

1 STATE OF OKLAHOMA

2 1st Session of the 55th Legislature (2015)

3 SENATE BILL 646

By: Smalley

4
5 AS INTRODUCED

6 An Act relating to oil and gas; amending 52 O.S.
7 2011, Section 87.1, as amended by Section 4, Chapter
8 201, O.S.L. 2012, 87.6, as last amended by Section 1,
9 Chapter 400, O.S.L. 2014, 87.7, and 87.8, as amended
10 by Section 2, Chapter 400, O.S.L. 2014 (52 O.S. Supp.
11 2014, Sections 87.1, 87.6, and 87.8), which relate to
12 common source of supply and the 2011 Shale Reservoir
13 Development Act; modifying Corporation Commission
14 procedures for allocating resources in common source
15 of supply for certain horizontal and subsequently-
16 created wells; authorizing Commission to promulgate
17 rules; establishing rights of certain owners;
18 providing for relinquishing of certain rights;
19 modifying definitions; modifying Commission
20 jurisdiction in certain multiunit horizontal wells in
21 targeted reservoirs; modifying allocation of costs
22 and resources in multiunit horizontal wells;
23 providing procedures for establishing multiple types
24 of wells producing in a common source of supply; and
declaring an emergency.

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

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

23 Section 87.1. Whenever the production from any common source of
24 supply of oil or natural gas in this state can be obtained only

1 under conditions constituting waste or drainage not compensated by
2 counterdrainage, then any person having the right to drill into and
3 produce from such common source of supply may, except as otherwise
4 authorized or in this section provided, take therefrom only such
5 proportion of the oil or natural gas that may be produced therefrom
6 without waste or without such drainage as the productive capacity of
7 the well or wells of any such person considered with the acreage
8 properly assignable to each such well bears to the total productive
9 capacities of the wells in such common source of supply considered
10 with the acreage properly assignable to each well therein.

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

1 contains predominantly oil underlying an area or areas and contains
2 predominantly gas underlying a different area or areas; provided
3 further that the units in the predominantly oil area or areas shall
4 be of approximately uniform size and shape, and the units in the
5 predominantly gas area or areas shall be of approximately uniform
6 size and shape, except that the units in the gas area or areas may
7 be of nonuniform size and shape when they adjoin the units in the
8 oil area or areas, except that the units for horizontally drilled
9 oil and gas wells may, for good cause shown, be of nonuniform size
10 and shape; provided, further, that the drilling pattern for such
11 nonuniform units need not be uniform, and provided further that the
12 Commission shall adjust the allowable production within the common
13 source of supply, or any part thereof, and take such other action as
14 may be necessary to protect the rights of interested parties. Any
15 order issued pursuant to the provisions hereof may be entered after
16 a hearing upon the petition of any person owning an interest in the
17 minerals in lands embraced within such common source of supply, or
18 the right to drill a well for oil or gas on the lands embraced
19 within such common source of supply, or on the petition of the
20 Conservation Officer of the State of Oklahoma. When such a petition
21 is filed with the Commission, the Commission shall give at least
22 fifteen (15) days' notice of the hearing to be held upon such
23 petition by one publication, at least fifteen (15) days prior to the
24 hearing, in some newspaper of general circulation published in

1 Oklahoma County, and by one publication, at least fifteen (15) days
2 prior to the date of the hearing, in some newspaper published in the
3 county, or in each county, if there be more than one, in which the
4 lands embraced within the application are situated. Except as to
5 the notice of hearing on such a petition, the procedural
6 requirements of Section 86.1 et seq. of this title shall govern all
7 proceedings and hearings provided for by this section.

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

13 (c) In establishing a well spacing or drilling unit for a
14 common source of supply thereunder, the acreage to be embraced
15 within each unit may include acreage from more than one governmental
16 section, but shall not exceed six hundred forty (640) acres for a
17 gas well plus ten percent (10%) tolerance, unless the unit is a
18 governmental section and the governmental section contains more than
19 six hundred forty (640) acres in which case the unit may comprise
20 the entire section. Provided, however, fractional sections along
21 the state boundary line and within the townships along the boundary
22 where the survey west of the Indian Meridian meets the survey east
23 of the Cimarron Meridian may be spaced with adjoining section unit,
24 and the shape thereof shall be determined by the Commission from the

