means a common source of supply which is
17 a shale formation that is so designated by the Commission through
18 rule or order, and shall also include any associated common source
19 of supply as defined in this section;

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

22 16. "Wellbore royalty interest" means, for each separate multi-
23 unit horizontal well, the sum of resulting products of each affected
24 unit's royalty share for that unit, as defined by the PRSA,

1 multiplied by that unit's allocation factor for production and
2 proceeds;

3 17. "Wellbore royalty proceeds" means the proceeds or other
4 revenue derived from or attributable to any production of oil and
5 gas from the multi-unit horizontal well multiplied by the wellbore
6 royalty interest;

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

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

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

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

20 Corporation Commission Jurisdiction.

21 The Corporation Commission shall have jurisdiction, upon the
22 filing of a proper application therefor, to permit the drilling,
23 completing and producing of a multi-unit horizontal well in
24 conformity with Section 4 of this act, or to create a horizontal

1 well unitization in conformity with Section 5 of this act, if the
2 Commission finds that such multi-unit horizontal well or such
3 horizontal well unitization will prevent waste and will protect the
4 correlative rights of the owners of oil and gas rights.

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

8 A. Under the conditions contained in this section, the
9 Corporation Commission is authorized to allow multi-unit horizontal
10 wells in order to prevent waste and protect the correlative rights
11 of the owners of oil and gas rights.

12 B. Ownership, Allocation of Costs, Commingled Production, and
13 Proceeds.

14 The Commission shall require the allocation of the reasonable
15 drilling, completion and production costs associated with a multi-
16 unit horizontal well to each of the affected units which said well
17 actually penetrates within the completion interval and shall further
18 require the allocation of the commingled production and proceeds
19 from the completion interval of a multi-unit horizontal well, with
20 any such allocation to be in a manner that will prevent waste and
21 protect the correlative rights of the owners of the oil and gas
22 rights in each of the affected units which said well actually
23 penetrates within the completion interval.

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1 1. The allocation factor for each affected unit shall be
2 determined by dividing the length of the completion interval located
3 within the affected unit by the entire length of the completion
4 interval in the subject multi-unit horizontal well. The Commission
5 shall have the authority to adjust the allocation factors, based
6 upon reasonable testimony and evidence presented to the Commission,
7 if necessary to prevent waste and adequately protect the correlative
8 rights of the owners of the oil and gas rights in each of the
9 affected units.

10 2. Each party who participates as a working interest owner in a
11 multi-unit horizontal well shall own an undivided interest in all
12 portions of the wellbore of such well and in the equipment on or in
13 such well in the same ratio that such party's allocated portion of
14 the total costs of such well and equipment bears to the total costs
15 of such well and equipment. The ownership of undivided interest
16 described in this paragraph shall not affect or prejudice the
17 ownership of oil and gas rights of the affected owners outside of
18 the shale reservoir for the multi-unit horizontal well.

19 3. A multi-unit horizontal well shall be treated as a well in
20 each of the affected units and shall be subject to all of the rules
21 otherwise applicable to any other well in any of the affected units.
22 In allowing a multi-unit horizontal well, the Commission, under
23 Section 87.1 of Title 52 of the Oklahoma Statutes, may grant any
24 necessary exceptions to the permitted well location tolerances in

1 each of the affected units for such well and permit such well as an
2 additional well in each of the affected units. When an owner has
3 drilled or proposes to drill a multi-unit horizontal well or wells
4 and the owners of a present right to drill in any of the affected
5 units have not agreed to pool their interests in such unit for the
6 affected common sources of supply, the Commission, under Section
7 87.1 of Title 52 of the Oklahoma Statutes, may, upon the filing of a
8 proper application therefor, require such owners to pool their
9 interests in each such affected unit on a unit-wide basis as to the
10 respective unit in regard to the development involving the portion
11 of the multi-unit horizontal well or wells located within the
12 affected unit. Furthermore, if the Commission has previously
13 entered an order pooling the interests of owners in an affected unit
14 in which a multi-unit horizontal well or wells have been drilled or
15 are proposed to be drilled, the Commission, under Section 87.1 of
16 Title 52 of the Oklahoma Statutes, may, upon the filing of a proper
17 application therefor, amend such pooling order to the extent
18 necessary to have such pooling order cover the development involving
19 the portion of the multi-unit horizontal well or wells located
20 within the affected unit.

