

1 **HOUSE OF REPRESENTATIVES - FLOOR VERSION**

2 STATE OF OKLAHOMA

3 1st Session of the 56th Legislature (2017)

4 ENGROSSED SENATE
5 BILL NO. 669

By: Marlatt of the Senate

and

O'Donnell and McBride of
the House

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10 [oil and gas - pooling orders for horizontal spacing
11 units and the 2011 Shale Reservoir Development Act -
12 Corporation Commission jurisdiction - Horizontal Well
13 Development Act -

emergency]

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

15 SECTION 1. AMENDATORY 52 O.S. 2011, Section 87.1, as last
16 amended by Section 4, Chapter 201, O.S.L. 2012 (52 O.S. Supp. 2016,
17 Section 87.1), is amended to read as follows:

18 Section 87.1. Whenever the production from any common source of
19 supply of oil or natural gas in this state can be obtained only
20 under conditions constituting waste or drainage not compensated by
21 counterdrainage, then any person having the right to drill into and
22 produce from such common source of supply may, except as otherwise
23 authorized or in this section provided, take therefrom only such
24 proportion of the oil or natural gas that may be produced therefrom

1 without waste or without such drainage as the productive capacity of
2 the well or wells of any such person considered with the acreage
3 properly assignable to each such well bears to the total productive
4 capacities of the wells in such common source of supply considered
5 with the acreage properly assignable to each well therein.

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

1 size and shape, except that the units in the gas area or areas may
2 be of nonuniform size and shape when they adjoin the units in the
3 oil area or areas; provided further that the drilling pattern for
4 such nonuniform units need not be uniform, and provided further that
5 the Commission shall adjust the allowable production within the
6 common source of supply, or any part thereof, and take such other
7 action as may be necessary to protect the rights of interested
8 parties. Any order issued pursuant to the provisions hereof may be
9 entered after a hearing upon the petition of any person owning an
10 interest in the minerals in lands embraced within such common source
11 of supply, or the right to drill a well for oil or gas on the lands
12 embraced within such common source of supply, or on the petition of
13 the Conservation Officer of the State of Oklahoma. When such a
14 petition is filed with the Commission, the Commission shall give at
15 least fifteen (15) days' notice of the hearing to be held upon such
16 petition by one publication, at least fifteen (15) days prior to the
17 hearing, in some newspaper of general circulation published in
18 Oklahoma County, and by one publication, at least fifteen (15) days
19 prior to the date of the hearing, in some newspaper published in the
20 county, or in each county, if there be more than one, in which the
21 lands embraced within the application are situated. Except as to
22 the notice of hearing on such a petition, the procedural
23 requirements of Section 86.1 et seq. of this title shall govern all
24 proceedings and hearings provided for by this section.

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

6 (c) In establishing a well spacing or drilling unit for a
7 common source of supply thereunder, the acreage to be embraced
8 within each unit may include acreage from more than one governmental
9 section, but shall not exceed six hundred forty (640) acres for a
10 gas well plus ten percent (10%) tolerance, unless the unit is a
11 governmental section and the governmental section contains more than
12 six hundred forty (640) acres in which case the unit may comprise
13 the entire section. Provided, however, fractional sections along
14 the state boundary line and within the townships along the boundary
15 where the survey west of the Indian Meridian meets the survey east
16 of the Cimarron Meridian may be spaced with adjoining section unit,
17 and the shape thereof shall be determined by the Commission from the
18 evidence introduced at the hearing, and the following facts, among
19 other things, shall be material: (1) The lands embraced in the
20 actual or prospective common source of supply; (2) the plan of well
21 spacing then being employed or contemplated in the source of supply;
22 (3) the depth at which production from the common source of supply
23 has been or is expected to be found; (4) the nature and character of
24 the producing or prospective producing formation or formations; and

