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February 21, 2013

COMMITTEE SUBSTITUTE
FOR

SENATE BILL NO. 78

By: Bingman and Fields of the
Senate

and

Trebilcock of the House

[oil and gas - 2011 Shale Reservoir Development Act -

emergency]

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

SECTION 1. AMENDATORY 52 O.S. 2011, Section 87.6, is amended to read as follows:

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

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

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

1 2. "Application" means a written request filed by an owner of
2 the right to drill seeking approval to drill, complete and produce a
3 multiunit horizontal well or to create a horizontal well unitization
4 for a shale reservoir;

5 3. "Associated common source of supply" means ~~a~~ any common
6 source of supply which is subject to a drilling and spacing unit
7 formed by the Corporation Commission and located in all or a portion
8 of the lands in which the completion interval of a multiunit
9 horizontal well is located, or which is located within the
10 boundaries of a unit created through a horizontal well unitization,
11 ~~and which is immediately adjoining the shale common source of supply~~
12 ~~in which the completion interval of the horizontal well is located~~
13 for a shale reservoir, and which ~~is~~ may be or was inadvertently
14 encountered in the drilling of the lateral of ~~such~~ a horizontal well
15 when such well is drilled out of or exits, whether on one or
16 multiple occasions, ~~such shale~~ any common source of supply in which
17 the lateral of such horizontal well was originally intended to be
18 located or which may be or was placed in communication with the
19 completion interval of such a horizontal well by any completion
20 technique, including fracture stimulation;

21 4. "Commission" means the Corporation Commission;

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

1 well, the interval from the first perforations to the last
2 perforations;

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

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

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

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

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

20 11. "Plan of development" means the proposed plan for
21 developing the shale reservoir unitized pursuant to Section 87.9 of
22 this title, which plan, based upon the information and knowledge
23 then available to the applicant, shall include:
24

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

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

23 13. "PRSA" means the Production Revenue Standards Act;
24

1 14. "Shale reservoir" means a common source of supply which is
2 a shale formation that is so designated by the Commission through
3 rule or order, and ~~shall also~~ may, for good cause shown, include any
4 associated common source of supply in relation thereto, as defined
5 in this section;

6 15. "Targeted reservoir" means any common source of supply
7 which has been determined by the Commission through rule or order as
8 a common source of supply that is appropriately suited for
9 development through a multiunit horizontal well, and may, for good
10 cause shown, include any associated common source of supply in
11 relation thereto, as defined in this section;

12 16. "Terminus" means the end point of the borehole of a
13 horizontal well in the shale reservoir;

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

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

23 ~~18.~~ 19. "Unit" means a drilling and spacing unit for a single
24 common source of supply created pursuant to Section 87.1 of this

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

3 ~~19.~~ 20. "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.~~ 21. "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 87.7, is
10 amended to read as follows:

11 ~~Corporation Commission Jurisdiction.~~

12 The Corporation Commission shall have jurisdiction, upon the
13 filing of a proper application therefor, to permit the drilling,
14 completing and producing of a multiunit horizontal well in
15 conformity with ~~Section 4 of this act~~ Section 87.8 of this title, or
16 to create a horizontal well unitization for a shale reservoir in
17 conformity with ~~Section 5 of this act~~ Section 87.9 of this title, if
18 the Commission finds that the multiunit horizontal well or the
19 horizontal well unitization will prevent waste and will protect the
20 correlative rights of the owners of oil and gas rights.

21 Furthermore, for the planned development of a common source of
22 supply through the use of horizontal well technology where there is
23 currently production from the common source of supply within an
24 existing unit or units, and the planned horizontal well or wells

1 would extend beyond the boundaries of one or more the existing
2 units, an alternative to creating a new drilling and spacing unit or
3 units, or modifying, superseding, amending or vacating the existing
4 drilling and spacing unit or units, to accommodate the horizontal
5 development shall be the utilization of a multiunit horizontal well
6 or wells pursuant to Section 87.8 of this title.

7 SECTION 3. AMENDATORY 52 O.S. 2011, Section 87.8, is
8 amended to read as follows:

9 A. Under the conditions contained in this section, the
10 Corporation Commission is authorized to allow multiunit horizontal
11 wells in any targeted reservoir or reservoirs in order to prevent
12 waste and protect the correlative rights of the owners of oil and
13 gas rights.