21 4. The application shall include:

22 a. the approximate anticipated location of the proposed
23 multi-unit horizontal well or wells,
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- 1 b. a map or maps indicating the location of each
2 currently existing well in each affected unit which
3 are the subject of the application and the anticipated
4 location of each multi-unit horizontal well currently
5 proposed to be drilled in each affected unit as a
6 result of the application and any other horizontal
7 well not included in the current application, but
8 anticipated to be necessary, based upon the
9 information and knowledge then available to the
10 applicant, for the full and efficient development and
11 operations of the shale reservoir within the affected
12 units if such well or wells are approved by the
13 Commission upon the filing of a proper application at
14 a future date, and
- 15 c. any applicable proposed allocation factor or factors
16 for allocating the costs, production and proceeds from
17 each proposed multi-unit horizontal well under the
18 application.

19 5. Production from the completion interval of the shale
20 reservoir from each of the affected units in which a multi-unit
21 horizontal well is completed may be commingled in the wellbore of
22 such well and produced to the surface. The commingled production
23 from a multi-unit horizontal well shall be allocated to each of the
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1 affected units based upon the allocation factors approved by the
2 Commission.

3 6. In granting an application for a multi-unit horizontal well
4 or wells, the Commission shall find, based on the testimony and
5 evidence presented, that given the information and knowledge then
6 available, the proposed multi-unit horizontal well or wells will
7 prevent waste, protect correlative rights and likely will aid in the
8 full and efficient development of each of the affected units.

9 7. The wellbore royalty proceeds for a multi-unit horizontal
10 well shall be allocated to each affected unit by multiplying the
11 unit's royalty contribution factor by the wellbore royalty proceeds,
12 with the resulting product being the royalty proceeds for that unit.
13 Each royalty interest owner in an affected unit shall be entitled to
14 receive such owner's proportionate royalty share of that unit's
15 allocated royalty proceeds.

16 8. The multi-unit horizontal well shall be subject to the
17 provisions of PRSA. The operator of the multi-unit horizontal well
18 shall be the designated royalty distributor pursuant to the PRSA for
19 such multi-unit horizontal well, unless there is a diversity of
20 operators in the affected units from which the multi-unit horizontal
21 well is producing and another operator in each of the affected units
22 agrees to perform separately the PRSA royalty distribution functions
23 for such unit.

24 C. Application, Notice and Retained Jurisdiction.

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

16 SECTION 5. NEW LAW A new section of law to be codified
17 in the Oklahoma Statutes as Section 87.9 of Title 52, unless there
18 is created a duplication in numbering, reads as follows:

19 A. Horizontal Well Unitization for Shale Reservoirs.

20 Under limited circumstances and conditions contained in this
21 section, the Corporation Commission is authorized to unitize a shale
22 reservoir for the drilling of horizontal wells to the end that a
23 greater ultimate recovery of oil and gas may be had therefrom, waste
24 is prevented, and the correlative rights of the owners are

1 protected. Unless and until a unit created pursuant to this section
2 is effective, nothing in this section shall prohibit the drilling of
3 a horizontal well within a drilling and spacing unit created
4 pursuant to Section 87.1 of Title 52 of the Oklahoma Statutes.

5 B. Prerequisites for Unitization.

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

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

12 2. The use of such horizontal well technology to drill such
13 horizontal well or wells in such shale reservoir is feasible, will
14 prevent waste, will protect correlative rights and will with
15 reasonable probability result in the increased recovery of
16 substantially more oil and gas from the shale reservoir within the
17 unit than would otherwise be recovered;

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

21 4. Such unitization and the use of horizontal well technology
22 to drill one or more horizontal wells is for the common good and
23 will result in the general advantage of the owners of the oil and
24 gas rights within the unit.