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

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

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

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

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

1 spacing units will prevent or assist in preventing the various types
2 of wastes prohibited by statute, or any of the wastes, or will
3 protect or assist in protecting the correlative rights of persons
4 interested in the common source of supply, or upon the filing of a
5 proper application therefor to enlarge the area covered by the
6 spacing order, if such proof discloses that the development or the
7 trend of development indicates that such common source of supply
8 underlies an area not covered by the spacing order and such proof
9 discloses that the applicant is an owner within the area or within a
10 drilling and spacing unit contiguous to the area covered by the
11 application. Except in the instance of reservoir dewatering as
12 described herein, the Commission shall not establish well spacing
13 units of more than forty (40) acres in size covering common sources
14 of supply of oil, the top of which lies less than four thousand
15 (4,000) feet below the surface as determined by the original or
16 discovery well in the common source of supply, and the Commission
17 shall not establish well spacing units of more than eighty (80)
18 acres in size covering common sources of supply of oil, the top of
19 which lies less than nine thousand nine hundred ninety (9,990) feet
20 and more than four thousand (4,000) feet below the surface as
21 determined by the original or discovery well in the common source of
22 supply. In the instance of reservoir dewatering to extract oil from
23 reservoirs having initial water saturations at or above fifty

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1 percent (50%), the Commission may establish drilling and spacing
2 units not to exceed six hundred forty (640) acres in size.

3 (e) The drilling of any well or wells into any common source of
4 supply for the purpose of producing oil or gas therefrom, after a
5 spacing order has been entered by the Commission covering such
6 common source of supply, at a location other than that fixed by the
7 order is hereby prohibited. The drilling of any well or wells into
8 a common source of supply, covered by a pending spacing application,
9 at a location other than that approved by a special order of the
10 Commission authorizing the drilling of such well is hereby
11 prohibited. The operation of any well drilled in violation of any
12 spacing so entered is also hereby prohibited. When two or more
13 separately owned tracts of land are embraced within an established
14 spacing unit, or where there are undivided interests separately
15 owned, or both such separately owned tracts and undivided interests
16 embraced within such established spacing unit, the owners thereof
17 may validly pool their interests and develop their lands as a unit.
18 Where, however, such owners have not agreed to pool their interests
19 and where one such separate owner has drilled or proposes to drill a
20 well on the unit to the common source of supply, the Commission, to
21 avoid the drilling of unnecessary wells, or to protect correlative
22 rights, shall, upon a proper application therefor and a hearing
23 thereon, require such owners to pool and develop their lands in the
24 spacing unit as a unit. The applicant shall give all the owners

1 whose addresses are known or could be known through the exercise of
2 due diligence at least fifteen (15) days' notice by mail, return
3 receipt requested. The applicant shall also give notice by one
4 publication, at least fifteen (15) days prior to the hearing, in
5 some newspaper of general circulation published in Oklahoma County,
6 and by one publication, at least fifteen (15) days prior to the date
7 of the hearing, in some newspaper published in the county, or in
8 each county, if there be more than one, in which the lands embraced
9 within the spacing unit are situated. The applicant shall file
10 proof of publication and an affidavit of mailing with the Commission
11 prior to the hearing. All orders requiring such pooling shall be
12 made after notice and hearing, and shall be upon such terms and
13 conditions as are just and reasonable and will afford to the owner
14 of such tract in the unit the opportunity to recover or receive
15 without unnecessary expense the owner's just and fair share of the
16 oil and gas. The portion of the production allocated to the owner
17 of each tract or interests included in a well spacing unit formed by
18 a pooling order shall, when produced, be considered as if produced
19 by such owner from the separately owned tract or interest by a well
20 drilled thereon. Such pooling order of the Commission shall make
21 definite provisions for the payment of cost of the development and
22 operation, which shall be limited to the actual expenditures
23 required for such purpose not in excess of what are reasonable,
24 including a reasonable charge for supervision. In the event of any