1 evidence introduced at the hearing, and the following facts, among
2 other things, shall be material: (1) The lands embraced in the
3 actual or prospective common source of supply; (2) the plan of well
4 spacing then being employed or contemplated in the source of supply;
5 (3) the depth at which production from the common source of supply
6 has been or is expected to be found; (4) the nature and character of
7 the producing or prospective producing formation or formations; and
8 (5) any other available geological or scientific data pertaining to
9 the actual or prospective source of supply which may be of probative
10 value to the Commission in determining the proper spacing and well
11 drilling unit therefor, with due and relative allowance for the
12 correlative rights and obligations of the producers and royalty
13 owners interested therein.

14 The order establishing such spacing or drilling units shall set
15 forth: (1) the outside boundaries of the surface area included in
16 such order; (2) the size, form, and shape of the spacing or drilling
17 units so established; (3) the drilling pattern for the area, which
18 shall be uniform except as hereinbefore provided; and (4) the
19 location of the permitted well on each such spacing or drilling
20 unit. To such order shall be attached a plat upon which shall be
21 indicated the foregoing information. Subject to other provisions of
22 Section 86.1 et seq. of this title, the order establishing such
23 spacing or drilling units shall direct that no more than one well
24 shall thereafter be produced from the common source of supply on any

1 unit so established, and that the well permitted on that unit shall
2 be drilled at the location thereon as prescribed by the Commission,
3 with such exception as may be reasonably necessary where it is
4 shown, upon application, notice and hearing in conformity with the
5 procedural requirements of Section 86.1 et seq. of this title, and
6 the Commission finds that any such spacing unit is located on the
7 edge of a pool and adjacent to a producing unit, or for some other
8 reason that to require the drilling of a well at the prescribed
9 location on such spacing unit would be inequitable or unreasonable.
10 Whenever such an exception is granted, the Commission shall adjust
11 the allowable production for the spacing unit and take such other
12 action as may be necessary to protect the rights of interested
13 parties.

14 Any well spacing or drilling unit for a common source of supply
15 thereunder which exceeds six hundred forty (640) acres for a gas
16 well plus ten percent (10%) tolerance or exceeds the total amount of
17 acreage contained in a governmental section, and is not in
18 production or in the process of drilling development on ~~the~~
19 ~~effective date of this act~~ March 26, 1980, shall be de-spaced.
20 However, fractional sections along the state boundary line and
21 within the townships along the boundary where the survey west of the
22 Indian Meridian meets the survey east of the Cimarron Meridian may
23 be spaced with adjoining section unit, and the shape thereof shall
24 be determined by the Commission.

1 (d) The Commission shall have jurisdiction upon the filing of a
2 proper application therefor, and upon notice given as provided in
3 subsection (a) of this section, to decrease the size of the well
4 spacing units or to permit additional wells to be drilled within the
5 established units, or to increase the size or modify the shape of
6 the well spacing units, upon proper proof at such hearing that such
7 modification or extension of the order establishing drilling or
8 spacing units will prevent or assist in preventing the various types
9 of wastes prohibited by statute, or any of the wastes, or will
10 protect or assist in protecting the correlative rights of persons
11 interested in the common source of supply, or upon the filing of a
12 proper application therefor to enlarge the area covered by the
13 spacing order, if such proof discloses that the development or the
14 trend of development indicates that such common source of supply
15 underlies an area not covered by the spacing order and such proof
16 discloses that the applicant is an owner within the area or within a
17 drilling and spacing unit contiguous to the area covered by the
18 application. If the commission modifies, supersedes, amends or
19 vacates the existing drilling and spacing unit or units, for a
20 common source of supply covering the same lands where there is
21 currently, or has been, production from the common source of supply
22 within a previously existing unit or units, the Commission shall
23 have the authority to take such other action and to make such orders
24 as may be necessary to protect the correlative rights or vester

1 rights, or both, of interested parties within the previously
2 existing unit or units, as well as the newly formed unit or units.
3 Except in the instance of reservoir dewatering as described herein,
4 the Commission shall not establish well spacing units of more than
5 forty (40) acres in size covering common sources of supply of oil,
6 the top of which lies less than four thousand (4,000) feet below the
7 surface as determined by the original or discovery well in the
8 common source of supply, and the Commission shall not establish well
9 spacing units of more than eighty (80) acres in size covering common
10 sources of supply of oil, the top of which lies less than nine
11 thousand nine hundred ninety (9,990) feet and more than four
12 thousand (4,000) feet below the surface as determined by the
13 original or discovery well in the common source of supply. In the
14 instance of reservoir dewatering to extract oil from reservoirs
15 having initial water saturations at or above fifty percent (50%),
16 the Commission may establish drilling and spacing units not to
17 exceed six hundred forty (640) acres in size.

