

1 ENGROSSED SENATE AMENDMENT  
TO  
2 ENGROSSED HOUSE  
BILL NO. 2177

By: Hickman, McBride and  
Murdock of the House

and

Bingman of the Senate

8 An Act relating to oil and gas; amending 52 O.S.  
2011, Sections 87.6, as last amended by Section 1,  
9 Chapter 400, O.S.L. 2014, 87.7, 87.8, as amended by  
Section 2, Chapter 400, O.S.L. 2014 and 87.9 (52 O.S.  
10 Supp. 2014, Sections 87.6 and 87.8), which relate to  
11 the 2011 Shale Reservoir Development Act; changing  
name of act to the Extended Lateral Horizontal Well  
12 Development Act; modifying definitions; providing an  
alternate development method to creating a new unit  
or changing an existing drilling and spacing unit for  
13 certain horizontal development; limiting allowance of  
multiunit horizontal wells to targeted reservoir or  
14 reservoirs; modifying requirements for allocation of  
certain costs; expanding authority of the Corporation  
15 Commission to adjust allocation factors; changing  
pooling requirements to targeted reservoirs; updating  
16 statutory citations; and declaring an emergency.

17  
18  
19 AUTHOR: Add the following Senate Coauthor: Fields

20 AMENDMENT NO. 1. Page 1, strike the title, enacting clause and  
entire bill and insert

21  
22 "An Act relating to oil and gas; amending 52 O.S.  
2011, Section 87.1, as amended by Section 4, Chapter  
201, O.S.L. 2012, Section 87.6, as last amended by  
23 Section 1, Chapter 400, O.S.L. 2014, 87.7, 87.8, as  
amended by Section 2, Chapter 400, O.S.L. 2014, and  
24 87.9 (52 O.S. Supp. 2014, Sections 87.1, 87.6, and

1 87.8), which relate to well spacing and the 2011  
2 Shale Reservoir Development Act; clarifying statutory  
3 reference; stating procedure for participation in  
4 certain subsequent wells in certain pooling orders;  
5 modifying name of certain act, providing short title;  
6 modifying definitions; providing for planned  
7 development of certain common sources of supply of  
8 oil and gas; modifying Corporation Commission  
9 jurisdiction and administration of certain wells;  
10 modifying procedures for allocating resources and  
11 costs for certain horizontal wells; and declaring an  
12 emergency.

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

14 SECTION 1. AMENDATORY 52 O.S. 2011, Section 87.1, as  
15 amended by Section 4, Chapter 201, O.S.L. 2012 (52 O.S. Supp. 2014,  
16 Section 87.1), is amended to read as follows:

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

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

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

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

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

1 correlative rights and obligations of the producers and royalty  
2 owners interested therein.

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

1 action as may be necessary to protect the rights of interested  
2 parties.

3 Any well spacing or drilling unit for a common source of supply  
4 thereunder which exceeds six hundred forty (640) acres for a gas  
5 well plus ten percent (10%) tolerance or exceeds the total amount of  
6 acreage contained in a governmental section, and is not in  
7 production or in the process of drilling development on ~~the~~  
8 ~~effective date of this act~~ March 26, 1980, shall be de-spaced.

9 However, fractional sections along the state boundary line and  
10 within the townships along the boundary where the survey west of the  
11 Indian Meridian meets the survey east of the Cimarron Meridian may  
12 be spaced with adjoining section unit, and the shape thereof shall  
13 be determined by the Commission.

