

1 ENGROSSED SENATE AMENDMENT
TO

2 ENGROSSED HOUSE
3 BILL NO. 2177

By: Hickman, McBride and
Murdock of the House

4 and

5 Bingman of the Senate

6
7
8 An Act relating to oil and gas; amending 52 O.S.
9 2011, Sections 87.6, as last amended by Section 1,
10 Chapter 400, O.S.L. 2014, 87.7, 87.8, as amended by
11 Section 2, Chapter 400, O.S.L. 2014 and 87.9 (52 O.S.
12 Supp. 2014, Sections 87.6 and 87.8), which relate to
13 the 2011 Shale Reservoir Development Act; changing
14 name of act to the Extended Lateral Horizontal Well
15 Development Act; modifying definitions; providing an
16 alternate development method to creating a new unit
or changing an existing drilling and spacing unit for
certain horizontal development; limiting allowance of
multiunit horizontal wells to targeted reservoir or
reservoirs; modifying requirements for allocation of
certain costs; expanding authority of the Corporation
Commission to adjust allocation factors; changing
pooling requirements to targeted reservoirs; updating
statutory citations; and declaring an emergency.

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19 AUTHOR: Add the following Senate Coauthor: Fields

20 AMENDMENT NO. 1. Page 1, strike the title, enacting clause and
entire bill and insert

21
22 "An Act relating to oil and gas; amending 52 O.S.
23 2011, Section 87.1, as amended by Section 4, Chapter
24 201, 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

1 87.8), which relate to well spacing and the 2011
2 Shale Reservoir Development Act; clarifying statutory
3 reference; stating procedure for participation in
4 certain subsequent wells in certain pooling orders;
5 modifying name of certain act, providing short title;
6 modifying definitions; providing for planned
7 development of certain common sources of supply of
8 oil and gas; modifying Corporation Commission
9 jurisdiction and administration of certain wells;
10 modifying procedures for allocating resources and
11 costs for certain horizontal wells; and declaring an
12 emergency.

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

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

17 Section 87.1. Whenever the production from any common source of
18 supply of oil or natural gas in this state can be obtained only
19 under conditions constituting waste or drainage not compensated by
20 counterdrainage, then any person having the right to drill into and
21 produce from such common source of supply may, except as otherwise
22 authorized or in this section provided, take therefrom only such
23 proportion of the oil or natural gas that may be produced therefrom
24 without waste or without such drainage as the productive capacity of
the well or wells of any such person considered with the acreage
properly assignable to each such well bears to the total productive
capacities of the wells in such common source of supply considered
with the acreage properly assignable to each well therein.

1 ~~(a)~~ A. To prevent or to assist in preventing the various types
2 of waste of oil or gas prohibited by statute, or any wastes, or to
3 protect or assist in protecting the correlative rights of interested
4 parties, the Corporation Commission, upon a proper application and
5 notice given as hereinafter provided, and after a hearing as
6 provided in the notice, shall have the power to establish well
7 spacing and drilling units of specified and approximately uniform
8 size and shape covering any common source of supply, or prospective
9 common source of supply, of oil or gas within the State of Oklahoma;
10 provided, that the Commission may authorize the drilling of an
11 additional well or wells on any spacing and drilling unit or units
12 or any portion or portions thereof or may establish, reestablish, or
13 reform well spacing and drilling units of different sizes and shapes
14 when the Commission determines that a common source of supply
15 contains predominantly oil underlying an area or areas and contains
16 predominantly gas underlying a different area or areas; provided
17 further that the units in the predominantly oil area or areas shall
18 be of approximately uniform size and shape, and the units in the
19 predominantly gas area or areas shall be of approximately uniform
20 size and shape, except that the units in the gas area or areas may
21 be of nonuniform size and shape when they adjoin the units in the
22 oil area or areas; provided further that the drilling pattern for
23 such nonuniform units need not be uniform, and provided further that
24 the Commission shall adjust the allowable production within the

