

OIL AND GAS AMENDMENTS

2018 GENERAL SESSION

STATE OF UTAH

Chief Sponsor: Stephen G. Handy

Senate Sponsor: Kevin T. Van Tassell

LONG TITLE

General Description:

This bill modifies provisions relating to the pooling of oil and gas interests.

Highlighted Provisions:

This bill:

- ▶ authorizes the Board of Oil, Gas, and Mining to make a pooling order retroactive under certain circumstances;
- ▶ allows existing pooling orders to apply to additional wells drilled in the same drilling unit under certain circumstances; and
- ▶ makes technical changes.

Money Appropriated in this Bill:

None

Other Special Clauses:

None

Utah Code Sections Affected:

AMENDS:

40-6-6.5, as last amended by Laws of Utah 2017, Chapter 220

Be it enacted by the Legislature of the state of Utah:

Section 1. Section **40-6-6.5** is amended to read:

40-6-6.5. Pooling of interests for the development and operation of a drilling unit -- Board may order pooling of interests -- Payment of costs and royalty interests -- Monthly accounting.

30 (1) Two or more owners within a drilling unit may bring together their interests for the
31 development and operation of the drilling unit.

32 (2) (a) In the absence of a written agreement for pooling, including a joint operating
33 agreement, the board may enter an order pooling all interests in the drilling unit for the
34 development and operation of the drilling unit.

35 (b) The order shall be made upon terms and conditions that are just and reasonable.

36 (c) The board may adopt terms appearing in [~~an~~] a joint operating agreement:

37 (i) for the drilling unit that is in effect between the consenting owners;

38 (ii) submitted by any party to the proceeding; or

39 (iii) submitted by its own motion.

40 (3) (a) Operations incident to the drilling of a well upon any portion of a drilling unit
41 covered by a pooling order shall be deemed for all purposes to be the conduct of the operations
42 upon each separately owned tract in the drilling unit by the several owners.

43 (b) The portion of the production allocated or applicable to a separately owned tract
44 included in a drilling unit covered by a pooling order shall, when produced, be deemed for all
45 purposes to have been produced from that tract by a well drilled on it.

46 (4) (a) (i) Each pooling order shall provide for the payment of just and reasonable costs
47 incurred in the drilling and operating of the drilling unit, including:

48 (A) the costs of drilling, completing, equipping, producing, gathering, transporting,
49 processing, marketing, and storage facilities;

50 (B) reasonable charges for the administration and supervision of operations; and

51 (C) other costs customarily incurred in the industry.

52 (ii) An owner is not liable under a pooling order for costs or losses resulting from the
53 gross negligence or willful misconduct of the operator.

54 (b) Each pooling order shall provide for reimbursement to the consenting owners for
55 any nonconsenting owner's share of the costs out of production from the drilling unit
56 attributable to the nonconsenting owner's tract.

57 (c) Each pooling order shall provide that each consenting owner shall own and be

58 entitled to receive, subject to royalty or similar obligations:

59 (i) the share of the production of the well applicable to the consenting owner's interest
60 in the drilling unit; and

61 (ii) unless the consenting owner has agreed otherwise, the consenting owner's
62 proportionate part of the nonconsenting owner's share of the production until costs are
63 recovered as provided in Subsection (4)(d).

64 (d) (i) Each pooling order shall provide that each nonconsenting owner shall be entitled
65 to receive, subject to royalty or similar obligations, the share of the production of the well
66 applicable to the nonconsenting owner's interest in the drilling unit after the consenting owners
67 have recovered from the nonconsenting owner's share of production the following amounts less
68 any cash contributions made by the nonconsenting owner:

69 (A) 100% of the nonconsenting owner's share of the cost of surface equipment beyond
70 the wellhead connections, including stock tanks, separators, treaters, pumping equipment, and
71 piping;

72 (B) 100% of the nonconsenting owner's share of the estimated cost to plug and
73 abandon the well as determined by the board;

74 (C) 100% of the nonconsenting owner's share of the cost of operation of the well
75 commencing with first production and continuing until the consenting owners have recovered
76 all costs; and

77 (D) an amount to be determined by the board but not less than 150% nor greater than
78 400% of the nonconsenting owner's share of the costs of staking the location, wellsite
79 preparation, rights-of-way, rigging up, drilling, reworking, recompleting, deepening or
80 plugging back, testing, and completing, and the cost of equipment in the well to and including
81 the wellhead connections.

