

SENATE CHAMBER
STATE OF OKLAHOMA

DISPOSITION

☐ FLOOR AMENDMENT

No. _____

☐ COMMITTEE AMENDMENT

(Date)

Mr./Madame President:

I move to amend House Bill No. 2177, by substituting the attached floor substitute for the title, enacting clause and entire body of the measure.

Submitted by:

Senator Bingman

Bingman-MJM-FS-Req#1584
2/18/2016 4:56 PM

STATE OF OKLAHOMA

1st Session of the 55th Legislature (2015)

SENATE FLOOR SUBSTITUTE
FOR

HOUSE BILL NO. 2177

By: Hickman, McBride and
Murdock of the House

and

Bingman and Fields of the
Senate

FLOOR SUBSTITUTE

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 Section 1, Chapter 400, O.S.L. 2014, 87.7, and 87.8, as amended by Section 2, Chapter 400, O.S.L. 2014 (52 O.S. Supp. 2014, Sections 87.1, 87.6, and 87.8), which relate to well spacing and the 2011 Shale Reservoir Development Act; clarifying statutory reference; stating procedure for participation in certain subsequent wells in certain pooling orders; modifying name of certain act, providing short title; modifying definitions; providing for planned development of certain common sources of supply of oil and gas; modifying Corporation Commission jurisdiction and administration of certain wells; modifying procedures for allocating resources and costs for certain horizontal wells; and declaring an emergency.

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

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

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

16 ~~(a)~~ A. To prevent or to assist in preventing the various types
17 of waste of oil or gas prohibited by statute, or any wastes, or to
18 protect or assist in protecting the correlative rights of interested
19 parties, the Corporation Commission, upon a proper application and
20 notice given as hereinafter provided, and after a hearing as
21 provided in the notice, shall have the power to establish well
22 spacing and drilling units of specified and approximately uniform
23 size and shape covering any common source of supply, or prospective
24 common source of supply, of oil or gas within the State of Oklahoma;

1 provided, that the Commission may authorize the drilling of an
2 additional well or wells on any spacing and drilling unit or units
3 or any portion or portions thereof or may establish, reestablish, or
4 reform well spacing and drilling units of different sizes and shapes
5 when the Commission determines that a common source of supply
6 contains predominantly oil underlying an area or areas and contains
7 predominantly gas underlying a different area or areas; provided
8 further that the units in the predominantly oil area or areas shall
9 be of approximately uniform size and shape, and the units in the
10 predominantly gas area or areas shall be of approximately uniform
11 size and shape, except that the units in the gas area or areas may
12 be of nonuniform size and shape when they adjoin the units in the
13 oil area or areas; provided further that the drilling pattern for
14 such nonuniform units need not be uniform, and provided further that
15 the Commission shall adjust the allowable production within the
16 common source of supply, or any part thereof, and take such other
17 action as may be necessary to protect the rights of interested
18 parties. Any order issued pursuant to the provisions hereof may be
19 entered after a hearing upon the petition of any person owning an
20 interest in the minerals in lands embraced within such common source
21 of supply, or the right to drill a well for oil or gas on the lands
22 embraced within such common source of supply, or on the petition of
23 the Conservation Officer of the State of Oklahoma. When such a
24 petition is filed with the Commission, the Commission shall give at

1 least fifteen (15) days' notice of the hearing to be held upon such
2 petition by one publication, at least fifteen (15) days prior to the
3 hearing, in some newspaper of general circulation published in
4 Oklahoma County, and by one publication, at least fifteen (15) days
5 prior to the date of the hearing, in some newspaper published in the
6 county, or in each county, if there be more than one, in which the
7 lands embraced within the application are situated. Except as to
8 the notice of hearing on such a petition, the procedural
9 requirements of Section 86.1 et seq. of this title shall govern all
10 proceedings and hearings provided for by this section.

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

16 ~~(c)~~ C. In establishing a well spacing or drilling unit for a
17 common source of supply thereunder, the acreage to be embraced
18 within each unit may include acreage from more than one governmental
19 section, but shall not exceed six hundred forty (640) acres for a
20 gas well plus ten percent (10%) tolerance, unless the unit is a
21 governmental section and the governmental section contains more than
22 six hundred forty (640) acres in which case the unit may comprise
23 the entire section. Provided, however, fractional sections along
24 the state boundary line and within the townships along the boundary

1 where the survey west of the Indian Meridian meets the survey east
2 of the Cimarron Meridian may be spaced with adjoining section unit,
3 and the shape thereof shall be determined by the Commission from the
4 evidence introduced at the hearing, and the following facts, among
5 other things, shall be material: (1) The lands embraced in the
6 actual or prospective common source of supply; (2) the plan of well
7 spacing then being employed or contemplated in the source of supply;
8 (3) the depth at which production from the common source of supply
9 has been or is expected to be found; (4) the nature and character of
10 the producing or prospective producing formation or formations; and
11 (5) any other available geological or scientific data pertaining to
12 the actual or prospective source of supply which may be of probative
13 value to the Commission in determining the proper spacing and well
14 drilling unit therefor, with due and relative allowance for the
15 correlative rights and obligations of the producers and royalty
16 owners interested therein.