1 common source of supply, or any part thereof, and take such other
2 action as may be necessary to protect the rights of interested
3 parties. Any order issued pursuant to the provisions hereof may be
4 entered after a hearing upon the petition of any person owning an
5 interest in the minerals in lands embraced within such common source
6 of supply, or the right to drill a well for oil or gas on the lands
7 embraced within such common source of supply, or on the petition of
8 the Conservation Officer of the State of Oklahoma. When such a
9 petition is filed with the Commission, the Commission shall give at
10 least fifteen (15) days' notice of the hearing to be held upon such
11 petition by one publication, at least fifteen (15) days prior to the
12 hearing, in some newspaper of general circulation published in
13 Oklahoma County, and by one publication, at least fifteen (15) days
14 prior to the date of the hearing, in some newspaper published in the
15 county, or in each county, if there be more than one, in which the
16 lands embraced within the application are situated. Except as to
17 the notice of hearing on such a petition, the procedural
18 requirements of Section 86.1 et seq. of this title shall govern all
19 proceedings and hearings provided for by this section.

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

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

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

1 action as may be necessary to protect the rights of interested
2 parties.

3 Any well spacing or drilling unit for a common source of supply
4 thereunder which exceeds six hundred forty (640) acres for a gas
5 well plus ten percent (10%) tolerance or exceeds the total amount of
6 acreage contained in a governmental section, and is not in
7 production or in the process of drilling development on ~~the~~
8 ~~effective date of this act~~ March 26, 1980, shall be de-spaced.

9 However, fractional sections along the state boundary line and
10 within the townships along the boundary where the survey west of the
11 Indian Meridian meets the survey east of the Cimarron Meridian may
12 be spaced with adjoining section unit, and the shape thereof shall
13 be determined by the Commission.

14 ~~(d)~~ D. The Commission shall have jurisdiction upon the filing
15 of a proper application therefor, and upon notice given as provided
16 in subsection ~~(a)~~ A of this section, to decrease the size of the
17 well spacing units or to permit additional wells to be drilled
18 within the established units, or to increase the size or modify the
19 shape of the well spacing units, upon proper proof at such hearing
20 that such modification or extension of the order establishing
21 drilling or spacing units will prevent or assist in preventing the
22 various types of wastes prohibited by statute, or any of the wastes,
23 or will protect or assist in protecting the correlative rights of
24 persons interested in the common source of supply, or upon the

1 filing of a proper application therefor to enlarge the area covered
2 by the spacing order, if such proof discloses that the development
3 or the trend of development indicates that such common source of
4 supply underlies an area not covered by the spacing order and such
5 proof discloses that the applicant is an owner within the area or
6 within a drilling and spacing unit contiguous to the area covered by
7 the application. Except in the instance of reservoir dewatering as
8 described herein, the Commission shall not establish well spacing
9 units of more than forty (40) acres in size covering common sources
10 of supply of oil, the top of which lies less than four thousand
11 (4,000) feet below the surface as determined by the original or
12 discovery well in the common source of supply, and the Commission
13 shall not establish well spacing units of more than eighty (80)
14 acres in size covering common sources of supply of oil, the top of
15 which lies less than nine thousand nine hundred ninety (9,990) feet
16 and more than four thousand (4,000) feet below the surface as
17 determined by the original or discovery well in the common source of
18 supply. In the instance of reservoir dewatering to extract oil from
19 reservoirs having initial water saturations at or above fifty
20 percent (50%), the Commission may establish drilling and spacing
21 units not to exceed six hundred forty (640) acres in size.