18 (e) The drilling of any well or wells into any common source of
19 supply for the purpose of producing oil or gas therefrom, after a
20 spacing order has been entered by the Commission covering such
21 common source of supply, at a location other than that fixed by the
22 order is hereby prohibited. The drilling of any well or wells into
23 a common source of supply, covered by a pending spacing application,
24 at a location other than that approved by a special order of the

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

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

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

15 For the purpose of this section, the owner or owners of oil and
16 gas rights in and under an unleased tract of land shall be regarded
17 as a lessee to the extent of a seven-eighths (7/8) interest in and
18 to the rights and a lessor to the extent of the remaining one-eighth
19 (1/8) interest therein, unless and until the owner or owners make an
20 election or are deemed to make an election not to participate under
21 a pooling order issued by the Commission, at which time each such
22 owner shall be considered a lessor, subject to the judicially
23 recognized implied covenant to market found to exist by the courts
24 of this state in oil and gas leases covering lands located in this

1 state, to the extent of the full royalty percentage elected under
2 the pooling order. Should the owners of separate tracts or
3 interests embraced within a spacing unit fail to agree upon a
4 pooling of their interests and the drilling of a well on the unit,
5 and should it be established by final, unappealable judgment of a
6 court of competent jurisdiction that the Commission is without
7 authority to require pooling as provided for herein, then, subject
8 to all other applicable provisions of this act, the owner of each
9 tract or interest embraced within a spacing unit may drill on his or
10 her separately owned tract, and the allowable production therefrom
11 shall be that portion of the allowable for the full spacing unit as
12 the area of such separately owned tract bears to the full spacing
13 unit.

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

24

1 separately owned tract or interest bears to the entire acreage of
2 the unit.

3 (f) Notwithstanding any provision of this section to the
4 contrary, the Corporation Commission shall have jurisdiction upon
5 the filing of a proper application therefor, and upon notice given
6 as provided in subsection (a) of this section, to establish spacing
7 rules for ~~horizontally drilled oil~~ horizontal wells whereby
8 ~~horizontally drilled oil~~ such oriented wells may have well spacing
9 ~~horizontal~~ units established ~~formed~~ of up to ~~six hundred forty (640)~~
10 one thousand two hundred eighty (1280) acres plus tolerances and
11 variances as allowed for gas wells pursuant to subsection (c) of
12 this section. For purposes of this subsection a "~~horizontally~~
13 ~~drilled oil~~ horizontal well" shall mean an oil or gas well drilled,
14 completed or recompleted ~~in a manner~~ with one or more laterals in
15 which, for at least one lateral, the horizontal component of the
16 completion interval ~~in the geological formation exceeds the vertical~~
17 ~~component thereof and which horizontal component extends~~ exceeds the
18 vertical component of the completion interval and the horizontal
19 component extends a minimum of one hundred fifty (150) feet in the
20 formation. The Corporation Commission shall promulgate rules
21 necessary for the proper administration of this subsection.

22 (g) To prevent or to assist in preventing the various types of
23 waste of oil or gas prohibited by statute or public policy, or to
24 protect or assist in protecting the correlative rights of interested

1 parties, the Commission is authorized to form a drilling and spacing
2 unit for horizontal well, provided in subsection (f) of this
3 section, in a common source of supply in a tract of land in which a
4 drilling and spacing unit or units, have already been formed for the
5 same common source of supply and such horizontal unit may overlay
6 and exist concurrently with such prior existing drilling and spacing
7 unit or units; provided, however, for any given tract of land for a
8 common source of supply, no more than two drilling and spacing units
9 may exist concurrently at any given time. Furthermore, in the event
10 of the concurrent existence of such units, as described above, any
11 pooling order which was entered by the Commission pursuant to
12 subsection (e) of this section, covering the common source of supply
13 in any such prior, existing unit and which pooling order is in
14 effect at the time such subsequently-created unit is formed so as to
15 exist concurrently with such prior existing unit, shall remain in
16 full force and effect as to the oil and gas interests in the common
17 source of supply which were relinquished and transferred by
18 operation of law under the pooling order and the rights and equities
19 of the owners of the right to drill in such subsequently-created
20 unit shall be determined based upon the vested rights and equities
21 arising and vesting under such prior pooling order as to such common
22 source of supply. The Commission shall promulgate rules necessary
23 for the proper implementation and administration of this subsection.