82 (ii) The nonconsenting owner's share of the costs specified in Subsection (4)(d)(i) is
83 that interest which would have been chargeable to the nonconsenting owner had the
84 nonconsenting owner initially agreed to pay the nonconsenting owner's share of the costs of the
85 well from commencement of the operation.

86 (iii) A reasonable interest charge may be included if the board finds it appropriate.

87 (e) If there is any dispute about costs, the board shall determine the proper costs.

88 (5) If a nonconsenting owner's tract in the drilling unit is subject to a lease or other
89 contract for the development of oil and gas, the pooling order shall provide that the consenting
90 owners shall pay any royalty interest or other interest in the tract not subject to the deduction of
91 the costs of production from the production attributable to that tract.

92 (6) (a) If a nonconsenting owner's tract in the drilling unit is not subject to a lease or
93 other contract for the development of oil and gas, the pooling order shall provide that the
94 nonconsenting owner shall receive as a royalty:

95 (i) the acreage weighted average landowner's royalty based on each leased fee and
96 privately owned tract within the drilling unit, proportionately reduced by the percentage of the
97 nonconsenting owner's interest in the drilling unit; or

98 (ii) if there is no leased fee or privately owned tract within the drilling unit other than
99 the one owned by the nonconsenting owner, 16-2/3% proportionately reduced by the
100 percentage of the nonconsenting owner's interest in the drilling unit.

101 (b) The royalty shall be:

102 (i) determined prior to the commencement of drilling; and

103 (ii) paid from production attributable to each tract until the consenting owners have
104 recovered the costs specified in Subsection (4)(d).

105 (7) Once the consenting owners have recovered the costs, as described in Subsection
106 (6)(b)(ii), the royalty shall be merged back into the nonconsenting owner's working interest and
107 shall be terminated.

108 (8) The operator of a well under a pooling order in which there is a nonconsenting
109 owner shall furnish the nonconsenting owner with monthly statements specifying:

110 (a) costs incurred;

111 (b) the quantity of oil or gas produced; and

112 (c) the amount of oil and gas proceeds realized from the sale of the production during
113 the preceding month.

114 (9) Each pooling order shall provide that when the consenting owners recover from a
115 nonconsenting owner's relinquished interest the amounts provided for in Subsection (4)(d):

116 (a) the relinquished interest of the nonconsenting owner shall automatically revert to
117 him;

118 (b) the nonconsenting owner shall from that time:

119 (i) own the same interest in the well and the production from it; and

120 (ii) be liable for the further costs of the operation as if he had participated in the initial
121 drilling and operation; and

122 (c) costs are payable out of production unless otherwise agreed between the
123 nonconsenting owner and the operator.

124 (10) Each pooling order shall provide that in any circumstance where the
125 nonconsenting owner has relinquished his share of production to consenting owners or at any
126 time fails to take his share of production in-kind when he is entitled to do so, the
127 nonconsenting owner is entitled to:

128 (a) an accounting of the oil and gas proceeds applicable to his relinquished share of
129 production; and

130 (b) payment of the oil and gas proceeds applicable to that share of production not taken
131 in-kind, net of costs.

132 (11) (a) A pooling order may be made effective retroactively to the date of first
133 production of a well to which ~~[it]~~ the pooling order applies, ~~[even if]~~ subject to Subsection
134 (11)(b).

135 (b) If the retroactive date predates the board's order establishing the drilling unit, [if]
136 the retroactive date is authorized only if:

137 (i) no party to the board's proceeding objects to the retroactive application[-]; or

138 (ii) an objection is received by the board and the board finds a party has engaged in
139 inequitable conduct prejudicing another party's correlative right.

140 ~~[(b)]~~ (c) A pooling order made retroactive under this section is binding upon a party
141 owning an interest in the drilling unit who receives proper notice of the board's proceeding.

142 (12) Except as otherwise provided by a rule made by the board in accordance with Title
143 63G, Chapter 3, Utah Administrative Rulemaking Act, the terms and conditions of the board's
144 initial order pooling all interests in a drilling unit, including the terms and conditions of a joint
145 operating agreement as adopted by the board, shall apply to all subsequently drilled wells in the
146 drilling unit, except as modified by:

147 (a) an accounting for actual costs incurred for each subsequently drilled well in the
148 drilling unit;

149 (b) an accounting for the consenting or nonconsenting status of the owner of each
150 subsequently drilled well in the drilling unit; and

151 (c) the board after the filing of and hearing upon a petition filed by an affected owner
152 desiring a modification.