

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#1619
2/18/2016 4:56 PM

(Floor Amendments Only) Date and Time Filed: _____

☐ Untimely

☐ Amendment Cycle Extended

☐ Secondary Amendment

STATE OF OKLAHOMA

1st Session of the 55th Legislature (2015)

SENATE FLOOR SUBSTITUTE
FOR ENGROSSED
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, 87.8, as amended by Section 2, Chapter 400, O.S.L. 2014, and 87.9 (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. For any horizontal well drilled after the effective date of
13 this act pursuant to a pooling order authorized by this section,
14 whether said pooling order was issued before or after the effective
15 date of this act, the following provisions shall apply:

16 1. Each owner who participated in a horizontal well under the
17 pooling order, whether the well is the initial well or a subsequent
18 well under the pooling order, shall have the right to participate in
19 each subsequent well proposed under the pooling order which is a
20 horizontal well notwithstanding a prior election by the owner not to
21 participate in a horizontal well under the pooling order after the
22 effective date of the act and notwithstanding any provision
23 contained in the pooling order to the contrary; provided, however,
24 if the pooling order was entered before the effective date of this

1 act, in order to be entitled to the right to participate pursuant to
2 this subsection, the owner must have been vested with the right to
3 participate in subsequent wells under the pooling order as of the
4 effective date of the act;

5 2. Subject to the limitations set forth in paragraph 1 of this
6 subsection, any owner who elects or is deemed to have elected not to
7 participate with all or any part of that owner's interest in a
8 subsequent well under the pooling order which is a horizontal well
9 shall relinquish that portion of the interest for which the election
10 was made not to participate, limited to only that subsequent
11 horizontal well pursuant to the terms of the pooling order, entered
12 pursuant to or amended by this subsection, and shall retain the
13 right to participate with all or any part of that owner's interest
14 in any subsequent wells which may be proposed under the pooling
15 order;

16 3. If the subsequent well under the pooling order is authorized
17 by the Commission as a multiunit horizontal well pursuant to Section
18 87.8 of this title, the relinquished rights of an owner who elects
19 or is deemed to have elected not to participate with all or any part
20 of that owner's interest in the subsequent well shall be limited to
21 only the targeted reservoir(s), as defined by Section 87.6 of this
22 title, and said owner shall retain the right to participate with all
23 or any part of that owner's interest in any subsequent well or
24 subsequent operations which may be proposed under the pooling order

1 in any common source of supply other than the targeted reservoir(s),
2 and within all common sources of supply in any then existing
3 wellbores in which the owner has the right to participate. Any
4 relinquishment under this paragraph shall be further subject to and
5 limited by any rights of the owner under paragraphs 1 and 2 of this
6 subsection;

7 4. After the effective date of this act, an owner who elects or
8 is deemed to have elected not to participate in a subsequent well
9 under a pooling order which is a horizontal well shall be deemed to
10 have elected not to participate pursuant to this subsection and
11 shall deliver that owner's relinquished interest pursuant to the
12 terms of the pooling order, entered pursuant to or amended by this
13 subsection, as to the proposed horizontal well or the targeted
14 reservoir(s), as set forth and limited in this subsection, but shall
15 not be entitled to receive any cash bonus under the subsequent
16 operations provision of the applicable pooling order and shall
17 surrender that owner's relinquished right to participate in only the
18 proposed horizontal well or the targeted reservoir(s), as set forth
19 and limited in this subsection, subject only to the then existing
20 burdens on that owner's interest; and

21 5. The provisions of this subsection shall supplement each
22 affected pooling order as to development of the affected spacing
23 unit by the use of horizontal wells from and after the effective
24 date of this act.