24

1 (h) In the event of the concurrent existence of drilling and
2 spacing units as provided in subsection (g) of this section and in
3 order to facilitate the concurrent development of such concurrently
4 existing units, the Commission may provide in any pooling order
5 covering any unit concurrently existing with another unit or may
6 amend any existing pooling order covering any unit concurrently
7 existing with another unit to provide that during the time, and only
8 during the time, such units exist concurrently, any owner who has
9 participated as a working interest owner in the initial well covered
10 by such pooling order and who has not otherwise previously
11 relinquished such owner's right to drill in the common source of
12 supply covered by such pooling order shall have the right to elect
13 to participate in any subsequent well thereafter proposed under such
14 pooling order and if any such owner elects not to participate in
15 such subsequent well, such owner shall only relinquish such owner's
16 right to drill in, and only in, such subsequent well, with such
17 owner retaining the right to participate in any other subsequent
18 well thereafter proposed under such pooling order with all or any
19 portion of the drilling rights or working interest which such owner
20 had not previously relinquished under such pooling order in such
21 common source of supply. Furthermore, the Commission may provide in
22 any such pooling order covering any unit concurrently existing with
23 another unit or may amend any existing pooling order covering any
24 unit currently existing with another unit to provide that during the

1 time, and only during the time, such units exist concurrently, an
2 owner who elects or is deemed to have elected not to participate in
3 a subsequent well thereafter proposed under such pooling order
4 thereby relinquishing such owner's drilling rights or working
5 interest in the unit as to, and only as to, the proposed subsequent
6 well, shall not be entitled to receive any cash bonus, or other
7 excess or overriding royalty under the applicable pooling order,
8 with such owner surrendering such owner's drilling rights in such
9 subsequent well subject only to the existing burdens thereon.

10 (i) The Commission shall provide in any pooling order issued
11 after the effective date of this act that each owner who
12 participated in the initial unit well under the pooling order shall
13 have an election to participate in each subsequent well proposed
14 under the pooling order which is a horizontal well, notwithstanding
15 a prior election by the owner not to participate in a horizontal
16 well under the pooling order. Any such owner who makes an election
17 not to participate in a subsequent horizontal well under the pooling
18 order shall only relinquish that owner's nonparticipating interest
19 limited to only that subsequent horizontal well pursuant to the
20 terms of the pooling order, and shall retain the right to elect to
21 participate in any subsequent horizontal wells which may be proposed
22 under the pooling order with all or any part of that owner's
23 interest. An owner who elects or is deemed to have elected not to
24 participate in a subsequent well pursuant to the pooling order

1 covering unit or a unit which is the subject of an order authorizing
2 a horizontal well shall be deemed to have elected not to participate
3 pursuant to subsection and shall deliver that owner's interest
4 pursuant to the terms of the pooling order as to the proposed
5 horizontal well, but shall not be entitled to receive any cash bonus
6 under the subsequent operations provision of the applicable pooling
7 order and shall surrender that owner's right to participate in the
8 well subject only to its existing burdens.

9 SECTION 2. AMENDATORY 52 O.S. 2011, Section 87.6, as
10 last amended by Section 1, Chapter 400, O.S.L. 2014 (52 O.S. Supp.
11 2014, Section 87.6), is amended to read as follows:

12 Section 87.6. A. Sections 87.6 through 87.9 of this title
13 shall be known and may be cited as the "2011 Shale Reservoir
14 Development Act".