22 ~~(e)~~ E. The drilling of any well or wells into any common source
23 of supply for the purpose of producing oil or gas therefrom, after a
24 spacing order has been entered by the Commission covering such

1 common source of supply, at a location other than that fixed by the
2 order is hereby prohibited. The drilling of any well or wells into
3 a common source of supply, covered by a pending spacing application,
4 at a location other than that approved by a special order of the
5 Commission authorizing the drilling of such well is hereby
6 prohibited. The operation of any well drilled in violation of any
7 spacing so entered is also hereby prohibited. When two or more
8 separately owned tracts of land are embraced within an established
9 spacing unit, or where there are undivided interests separately
10 owned, or both such separately owned tracts and undivided interests
11 embraced within such established spacing unit, the owners thereof
12 may validly pool their interests and develop their lands as a unit.
13 Where, however, such owners have not agreed to pool their interests
14 and where one such separate owner has drilled or proposes to drill a
15 well on the unit to the common source of supply, the Commission, to
16 avoid the drilling of unnecessary wells, or to protect correlative
17 rights, shall, upon a proper application therefor and a hearing
18 thereon, require such owners to pool and develop their lands in the
19 spacing unit as a unit. The applicant shall give all the owners
20 whose addresses are known or could be known through the exercise of
21 due diligence at least fifteen (15) days' notice by mail, return
22 receipt requested. The applicant shall also give notice by one
23 publication, at least fifteen (15) days prior to the hearing, in
24 some newspaper of general circulation published in Oklahoma County,

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

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

19 For the purpose of this section, the owner or owners of oil and
20 gas rights in and under an unleased tract of land shall be regarded
21 as a lessee to the extent of a seven-eighths (7/8) interest in and
22 to the rights and a lessor to the extent of the remaining one-eighth
23 (1/8) interest therein, unless and until the owner or owners make an
24 election or are deemed to make an election not to participate under

1 a pooling order issued by the Commission, at which time each such
2 owner shall be considered a lessor, subject to the judicially
3 recognized implied covenant to market found to exist by the courts
4 of this state in oil and gas leases covering lands located in this
5 state, to the extent of the full royalty percentage elected under
6 the pooling order. Should the owners of separate tracts or
7 interests embraced within a spacing unit fail to agree upon a
8 pooling of their interests and the drilling of a well on the unit,
9 and should it be established by final, unappealable judgment of a
10 court of competent jurisdiction that the Commission is without
11 authority to require pooling as provided for herein, then, subject
12 to all other applicable provisions of this act, the owner of each
13 tract or interest embraced within a spacing unit may drill on his or
14 her separately owned tract, and the allowable production therefrom
15 shall be that portion of the allowable for the full spacing unit as
16 the area of such separately owned tract bears to the full spacing
17 unit.

18 In the event a producing well or wells are completed upon a unit
19 where there are, or may thereafter be, two or more separately owned
20 tracts, each royalty interest owner shall share in all production
21 from the well or wells drilled within the unit, or in the gas well
22 rental provided for in the lease covering such separately owned
23 tract or interest in lieu of the customary fixed royalty, to the
24 extent of such royalty interest owner's interest in the unit. Each

1 royalty interest owner's interest in the unit shall be defined as
2 the percentage of royalty owned in each separate tract by the
3 royalty owner, multiplied by the proportion that the acreage in each
4 separately owned tract or interest bears to the entire acreage of
5 the unit.

6 ~~(f)~~ F. Notwithstanding any provision of this section to the
7 contrary, the Corporation Commission shall have jurisdiction upon
8 the filing of a proper application therefor, and upon notice given
9 as provided in subsection ~~(a)~~ A of this section, to establish
10 spacing rules for horizontally drilled oil wells whereby
11 horizontally drilled oil wells may have well spacing units
12 established of up to six hundred forty (640) acres plus tolerances
13 and variances as allowed for gas wells pursuant to subsection ~~(e)~~ C
14 of this section. For purposes of this subsection a "horizontally
15 drilled oil well" shall mean an oil well drilled, completed or
16 recompleted in a manner in which the horizontal component of the
17 completion interval in the geological formation exceeds the vertical
18 component thereof and which horizontal component extends a minimum
19 of one hundred fifty (150) feet in the formation. The Corporation
20 Commission shall promulgate rules necessary for the proper
21 administration of this subsection.