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

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

22 ~~(e)~~ E. The drilling of any well or wells into any common source  
23 of supply for the purpose of producing oil or gas therefrom, after a  
24 spacing order has been entered by the Commission covering such



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

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

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

19 For the purpose of this section, the owner or owners of oil and  
20 gas rights in and under an unleased tract of land shall be regarded  
21 as a lessee to the extent of a seven-eighths (7/8) interest in and  
22 to the rights and a lessor to the extent of the remaining one-eighth  
23 (1/8) interest therein, unless and until the owner or owners make an  
24 election or are deemed to make an election not to participate under

1 a pooling order issued by the Commission, at which time each such  
2 owner shall be considered a lessor, subject to the judicially  
3 recognized implied covenant to market found to exist by the courts  
4 of this state in oil and gas leases covering lands located in this  
5 state, to the extent of the full royalty percentage elected under  
6 the pooling order. Should the owners of separate tracts or  
7 interests embraced within a spacing unit fail to agree upon a  
8 pooling of their interests and the drilling of a well on the unit,  
9 and should it be established by final, unappealable judgment of a  
10 court of competent jurisdiction that the Commission is without  
11 authority to require pooling as provided for herein, then, subject  
12 to all other applicable provisions of this act, the owner of each  
13 tract or interest embraced within a spacing unit may drill on his or  
14 her separately owned tract, and the allowable production therefrom  
15 shall be that portion of the allowable for the full spacing unit as  
16 the area of such separately owned tract bears to the full spacing  
17 unit.

18 In the event a producing well or wells are completed upon a unit  
19 where there are, or may thereafter be, two or more separately owned  
20 tracts, each royalty interest owner shall share in all production  
21 from the well or wells drilled within the unit, or in the gas well  
22 rental provided for in the lease covering such separately owned  
23 tract or interest in lieu of the customary fixed royalty, to the  
24 extent of such royalty interest owner's interest in the unit. Each

1 royalty interest owner's interest in the unit shall be defined as  
2 the percentage of royalty owned in each separate tract by the  
3 royalty owner, multiplied by the proportion that the acreage in each  
4 separately owned tract or interest bears to the entire acreage of  
5 the unit.

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

22 G. For any horizontal well drilled after the effective date of  
23 this act pursuant to a pooling order authorized by this section,  
24

1 whether said pooling order was issued before or after the effective  
2 date of this act, the following provisions shall apply:

3 1. Each owner who participated in a horizontal well under the  
4 pooling order, whether the well is the initial well or a subsequent  
5 well under the pooling order, shall have the right to participate in  
6 each subsequent well proposed under the pooling order which is a  
7 horizontal well notwithstanding a prior election by the owner not to  
8 participate in a horizontal well under the pooling order after the  
9 effective date of the act and notwithstanding any provision  
10 contained in the pooling order to the contrary; provided, however,  
11 if the pooling order was entered before the effective date of this  
12 act, in order to be entitled to the right to participate pursuant to  
13 this subsection, the owner must have been vested with the right to  
14 participate in subsequent wells under the pooling order as of the  
15 effective date of the act;

16 2. Subject to the limitations set forth in paragraph 1 of this  
17 subsection, any owner who elects or is deemed to have elected not to  
18 participate with all or any part of that owner's interest in a  
19 subsequent well under the pooling order which is a horizontal well  
20 shall relinquish that portion of the interest for which the election  
21 was made not to participate, limited to only that subsequent  
22 horizontal well pursuant to the terms of the pooling order, entered  
23 pursuant to or amended by this subsection, and shall retain the  
24 right to participate with all or any part of that owner's interest

1 in any subsequent wells which may be proposed under the pooling  
2 order;

3 3. If the subsequent well under the pooling order is authorized  
4 by the Commission as a multiunit horizontal well pursuant to Section  
5 87.8 of this title, the relinquished rights of an owner who elects  
6 or is deemed to have elected not to participate with all or any part  
7 of that owner's interest in the subsequent well shall be limited to  
8 only the targeted reservoir(s), as defined by Section 87.6 of this  
9 title, and said owner shall retain the right to participate with all  
10 or any part of that owner's interest in any subsequent well or  
11 subsequent operations which may be proposed under the pooling order  
12 in any common source of supply other than the targeted reservoir(s),  
13 and within all common sources of supply in any then existing  
14 wellbores in which the owner has the right to participate. Any  
15 relinquishment under this paragraph shall be further subject to and  
16 limited by any rights of the owner under paragraphs 1 and 2 of this  
17 subsection;