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

15 C. Size of the Unit.

16 Each unit shall be two governmental sections; however, the
17 Commission may expand the size of the unit by including additional
18 governmental sections up to a maximum unit size of four governmental
19 sections, if for good cause shown the Commission finds the expansion
20 of the unit size beyond two governmental sections is necessary to
21 prevent waste, to protect correlative rights and will result in the
22 increased recovery of substantially more oil and gas from the shale
23 reservoir than would otherwise be recovered based upon, but not
24 necessarily limited to:

- 1 1. Geological features existing within the proposed unit;
 - 2 2. The proposed location or orientation of the horizontal
 - 3 wells;
 - 4 3. The length of the laterals of the proposed horizontal wells;
 - 5 4. The proposed use of multi-lateral wells; or
 - 6 5. Any combination thereof.
- 7 D. Ownership of Oil and Gas Rights within the Unit.

8 Where there are, or may thereafter be, two or more separately
9 owned tracts within the unit, each owner of oil and gas rights
10 within the unit shall own an interest in the unit of the same
11 character as his or her ownership in the separately owned tract.
12 From and after the effective date of the order of the Commission
13 creating the unit and subject to the provisions of any pooling order
14 covering such unit, each owner's interest in the unit shall be
15 defined as the percentage of interest owned in each separate tract
16 by the owner, multiplied by the proportion that the acreage in each
17 separately owned tract bears to the entire acreage of the unit. The
18 costs incurred in connection with and the production and proceeds
19 from the wells in the unit shall be allocated to each such separate
20 tract in the unit and shall be borne or shared by the owners in each
21 such separate tract based upon and determined by each owner's
22 interest in the tract. However, if a well or wells already exist
23 within the area of the proposed unit which are producing or have
24 produced or appear to be productive from the shale reservoir being

1 unitized, the Commission may adjust the sharing of future costs
2 incurred in connection with and future production and proceeds from
3 any such existing well or any subsequent well in the proposed unit
4 in any manner deemed necessary by the Commission in order to protect
5 the correlative rights of the owners within the proposed unit,
6 including providing for the sharing of future costs incurred in
7 connection with and future production and proceeds from any existing
8 well or any subsequent well in a manner different from any other
9 well in the unit so long as such various methods of sharing future
10 costs, production and proceeds from the existing and subsequent
11 wells in the proposed unit prevents waste and protects the
12 correlative rights of all the affected owners. For the purpose of
13 this section, any owner or owners of oil and gas rights in and under
14 an unleased tract of land within the unit, unless such owner has
15 relinquished such owner's drilling rights or working interest in the
16 applicable shale reservoir in such tract of land under a pooling
17 order entered by the Commission which order remains in effect, shall
18 be regarded as a lessee to the extent of a seven-eighths (7/8)
19 interest in and to the rights and a lessor to the extent of the
20 remaining one-eighth (1/8) interest therein.

21 E. The Plan of Development.

22 The application shall include a proposed plan of development.
23 Based upon the facts and conditions found to exist with respect to a
24 proposed unit, the Commission shall determine the necessary terms,

1 provisions, conditions and requirements to be included in the plan
2 of development for such unit. If a well or wells already exist
3 within the area of the proposed unit which are producing or have
4 produced or appear to be productive from the shale reservoir being
5 unitized, the plan of development shall also include:

6 1. Any adjustments to the sharing of future costs incurred in
7 connection with future development and production, and the sharing
8 of proceeds, from any existing well or any subsequent well which the
9 Commission determines to be necessary in order to be fair,
10 reasonable and equitable, and to protect the correlative rights of
11 the owners, considering the existing development in and the prior
12 and anticipated future production from the shale reservoir within
13 the proposed unit; and

14 2. The procedure and basis upon which existing wells, equipment
15 and other properties of the several lessees within the unit area are
16 to be taken over and used for unit operations, including the method
17 of arriving at the compensation therefor, or of otherwise
18 proportionately equalizing or adjusting the investment of the
19 several lessees in the project as of the effective date of unit
20 operation.