22 G. For any horizontal well drilled after the effective date of
23 this act pursuant to a pooling order authorized by this section,
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1 whether said pooling order was issued before or after the effective
2 date of this act, the following provisions shall apply:

3 1. Each owner who participated in a horizontal well under the
4 pooling order, whether the well is the initial well or a subsequent
5 well under the pooling order, shall have the right to participate in
6 each subsequent well proposed under the pooling order which is a
7 horizontal well notwithstanding a prior election by the owner not to
8 participate in a horizontal well under the pooling order after the
9 effective date of the act and notwithstanding any provision
10 contained in the pooling order to the contrary; provided, however,
11 if the pooling order was entered before the effective date of this
12 act, in order to be entitled to the right to participate pursuant to
13 this subsection, the owner must have been vested with the right to
14 participate in subsequent wells under the pooling order as of the
15 effective date of the act;

16 2. Subject to the limitations set forth in paragraph 1 of this
17 subsection, any owner who elects or is deemed to have elected not to
18 participate with all or any part of that owner's interest in a
19 subsequent well under the pooling order which is a horizontal well
20 shall relinquish that portion of the interest for which the election
21 was made not to participate, limited to only that subsequent
22 horizontal well pursuant to the terms of the pooling order, entered
23 pursuant to or amended by this subsection, and shall retain the
24 right to participate with all or any part of that owner's interest

1 in any subsequent wells which may be proposed under the pooling
2 order;

3 3. If the subsequent well under the pooling order is authorized
4 by the Commission as a multiunit horizontal well pursuant to Section
5 87.8 of this title, the relinquished rights of an owner who elects
6 or is deemed to have elected not to participate with all or any part
7 of that owner's interest in the subsequent well shall be limited to
8 only the targeted reservoir(s), as defined by Section 87.6 of this
9 title, and said owner shall retain the right to participate with all
10 or any part of that owner's interest in any subsequent well or
11 subsequent operations which may be proposed under the pooling order
12 in any common source of supply other than the targeted reservoir(s),
13 and within all common sources of supply in any then existing
14 wellbores in which the owner has the right to participate. Any
15 relinquishment under this paragraph shall be further subject to and
16 limited by any rights of the owner under paragraphs 1 and 2 of this
17 subsection;

18 4. After the effective date of this act, an owner who elects or
19 is deemed to have elected not to participate in a subsequent well
20 under a pooling order which is a horizontal well shall be deemed to
21 have elected not to participate pursuant to this subsection and
22 shall deliver that owner's relinquished interest pursuant to the
23 terms of the pooling order, entered pursuant to or amended by this
24 subsection, as to the proposed horizontal well or the targeted

1 reservoir(s), as set forth and limited in this subsection, but shall
2 not be entitled to receive any cash bonus under the subsequent
3 operations provision of the applicable pooling order and shall
4 surrender that owner's relinquished right to participate in only the
5 proposed horizontal well or the targeted reservoir(s), as set forth
6 and limited in this subsection, subject only to the then existing
7 burdens on that owner's interest; and

8 5. The provisions of this subsection shall supplement each
9 affected pooling order as to development of the affected spacing
10 unit by the use of horizontal wells from and after the effective
11 date of this act.