15 B. As used in the 2011 Shale Reservoir Development Act:

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

19 2. "Application" means a written request filed by an owner of
20 the right to drill seeking approval to drill, complete and produce a
21 multiunit horizontal well or to create a horizontal well
22 unitization;

23 3. "Associated common source of supply" means a common source
24 of supply which is ~~subject to a drilling and spacing unit formed by~~

1 ~~the Corporation Commission and located in all or a portion of the~~
2 ~~lands in which the completion interval of a multiunit horizontal~~
3 ~~well is located, or which is~~ located within the boundaries of a unit
4 created through a horizontal well unitization under Section 87.9 of
5 this title, and which is immediately adjoining the shale ~~common~~
6 ~~source of supply in~~ formation which is the subject ~~completion~~
7 ~~interval of the horizontal well is located,~~ of a unit created
8 through a horizontal well unitization, and which is inadvertently
9 encountered, whether on one or multiple occasions, in the drilling
10 of the lateral of such horizontal well ~~when such well is drilled out~~
11 ~~of or exits, whether on one or multiple occasions, such shale common~~
12 ~~source of supply in such unit~~ ;

13 4. "Commission" means the Corporation Commission;

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

19 6. "Horizontal well" means a well drilled, completed, or
20 recompleted with one or more laterals which, for at least one
21 lateral, the horizontal component of the completion interval exceeds
22 the vertical component of the completion interval and the horizontal
23 component extends a minimum of one hundred fifty (150) feet in the
24 formation;

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

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

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

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

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

16 ~~12.~~ 11. "Plan of development" means the proposed plan for
17 developing the shale reservoir unitized pursuant to Section 87.9 of
18 this title, which plan, based upon the information and knowledge
19 then available to the applicant, shall include:

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

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

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

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

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

16 ~~13.~~ 12. "Point of entry" means the point at which the borehole
17 of a horizontal well first intersects the top of the ~~targeted~~ shale
18 reservoir or the targeted reservoir as the case may be;

19 ~~14.~~ 13. "PRSA" means the Production Revenue Standards Act;

20 ~~15.~~ 14. "Shale reservoir" means a common source of supply which
21 is a shale formation that is so designated by the Commission through
22 rule or order, and shall also include any associated common source
23 of supply as defined in this section;

1 ~~16.~~ 15. "Targeted reservoir" means any ~~shale reservoir or any~~
2 ~~portion of the Marmaton common source of supply~~ single common source
3 of supply which has been:

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

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

13 ~~17.~~ 16. "Terminus" means the end point of the borehole of a
14 horizontal well;

15 ~~18.~~ 17. "Wellbore royalty interest" means, for each separate
16 multiunit horizontal well, the sum of resulting products of each
17 affected unit's royalty share for that unit, as defined by the PRSA,
18 multiplied by that unit's allocation factor for production and
19 proceeds;

20 ~~19.~~ 18. "Wellbore royalty proceeds" means the proceeds or other
21 revenue derived from or attributable to any production of oil and
22 gas from the multiunit horizontal well multiplied by the wellbore
23 royalty interest;

1 ~~20.~~ 19. "Unit" means a drilling and spacing unit for a single
2 common source of supply created pursuant to Section 87.1 of this
3 title or a horizontal well unitization created pursuant to Section
4 87.9 of this title;

5 ~~21.~~ 20. "Unit's royalty contribution factor" means the royalty
6 share for an affected unit, as defined by PRSA, multiplied by that
7 unit's allocation factor, then divided by the total wellbore royalty
8 interest; and

9 ~~22.~~ 21. "Vertical component" means the calculated vertical
10 distance from the point of entry to the terminus.

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

13 Section 87.7. Corporation Commission Jurisdiction.

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

23 B. Under limited circumstances and conditions described in this
24 subsection, the Commission shall have jurisdiction, upon the filing

1 of a proper application therefor, to permit the drilling, completing
2 and producing of a multiunit horizontal well in conformity with
3 Section 87.8 of this title, when the Commission finds, based upon
4 the evidence presented at the hearing on such application that:

5 1. The planned multiunit horizontal well in the targeted
6 reservoir is feasible, will prevent waste and will protect
7 correlative rights;

8 2. Any existing horizontal drilling and spacing units are
9 developed or producing and should not be modified, amended,
10 superseded or vacated in order to facilitate the drilling of such
11 planned multiunit horizontal well in a single unit in the targeted
12 reservoir; and

13 3. Such planned horizontal well should not other otherwise be
14 drilled in a single horizontal drilling and spacing unit covering of
15 the same lands.