1 SECTION 2. AMENDATORY 52 O.S. 2011, Section 87.6, as
2 last amended by Section 1, Chapter 400, O.S.L. 2014 (52 O.S. Supp.
3 2014, Section 87.6), is amended to read as follows:

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

7 B. As used in ~~the 2011 Shale Reservoir Development Act~~ this
8 act:

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

12 2. "Application" means a written request filed by an owner of
13 the right to drill seeking approval to drill, complete and produce a
14 multiunit horizontal well or to create a horizontal well
15 unitization;

16 3. "Associated common source of supply" means a common source
17 of supply which is subject to a drilling and spacing unit formed by
18 the Corporation Commission and located in all or a portion of the
19 lands in which the completion interval of a multiunit horizontal
20 well is located, or which is located within the boundaries of a unit
21 created through a horizontal well unitization, and which is
22 immediately adjoining the shale common source of supply in which the
23 completion interval of the horizontal well is located, and which is
24 inadvertently encountered in the drilling of the lateral of such

1 horizontal well when such well is drilled out of or exits, whether
2 on one or multiple occasions, such shale common source of supply;

3 4. "Commission" means the Corporation Commission;

4 5. "Completion interval" means, for an open hole completion in
5 a horizontal well, the interval from the point of entry to the
6 terminus and, for a cased and cemented completion in a horizontal
7 well, the interval from the first perforations to the last
8 perforations;

9 6. "Horizontal well" means a well drilled, completed, or
10 recompleted with one or more laterals which, for at least one
11 lateral, the horizontal component of the completion interval exceeds
12 the vertical component of the completion interval and the horizontal
13 component extends a minimum of one hundred fifty (150) feet in the
14 formation;

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

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

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

21 10. "Marmaton common source of supply" means a common source of
22 supply located within Texas and Beaver Counties and designated as
23 the Marmaton by the Commission through rule or order;
24

1 11. "Multiunit horizontal well" means a horizontal well in a
2 targeted reservoir wherein the completion interval of the well is
3 located in more than one unit formed for the same targeted
4 reservoir, with the well being completed in and producing from such
5 targeted reservoir in two or more of such units;

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

- 10 a. a map or maps indicating the location of each existing
11 well in the proposed unit and the anticipated location
12 of each horizontal well proposed to be drilled in the
13 proposed unit that is anticipated to be necessary,
14 based upon the information and knowledge then
15 available to the applicant, for the full and efficient
16 development and operation of the proposed unit for the
17 recovery of oil and gas from the shale reservoir
18 within the proposed unit,
- 19 b. any applicable proposed allocation factor or factors
20 for allocating the costs, production and proceeds from
21 the proposed unit,
- 22 c. the anticipated timing and anticipated sequence of
23 drilling of each horizontal well in the proposed unit,
24 and

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

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

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

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

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

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

b. determined by the Commission as part of the order approving the multiunit horizontal well as a common source of supply that is appropriately suited for

1 development through a multiunit horizontal well for
2 that particular application,
3 and in designating or determining whether a particular common source
4 of supply should be considered a targeted reservoir, the Commission
5 may limit its designation to certain geographical areas;

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

8 18. "Wellbore royalty interest" means, for each separate
9 multiunit horizontal well, the sum of resulting products of each
10 affected unit's royalty share for that unit, as defined by the PRSA,
11 multiplied by that unit's allocation factor for production and
12 proceeds;

13 19. "Wellbore royalty proceeds" means the proceeds or other
14 revenue derived from or attributable to any production of oil and
15 gas from the multiunit horizontal well multiplied by the wellbore
16 royalty interest;

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

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

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

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

5 Section 87.7. ~~Corporation Commission Jurisdiction.~~ The
6 Corporation Commission shall have jurisdiction, upon the filing of a
7 proper application therefor, to permit the drilling, completing and
8 producing of a multiunit horizontal well in conformity with Section
9 ~~4 of this act~~ 87.8 of this title, or to create a horizontal well
10 unitization in conformity with Section ~~5 of this act~~ 87.9 of this
11 title, if the Commission finds that the multiunit horizontal well or
12 the horizontal well unitization will prevent waste and will protect
13 the correlative rights of the owners of oil and gas rights.
14 Furthermore, for the planned development of a common source of
15 supply through the use of horizontal well technology where there is
16 currently production from the common source of supply within an
17 existing unit or units, and the planned horizontal well or wells
18 would extend beyond the boundaries of one or more of the existing
19 units, an alternative to creating a new unit or units pursuant to
20 Section 87.1 or 87.9 of this title or modifying, superseding,
21 amending or vacating the existing drilling and spacing unit or
22 units, to accommodate the horizontal development is the utilization
23 of a multiunit horizontal well or wells pursuant to Section 87.8 of
24 this title.