12 SECTION 2. AMENDATORY 52 O.S. 2011, Section 87.6, as
13 last amended by Section 1, Chapter 400, O.S.L. 2014 (52 O.S. Supp.
14 2014, Section 87.6), is amended to read as follows:

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

18 B. As used in ~~the 2011 Shale Reservoir Development Act~~ this
19 act:

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

23 2. "Application" means a written request filed by an owner of
24 the right to drill seeking approval to drill, complete and produce a

1 multiunit horizontal well or to create a horizontal well
2 unitization;

3 3. "Associated common source of supply" means a common source
4 of supply which is subject to a drilling and spacing unit formed by
5 the Corporation Commission and located in all or a portion of the
6 lands in which the completion interval of a multiunit horizontal
7 well is located, or which is located within the boundaries of a unit
8 created through a horizontal well unitization, and which is
9 immediately adjoining the shale common source of supply in which the
10 completion interval of the horizontal well is located, and which is
11 inadvertently encountered in the drilling of the lateral of such
12 horizontal well when such well is drilled out of or exits, whether
13 on one or multiple occasions, such shale common source of supply;

14 4. "Commission" means the Corporation Commission;

15 5. "Completion interval" means, for an open hole completion in
16 a horizontal well, the interval from the point of entry to the
17 terminus and, for a cased and cemented completion in a horizontal
18 well, the interval from the first perforations to the last
19 perforations;

20 6. "Horizontal well" means a well drilled, completed, or
21 recompleted with one or more laterals which, for at least one
22 lateral, the horizontal component of the completion interval exceeds
23 the vertical component of the completion interval and the horizontal
24

1 component extends a minimum of one hundred fifty (150) feet in the
2 formation;

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

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

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

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

12 11. "Multiunit horizontal well" means a horizontal well in a
13 targeted reservoir wherein the completion interval of the well is
14 located in more than one unit formed for the same targeted
15 reservoir, with the well being completed in and producing from such
16 targeted reservoir in two or more of such units;

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

21 a. a map or maps indicating the location of each existing
22 well in the proposed unit and the anticipated location
23 of each horizontal well proposed to be drilled in the
24 proposed unit that is anticipated to be necessary,

1 based upon the information and knowledge then
2 available to the applicant, for the full and efficient
3 development and operation of the proposed unit for the
4 recovery of oil and gas from the shale reservoir
5 within the proposed unit,

6 b. any applicable proposed allocation factor or factors
7 for allocating the costs, production and proceeds from
8 the proposed unit,

9 c. the anticipated timing and anticipated sequence of
10 drilling of each horizontal well in the proposed unit,
11 and

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

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

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

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

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

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

9 b. determined by the Commission as part of the order
10 approving the multiunit horizontal well as a common
11 source of supply that is appropriately suited for
12 development through a multiunit horizontal well for
13 that particular application,

14 and in designating or determining whether a particular common source
15 of supply should be considered a targeted reservoir, the Commission
16 may limit its designation to certain geographical areas;

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

19 18. "Wellbore royalty interest" means, for each separate
20 multiunit horizontal well, the sum of resulting products of each
21 affected unit's royalty share for that unit, as defined by the PRSA,
22 multiplied by that unit's allocation factor for production and
23 proceeds;

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

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

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

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

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

17 Section 87.7. ~~Corporation Commission Jurisdiction.~~ The
18 Corporation Commission shall have jurisdiction, upon the filing of a
19 proper application therefor, to permit the drilling, completing and
20 producing of a multiunit horizontal well in conformity with Section
21 ~~4 of this act~~ 87.8 of this title, or to create a horizontal well
22 unitization in conformity with Section ~~5 of this act~~ 87.9 of this
23 title, if the Commission finds that the multiunit horizontal well or
24 the horizontal well unitization will prevent waste and will protect

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

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

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

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

23 The Commission shall require the allocation to each of the units
24 affected by a multiunit horizontal well of the actual and reasonable

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

11 1. The allocation factor for each affected unit shall be
12 determined by dividing the length of the completion interval located
13 within the affected unit by the entire length of the completion
14 interval in the subject multiunit horizontal well. The Commission
15 shall have the authority to adjust the allocation factors or
16 participation in the subject multiunit horizontal well, based upon
17 reasonable testimony and evidence presented to the Commission, if
18 necessary to prevent waste and adequately protect the correlative
19 rights or vested rights or both of the owners of the oil and gas
20 rights in each of the affected units.