21 F. Order of the Commission.

22 The order of the Commission creating the unit shall:

23 1. Designate the size and shape of the unit;

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1 2. Set forth the drilling pattern and setbacks for the unit,
2 including the permitted well location tolerances for the permitted
3 wells within the unit;

4 3. Approve and adopt the plan of development for such unit,
5 with a copy thereof attached to such order;

6 4. Designate the unit operator; and

7 5. Provide for the conditions upon which the unit, and the
8 order creating the unit, shall terminate.

9 G. Consent by Owners.

10 No order of the Commission creating a unit pursuant to this
11 section shall become effective unless and until the proposed
12 unitization has been consented to in writing, and the written
13 consent submitted to the Commission, by lessees of record of not
14 less than sixty-three percent (63%) of the working interest in the
15 shale reservoir in the area to be included in the unit and by owners
16 of record of not less than sixty-three percent (63%), exclusive of
17 any royalty interest owned by any lessee or by any subsidiary of any
18 lessee, of the one-eighth (1/8) royalty interest in the shale
19 reservoir in the area to be included in the unit in an express
20 writing separate from the oil and gas lease. The Commission shall
21 make a finding in the order creating the unit as to whether the
22 requisite consent has been obtained. Where the requisite consent
23 has not been obtained at the time the order creating the unit is
24 entered, the Commission shall, upon application and notice, hold

1 such additional and supplemental hearings as may be requested or
2 required to determine if and when the requisite consent has been
3 obtained and the date the unitization will become effective. In the
4 event lessees and royalty owners, or either, owning the required
5 percentage interest in and to the unit area have not so consented to
6 the unitization within a period of six (6) months from and after the
7 date on which the order creating the unit is entered, the order
8 creating the unit shall cease to be of further force and effect and
9 shall be revoked by the Commission.

10 H. Notice.

11 The application for the creation of a horizontal well
12 unitization for a shale reservoir under this section, and the notice
13 of hearing on the application, shall be served no less than fifteen
14 (15) days prior to the date of the hearing, by regular mail, upon
15 each person or governmental entity having the right to share in
16 production from the proposed unit covered by the application, as
17 well as other persons or governmental entities required by
18 Commission rules. Any person aggrieved by any order of the
19 Commission made pursuant to this section may appeal therefrom to the
20 Supreme Court of the State of Oklahoma upon the same conditions,
21 within the same time and in the same manner as is provided in this
22 title, for the taking of appeals from the orders of the Commission
23 made thereunder.

24 I. Pooling of the Unit.

1 From and after the effective date of an order creating a unit
2 pursuant to this section and subject to the provisions of such order
3 in regard to the matters to be found by the Commission in the
4 creation of such unit and the provisions of the applicable plan of
5 development, an owner of the right to drill for and produce oil or
6 gas from such unit may request the Commission to pool the oil and
7 gas interests of the owners in such unit on a unit-wide basis
8 pursuant to the provisions of subsection (e) of Section 87.1 of
9 Title 52 of the Oklahoma Statutes in regard to the development of
10 such unit involving a horizontal well or wells.

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

12 From and after the effective date of an order creating a unit
13 pursuant to this section, the operation of any well producing from
14 the shale reservoir within the unit defined in such order by persons
15 other than the unit operator, or except in the manner and to the
16 extent provided in such order shall be unlawful and is hereby
17 prohibited. Once the order of the Commission creating a unit
18 pursuant to this section becomes effective, such unit so created
19 shall supersede any drilling and spacing unit previously formed by
20 the Commission pursuant to Section 87.1 of Title 52 of the Oklahoma
21 Statutes for the same shale reservoir within the area of the new
22 unit. Any pooling order which was entered by the Commission
23 pursuant to subsection (e) of Section 87.1 of Title 52 of the
24 Oklahoma Statutes covering any drilling and spacing unit superseded

1 by a unit created pursuant to this section and which was in effect
2 at the time of the creation of such unit shall remain in full force
3 and effect as to any oil and gas interests in the shale reservoir
4 which were relinquished and transferred by operation of law under
5 such pooling order. However, further development of the shale
6 reservoir in the area of the unit created pursuant to this section
7 shall not be subject to any of the other provisions of any such
8 prior pooling order, but shall be governed by and pursuant to the
9 order creating such unit, including the applicable plan of
10 development, and any subsequent pooling order covering such unit.