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

4 Section 87.8. A. Under the conditions contained in this
5 section, the Corporation Commission is authorized to allow multiunit
6 horizontal wells in any targeted reservoir or reservoirs in order to
7 prevent waste and protect the correlative rights of the owners of
8 oil and gas rights.

9 B. Ownership, Allocation of Costs, Commingled Production, and
10 Proceeds.

11 The Commission shall require the allocation to each of the units
12 affected by a multiunit horizontal well of the actual and reasonable
13 drilling, completion and production costs associated with a such
14 multiunit horizontal well ~~to each of the affected units which the~~
15 ~~well actually penetrates within the completion interval~~ and shall
16 further require the allocation to each of the units affected by a
17 multiunit horizontal well of the commingled production, and the
18 proceeds from the sale thereof, from the completion interval of a
19 such multiunit horizontal well, with any allocation to be in a
20 manner that will prevent waste and protect the correlative rights of
21 the owners of the oil and gas rights in each of the affected units
22 ~~which the well actually penetrates within the completion interval.~~

23 1. The allocation factor for each affected unit shall be
24 determined by dividing the length of the completion interval located

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

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

18 3. A multiunit horizontal well shall be treated as a well in
19 each of the affected units and shall be subject to all of the rules
20 otherwise applicable to any other well in any of the affected units.
21 In allowing a multiunit horizontal well, the Commission, under
22 Section 87.1 of this title, may grant any necessary exceptions to
23 the permitted well location tolerances in each of the affected units
24 for the well and permit the well as an additional well in each of

1 the affected units. When an owner has drilled or proposes to drill
2 a multiunit horizontal well or wells and the owners of a present
3 right to drill in any of the affected units have not agreed to pool
4 their interests in the unit or units for the ~~affected common sources~~
5 ~~of supply~~ targeted reservoir, the Commission, under Section 87.1 of
6 this title, may, upon the filing of a proper application therefor,
7 require the owners to pool their interests in the targeted reservoir
8 in each affected unit on a unitwide basis as to the respective unit
9 in regard to the development involving the portion of the multiunit
10 horizontal well or wells located within the affected unit.

11 Furthermore, if the Commission has previously entered an order
12 pooling the interests of owners in an affected unit in which a
13 multiunit horizontal well or wells have been drilled or are proposed
14 to be drilled, the Commission, under Section 87.1 of this title may,
15 upon the filing of a proper application therefor, amend the pooling
16 order to the extent necessary to have the pooling order cover the
17 development involving the portion of the multiunit horizontal well
18 or wells located within the affected unit.

19 4. The application shall include:

- 20 a. the approximate anticipated location of the proposed
21 multiunit horizontal well or wells,
- 22 b. a map or maps indicating the location of each
23 currently existing well in each affected unit which is
24 the subject of the application and the anticipated

1 location of each multiunit horizontal well currently
2 proposed to be drilled in each affected unit as a
3 result of the application and any other horizontal
4 well not included in the current application, but
5 anticipated to be necessary, based upon the
6 information and knowledge then available to the
7 applicant, for the full and efficient development and
8 operations of the targeted reservoir within the
9 affected units if the well or wells are approved by
10 the Commission upon the filing of a proper application
11 at a future date, and

- 12 c. any applicable proposed allocation factor or factors
13 for allocating the costs, production and proceeds from
14 each proposed multiunit horizontal well under the
15 application.

16 5. Production from the completion interval in the targeted
17 reservoir from each of the affected units in which a multiunit
18 horizontal well is completed may be commingled in the wellbore of
19 the well and produced to the surface. The commingled production
20 from a multiunit horizontal well shall be allocated to each of the
21 affected units based upon the allocation factors approved by the
22 Commission.