1 | dispute relative to such costs, the Commission shall determine the
2 | proper costs after due notice to interested parties and a hearing
3 | thereon. The operator of such unit, in addition to any other right
4 | provided by the pooling order or orders of the Commission, shall
5 | have a lien on the mineral leasehold estate or rights owned by the
6 | other owners therein and upon their shares of the production from
7 | such unit to the extent that costs incurred in the development and
8 | operation upon the unit are a charge against such interest by order
9 | of the Commission or by operation of law. Such liens shall be
10 | separable as to each separate owner within such unit, and shall
11 | remain liens until the owner or owners drilling or operating the
12 | well have been paid the amount due under the terms of the pooling
13 | order. The Commission is specifically authorized to provide that
14 | the owner or owners drilling, or paying for the drilling, or for the
15 | operation of a well for the benefit of all shall be entitled to
16 | production from such well which would be received by the owner or
17 | owners for whose benefit the well was drilled or operated, after
18 | payment of royalty, until the owner or owners drilling or operating
19 | the well have been paid the amount due under the terms of the
20 | pooling order or order settling such dispute. No part of the
21 | production or proceeds accruing to any owner of a separate interest
22 | in such unit shall be applied toward payment of any cost properly
23 | chargeable to any other interest in the unit.

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1 For the purpose of this section, the owner or owners of oil and
2 gas rights in and under an unleased tract of land shall be regarded
3 as a lessee to the extent of a seven-eighths (7/8) interest in and
4 to the rights and a lessor to the extent of the remaining one-eighth
5 (1/8) interest therein, unless and until the owner or owners make an
6 election or are deemed to make an election not to participate under
7 a pooling order issued by the Commission, at which time each such
8 owner shall be considered a lessor, subject to the judicially
9 recognized implied covenant to market found to exist by the courts
10 of this state in oil and gas leases covering lands located in this
11 state, to the extent of the full royalty percentage elected under
12 the pooling order. Should the owners of separate tracts or
13 interests embraced within a spacing unit fail to agree upon a
14 pooling of their interests and the drilling of a well on the unit,
15 and should it be established by final, unappealable judgment of a
16 court of competent jurisdiction that the Commission is without
17 authority to require pooling as provided for herein, then, subject
18 to all other applicable provisions of this act, the owner of each
19 tract or interest embraced within a spacing unit may drill on his or
20 her separately owned tract, and the allowable production therefrom
21 shall be that portion of the allowable for the full spacing unit as
22 the area of such separately owned tract bears to the full spacing
23 unit.

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

13 (f) Notwithstanding any provision of this ~~section~~ title to the
14 contrary, the Corporation Commission shall have jurisdiction upon
15 the filing of a proper application therefor, and upon notice given
16 as provided in subsection (a) of this section, to establish spacing
17 rules for horizontally drilled oil or gas wells whereby horizontally
18 drilled oil or gas wells may have well spacing units established of
19 ~~up to six hundred forty (640) acres plus tolerances and variances as~~
20 ~~allowed for gas wells pursuant to subsection (c) of this section~~ any
21 size not to exceed one mile in width. For purposes of this
22 subsection a "horizontally drilled oil or gas well" shall mean an
23 oil or gas well drilled, completed or recompleted in a manner in
24 which the horizontal component of the completion interval in the

1 geological formation exceeds the vertical component thereof and
2 which horizontal component extends a minimum of one hundred fifty
3 (150) feet in the formation. The Corporation Commission shall
4 promulgate rules necessary for the proper administration of this
5 subsection.

6 (g) Subject to all of the provisions of this section, a pooling
7 order for a horizontal spacing unit which overlies an existing,
8 producing non-horizontal drilling and spacing unit, shall provide
9 that, if a working interest owner in such producing non-horizontal
10 drilling and spacing unit does not agree to develop the horizontal
11 spacing unit, the owner shall relinquish its non-participating
12 working interest in the horizontal spacing unit while retaining all
13 other rights, including the right to concurrently develop the
14 producing non-horizontal unit.