11 K. Payment of Proceeds.

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

14 L. The Commissioners of the Land Office.

15 The Commissioners of the Land Office, or other proper board or
16 officer of the state having the control and management of state
17 land, and the proper board or officer of any political, municipal,
18 or other subdivision or agency of the state, are hereby authorized
19 and shall have the power on behalf of the state or of such
20 political, municipal, or other subdivision or agency thereof, with
21 respect to land or oil and gas rights subject to the control and
22 management of such respective body, board, or officer, to consent to
23 or participate in any unitization adopted pursuant to this act.

24 M. Retained Jurisdiction.

1 Upon the creation of a unit pursuant to this section, and
2 approval of the plan of development in connection therewith, the
3 Commission shall retain jurisdiction over such unit and such plan of
4 development. The retained jurisdiction of the Commission set forth
5 herein shall neither preclude nor impair the right of any affected
6 party to obtain through the district courts of this state any remedy
7 or relief available at law or in equity for injuries caused by any
8 action or inaction of the applicant, operator or any other affected
9 party.

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

13 Section 87.1 Whenever the production from any common source of
14 supply of oil or natural gas in this state can be obtained only
15 under conditions constituting waste or drainage not compensated by
16 counterdrainage, then any person having the right to drill into and
17 produce from such common source of supply may, except as otherwise
18 authorized or in this section provided, take therefrom only such
19 proportion of the oil or natural gas that may be produced therefrom
20 without waste or without such drainage as the productive capacity of
21 the well or wells of any such person considered with the acreage
22 properly assignable to each such well bears to the total productive
23 capacities of the wells in such common source of supply considered
24 with the acreage properly assignable to each well therein.

1 (a) To prevent or to assist in preventing the various types of
2 waste of oil or gas prohibited by statute, or any ~~of said~~ wastes, or
3 to protect or assist in protecting the correlative rights of
4 interested parties, the Corporation Commission, upon a proper
5 application and notice given as hereinafter provided, and after a
6 hearing as provided in ~~said~~ the notice, shall have the power to
7 establish well spacing and drilling units of specified and
8 approximately uniform size and shape covering any common source of
9 supply, or prospective common source of supply, of oil or gas within
10 the State of Oklahoma; provided, that the Commission may authorize
11 the drilling of an additional well or wells on any spacing and
12 drilling unit or units or any portion or portions thereof or may
13 establish, reestablish, or reform well spacing and drilling units of
14 different sizes and shapes when the Commission determines that a
15 common source of supply contains predominantly oil underlying an
16 area or areas and contains predominantly gas underlying a different
17 area or areas; provided further that the units in the predominantly
18 oil area or areas shall be of approximately uniform size and shape,
19 and the units in the predominantly gas area or areas shall be of
20 approximately uniform size and shape, except that the units in the
21 gas area or areas may be of nonuniform size and shape when they
22 adjoin the units in the oil area or areas; provided further that the
23 drilling pattern for such nonuniform units need not be uniform, and
24 provided further that the Commission shall adjust the allowable

1 production within ~~said~~ the common source of supply, or any part
2 thereof, and take such other action as may be necessary to protect
3 the rights of interested parties. Any order issued pursuant to the
4 provisions hereof may be entered after a hearing upon the petition
5 of any person owning an interest in the minerals in lands embraced
6 within such common source of supply, or the right to drill a well
7 for oil or gas on the lands embraced within such common source of
8 supply, or on the petition of the Conservation Officer of the State
9 of Oklahoma. When such a petition is filed with the Commission, the
10 Commission shall give at least fifteen (15) days' notice of the
11 hearing to be held upon such petition by one publication, at least
12 fifteen (15) days prior to the hearing, in some newspaper of general
13 circulation published in Oklahoma County, and by one publication, at
14 least fifteen (15) days prior to the date of the hearing, in some
15 newspaper published in the county, or in each county, if there be
16 more than one, in which the lands embraced within the application
17 are situated. Except as to the notice of hearing on such a
18 petition, the procedural requirements of ~~Sections~~ Section 86.1 et
19 seq. of this title, shall govern all proceedings and hearings
20 provided for by this section.