23 6. In granting an application for a multiunit horizontal well
24 or wells, the Commission shall find, based on the testimony and

1 evidence presented, that given the information and knowledge then
2 available, the proposed multiunit horizontal well or wells will
3 prevent waste, protect correlative rights and likely will aid in the
4 full and efficient development of each of the affected units.

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

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

20 C. Application, Notice and Retained Jurisdiction.

21 Application for approval of a multiunit horizontal well shall be
22 in a form prescribed by the Commission. The application, and the
23 notice of hearing on the application, shall be served no less than
24 fifteen (15) days prior to the date of the hearing, by regular mail,

1 upon each person or governmental entity having the right to share in
2 production from each of the affected units covered by the
3 application, as well as other persons or governmental entities
4 required by the rules of the Commission. Upon approval of a
5 multiunit horizontal well, the Commission shall retain jurisdiction
6 over the well. The retained jurisdiction of the Commission set
7 forth herein shall neither preclude nor impair the right of any
8 affected party to obtain through the district courts of this state
9 any remedy or relief available at law or in equity for injuries
10 caused by any action or inaction of the applicant, operator or any
11 other affected party.

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

14 Section 87.9 A. Horizontal Well Unitization for Shale
15 Reservoirs.

16 Under limited circumstances and conditions contained in this
17 section, the Corporation Commission is authorized to unitize a shale
18 reservoir for the drilling of horizontal wells to the end that a
19 greater ultimate recovery of oil and gas may be had therefrom, waste
20 is prevented, and the correlative rights of the owners are
21 protected. Unless and until a unit created pursuant to this section
22 is effective, nothing in this section shall prohibit the drilling of
23 a horizontal well within a drilling and spacing unit created
24

1 pursuant to Section 87.1 of ~~Title 52 of the Oklahoma Statutes~~ this
2 title.

3 B. Prerequisites for Unitization.

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

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

10 2. The use of horizontal well technology to drill the
11 horizontal well or wells in the shale reservoir is feasible, will
12 prevent waste, will protect correlative rights and will with
13 reasonable probability result in the increased recovery of
14 substantially more oil and gas from the shale reservoir within the
15 unit than would otherwise be recovered;

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

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

23 Upon making these findings, the Commission may enter an order
24 creating the unit and providing for the unitized operation of the

1 shale reservoir described in the order, all upon terms and
2 conditions as may be shown by the evidence to be fair, reasonable,
3 equitable and which are necessary or proper to protect and safeguard
4 the respective rights and obligations of the several persons
5 affected, including royalty owners, owners of overriding royalties
6 and others, as well as the lessees. The application shall set forth
7 a description of the proposed unit with a map or plat thereof
8 attached, shall allege the existence of the facts required to be
9 found by the Commission as provided in this subsection and shall
10 have attached thereto a recommended plan of development which is
11 applicable to the proposed unit and which is fair, reasonable and
12 equitable.

13 C. Size of the Unit.

14 Each unit shall be two governmental sections. However, the
15 Commission may expand the size of the unit by including additional
16 governmental sections up to a maximum unit size of four governmental
17 sections, if for good cause shown the Commission finds the expansion
18 of the unit size beyond two governmental sections is necessary to
19 prevent waste, to protect correlative rights and will result in the
20 increased recovery of substantially more oil and gas from the shale
21 reservoir than would otherwise be recovered based upon, but not
22 necessarily limited to:

- 23 1. Geological features existing within the proposed unit;
24

1 2. The proposed location or orientation of the horizontal
2 wells;

3 3. The length of the laterals of the proposed horizontal wells;

4 4. The proposed use of multilateral wells; or

5 5. Any combination thereof.