21 2. Each party who participates as a working interest owner in a
22 multiunit horizontal well shall own an undivided interest in all
23 portions of the wellbore of the well and in the equipment on or in
24 the well in the same ratio that the party's allocated portion of the

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

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

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

7 4. The application shall include:

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

1 c. any applicable proposed allocation factor or factors
2 for allocating the costs, production and proceeds from
3 each proposed multiunit horizontal well under the
4 application.

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

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

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

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

9 C. Application, Notice and Retained Jurisdiction.

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

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

3 Section 87.9 A. Horizontal Well Unitization for Shale
4 Reservoirs.

5 Under limited circumstances and conditions contained in this
6 section, the Corporation Commission is authorized to unitize a shale
7 reservoir for the drilling of horizontal wells to the end that a
8 greater ultimate recovery of oil and gas may be had therefrom, waste
9 is prevented, and the correlative rights of the owners are
10 protected. Unless and until a unit created pursuant to this section
11 is effective, nothing in this section shall prohibit the drilling of
12 a horizontal well within a drilling and spacing unit created
13 pursuant to Section 87.1 of ~~Title 52 of the Oklahoma Statutes~~ this
14 title.

15 B. Prerequisites for Unitization.

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

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

22 2. The use of horizontal well technology to drill the
23 horizontal well or wells in the shale reservoir is feasible, will
24 prevent waste, will protect correlative rights and will with

1 reasonable probability result in the increased recovery of
2 substantially more oil and gas from the shale reservoir within the
3 unit than would otherwise be recovered;

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

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

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

1 C. Size of the Unit.

2 Each unit shall be two governmental sections. However, the
3 Commission may expand the size of the unit by including additional
4 governmental sections up to a maximum unit size of four governmental
5 sections, if for good cause shown the Commission finds the expansion
6 of the unit size beyond two governmental sections is necessary to
7 prevent waste, to protect correlative rights and will result in the
8 increased recovery of substantially more oil and gas from the shale
9 reservoir than would otherwise be recovered based upon, but not
10 necessarily limited to:

- 11 1. Geological features existing within the proposed unit;
- 12 2. The proposed location or orientation of the horizontal
13 wells;
- 14 3. The length of the laterals of the proposed horizontal wells;
- 15 4. The proposed use of multilateral wells; or
- 16 5. Any combination thereof.

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

18 Where there are, or may thereafter be, two or more separately
19 owned tracts within the unit, each owner of oil and gas rights
20 within the unit shall own an interest in the unit of the same
21 character as the ownership of the owner in the separately owned
22 tract. From and after the effective date of the order of the
23 Commission creating the unit and subject to the provisions of any
24 pooling order covering the unit, the interest of each owner in the

1 unit shall be defined as the percentage of interest owned in each
2 separate tract by the owner, multiplied by the proportion that the
3 acreage in each separately owned tract bears to the entire acreage
4 of the unit. The costs incurred in connection with and the
5 production and proceeds from the wells in the unit shall be
6 allocated to each separate tract in the unit and shall be borne or
7 shared by the owners in each separate tract based upon and
8 determined by the interest of each owner in the tract. However, if
9 a well or wells already exist within the area of the proposed unit
10 which are producing or have produced or appear to be productive from
11 the shale reservoir being unitized, the Commission may adjust the
12 sharing of future costs incurred in connection with and future
13 production and proceeds from any existing well or any subsequent
14 well in the proposed unit in any manner deemed necessary by the
15 Commission in order to protect the correlative rights of the owners
16 within the proposed unit, including providing for the sharing of
17 future costs incurred in connection with and future production and
18 proceeds from any existing well or any subsequent well in a manner
19 different from any other well in the unit so long as the various
20 methods of sharing future costs, production and proceeds from the
21 existing and subsequent wells in the proposed unit prevents waste
22 and protects the correlative rights of all the affected owners. For
23 the purpose of this section, any owner or owners of oil and gas
24 rights in and under an unleased tract of land within the unit,

1 unless the owner has relinquished the drilling rights or working
2 interest of the owner in the applicable shale reservoir in the tract
3 of land under a pooling order entered by the Commission which order
4 remains in effect, shall be regarded as a lessee to the extent of a
5 seven-eighths (7/8) interest in and to the rights and a lessor to
6 the extent of the remaining one-eighth (1/8) interest therein.