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

3 (c) In establishing a well spacing or drilling unit for a
4 common source of supply thereunder, the acreage to be embraced
5 within each unit may include acreage from more than one governmental
6 section, but shall not exceed six hundred forty (640) acres for a
7 gas well plus ten percent (10%) tolerance, unless ~~a~~ the unit is a
8 governmental section and the governmental section contains more than
9 six hundred forty (640) acres in which case the unit may comprise
10 the entire section. Provided, however, fractional sections along
11 the state boundary line and within the townships along the boundary
12 where the survey west of the Indian Meridian meets the survey east
13 of the Cimarron Meridian may be spaced with adjoining section unit,
14 and the shape thereof shall be determined by the Commission from the
15 evidence introduced at the hearing, and the following facts, among
16 other things, shall be material: (1) The lands embraced in the
17 actual or prospective common source of supply; (2) the plan of well
18 spacing then being employed or contemplated in ~~said~~ the source of
19 supply; (3) the depth at which production from ~~said~~ the common
20 source of supply has been or is expected to be found; (4) the nature
21 and character of the producing or prospective producing formation or
22 formations; and (5) any other available geological or scientific
23 data pertaining to ~~said~~ the actual or prospective source of supply
24 which may be of probative value to ~~said~~ the Commission in

1 determining the proper spacing and well drilling unit therefor, with
2 due and relative allowance for the correlative rights and
3 obligations of the producers and royalty owners interested therein.

4 The order establishing such spacing or drilling units shall set
5 forth: (1) the outside boundaries of the surface area included in
6 such order; (2) the size, form, and shape of the spacing or drilling
7 units so established; (3) the drilling pattern for the area, which
8 shall be uniform except as hereinbefore provided; and (4) the
9 location of the permitted well on each such spacing or drilling
10 unit. To such order shall be attached a plat upon which shall be
11 indicated the foregoing information. Subject to other provisions of
12 ~~this act, Sections 81~~ Section 86.1 et seq. of this title, the order
13 establishing such spacing or drilling units shall direct that no
14 more than one well shall thereafter be produced from the common
15 source of supply on any unit so established, and that the well
16 permitted on that unit shall be drilled at the location thereon as
17 prescribed by the Commission, with such exception as may be
18 reasonably necessary where it is shown, upon application, notice and
19 hearing in conformity with the procedural requirements of ~~Sections~~
20 Section 86.1 et seq. of this title, and the Commission finds that
21 any such spacing unit is located on the edge of a pool and adjacent
22 to a producing unit, or for some other reason that to require the
23 drilling of a well at the prescribed location on such spacing unit
24 would be inequitable or unreasonable. Whenever such an exception is

1 granted, the Commission shall adjust the allowable production for
2 ~~said~~ the spacing unit and take such other action as may be necessary
3 to protect the rights of interested parties.

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

15 (d) The Commission shall have jurisdiction upon the filing of a
16 proper application therefor, and upon notice given as provided in
17 subsection (a) ~~above~~ of this section, to decrease the size of the
18 well spacing units or to permit additional wells to be drilled
19 within the established units, or to increase the size or modify the
20 shape of the well spacing units, upon proper proof at such hearing
21 that such modification or extension of the order establishing
22 drilling or spacing units will prevent or assist in preventing the
23 various types of wastes prohibited by statute, or any of ~~said~~ the
24 wastes, or will protect or assist in protecting the correlative