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

7 Where there are, or may thereafter be, two or more separately
8 owned tracts within the unit, each owner of oil and gas rights
9 within the unit shall own an interest in the unit of the same
10 character as the ownership of the owner in the separately owned
11 tract. From and after the effective date of the order of the
12 Commission creating the unit and subject to the provisions of any
13 pooling order covering the unit, the interest of each owner in the
14 unit shall be defined as the percentage of interest owned in each
15 separate tract by the owner, multiplied by the proportion that the
16 acreage in each separately owned tract bears to the entire acreage
17 of the unit. The costs incurred in connection with and the
18 production and proceeds from the wells in the unit shall be
19 allocated to each separate tract in the unit and shall be borne or
20 shared by the owners in each separate tract based upon and
21 determined by the interest of each owner in the tract. However, if
22 a well or wells already exist within the area of the proposed unit
23 which are producing or have produced or appear to be productive from
24 the shale reservoir being unitized, the Commission may adjust the

1 sharing of future costs incurred in connection with and future
2 production and proceeds from any existing well or any subsequent
3 well in the proposed unit in any manner deemed necessary by the
4 Commission in order to protect the correlative rights of the owners
5 within the proposed unit, including providing for the sharing of
6 future costs incurred in connection with and future production and
7 proceeds from any existing well or any subsequent well in a manner
8 different from any other well in the unit so long as the various
9 methods of sharing future costs, production and proceeds from the
10 existing and subsequent wells in the proposed unit prevents waste
11 and protects the correlative rights of all the affected owners. For
12 the purpose of this section, any owner or owners of oil and gas
13 rights in and under an unleased tract of land within the unit,
14 unless the owner has relinquished the drilling rights or working
15 interest of the owner in the applicable shale reservoir in the tract
16 of land under a pooling order entered by the Commission which order
17 remains in effect, shall be regarded as a lessee to the extent of a
18 seven-eighths (7/8) interest in and to the rights and a lessor to
19 the extent of the remaining one-eighth (1/8) interest therein.

20 E. The Plan of Development.

21 The application shall include a proposed plan of development.
22 Based upon the facts and conditions found to exist with respect to a
23 proposed unit, the Commission shall determine the necessary terms,
24 provisions, conditions and requirements to be included in the plan

1 of development for the unit. If a well or wells already exist
2 within the area of the proposed unit which are producing or have
3 produced or appear to be productive from the shale reservoir being
4 unitized, the plan of development shall also include:

5 1. Any adjustments to the sharing of future costs incurred in
6 connection with future development and production, and the sharing
7 of proceeds, from any existing well or any subsequent well which the
8 Commission determines to be necessary in order to be fair,
9 reasonable and equitable, and to protect the correlative rights of
10 the owners, considering the existing development in and the prior
11 and anticipated future production from the shale reservoir within
12 the proposed unit; and

13 2. The procedure and basis upon which existing wells, equipment
14 and other properties of the several lessees within the unit area are
15 to be taken over and used for unit operations, including the method
16 of arriving at the compensation therefor, or of otherwise
17 proportionately equalizing or adjusting the investment of the
18 several lessees in the project as of the effective date of unit
19 operation.

20 F. Order of the Commission.

21 The order of the Commission creating the unit shall:

22 1. Designate the size and shape of the unit;
23
24

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

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

6 4. Designate the unit operator; and

7 5. Provide for the conditions upon which the unit, and the
8 order creating the unit, shall terminate.

9 G. Consent by Owners.

10 No order of the Commission creating a unit pursuant to this
11 section shall become effective unless and until the proposed
12 unitization has been consented to in writing, and the written
13 consent submitted to the Commission, by lessees of record of not
14 less than sixty-three percent (63%) of the working interest in the
15 shale reservoir in the area to be included in the unit and by owners
16 of record of not less than sixty-three percent (63%), exclusive of
17 any royalty interest owned by any lessee or by any subsidiary of any
18 lessee, of the one-eighth (1/8) royalty interest in the shale
19 reservoir in the area to be included in the unit in an express
20 writing separate from the oil and gas lease. The Commission shall
21 make a finding in the order creating the unit as to whether the
22 requisite consent has been obtained. Where the requisite consent
23 has not been obtained at the time the order creating the unit is
24 entered, the Commission shall, upon application and notice, hold any

1 additional and supplemental hearings as may be requested or required
2 to determine if and when the requisite consent has been obtained and
3 the date the unitization will become effective. In the event
4 lessees and royalty owners, or either, owning the required
5 percentage interest in and to the unit area have not so consented to
6 the unitization within a period of six (6) months from and after the
7 date on which the order creating the unit is entered, the order
8 creating the unit shall cease to be of further force and effect and
9 shall be revoked by the Commission.