15 (h) Notwithstanding anything in this title or a pooling order
16 to the contrary, for any horizontal well drilled after the effective
17 date of this act pursuant to a pooling order authorized by this
18 section, whether the pooling order was issued before or after the
19 effective date of this act, in a spacing unit which overlies all or
20 any portion of any existing, producing spacing unit of any kind,
21 even if the producing spacing unit is not the objective or target of
22 the horizontal well, the following provisions shall apply:

23 1. If any well under a pooling order is authorized pursuant to
24 Section 87.8 of this title, the relinquished rights of an owner who

1 elects or is deemed to have elected not to participate with all or
2 any part of that owner's interest in the multiunit horizontal well
3 shall be limited to only the owner's non-participating working
4 interest in the targeted reservoir(s), as defined by Section 87.6 of
5 this title, which is actually drilled and produced by the multiunit
6 horizontal well and the owner shall retain the right to participate
7 with all or any part of that owner's interest in any subsequent well
8 or subsequent operations which may be proposed under the pooling
9 order (a) in any common sources of supply other than the
10 relinquished rights in targeted reservoir(s) described herein, and
11 (b) within all common sources of supply in any then existing
12 wellbores in which the owner has the right to participate;

13 2. If any well under a pooling order is authorized by the
14 Commission as a horizontal well pursuant to a horizontal spacing
15 unit created under Section 87.1 of this title, and the horizontal
16 spacing unit shall be greater in size than six hundred forty (640)
17 acres plus tolerances and variances as allowed for pursuant to
18 subsection (c) of this section, or be comprised of more than one
19 governmental section, then the relinquished rights of an owner who
20 elects or is deemed to have elected not to participate with all or
21 any part of that owner's interest in the well shall be limited to
22 only the owner's non-participating working interest in the common
23 source(s) of supply in the horizontal spacing unit which is actually
24 drilled and produced by the horizontal well and the owner shall

1 retain the right to participate with all or any part of that owner's
2 interest in any subsequent well or subsequent operations which may
3 be proposed under the pooling order (a) in any common source of
4 supply or spacing unit other than the relinquished rights in the
5 horizontally drilled and produced common source(s) of supply in the
6 horizontal spacing unit described herein, and (b) within all common
7 sources of supply in any then existing wellbores in which the owner
8 has the right to participate;

9 3. As to any well which is subject to a pooling order which was
10 entered prior to the effective date of this act, in order to be
11 entitled to the rights and benefits of this subsection, and the
12 resultant right to participate with non-relinquished rights in spite
13 of an election not to participate in a prior horizontal well after
14 the effective date of this act, the owner must have been vested with
15 the right to participate in the subject well as of the effective
16 date of this act; and

17 4. The provisions of this subsection shall supplement each
18 affected pooling order as to development of the affected spacing
19 unit by use of horizontal wells from and after the effective date of
20 this act.

21 SECTION 2. AMENDATORY 52 O.S. 2011, Section 87.6, as
22 last amended by Section 1, Chapter 400, O.S.L. 2014 (52 O.S. Supp.
23 2016, Section 87.6), is amended to read as follows:

24

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

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

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

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

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

24 4. "Commission" means the Corporation Commission;

1 ~~5.~~ 4. "Completion interval" means, for an open hole completion
2 in a horizontal well, the interval from the point of entry to the
3 terminus and, for a cased and cemented completion in a horizontal
4 well, the interval from the first perforations to the last
5 perforations;

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

12 ~~7.~~ 6. "Horizontal well unitization" means a unitization for a
13 ~~shale~~ targeted reservoir created pursuant to Section 87.9 of this
14 title;

15 ~~8.~~ 7. "Horizontal component" means the calculated horizontal
16 distance from the point of entry to the terminus;

17 ~~9.~~ 8. "Lateral" means the portion of the wellbore of a
18 horizontal well from the point of entry to the terminus;

19 ~~10.~~ 9. "Marmaton common source of supply" means a common source
20 of supply located within Texas and Beaver Counties and designated as
21 the Marmaton by the Commission through rule or order;

22 ~~11.~~ 10. "Multiunit horizontal well" means a horizontal well ~~in~~
23 ~~a targeted reservoir~~ wherein the completion interval of the well is
24 located in more than one unit formed for the same targeted

1 reservoir, with the well being completed in and producing from such
2 targeted reservoir in two or more of such units;

3 ~~12.~~ 11. "Plan of development" means the proposed plan for
4 developing the shale reservoir unitized pursuant to Section 87.9 of
5 this title, which plan, based upon the information and knowledge
6 then available to the applicant, shall include:

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

1 necessary or proper to effectuate or accomplish the
2 purpose of Section 87.9 of this title;

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

6 ~~14.~~ 13. "PRSA" means the Production Revenue Standards Act;

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

11 ~~16.~~ 15. "Targeted reservoir" means ~~any shale reservoir or any~~
12 ~~portion of the Marmaton common source of supply~~ one or more common
13 sources of supply which will be encountered by the horizontal
14 lateral portion of a horizontal well, and which has been designated
15 by the Commission as part of an order, rule or emergency rule as
16 potentially suited for development for the applied for multiunit
17 horizontal well or unitization pursuant to Section 87.9 of this
18 title. Any such designation or determination may be limited to
19 certain geographical areas;

20 ~~17.~~ 16. "Terminus" means the end point of the borehole of a
21 horizontal well;

22 ~~18.~~ 17. "Wellbore royalty interest" means, for each separate
23 multiunit horizontal well, the sum of resulting products of each
24 affected unit's royalty share for that unit, as defined by the PRSA,

1 multiplied by that unit's allocation factor for production and
2 proceeds;

3 ~~19.~~ 18. "Wellbore royalty proceeds" means the proceeds or other
4 revenue derived from or attributable to any production of oil and
5 gas from the multiunit horizontal well multiplied by the wellbore
6 royalty interest;

7 ~~20.~~ 19. "Unit" means a drilling and spacing unit for a single
8 common source of supply created pursuant to Section 87.1 of this
9 title or a horizontal well unitization created pursuant to Section
10 87.9 of this title;

11 ~~21.~~ 20. "Unit's royalty contribution factor" means the royalty
12 share for an affected unit, as defined by PRSA, multiplied by that
13 unit's allocation factor, then divided by the total wellbore royalty
14 interest; and

15 ~~22.~~ 21. "Vertical component" means the calculated vertical
16 distance from the point of entry to the terminus.

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

19 Section 87.7. Corporation Commission Jurisdiction.

20 The Corporation Commission shall have jurisdiction, upon the
21 filing of a proper application therefor, to permit the drilling,
22 completing and producing of a multiunit horizontal well in
23 conformity with ~~Section 4 of this act~~ Section 87.8 of this title, or
24 to create a horizontal well unitization in conformity with ~~Section 5~~

1 ~~of this act~~ Section 87.9 of this title, if the Commission finds that
2 the multiunit horizontal well or the horizontal well unitization
3 will prevent waste and will protect the correlative rights of the
4 owners of oil and gas rights.

5 SECTION 4. AMENDATORY 52 O.S. 2011, Section 87.8, as
6 amended by Section 2, Chapter 400, O.S.L. 2014 (52 O.S. Supp. 2016,
7 Section 87.8), is amended to read as follows:

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

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

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

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

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

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

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

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

22 4. The application shall include:

23 a. the approximate anticipated location of the proposed
24 multiunit horizontal well or wells,

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

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

1 affected units based upon the allocation factors approved by the
2 Commission.

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

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

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

24 C. Application, Notice and Retained Jurisdiction.

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

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

18 Section 87.9. A. Horizontal Well Unitization for Shale
19 Reservoirs.

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

1 protected. Unless and until a unit created pursuant to this section
2 is effective, nothing in this section shall prohibit the drilling of
3 a horizontal well within a drilling and spacing unit created
4 pursuant to Section 87.1 of ~~Title 52 of the Oklahoma Statutes~~ this
5 title.

6 B. Prerequisites for Unitization.

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

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

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

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

22 4. The unitization and the use of horizontal well technology to
23 drill one or more horizontal wells is for the common good and will
24

1 result in the general advantage of the owners of the oil and gas
2 rights within the unit.