1 rights of persons interested in ~~said~~ the common source of supply, or
2 upon the filing of a proper application therefor to enlarge the area
3 covered by the spacing order, if such proof discloses that the
4 development or the trend of development indicates that such common
5 source of supply underlies an area not covered by the spacing order
6 and such proof discloses that the applicant is an owner within the
7 area or within a drilling and spacing unit contiguous to the area
8 covered by the application. Except in the instance of reservoir
9 dewatering as described herein, the Commission shall not establish
10 well spacing units of more than forty (40) acres in size covering
11 common sources of supply of oil, the top of which lies less than
12 four thousand (4,000) feet below the surface as determined by the
13 original or discovery well in ~~said~~ the common source of supply, and
14 the Commission shall not establish well spacing units of more than
15 eighty (80) acres in size covering common sources of supply of oil,
16 the top of which lies less than nine thousand nine hundred ninety
17 (9,990) feet and more than four thousand (4,000) feet below the
18 surface as determined by the original or discovery well in ~~said~~ the
19 common source of supply. In the instance of reservoir dewatering to
20 extract oil from reservoirs having initial water saturations at or
21 above fifty percent (50%), the Commission may establish drilling and
22 spacing units not to exceed six hundred forty (640) acres in size.

23 (e) The drilling of any well or wells into any common source of
24 supply for the purpose of producing oil or gas therefrom, after a

1 spacing order has been entered by the Commission covering such
2 common source of supply, at a location other than that fixed by ~~said~~
3 the order is hereby prohibited. The drilling of any well or wells
4 into a common source of supply, covered by a pending spacing
5 application, at a location other than that approved by a special
6 order of the Commission authorizing the drilling of such well is
7 hereby prohibited. The operation of any well drilled in violation
8 of any spacing so entered is also hereby prohibited. When two or
9 more separately owned tracts of land are embraced within an
10 established spacing unit, or where there are undivided interests
11 separately owned, or both such separately owned tracts and undivided
12 interests embraced within such established spacing unit, the owners
13 thereof may validly pool their interests and develop their lands as
14 a unit. Where, however, such owners have not agreed to pool their
15 interests and where one such separate owner has drilled or proposes
16 to drill a well on ~~said~~ the unit to the common source of supply, the
17 Commission, to avoid the drilling of unnecessary wells, or to
18 protect correlative rights, shall, upon a proper application
19 therefor and a hearing thereon, require such owners to pool and
20 develop their lands in the spacing unit as a unit. The applicant
21 shall give all the owners whose addresses are known or could be
22 known through the exercise of due diligence at least fifteen (15)
23 days' notice by mail, return receipt requested. The applicant shall
24 also give notice by one publication, at least fifteen (15) days

1 prior to the hearing, in some newspaper of general circulation
2 published in Oklahoma County, and by one publication, at least
3 fifteen (15) days prior to the date of the hearing, in some
4 newspaper published in the county, or in each county, if there be
5 more than one, in which the lands embraced within the spacing unit
6 are situated. The applicant shall file proof of publication and an
7 affidavit of mailing with the Commission prior to the hearing. All
8 orders requiring such pooling shall be made after notice and
9 hearing, and shall be upon such terms and conditions as are just and
10 reasonable and will afford to the owner of such tract in the unit
11 the opportunity to recover or receive without unnecessary expense
12 his or her just and fair share of the oil and gas. The portion of
13 the production allocated to the owner of each tract or interests
14 included in a well spacing unit formed by a pooling order shall,
15 when produced, be considered as if produced by such owner from the
16 separately owned tract or interest by a well drilled thereon. Such
17 pooling order of the Commission shall make definite provisions for
18 the payment of cost of the development and operation, which shall be
19 limited to the actual expenditures required for such purpose not in
20 excess of what are reasonable, including a reasonable charge for
21 supervision. In the event of any dispute relative to such costs,
22 the Commission shall determine the proper costs after due notice to
23 interested parties and a hearing thereon. The operator of such
24 unit, in addition to any other right provided by the pooling order

