

1 STATE OF OKLAHOMA

2 2nd Session of the 53rd Legislature (2012)

3 SENATE BILL 1350

By: Bingman

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5  
6 AS INTRODUCED

7 An Act relating to oil and gas well spacing; amending  
8 52 O.S. 2011, Section 87.1, which relates to common  
9 source of supply; removing obsolete language; and  
10 declaring an emergency.

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

12 SECTION 1. AMENDATORY 52 O.S. 2011, Section 87.1, is  
13 amended to read as follows:

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

1 capacities of the wells in such common source of supply considered  
2 with the acreage properly assignable to each well therein.

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

1 such nonuniform units need not be uniform, and provided further that  
2 the Commission shall adjust the allowable production within the  
3 common source of supply, or any part thereof, and take such other  
4 action as may be necessary to protect the rights of interested  
5 parties. Any order issued pursuant to the provisions hereof may be  
6 entered after a hearing upon the petition of any person owning an  
7 interest in the minerals in lands embraced within such common source  
8 of supply, or the right to drill a well for oil or gas on the lands  
9 embraced within such common source of supply, or on the petition of  
10 the Conservation Officer of the State of Oklahoma. When such a  
11 petition is filed with the Commission, the Commission shall give at  
12 least fifteen (15) days' notice of the hearing to be held upon such  
13 petition by one publication, at least fifteen (15) days prior to the  
14 hearing, in some newspaper of general circulation published in  
15 Oklahoma County, and by one publication, at least fifteen (15) days  
16 prior to the date of the hearing, in some newspaper published in the  
17 county, or in each county, if there be more than one, in which the  
18 lands embraced within the application are situated. Except as to  
19 the notice of hearing on such a petition, the procedural  
20 requirements of Section 86.1 et seq. of this title shall govern all  
21 proceedings and hearings provided for by this section.

22 (b) In case of a spacing unit of one hundred sixty (160) acres  
23 or more, no oil and/or gas leasehold interest outside the spacing  
24 unit involved may be held by production from the spacing unit more

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 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 the source of supply;  
19 (3) the depth at which production from the common source of supply  
20 has been or is expected to be found; (4) the nature and character of  
21 the producing or prospective producing formation or formations; and  
22 (5) any other available geological or scientific data pertaining to  
23 the actual or prospective source of supply which may be of probative  
24 value to the Commission in determining the proper spacing and well

1 drilling unit therefor, with due and relative allowance for the  
2 correlative rights and obligations of the producers and royalty  
3 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 Section 86.1 et seq. of this title, the order establishing such  
13 spacing or drilling units shall direct that no more than one well  
14 shall thereafter be produced from the common source of supply on any  
15 unit so established, and that the well permitted on that unit shall  
16 be drilled at the location thereon as prescribed by the Commission,  
17 with such exception as may be reasonably necessary where it is  
18 shown, upon application, notice and hearing in conformity with the  
19 procedural requirements of Section 86.1 et seq. of this title, and  
20 the Commission finds that any such spacing unit is located on the  
21 edge of a pool and adjacent to a producing unit, or for some other  
22 reason that to require the drilling of a well at the prescribed  
23 location on such spacing unit would be inequitable or unreasonable.  
24 Whenever such an exception is granted, the Commission shall adjust

1 the allowable production for the spacing unit and take such other  
2 action as may be necessary to protect the rights of interested  
3 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 Fractional sections along the state boundary line and within the  
11 townships along the boundary where the survey west of the Indian  
12 Meridian meets the survey east of the Cimarron Meridian may be  
13 spaced with adjoining section unit, and the shape thereof shall be  
14 determined by 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) of this section, to decrease the size of the well  
18 spacing units or to permit additional wells to be drilled within the  
19 established units, or to increase the size or modify the shape of  
20 the well spacing units, upon proper proof at such hearing that such  
21 modification or extension of the order establishing drilling or  
22 spacing units will prevent or assist in preventing the various types  
23 of wastes prohibited by statute, or any of the wastes, or will  
24 protect or assist in protecting the correlative rights of persons

1 interested in the common source of supply, or upon the filing of a  
2 proper application therefor to enlarge the area covered by the  
3 spacing order, if such proof discloses that the development or the  
4 trend of development indicates that such common source of supply  
5 underlies an area not covered by the spacing order and such proof  
6 discloses that the applicant is an owner within the area or within a  
7 drilling and spacing unit contiguous to the area covered by the  
8 application. Except in the instance of reservoir dewatering as  
9 described herein, the Commission shall not establish well spacing  
10 units of more than forty (40) acres in size covering common sources  
11 of supply of oil, the top of which lies less than four thousand  
12 (4,000) feet below the surface as determined by the original or  
13 discovery well in the common source of supply, and the Commission  
14 shall not establish well spacing units of more than eighty (80)  
15 acres in size covering common sources of supply of oil, the top of  
16 which lies less than nine thousand nine hundred ninety (9,990) feet  
17 and more than four thousand (4,000) feet below the surface as  
18 determined by the original or discovery well in the common source of  
19 supply. In the instance of reservoir dewatering to extract oil from  
20 reservoirs having initial water saturations at or above fifty  
21 percent (50%), the Commission may establish drilling and spacing  
22 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 the  
3 order is hereby prohibited. The drilling of any well or wells into  
4 a common source of supply, covered by a pending spacing application,  
5 at a location other than that approved by a special order of the  
6 Commission authorizing the drilling of such well is hereby  
7 prohibited. The operation of any well drilled in violation of any  
8 spacing so entered is also hereby prohibited. When two or more  
9 separately owned tracts of land are embraced within an established  
10 spacing unit, or where there are undivided interests separately  
11 owned, or both such separately owned tracts and undivided interests  
12 embraced within such established spacing unit, the owners thereof  
13 may validly pool their interests and develop their lands as a unit.  
14 Where, however, such owners have not agreed to pool their interests  
15 and where one such separate owner has drilled or proposes to drill a  
16 well on the unit to the common source of supply, the Commission, to  
17 avoid the drilling of unnecessary wells, or to protect correlative  
18 rights, shall, upon a proper application therefor and a hearing  
19 thereon, require such owners to pool and develop their lands in the  
20 spacing unit as a unit. The applicant shall give all the owners  
21 whose addresses are known or could be known through the exercise of  
22 due diligence at least fifteen (15) days' notice by mail, return  
23 receipt requested. The applicant shall also give notice by one  
24 publication, at least fifteen (15) days prior to the hearing, in

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

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

20 For the purpose of this section, the owner or owners of oil and  
21 gas rights in and under an unleased tract of land shall be regarded  
22 as a lessee to the extent of a seven-eighths (7/8) interest in and  
23 to the rights and a lessor to the extent of the remaining one-eighth  
24 (1/8) interest therein. Should the owners of separate tracts or

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

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

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

17 SECTION 2. 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.

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