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

17 C. Size of the Unit.

18 Each unit shall be two governmental sections. However, the
19 Commission may expand the size of the unit by including additional
20 governmental sections up to a maximum unit size of four governmental
21 sections, if for good cause shown the Commission finds the expansion
22 of the unit size beyond two governmental sections is necessary to
23 prevent waste, to protect correlative rights and will result in the
24 increased recovery of substantially more oil and gas from the shale

1 reservoir than would otherwise be recovered based upon, but not
2 necessarily limited to:

- 3 1. Geological features existing within the proposed unit;
 - 4 2. The proposed location or orientation of the horizontal
5 wells;
 - 6 3. The length of the laterals of the proposed horizontal wells;
 - 7 4. The proposed use of multilateral wells; or
 - 8 5. Any combination thereof.
- 9 D. Ownership of Oil and Gas Rights within the Unit.

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

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

24 E. The Plan of Development.

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

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

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

24 F. Order of the Commission.

1 The order of the Commission creating the unit shall:

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

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

6 3. Approve and adopt the plan of development for the unit, with
7 a copy thereof attached to the order and include any necessary
8 special allocation factors for allocating the costs, production and
9 proceeds from the proposed unit resulting from existing wells or
10 subsequent wells, or both;

11 4. Designate the unit operator; and

12 5. Provide for the conditions upon which the unit, and the
13 order creating the unit, shall terminate.

14 G. Consent by Owners.

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

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

15 H. Notice.

16 The application for the creation of a horizontal well
17 unitization for a shale reservoir under this section, and the notice
18 of hearing on the application, shall be served no less than fifteen
19 (15) days prior to the date of the hearing, by regular mail, upon
20 each person or governmental entity having the right to share in
21 production from the proposed unit covered by the application, as
22 well as other persons or governmental entities required by
23 Commission rules. Any person aggrieved by any order of the
24 Commission made pursuant to this section may appeal therefrom to the

1 Supreme Court of the State of Oklahoma upon the same conditions,
2 within the same time and in the same manner as is provided for in
3 ~~Title 52 of the Oklahoma Statutes~~ this title, for the taking of
4 appeals from the orders of the Commission made thereunder.

5 I. Pooling of the Unit.

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

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

17 From and after the effective date of an order creating a unit
18 pursuant to this section, the operation of any well producing from
19 the shale reservoir within the unit defined in the order by persons
20 other than the unit operator, or except in the manner and to the
21 extent provided in the order creating the unit shall be unlawful and
22 is hereby prohibited. Once the order of the Commission creating a
23 unit pursuant to this section becomes effective, the unit so created
24 shall supersede any drilling and spacing unit previously formed by

1 the Commission pursuant to Section 87.1 of ~~Title 52 of the Oklahoma~~
2 ~~Statutes~~ this title for the same shale reservoir within the area of
3 the new unit. Any pooling order which was entered by the Commission
4 pursuant to subsection (e) of Section 87.1 of ~~Title 52 of the~~
5 ~~Oklahoma Statutes~~ this title covering any drilling and spacing unit
6 superseded by a unit created pursuant to this section and which was
7 in effect at the time of the creation of the unit shall remain in
8 full force and effect as to any oil and gas interests in the shale
9 targeted reservoir which were relinquished and transferred by
10 operation of law under the pooling order. However, further
11 development of the shale reservoir in the area of the unit created
12 pursuant to this section shall not be subject to any of the other
13 provisions of any prior pooling order, but shall be governed by and
14 pursuant to the order creating the unit, including the applicable
15 plan of development, and any subsequent pooling order covering the
16 unit.

17 K. Payment of Proceeds.

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

20 L. The Commissioners of the Land Office.

21 The Commissioners of the Land Office, or other proper board or
22 officer of the state having the control and management of state
23 land, and the proper board or officer of any political, municipal,
24 or other subdivision or agency of the state, are hereby authorized

1 and shall have the power on behalf of the state or of any political,
2 municipal, or other subdivision or agency thereof, with respect to
3 land or oil and gas rights subject to the control and management of
4 the respective body, board, or officer, to consent to or participate
5 in any unitization adopted pursuant to the ~~2011 Shale Reservoir~~
6 Horizontal Well Development Act.

7 M. Retained Jurisdiction.

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

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

21
22 COMMITTEE REPORT BY: COMMITTEE ON ENERGY AND NATURAL RESOURCES,
23 dated 04/13/2017 - DO PASS, As Amended and Coauthored.
24