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

16 The Commission shall require the allocation ~~of~~ to each of the
17 units affected by a multiunit horizontal well the actual and
18 reasonable drilling, completion and production costs associated with
19 ~~a such multiunit horizontal well to each of the affected units which~~
20 ~~the well actually penetrates within the completion interval and~~
21 shall further require the allocation ~~of~~ to each of the units
22 affected by a multiunit horizontal well the commingled production,
23 and the proceeds from the sale thereof, from the completion interval
24 of ~~a~~ such multiunit horizontal well, with any allocation to be in a

1 manner that will prevent waste and protect the correlative rights of
2 the owners of the oil and gas rights in each of the affected units
3 ~~which the well actually penetrates within the completion interval.~~

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

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

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

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

24 4. The application shall include:

- 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 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 4. AMENDATORY 52 O.S. 2011, Section 87.1, is
18 amended to read as follows:

19 Whenever the production from any common source of supply of oil
20 or natural gas in this state can be obtained only under conditions
21 constituting waste or drainage not compensated by counterdrainage,
22 then any person having the right to drill into and produce from such
23 common source of supply may, except as otherwise authorized or in
24 this section provided, take therefrom only such proportion of the

1 oil or natural gas that may be produced therefrom without waste or
2 without such drainage as the productive capacity of the well or
3 wells of any such person considered with the acreage properly
4 assignable to each such well bears to the total productive
5 capacities of the wells in such common source of supply considered
6 with the acreage properly assignable to each well therein.

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

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

1 requirements of Section 86.1 et seq. of this title shall govern all
2 proceedings and hearings provided for by this section.

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

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

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

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

1 the Commission finds that any such spacing unit is located on the
2 edge of a pool and adjacent to a producing unit, or for some other
3 reason that to require the drilling of a well at the prescribed
4 location on such spacing unit would be inequitable or unreasonable.
5 Whenever such an exception is granted, the Commission shall adjust
6 the allowable production for the spacing unit and take such other
7 action as may be necessary to protect the rights of interested
8 parties.

9 Any well spacing or drilling unit for a common source of supply
10 thereunder which exceeds six hundred forty (640) acres for a gas
11 well plus ten percent (10%) tolerance or exceeds the total amount of
12 acreage contained in a governmental section, and is not in
13 production or in the process of drilling development on ~~the~~
14 ~~effective date of this act~~ March 26, 1980, shall be de-spaced.
15 However, fractional sections along the state boundary line and
16 within the townships along the boundary where the survey west of the
17 Indian Meridian meets the survey east of the Cimarron Meridian may
18 be spaced with adjoining section unit, and the shape thereof shall
19 be determined by the Commission.

20 (d) The Commission shall have jurisdiction upon the filing of a
21 proper application therefor, and upon notice given as provided in
22 subsection (a) of this section, to decrease the size of the well
23 spacing units or to permit additional wells to be drilled within the
24 established units, or to increase the size or modify the shape of

1 the well spacing units, upon proper proof at such hearing that such
2 modification or extension of the order establishing drilling or
3 spacing units will prevent or assist in preventing the various types
4 of wastes prohibited by statute, or any of the wastes, or will
5 protect or assist in protecting the correlative rights of persons
6 interested in the common source of supply, or upon the filing of a
7 proper application therefor to enlarge the area covered by the
8 spacing order, if such proof discloses that the development or the
9 trend of development indicates that such common source of supply
10 underlies an area not covered by the spacing order and such proof
11 discloses that the applicant is an owner within the area or within a
12 drilling and spacing unit contiguous to the area covered by the
13 application. If the Commission modifies, supersedes, amends or
14 vacates the existing drilling and spacing unit or units, or creates
15 a new drilling and spacing unit or units, for a common source of
16 supply covering the same lands where there is currently, or has
17 been, production from the common source of supply within a
18 previously existing unit or units, the Commission shall have the
19 authority to take such other action and to make such orders as may
20 be necessary to protect the correlative rights or vested rights, or
21 both, of interested parties within the previously existing unit or
22 units, as well as the newly formed unit or units. Except in the
23 instance of reservoir dewatering as described herein, the Commission
24 shall not establish well spacing units of more than forty (40) acres

1 in size covering common sources of supply of oil, the top of which
2 lies less than four thousand (4,000) feet below the surface as
3 determined by the original or discovery well in the common source of
4 supply, and the Commission shall not establish well spacing units of
5 more than eighty (80) acres in size covering common sources of
6 supply of oil, the top of which lies less than nine thousand nine
7 hundred ninety (9,990) feet and more than four thousand (4,000) feet
8 below the surface as determined by the original or discovery well in
9 the common source of supply. In the instance of reservoir
10 dewatering to extract oil from reservoirs having initial water
11 saturations at or above fifty percent (50%), the Commission may
12 establish drilling and spacing units not to exceed six hundred forty
13 (640) acres in size.

