

STATE OF OKLAHOMA

2nd Session of the 54th Legislature (2014)

CONFERENCE COMMITTEE SUBSTITUTE

FOR ENGROSSED

SENATE BILL 78

By: Bingman and Fields of the
Senate

and

Trebilcock of the House

CONFERENCE COMMITTEE SUBSTITUTE

An Act relating to oil and gas; amending 52 O.S. 2011, Section 87.6, as amended by Section 1, Chapter 264, O.S.L. 2012 (52 O.S. 2013, Section 87.6) and 87.8, which relate to the 2011 Shale Reservoir Development Act; defining terms; modifying definitions; authorizing the Corporation Commission to allow multiunit horizontal wells in certain targeted areas; stating requirements; and declaring an emergency.

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

SECTION 1. AMENDATORY 52 O.S. 2011, Section 87.6, as amended by Section 1, Chapter 264, O.S.L. 2012 (52 O.S. Supp. 2013, Section 87.6), is amended to read as follows:

Section 87.6. A. Sections 87.6 through 87.9 of this title shall be known and may be cited as the "2011 Shale Reservoir Development Act".

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

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

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

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

19 4. "Commission" means the Corporation Commission;

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

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

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

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

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

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

17 11. "Multiunit horizontal well" means a horizontal well in a
18 ~~shale~~ targeted reservoir wherein the completion interval of the well
19 is located in more than one unit formed for the same ~~shale~~ targeted
20 reservoir, with the well being completed in and producing from such
21 ~~shale~~ targeted reservoir in two or more of such units;

22 ~~11.~~ 12. "Plan of development" means the proposed plan for
23 developing the shale reservoir unitized pursuant to Section 87.9 of
24

1 this title, which plan, based upon the information and knowledge
2 then available to the applicant, shall include:

- 3 a. a map or maps indicating the location of each existing
4 well in the proposed unit and the anticipated location
5 of each horizontal well proposed to be drilled in the
6 proposed unit that is anticipated to be necessary,
7 based upon the information and knowledge then
8 available to the applicant, for the full and efficient
9 development and operation of the proposed unit for the
10 recovery of oil and gas from the shale reservoir
11 within the proposed unit,
- 12 b. any applicable proposed allocation factor or factors
13 for allocating the costs, production and proceeds from
14 the proposed unit,
- 15 c. the anticipated timing and anticipated sequence of
16 drilling of each horizontal well in the proposed unit,
17 and
- 18 d. any other specific terms, provisions, conditions and
19 requirements set forth in Section 87.9 of this title
20 or determined by the Commission to be reasonably
21 necessary or proper to effectuate or accomplish the
22 purpose of Section 87.9 of this title;

1 ~~12.~~ 13. "Point of entry" means the point at which the borehole
2 of a horizontal well first intersects the top of the ~~shale~~ targeted
3 reservoir;

4 ~~13.~~ 14. "PRSA" means the Production Revenue Standards Act;

5 ~~14.~~ 15. "Shale reservoir" means a common source of supply which
6 is a shale formation that is so designated by the Commission through
7 rule or order, and shall also include any associated common source
8 of supply as defined in this section;

9 ~~15.~~ 16. "Targeted reservoir" means any shale reservoir or any
10 portion of the Marmaton common source of supply;

11 17. "Terminus" means the end point of the borehole of a
12 horizontal well ~~in the shale reservoir;~~

13 ~~16.~~ 18. "Wellbore royalty interest" means, for each separate
14 multiunit horizontal well, the sum of resulting products of each
15 affected unit's royalty share for that unit, as defined by the PRSA,
16 multiplied by that unit's allocation factor for production and
17 proceeds;

18 ~~17.~~ 19. "Wellbore royalty proceeds" means the proceeds or other
19 revenue derived from or attributable to any production of oil and
20 gas from the multiunit horizontal well multiplied by the wellbore
21 royalty interest;

22 ~~18.~~ 20. "Unit" means a drilling and spacing unit for a single
23 common source of supply created pursuant to Section 87.1 of this
24

1 title or a horizontal well unitization created pursuant to Section
2 87.9 of this title;

3 ~~19.~~ 21. "Unit's royalty contribution factor" means the royalty
4 share for an affected unit, as defined by PRSA, multiplied by that
5 unit's allocation factor, then divided by the total wellbore royalty
6 interest; and

7 ~~20.~~ 22. "Vertical component" means the calculated vertical
8 distance from the point of entry to the terminus.

9 SECTION 2. AMENDATORY 52 O.S. 2011, Section 87.8, is
10 amended to read as follows:

11 Section 87.8. A. Under the conditions contained in this
12 section, the Corporation Commission is authorized to allow multiunit
13 horizontal wells in order to prevent waste and protect the
14 correlative rights of the owners of oil and gas rights.

15 B. Ownership, Allocation of Costs, Commingled Production, and
16 Proceeds.

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

1 rights in each of the affected units which the well actually
2 penetrates within the completion interval.

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

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

21 3. A multiunit horizontal well shall be treated as a well in
22 each of the affected units and shall be subject to all of the rules
23 otherwise applicable to any other well in any of the affected units.
24 In allowing a multiunit horizontal well, the Commission, under

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

23 4. The application shall include:
24

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

21 5. Production from the completion interval ~~of~~ in the ~~shale~~
22 targeted reservoir from each of the affected units in which a
23 multiunit horizontal well is completed may be commingled in the
24 wellbore of the well and produced to the surface. The commingled

1 production from a multiunit horizontal well shall be allocated to
2 each of the affected units based upon the allocation factors
3 approved by the Commission.

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

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

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

1 C. Application, Notice and Retained Jurisdiction.

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

17 SECTION 3. 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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