1 or orders of the Commission, shall have a lien on the mineral
2 leasehold estate or rights owned by the other owners therein and
3 upon their shares of the production from such unit to the extent
4 that costs incurred in the development and operation upon ~~said~~ the
5 unit are a charge against such interest by order of the Commission
6 or by operation of law. Such liens shall be separable as to each
7 separate owner within such unit, and shall remain liens until the
8 owner or owners drilling or operating the well have been paid the
9 amount due under the terms of the pooling order. The Commission is
10 specifically authorized to provide that the owner or owners
11 drilling, or paying for the drilling, or for the operation of a well
12 for the benefit of all shall be entitled to production from such
13 well which would be received by the owner or owners for whose
14 benefit the well was drilled or operated, after payment of royalty,
15 until the owner or owners drilling or operating the well have been
16 paid the amount due under the terms of the pooling order or order
17 settling such dispute. No part of the production or proceeds
18 accruing to any owner of a separate interest in such unit shall be
19 applied toward payment of any cost properly chargeable to any other
20 interest in ~~said~~ the unit.

21 For the purpose of this section, the owner or owners of oil and
22 gas rights in and under an unleased tract of land shall be regarded
23 as a lessee to the extent of a seven-eighths (7/8) interest in and
24 to ~~said~~ the rights and a lessor to the extent of the remaining

1 one-eighth (1/8) interest therein. Should the owners of separate
2 tracts or interests embraced within a spacing unit fail to agree
3 upon a pooling of their interests and the drilling of a well on the
4 unit, and should it be established by final, unappealable judgment
5 of a court of competent jurisdiction that the Commission is without
6 authority to require pooling as provided for herein, then, subject
7 to all other applicable provisions of this act, the owner of each
8 tract or interest embraced within a spacing unit may drill on his or
9 her separately owned tract, and the allowable production therefrom
10 shall be that portion of the allowable for the full spacing unit as
11 the area of such separately owned tract bears to the full spacing
12 unit.

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

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

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

19 Section 287.3 If upon the filing of a petition therefor and
20 after notice and hearing, all in the form and manner and in
21 accordance with the procedure and requirements hereinafter provided,
22 the Corporation Commission shall find (a) that the unitized
23 management, operation and further development of a common source of
24 supply of oil and gas or portion thereof is reasonably necessary in

1 order to effectively carry on pressure maintenance or repressuring
2 operations, cycling operations, water flooding operations, or any
3 combination thereof, or any other non-primary production form of
4 joint effort calculated to substantially increase the ultimate
5 recovery of oil and gas from the common source of supply; and (b)
6 that one or more of ~~said~~ the unitized methods of operation as
7 applied to such common source of supply or portion thereof are
8 feasible, will prevent waste and will with reasonable probability
9 result in the increased recovery of substantially more oil and gas
10 from the common source of supply than would otherwise be recovered;
11 and (c) that the estimated additional cost, if any, of conducting
12 such operations will not exceed the value of the additional oil and
13 gas so recovered; and (d) that such unitization and adoption of one
14 or more of such unitized methods of operation is for the common good
15 and will result in the general advantage of the owners of the oil
16 and gas rights within the common source of supply or portion thereof
17 directly affected, it shall make a finding to that effect and make
18 an order creating the unit and providing for the unitization and
19 unitized operation of the common source of supply or portion thereof
20 described in the order, all upon such terms and conditions, as may
21 be shown by the evidence to be fair, reasonable, equitable and which
22 are necessary or proper to protect, safeguard, and adjust the
23 respective rights and obligations of the several persons affected,
24 including royalty owners, owners of overriding royalties, oil and

1 gas payments, carried interests, mortgagees, lien claimants and
2 others, as well as the lessees. The petition shall set forth a
3 description of the proposed unit area with a map or plat thereof
4 attached, must allege the existence of the facts required to be
5 found by the Commission as hereinabove provided and shall have
6 attached thereto a recommended plan of unitization applicable to
7 such proposed unit area and which the petitioner or petitioners
8 consider to be fair, reasonable and equitable.

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

13

14 COMMITTEE REPORT BY: COMMITTEE ON ENERGY & UTILITY REGULATION, dated
15 04-12-2011 - DO PASS, As Amended and Coauthored.

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