14 (e) The drilling of any well or wells into any common source of
15 supply for the purpose of producing oil or gas therefrom, after a
16 spacing order has been entered by the Commission covering such
17 common source of supply, at a location other than that fixed by the
18 order is hereby prohibited. The drilling of any well or wells into
19 a common source of supply, covered by a pending spacing application,
20 at a location other than that approved by a special order of the
21 Commission authorizing the drilling of such well is hereby
22 prohibited. The operation of any well drilled in violation of any
23 spacing so entered is also hereby prohibited. When two or more
24 separately owned tracts of land are embraced within an established

1 spacing unit, or where there are undivided interests separately
2 owned, or both such separately owned tracts and undivided interests
3 embraced within such established spacing unit, the owners thereof
4 may validly pool their interests and develop their lands as a unit.
5 Where, however, such owners have not agreed to pool their interests
6 and where one such separate owner has drilled or proposes to drill a
7 well on the unit to the common source of supply, the Commission, to
8 avoid the drilling of unnecessary wells, or to protect correlative
9 rights, shall, upon a proper application therefor and a hearing
10 thereon, require such owners to pool and develop their lands in the
11 spacing unit as a unit. The applicant shall give all the owners
12 whose addresses are known or could be known through the exercise of
13 due diligence at least fifteen (15) days' notice by mail, return
14 receipt requested. The applicant shall also give notice by one
15 publication, at least fifteen (15) days prior to the hearing, in
16 some newspaper of general circulation published in Oklahoma County,
17 and by one publication, at least fifteen (15) days prior to the date
18 of the hearing, in some newspaper published in the county, or in
19 each county, if there be more than one, in which the lands embraced
20 within the spacing unit are situated. The applicant shall file
21 proof of publication and an affidavit of mailing with the Commission
22 prior to the hearing. All orders requiring such pooling shall be
23 made after notice and hearing, and shall be upon such terms and
24 conditions as are just and reasonable and will afford to the owner

1 of such tract in the unit the opportunity to recover or receive
2 without unnecessary expense the owner's just and fair share of the
3 oil and gas. The portion of the production allocated to the owner
4 of each tract or interests included in a well spacing unit formed by
5 a pooling order shall, when produced, be considered as if produced
6 by such owner from the separately owned tract or interest by a well
7 drilled thereon. Such pooling order of the Commission shall make
8 definite provisions for the payment of cost of the development and
9 operation, which shall be limited to the actual expenditures
10 required for such purpose not in excess of what are reasonable,
11 including a reasonable charge for supervision. In the event of any
12 dispute relative to such costs, the Commission shall determine the
13 proper costs after due notice to interested parties and a hearing
14 thereon. The operator of such unit, in addition to any other right
15 provided by the pooling order or orders of the Commission, shall
16 have a lien on the mineral leasehold estate or rights owned by the
17 other owners therein and upon their shares of the production from
18 such unit to the extent that costs incurred in the development and
19 operation upon the unit are a charge against such interest by order
20 of the Commission or by operation of law. Such liens shall be
21 separable as to each separate owner within such unit, and shall
22 remain liens until the owner or owners drilling or operating the
23 well have been paid the amount due under the terms of the pooling
24 order. The Commission is specifically authorized to provide that

1 the owner or owners drilling, or paying for the drilling, or for the
2 operation of a well for the benefit of all shall be entitled to
3 production from such well which would be received by the owner or
4 owners for whose benefit the well was drilled or operated, after
5 payment of royalty, until the owner or owners drilling or operating
6 the well have been paid the amount due under the terms of the
7 pooling order or order settling such dispute. No part of the
8 production or proceeds accruing to any owner of a separate interest
9 in such unit shall be applied toward payment of any cost properly
10 chargeable to any other interest in the unit.

11 For the purpose of this section, the owner or owners of oil and
12 gas rights in and under an unleased tract of land shall be regarded
13 as a lessee to the extent of a seven-eighths (7/8) interest in and
14 to the rights and a lessor to the extent of the remaining one-eighth
15 (1/8) interest therein, unless and until the owner or owners make an
16 election or are deemed to make an election not to participate under
17 a pooling order issued by the Commission, at which time each such
18 owner shall be considered a lessor, subject to the judicially
19 recognized implied covenant to market found to exist by the courts
20 of this state in oil and gas leases covering lands located in this
21 state, to the extent of the full royalty percentage elected under
22 the pooling order. Should the owners of separate tracts or
23 interests embraced within a spacing unit fail to agree upon a
24 pooling of their interests and the drilling of a well on the unit,

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

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

22 (f) Notwithstanding any provision of this section to the
23 contrary, the Corporation Commission shall have jurisdiction upon
24 the filing of a proper application therefor, and upon notice given

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

14 SECTION 5. It being immediately necessary for the preservation
15 of the public peace, health and safety, an emergency is hereby
16 declared to exist, by reason whereof this act shall take effect and
17 be in full force from and after its passage and approval.

18 COMMITTEE REPORT BY: COMMITTEE ON ENERGY
19 February 21, 2013 - DO PASS AS AMENDED
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