17 The order establishing such spacing or drilling units shall set
18 forth: (1) the outside boundaries of the surface area included in
19 such order; (2) the size, form, and shape of the spacing or drilling
20 units so established; (3) the drilling pattern for the area, which
21 shall be uniform except as hereinbefore provided; and (4) the
22 location of the permitted well on each such spacing or drilling
23 unit. To such order shall be attached a plat upon which shall be
24 indicated the foregoing information. Subject to other provisions of

1 Section 86.1 et seq. of this title, the order establishing such
2 spacing or drilling units shall direct that no more than one well
3 shall thereafter be produced from the common source of supply on any
4 unit so established, and that the well permitted on that unit shall
5 be drilled at the location thereon as prescribed by the Commission,
6 with such exception as may be reasonably necessary where it is
7 shown, upon application, notice and hearing in conformity with the
8 procedural requirements of Section 86.1 et seq. of this title, and
9 the Commission finds that any such spacing unit is located on the
10 edge of a pool and adjacent to a producing unit, or for some other
11 reason that to require the drilling of a well at the prescribed
12 location on such spacing unit would be inequitable or unreasonable.
13 Whenever such an exception is granted, the Commission shall adjust
14 the allowable production for the spacing unit and take such other
15 action as may be necessary to protect the rights of interested
16 parties.

17 Any well spacing or drilling unit for a common source of supply
18 thereunder which exceeds six hundred forty (640) acres for a gas
19 well plus ten percent (10%) tolerance or exceeds the total amount of
20 acreage contained in a governmental section, and is not in
21 production or in the process of drilling development on ~~the~~
22 ~~effective date of this act~~ March 26, 1980, shall be de-spaced.
23 However, fractional sections along the state boundary line and
24 within the townships along the boundary where the survey west of the

1 Indian Meridian meets the survey east of the Cimarron Meridian may
2 be spaced with adjoining section unit, and the shape thereof shall
3 be determined by the Commission.

4 ~~(d)~~ D. The Commission shall have jurisdiction upon the filing
5 of a proper application therefor, and upon notice given as provided
6 in subsection ~~(a)~~ A of this section, to decrease the size of the
7 well spacing units or to permit additional wells to be drilled
8 within the established units, or to increase the size or modify the
9 shape of the well spacing units, upon proper proof at such hearing
10 that such modification or extension of the order establishing
11 drilling or spacing units will prevent or assist in preventing the
12 various types of wastes prohibited by statute, or any of the wastes,
13 or will protect or assist in protecting the correlative rights of
14 persons interested in the common source of supply, or upon the
15 filing of a proper application therefor to enlarge the area covered
16 by the spacing order, if such proof discloses that the development
17 or the trend of development indicates that such common source of
18 supply underlies an area not covered by the spacing order and such
19 proof discloses that the applicant is an owner within the area or
20 within a drilling and spacing unit contiguous to the area covered by
21 the application. Except in the instance of reservoir dewatering as
22 described herein, the Commission shall not establish well spacing
23 units of more than forty (40) acres in size covering common sources
24 of supply of oil, the top of which lies less than four thousand

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

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

embraced within such established spacing unit, the owners thereof may validly pool their interests and develop their lands as a unit. Where, however, such owners have not agreed to pool their interests and where one such separate owner has drilled or proposes to drill a well on the unit to the common source of supply, the Commission, to avoid the drilling of unnecessary wells, or to protect correlative rights, shall, upon a proper application therefor and a hearing thereon, require such owners to pool and develop their lands in the spacing unit as a unit. The applicant shall give all the owners whose addresses are known or could be known through the exercise of due diligence at least fifteen (15) days' notice by mail, return receipt requested. The applicant shall also give notice by one publication, at least fifteen (15) days prior to the hearing, in some newspaper of general circulation published in Oklahoma County, and by one publication, at least fifteen (15) days prior to the date of the hearing, in some newspaper published in the county, or in each county, if there be more than one, in which the lands embraced within the spacing unit are situated. The applicant shall file proof of publication and an affidavit of mailing with the Commission prior to the hearing. All orders requiring such pooling shall be made after notice and hearing, and shall be upon such terms and conditions as are just and reasonable and will afford to the owner of such tract in the unit the opportunity to recover or receive without unnecessary expense the owner's just and fair share of the

oil and gas. The portion of the production allocated to the owner of each tract or interests included in a well spacing unit formed by a pooling order shall, when produced, be considered as if produced by such owner from the separately owned tract or interest by a well drilled thereon. Such pooling order of the Commission shall make definite provisions for the payment of cost of the development and operation, which shall be limited to the actual expenditures required for such purpose not in excess of what are reasonable, including a reasonable charge for supervision. In the event of any dispute relative to such costs, the Commission shall determine the proper costs after due notice to interested parties and a hearing thereon. The operator of such unit, in addition to any other right provided by the pooling order or orders of the Commission, shall have a lien on the mineral leasehold estate or rights owned by the other owners therein and upon their shares of the production from such unit to the extent that costs incurred in the development and operation upon the unit are a charge against such interest by order of the Commission or by operation of law. Such liens shall be separable as to each separate owner within such unit, and shall remain liens until the owner or owners drilling or operating the well have been paid the amount due under the terms of the pooling order. The Commission is specifically authorized to provide that the owner or owners drilling, or paying for the drilling, or for the operation of a well for the benefit of all shall be entitled to

