

STATE OF OKLAHOMA

2nd Session of the 57th Legislature (2020)

SENATE BILL 1894

By: Daniels

AS INTRODUCED

An Act relating to Oil and Gas; amending 52 O.S. 2011, Section 87.9, as amended by Section 6, Chapter 372, O.S.L. 2017 (52 O.S. Supp. 2019, Section 87.9), which relates to horizontal well unitization; modifying certain size of well unit; modifying method for obtaining certain consent; amending 52 O.S. 2011, Section 287.5, which relates to ratification or approval of unitization plan; modifying method of obtaining certain consent for unitization; and providing an effective date.

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

SECTION 1. AMENDATORY 52 O.S. 2011, Section 87.9, as amended by Section 6, Chapter 372, O.S.L. 2017 (52 O.S. Supp. 2019, Section 87.9), is amended to read as follows:

Section 87.9. A. Horizontal Well Unitization for Targeted Reservoirs.

Under limited circumstances and conditions contained in this section, the Corporation Commission is authorized to unitize a targeted reservoir for the drilling of horizontal wells to the end that a greater ultimate recovery of oil and gas may be had therefrom, waste is prevented, and the correlative rights of the

1 owners are protected. Unless and until a unit created pursuant to
2 this section is effective, nothing in this section shall prohibit
3 the drilling of a horizontal well within a drilling and spacing unit
4 created pursuant to Section 87.1 of this title.

5 B. Prerequisites for Unitization.

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

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

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

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

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

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

15 C. Size of the Unit.

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

1 1. Geological features existing within the proposed unit;

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

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

5 4. The proposed use of multilateral wells; or

6 5. Any combination thereof.

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

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

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

22 E. The Plan of Development.

23 The application shall include a proposed plan of development.
24 Based upon the facts and conditions found to exist with respect to a

1 proposed unit, the Commission shall determine the necessary terms,
2 provisions, conditions and requirements to be included in the plan
3 of development for the unit. If a well or wells already exist
4 within the area of the proposed unit which are producing or have
5 produced or appear to be productive from the targeted reservoir
6 being unitized, the plan of development shall also include:

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

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

22 F. Order of the Commission.

23 The order of the Commission creating the unit shall:

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

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 and include any necessary
6 special allocation factors for allocating the costs, production and
7 proceeds from the proposed unit resulting from existing wells or
8 subsequent wells, or both;

9 4. Designate the unit operator; and

10 5. Provide for the conditions upon which the unit, and the
11 order creating the unit, shall terminate.

12 G. Consent by Owners.

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

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

13 H. Notice.

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

3 I. Pooling of the Unit.

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

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

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

1 subsection (e) of Section 87.1 of this title covering any drilling
2 and spacing unit superseded by a unit created pursuant to this
3 section and which was in effect at the time of the creation of the
4 unit shall remain in full force and effect as to any oil and gas
5 interests in the targeted reservoir which were relinquished and
6 transferred by operation of law under the pooling order. However,
7 further development of the targeted reservoir in the area of the
8 unit created pursuant to this section shall not be subject to any of
9 the other provisions of any prior pooling order, but shall be
10 governed by and pursuant to the order creating the unit, including
11 the applicable plan of development, and any subsequent pooling order
12 covering the unit.

13 K. Payment of Proceeds.

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

16 L. The Commissioners of the Land Office.

17 The Commissioners of the Land Office, or other proper board or
18 officer of the state having the control and management of state
19 land, and the proper board or officer of any political, municipal,
20 or other subdivision or agency of the state, are hereby authorized
21 and shall have the power on behalf of the state or of any political,
22 municipal, or other subdivision or agency thereof, with respect to
23 land or oil and gas rights subject to the control and management of
24 the respective body, board, or officer, to consent to or participate

1 in any unitization created pursuant to the Extended Horizontal Well
2 Development Act.

3 M. Retained Jurisdiction.

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

13 SECTION 2. AMENDATORY 52 O.S. 2011, Section 287.5, is
14 amended to read as follows:

15 Section 287.5. No order of the Commission creating a unit and
16 prescribing the plan of unitization applicable thereto shall become
17 effective unless and until the plan of unitization has been signed,
18 or in writing ratified or approved by lessees of record of not less
19 than sixty-three percent (63%) of the unit area affected thereby and
20 by owners of record of not less than sixty-three percent (63%)
21 ~~(exclusive of royalty interests owned by lessees or by subsidiaries~~
22 ~~of any lessee)~~ of the normal one-eighth (1/8) royalty interest in
23 and to the unit area, and the Commission has made a finding either
24 in the order creating the unit or in a supplemental order that the

1 plan of unitization has been so signed, ratified or approved by
2 lessees and royalty owners owning the required percentage interest
3 in and to the unit area. Where the plan of unitization has not been
4 so signed, ratified or approved by lessees and royalty owners owning
5 the required percentage interest in and to the unit area at the time
6 the order creating the unit is made, the Commission shall, upon
7 petition and notice, hold such additional and supplemental hearings
8 as may be requested or required to determine if and when the plan of
9 unitization has been so signed, ratified or approved by lessees and
10 royalty owners owning the required percentage interest in and to the
11 unit area and shall, in respect to such hearings, make and enter a
12 finding of its determination in such regard. In the event lessees
13 and royalty owners, or either, owning the required percentage
14 interest in and to the unit area have not so signed, ratified or
15 approved the plan of unitization within a period of six (6) months
16 from and after the date on which the order creating the unit is
17 made, the order creating the unit shall cease to be of further force
18 and effect and shall be revoked by the Commission.

19 SECTION 3. This act shall become effective November 1, 2020.
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