18 4. After the effective date of this act, an owner who elects or  
19 is deemed to have elected not to participate in a subsequent well  
20 under a pooling order which is a horizontal well shall be deemed to  
21 have elected not to participate pursuant to this subsection and  
22 shall deliver that owner's relinquished interest pursuant to the  
23 terms of the pooling order, entered pursuant to or amended by this  
24 subsection, as to the proposed horizontal well or the targeted

1 reservoir(s), as set forth and limited in this subsection, but shall  
2 not be entitled to receive any cash bonus under the subsequent  
3 operations provision of the applicable pooling order and shall  
4 surrender that owner's relinquished right to participate in only the  
5 proposed horizontal well or the targeted reservoir(s), as set forth  
6 and limited in this subsection, subject only to the then existing  
7 burdens on that owner's interest; and

8 5. The provisions of this subsection shall supplement each  
9 affected pooling order as to development of the affected spacing  
10 unit by the use of horizontal wells from and after the effective  
11 date of this act.

12 SECTION 2. AMENDATORY 52 O.S. 2011, Section 87.6, as  
13 last amended by Section 1, Chapter 400, O.S.L. 2014 (52 O.S. Supp.  
14 2014, Section 87.6), is amended to read as follows:

15 Section 87.6. A. Sections 87.6 through 87.9 of this title  
16 shall be known and may be cited as the "~~2011 Shale Reservoir~~  
17 Extended Lateral Horizontal Well Development Act".

18 B. As used in ~~the 2011 Shale Reservoir Development Act~~ this  
19 act:

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

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



1 multiunit 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 multiunit horizontal  
7 well is located, or which is located within the boundaries of a unit  
8 created through a horizontal well unitization, and which is  
9 immediately adjoining the shale common source of supply in which the  
10 completion interval of the horizontal well is located, and which is  
11 inadvertently encountered in the drilling of the lateral of such  
12 horizontal well when such well is drilled out of or exits, whether  
13 on one or multiple occasions, such shale common source of supply;

14 4. "Commission" means the Corporation Commission;

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

20 6. "Horizontal well" means a well drilled, completed, or  
21 recompleted with one or more laterals which, for at least one  
22 lateral, the horizontal component of the completion interval exceeds  
23 the vertical component of the completion interval and the horizontal  
24

1 component extends a minimum of one hundred fifty (150) feet in the  
2 formation;

3 7. "Horizontal well unitization" means a unitization for a  
4 shale reservoir created pursuant to Section 87.9 of this title;

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

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

9 10. "Marmaton common source of supply" means a common source of  
10 supply located within Texas and Beaver Counties and designated as  
11 the Marmaton by the Commission through rule or order;

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

17 12. "Plan of development" means the proposed plan for  
18 developing the shale reservoir unitized pursuant to Section 87.9 of  
19 this title, which plan, based upon the information and knowledge  
20 then available to the applicant, shall include:

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

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

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

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

12 d. any other specific terms, provisions, conditions and  
13 requirements set forth in Section 87.9 of this title  
14 or determined by the Commission to be reasonably  
15 necessary or proper to effectuate or accomplish the  
16 purpose of Section 87.9 of this title;

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

19 14. "PRSA" means the Production Revenue Standards Act;

20 15. "Shale reservoir" means a common source of supply which is  
21 a shale formation that is so designated by the Commission through  
22 rule or order, and ~~shall~~ may also for good cause shown, include any  
23 associated common source of supply in relation thereto, as defined  
24 in this section;

1 16. "Targeted reservoir" means any shale reservoir or any  
2 portion of the Marmaton common source of supply or any other common  
3 source of supply which has been reviewed by the Commission's oil and  
4 gas technical department and thereafter:

5 a. designated by the Commission through a rule or  
6 emergency rule as a common source of supply that is  
7 potentially suited for development through a multiunit  
8 horizontal well, or