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

9 For the purpose of this section, the owner or owners of oil and
10 gas rights in and under an unleased tract of land shall be regarded
11 as a lessee to the extent of a seven-eighths (7/8) interest in and
12 to the rights and a lessor to the extent of the remaining one-eighth
13 (1/8) interest therein, unless and until the owner or owners make an
14 election or are deemed to make an election not to participate under
15 a pooling order issued by the Commission, at which time each such
16 owner shall be considered a lessor, subject to the judicially
17 recognized implied covenant to market found to exist by the courts
18 of this state in oil and gas leases covering lands located in this
19 state, to the extent of the full royalty percentage elected under
20 the pooling order. Should the owners of separate tracts or
21 interests embraced within a spacing unit fail to agree upon a
22 pooling of their interests and the drilling of a well on the unit,
23 and should it be established by final, unappealable judgment of a
24 court of competent jurisdiction that the Commission is without

1 authority to require pooling as provided for herein, then, subject
2 to all other applicable provisions of this act, the owner of each
3 tract or interest embraced within a spacing unit may drill on his or
4 her separately owned tract, and the allowable production therefrom
5 shall be that portion of the allowable for the full spacing unit as
6 the area of such separately owned tract bears to the full spacing
7 unit.

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

20 ~~(f)~~ F. Notwithstanding any provision of this section to the
21 contrary, the Corporation Commission shall have jurisdiction upon
22 the filing of a proper application therefor, and upon notice given
23 as provided in subsection ~~(a)~~ A of this section, to establish
24 spacing rules for horizontally drilled oil wells whereby

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

12 G. The Commission shall provide in each pooling order issued
13 after the effective date of this act that for any horizontal well
14 drilled under such pooling order that each owner who participated in
15 the initial unit well under the pooling order shall have an election
16 to participate in each subsequent well proposed under the pooling
17 order which is a horizontal well, notwithstanding a prior election
18 by the owner not to participate in a horizontal well under the
19 pooling order. Any such owner who makes an election not to
20 participate in a subsequent horizontal well under the pooling order
21 shall only relinquish that owner's nonparticipating interest limited
22 to only that subsequent horizontal well pursuant to the terms of the
23 pooling order, and shall retain the right to elect to participate in
24 any subsequent horizontal wells which may be proposed under the

1 pooling order with all or any part of that owner's interest. An
2 owner who elects or is deemed to have elected not to participate in
3 a subsequent horizontal well pursuant to the pooling order covering
4 the unit or a unit which is the subject of an order authorizing a
5 horizontal well shall be deemed to have elected not to participate
6 pursuant to this subsection and shall deliver that owner's interest
7 pursuant to the terms of the pooling order as to the proposed
8 horizontal well, but shall not be entitled to receive any cash bonus
9 under the subsequent operations provision of the applicable pooling
10 order and shall surrender that owner's right to participate in the
11 well subject only to its existing burdens.

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;
24

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~~ an extended lateral
8 horizontal unit created pursuant to Section 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, or to create a horizontal well unitization in
22 conformity with Section 5 of this act, if the Commission finds that
23 the multiunit horizontal well or the horizontal well unitization
24 will prevent waste and will protect the correlative rights of the

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

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

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

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

22 The Commission shall require the allocation to each of the units
23 affected by a multiunit horizontal well of the actual and reasonable
24 drilling, completion and production costs associated with ~~a~~ such

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

1 0 1. The allocation factor for each affected unit shall be
1 1 determined by dividing the length of the completion interval located
1 2 within the affected unit by the entire length of the completion
1 3 interval in the subject multiunit horizontal well. The Commission
1 4 shall have the authority to adjust the allocation factors or
1 5 participation in the subject multiunit horizontal well, based upon
1 6 reasonable testimony and evidence presented to the Commission, if
1 7 necessary to prevent waste and adequately protect the correlative
1 8 rights or vested rights or both of the owners of the oil and gas
1 9 rights in each of the affected units.

2 0 2. Each party who participates as a working interest owner in a
2 1 multiunit horizontal well shall own an undivided interest in all
2 2 portions of the wellbore of the well and in the equipment on or in
2 3 the well in the same ratio that the party's allocated portion of the
2 4 total costs of the well and equipment bears to the total costs of

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

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

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

6 4. The application shall include:

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

1 each proposed multiunit horizontal well under the
2 application.

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

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

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

23 8. The multiunit horizontal well shall be subject to the
24 provisions of the Product Revenue Standards Act (PRSA). The

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

7 C. Application, Notice and Retained Jurisdiction.

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

23 SECTION 5. It being immediately necessary for the preservation
24 of the public peace, health and safety, an emergency is hereby

1 declared to exist, by reason whereof this act shall take effect and
2 be in full force from and after its passage and approval.

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