7 E. The Plan of Development.

8 The application shall include a proposed plan of development.
9 Based upon the facts and conditions found to exist with respect to a
10 proposed unit, the Commission shall determine the necessary terms,
11 provisions, conditions and requirements to be included in the plan
12 of development for the unit. If a well or wells already exist
13 within the area of the proposed unit which are producing or have
14 produced or appear to be productive from the shale reservoir being
15 unitized, the plan of development shall also include:

- 16 1. Any adjustments to the sharing of future costs incurred in
17 connection with future development and production, and the sharing
18 of proceeds, from any existing well or any subsequent well which the
19 Commission determines to be necessary in order to be fair,
20 reasonable and equitable, and to protect the correlative rights of
21 the owners, considering the existing development in and the prior
22 and anticipated future production from the shale reservoir within
23 the proposed unit; and

24

1 2. The procedure and basis upon which existing wells, equipment
2 and other properties of the several lessees within the unit area are
3 to be taken over and used for unit operations, including the method
4 of arriving at the compensation therefor, or of otherwise
5 proportionately equalizing or adjusting the investment of the
6 several lessees in the project as of the effective date of unit
7 operation.

8 F. Order of the Commission.

9 The order of the Commission creating the unit shall:

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

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

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

16 4. Designate the unit operator; and

17 5. Provide for the conditions upon which the unit, and the
18 order creating the unit, shall terminate.

19 G. Consent by Owners.

20 No order of the Commission creating a unit pursuant to this
21 section shall become effective unless and until the proposed
22 unitization has been consented to in writing, and the written
23 consent submitted to the Commission, by lessees of record of not
24 less than sixty-three percent (63%) of the working interest in the

1 shale reservoir in the area to be included in the unit and by owners
2 of record of not less than sixty-three percent (63%), exclusive of
3 any royalty interest owned by any lessee or by any subsidiary of any
4 lessee, of the one-eighth (1/8) royalty interest in the shale
5 reservoir in the area to be included in the unit in an express
6 writing separate from the oil and gas lease. The Commission shall
7 make a finding in the order creating the unit as to whether the
8 requisite consent has been obtained. Where the requisite consent
9 has not been obtained at the time the order creating the unit is
10 entered, the Commission shall, upon application and notice, hold any
11 additional and supplemental hearings as may be requested or required
12 to determine if and when the requisite consent has been obtained and
13 the date the unitization will become effective. In the event
14 lessees and royalty owners, or either, owning the required
15 percentage interest in and to the unit area have not so consented to
16 the unitization within a period of six (6) months from and after the
17 date on which the order creating the unit is entered, the order
18 creating the unit shall cease to be of further force and effect and
19 shall be revoked by the Commission.

20 H. Notice.

21 The application for the creation of a horizontal well
22 unitization for a shale reservoir under this section, and the notice
23 of hearing on the application, shall be served no less than fifteen
24 (15) days prior to the date of the hearing, by regular mail, upon

1 each person or governmental entity having the right to share in
2 production from the proposed unit covered by the application, as
3 well as other persons or governmental entities required by
4 Commission rules. Any person aggrieved by any order of the
5 Commission made pursuant to this section may appeal therefrom to the
6 Supreme Court of the State of Oklahoma upon the same conditions,
7 within the same time and in the same manner as is provided for in
8 ~~Title 52 of the Oklahoma Statutes~~ this title, for the taking of
9 appeals from the orders of the Commission made thereunder.