9 b. determined by the Commission as part of the order  
10 approving the multiunit horizontal well as a common  
11 source of supply that is appropriately suited for  
12 development through a multiunit horizontal well for  
13 that particular application,

14 and in designating or determining whether a particular common source  
15 of supply should be considered a targeted reservoir, the Commission  
16 may limit its designation to certain geographical areas;

17 17. "Terminus" means the end point of the borehole of a  
18 horizontal well;

19 18. "Wellbore royalty interest" means, for each separate  
20 multiunit horizontal well, the sum of resulting products of each  
21 affected unit's royalty share for that unit, as defined by the PRSA,  
22 multiplied by that unit's allocation factor for production and  
23 proceeds;

1 19. "Wellbore royalty proceeds" means the proceeds or other  
2 revenue derived from or attributable to any production of oil and  
3 gas from the multiunit horizontal well multiplied by the wellbore  
4 royalty interest;

5 20. "Unit" means a drilling and spacing unit for a single  
6 common source of supply created pursuant to Section 87.1 of this  
7 title or a horizontal well unitization created pursuant to Section  
8 87.9 of this title;

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

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

15 SECTION 3. AMENDATORY 52 O.S. 2011, Section 87.7, is  
16 amended to read as follows:

17 Section 87.7. ~~Corporation Commission Jurisdiction.~~ The  
18 Corporation Commission shall have jurisdiction, upon the filing of a  
19 proper application therefor, to permit the drilling, completing and  
20 producing of a multiunit horizontal well in conformity with Section  
21 ~~4 of this act~~ 87.8 of this title, or to create a horizontal well  
22 unitization in conformity with Section ~~5 of this act~~ 87.9 of this  
23 title, if the Commission finds that the multiunit horizontal well or  
24 the horizontal well unitization will prevent waste and will protect

1 the correlative rights of the owners of oil and gas rights.  
2 Furthermore, for the planned development of a common source of  
3 supply through the use of horizontal well technology where there is  
4 currently production from the common source of supply within an  
5 existing unit or units, and the planned horizontal well or wells  
6 would extend beyond the boundaries of one or more of the existing  
7 units, an alternative to creating a new unit or units pursuant to  
8 Section 87.1 or 87.9 of this title or modifying, superseding,  
9 amending or vacating the existing drilling and spacing unit or  
10 units, to accommodate the horizontal development is the utilization  
11 of a multiunit horizontal well or wells pursuant to Section 87.8 of  
12 this title.

13 SECTION 4. AMENDATORY 52 O.S. 2011, Section 87.8, as  
14 amended by Section 2, Chapter 400, O.S.L. 2014 (52 O.S. Supp. 2014,  
15 Section 87.8), is amended to read as follows:

16 Section 87.8. A. Under the conditions contained in this  
17 section, the Corporation Commission is authorized to allow multiunit  
18 horizontal wells in any targeted reservoir or reservoirs in order to  
19 prevent waste and protect the correlative rights of the owners of  
20 oil and gas rights.

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

23 The Commission shall require the allocation to each of the units  
24 affected by a multiunit horizontal well of the actual and reasonable

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

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

21 2. Each party who participates as a working interest owner in a  
22 multiunit horizontal well shall own an undivided interest in all  
23 portions of the wellbore of the well and in the equipment on or in  
24 the well in the same ratio that the party's allocated portion of the

1 total costs of the well and equipment bears to the total costs of  
2 the well and equipment. The ownership of undivided interest  
3 described in this paragraph shall not affect or prejudice the  
4 ownership of oil and gas rights of the affected owners outside of  
5 the targeted reservoir for the multiunit horizontal well.

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



1 multiunit horizontal well or wells have been drilled or are proposed  
2 to be drilled, the Commission, under Section 87.1 of this title may,  
3 upon the filing of a proper application therefor, amend the pooling  
4 order to the extent necessary to have the pooling order cover the  
5 development involving the portion of the multiunit horizontal well  
6 or wells located within the affected unit.