10 H. Notice.

11 The application for the creation of a horizontal well
12 unitization for a shale reservoir under this section, and the notice
13 of hearing on the application, shall be served no less than fifteen
14 (15) days prior to the date of the hearing, by regular mail, upon
15 each person or governmental entity having the right to share in
16 production from the proposed unit covered by the application, as
17 well as other persons or governmental entities required by
18 Commission rules. Any person aggrieved by any order of the
19 Commission made pursuant to this section may appeal therefrom to the
20 Supreme Court of the State of Oklahoma upon the same conditions,
21 within the same time and in the same manner as is provided for in
22 ~~Title 52 of the Oklahoma Statutes~~ this title, for the taking of
23 appeals from the orders of the Commission made thereunder.

24 I. Pooling of the Unit.

1 From and after the effective date of an order creating a unit
2 pursuant to this section and subject to the provisions of the order
3 in regard to the matters to be found by the Commission in the
4 creation of the unit and the provisions of the applicable plan of
5 development, an owner of the right to drill for and produce oil or
6 gas from the unit may request the Commission to pool the oil and gas
7 interests of the owners in the unit on a unitwide basis pursuant to
8 the provisions of subsection (e) of Section 87.1 of ~~Title 52 of the~~
9 ~~Oklahoma Statutes~~ this title in regard to the development of the
10 unit involving a horizontal well or wells.

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

12 From and after the effective date of an order creating a unit
13 pursuant to this section, the operation of any well producing from
14 the shale reservoir within the unit defined in the order by persons
15 other than the unit operator, or except in the manner and to the
16 extent provided in the order shall be unlawful and is hereby
17 prohibited. Once the order of the Commission creating a unit
18 pursuant to this section becomes effective, the unit so created
19 shall supersede any drilling and spacing unit previously formed by
20 the Commission pursuant to Section 87.1 of ~~Title 52 of the Oklahoma~~
21 ~~Statutes~~ this title for the same shale reservoir within the area of
22 the new unit. Any pooling order which was entered by the Commission
23 pursuant to subsection (e) of Section 87.1 of ~~Title 52 of the~~
24 ~~Oklahoma Statutes~~ this title covering any drilling and spacing unit

1 superseded by a unit created pursuant to this section and which was
2 in effect at the time of the creation of the unit shall remain in
3 full force and effect as to any oil and gas interests in the shale
4 reservoir which were relinquished and transferred by operation of
5 law under the pooling order. However, further development of the
6 shale reservoir in the area of the unit created pursuant to this
7 section shall not be subject to any of the other provisions of any
8 prior pooling order, but shall be governed by and pursuant to the
9 order creating the unit, including the applicable plan of
10 development, and any subsequent pooling order covering the unit.

11 K. Payment of Proceeds.

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

14 L. The Commissioners of the Land Office.

15 The Commissioners of the Land Office, or other proper board or
16 officer of the state having the control and management of state
17 land, and the proper board or officer of any political, municipal,
18 or other subdivision or agency of the state, are hereby authorized
19 and shall have the power on behalf of the state or of any political,
20 municipal, or other subdivision or agency thereof, with respect to
21 land or oil and gas rights subject to the control and management of
22 the respective body, board, or officer, to consent to or participate
23 in any unitization adopted pursuant to the ~~2011 Shale Reservoir~~
24 Extended Lateral Horizontal Well Development Act.

1 M. Retained Jurisdiction.

2 Upon the creation of a unit pursuant to this section, and
3 approval of the plan of development in connection therewith, the
4 Commission shall retain jurisdiction over the unit and the plan of
5 development. The retained jurisdiction of the Commission set forth
6 herein shall neither preclude nor impair the right of any affected
7 party to obtain through the district courts of this state any remedy
8 or relief available at law or in equity for injuries caused by any
9 action or inaction of the applicant, operator or any other affected
10 party.

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

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