10 I. Pooling of the Unit.

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

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

22 From and after the effective date of an order creating a unit
23 pursuant to this section, the operation of any well producing from
24 the shale reservoir within the unit defined in the order by persons

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

21 K. Payment of Proceeds.

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

24 L. The Commissioners of the Land Office.

1 The Commissioners of the Land Office, or other proper board or
2 officer of the state having the control and management of state
3 land, and the proper board or officer of any political, municipal,
4 or other subdivision or agency of the state, are hereby authorized
5 and shall have the power on behalf of the state or of any political,
6 municipal, or other subdivision or agency thereof, with respect to
7 land or oil and gas rights subject to the control and management of
8 the respective body, board, or officer, to consent to or participate
9 in any unitization adopted pursuant to the ~~2011 Shale Reservoir~~
10 Extended Lateral Horizontal Well Development Act.

11 M. Retained Jurisdiction.

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

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

1 ENGROSSED HOUSE
2 BILL NO. 2177

By: Hickman, McBride and
Murdock of the House

3 and

4 Bingman of the Senate
5
6
7

8 An Act relating to oil and gas; amending 52 O.S.
9 2011, Sections 87.6, as last amended by Section 1,
10 Chapter 400, O.S.L. 2014, 87.7, 87.8, as amended by
11 Section 2, Chapter 400, O.S.L. 2014 and 87.9 (52 O.S.
12 Supp. 2014, Sections 87.6 and 87.8), which relate to
13 the 2011 Shale Reservoir Development Act; changing
14 name of act to the Extended Lateral Horizontal Well
15 Development Act; modifying definitions; providing an
16 alternate development method to creating a new unit
or changing an existing drilling and spacing unit for
certain horizontal development; limiting allowance of
multiunit horizontal wells to targeted reservoir or
reservoirs; modifying requirements for allocation of
certain costs; expanding authority of the Corporation
Commission to adjust allocation factors; changing
pooling requirements to targeted reservoirs; updating
statutory citations; and declaring an emergency.

17
18
19 BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

20 SECTION 7. AMENDATORY 52 O.S. 2011, Section 87.6, as
21 last amended by Section 1, Chapter 400, O.S.L. 2014 (52 O.S. Supp.
22 2014, Section 87.6), is amended to read as follows:
23
24

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

4 B. As used in the ~~2011 Shale Reservoir~~ Extended Lateral
5 Horizontal Well 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. "Completion interval" means, for an open hole completion in
2 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. "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. "Horizontal well unitization" means a unitization for a
13 shale reservoir created pursuant to Section 87.9 of this title;

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

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

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

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

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

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

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

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

11 16. "Targeted reservoir" means any shale reservoir or any
12 portion of the Marmaton common source of supply or any other common
13 source of supply which has been:

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

18 b. determined by the Commission as part of the order
19 approving the multiunit horizontal well as a common
20 source of supply that is appropriately suited for
21 development through a multiunit horizontal well for
22 the particular application, and

1 in designating or determining whether a particular common source of
2 supply should be considered a targeted reservoir, the Commission may
3 limit its designation to certain geographical areas;

4 17. "Terminus" means the end point of the borehole of a
5 horizontal well;

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

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

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

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

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

1 SECTION 8. AMENDATORY 52 O.S. 2011, Section 87.7, is
2 amended to read as follows:

3 Section 87.7 Corporation Commission Jurisdiction.

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

23
24

1 SECTION 9. 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
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 multiunit horizontal well, with any allocation to be in a manner
20 that will prevent waste and protect the correlative rights of the
21 owners of the oil and gas rights in each of the affected units ~~which~~
22 ~~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 10. 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 11. 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.

15 Passed the House of Representatives the 26th day of February,
16 2015.

17
18 _____
19 Presiding Officer of the House
of Representatives

20 Passed the Senate the ___ day of _____, 2015.

21
22 _____
23 Presiding Officer of the Senate
24