7 4. The application shall include:

- 8 a. the approximate anticipated location of the proposed  
9 multiunit horizontal well or wells,  
10 b. a map or maps indicating the location of each  
11 currently existing well in each affected unit which is  
12 the subject of the application and the anticipated  
13 location of each multiunit horizontal well currently  
14 proposed to be drilled in each affected unit as a  
15 result of the application and any other horizontal  
16 well not included in the current application, but  
17 anticipated to be necessary, based upon the  
18 information and knowledge then available to the  
19 applicant, for the full and efficient development and  
20 operations of the targeted reservoir within the  
21 affected units if the well or wells are approved by  
22 the Commission upon the filing of a proper application  
23 at a future date, and  
24

1 c. any applicable proposed allocation factor or factors  
2 for allocating the costs, production and proceeds from  
3 each proposed multiunit horizontal well under the  
4 application.

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

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

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

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

9 C. Application, Notice and Retained Jurisdiction.

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

1 SECTION 5. AMENDATORY 52 O.S. 2011, Section 87.9, is  
2 amended to read as follows:

3 Section 87.9 A. Horizontal Well Unitization for Shale  
4 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~~ this  
14 title.

15 B. Prerequisites for Unitization.

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

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

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

1 reasonable probability result in the increased recovery of  
2 substantially more oil and gas from the shale reservoir within the  
3 unit than would otherwise be recovered;

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

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

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

1 C. Size of the Unit.

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

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

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

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

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

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

7 E. The Plan of Development.

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

16 1. Any adjustments to the sharing of future costs incurred in  
17 connection with future development and production, and the sharing  
18 of proceeds, from any existing well or any subsequent well which the  
19 Commission determines to be necessary in order to be fair,  
20 reasonable and equitable, and to protect the correlative rights of  
21 the owners, considering the existing development in and the prior  
22 and anticipated future production from the shale reservoir within  
23 the proposed unit; and  
24



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

8           F. Order of the Commission.

9           The order of the Commission creating the unit shall:

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

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

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

16          4. Designate the unit operator; and

17          5. Provide for the conditions upon which the unit, and the  
18 order creating the unit, shall terminate.

19           G. Consent by Owners.

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

1 shale reservoir in the area to be included in the unit and by owners  
2 of record of not less than sixty-three percent (63%), exclusive of  
3 any royalty interest owned by any lessee or by any subsidiary of any  
4 lessee, of the one-eighth (1/8) royalty interest in the shale  
5 reservoir in the area to be included in the unit in an express  
6 writing separate from the oil and gas lease. The Commission shall  
7 make a finding in the order creating the unit as to whether the  
8 requisite consent has been obtained. Where the requisite consent  
9 has not been obtained at the time the order creating the unit is  
10 entered, the Commission shall, upon application and notice, hold any  
11 additional and supplemental hearings as may be requested or required  
12 to determine if and when the requisite consent has been obtained and  
13 the date the unitization will become effective. In the event  
14 lessees and royalty owners, or either, owning the required  
15 percentage interest in and to the unit area have not so consented to  
16 the unitization within a period of six (6) months from and after the  
17 date on which the order creating the unit is entered, the order  
18 creating the unit shall cease to be of further force and effect and  
19 shall be revoked by the Commission.

20 H. Notice.

21 The application for the creation of a horizontal well  
22 unitization for a shale reservoir under this section, and the notice  
23 of hearing on the application, shall be served no less than fifteen  
24 (15) days prior to the date of the hearing, by regular mail, upon

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

10 I. Pooling of the Unit.

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

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

22 From and after the effective date of an order creating a unit  
23 pursuant to this section, the operation of any well producing from  
24 the shale reservoir within the unit defined in the order by persons

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

21 K. Payment of Proceeds.

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

24 L. The Commissioners of the Land Office.

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

11 M. Retained Jurisdiction.

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

21 SECTION 6. It being immediately necessary for the preservation  
22 of the public peace, health and safety, an emergency is hereby  
23 declared to exist, by reason whereof this act shall take effect and  
24 be in full force from and after its passage and approval."