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

19 Section 87.8. A. Under the conditions contained in this
20 section, the Corporation Commission is authorized to allow multiunit
21 horizontal wells in order to prevent waste and protect the
22 correlative rights of the owners of oil and gas rights.

23 B. Ownership, Allocation of Costs, Commingled Production, and
24 Proceeds.

1 The Commission shall ~~require the allocation of the reasonable~~
2 ~~drilling, completion and production costs associated with a~~
3 ~~multiunit horizontal well to each of the affected units which the~~
4 ~~well actually penetrates within the completion interval and shall~~
5 ~~further require the allocation of the commingled production and~~
6 ~~proceeds from the completion interval of a multiunit horizontal~~
7 ~~well, with any allocation to be in a manner that will prevent waste~~
8 ~~and protect the correlative rights of the owners of the oil and gas~~
9 ~~rights in each of the affected units which the well actually~~
10 ~~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 allocate to each~~
15 ~~of the units affected by a multiunit horizontal well the actual and~~
16 ~~reasonable drilling, completion, and production costs associated~~
17 ~~with such multiunit horizontal well, as well as the comingled~~
18 ~~production and the proceeds from the sale thereof, from such~~
19 ~~multiunit horizontal well with the allocation to be in a manner that~~
20 ~~will prevent waste and protect the correlative rights of the owners~~
21 ~~of the oil and gas rights in each of the affected units. The~~
22 Commission shall have the authority to adjust the allocation
23 factors, based upon reasonable testimony and evidence presented to
24 the Commission, if necessary to prevent waste and adequately protect

1 the correlative rights or vested rights, or both, of the owners of
2 the ~~oil and gas rights in each~~ royalty interests or the owners of
3 the working interests, or both, in any of the affected units or the
4 subject multiunit horizontal well.

5 ~~2.~~ 1. Each party who participates as a working interest owner
6 in a multiunit horizontal well shall own an undivided interest in
7 all portions of the wellbore of the well and in the equipment on or
8 in the well in the same ratio that the party's allocated portion of
9 the total costs of the well and equipment bears to the total costs
10 of the well and equipment. ~~The ownership of undivided interest~~
11 ~~described in this paragraph shall not affect or prejudice the~~
12 ~~ownership of oil and gas rights of the affected owners outside of~~
13 ~~the targeted reservoir for the multiunit horizontal well.~~

14 ~~3.~~ 2. A multiunit horizontal well shall be treated as a well in
15 each of the affected units and shall be subject to all of the rules
16 otherwise applicable to any other well in any of the affected units.
17 ~~In allowing a multiunit horizontal well~~ In this regard, the
18 Commission, under the filing of proper applications under Section
19 87.1 of this title, and providing proper notice thereof, may grant
20 any necessary exceptions to the permitted well location tolerances
21 in each of the affected units for the well and permit the well as an
22 additional well in each of the affected units. When an owner has
23 drilled or proposes to drill a multiunit horizontal well or wells
24 and the owners of a present right to drill in any of the affected

1 units have not agreed to pool their interests in the unit for the
2 ~~affected common sources of supply~~ targeted reservoir or reservoirs,
3 the Commission, under Section 87.1 of this title, may, upon the
4 filing of a proper application therefor, require the owners to pool
5 their interests in each affected unit on a unitwide basis as to the
6 respective unit in regard to the development involving the portion
7 of the multiunit horizontal well or wells located within the
8 affected unit. Furthermore, if the Commission ~~has~~ previously
9 entered an order pooling ~~the interests of owners in an affected a~~
10 unit in which a multiunit horizontal well or wells ~~have been drilled~~
11 ~~or are~~ is proposed to be drilled, the Commission, under Section 87.1
12 of this title may, upon ~~the~~ filing of a proper application ~~therefor,~~
13 amend the pooling order to ~~the extent necessary to have~~ provide that
14 the pooling order cover the development involving the portion of the
15 multiunit horizontal well or wells located within the ~~affected~~ unit,
16 and to protect the rights of parties in any common source of supply
17 which is not a targeted reservoir and is not intended to be
18 developed in such multiunit horizontal well, with such amendments as
19 are necessary which may include provisions for separate elections,
20 delayed elections, and delayed or deferred payment of well costs.

21 ~~4.~~ 3. The application shall include:

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

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

15 c. any applicable proposed ~~allocation factor or factors~~
16 ~~for allocating~~ method or methods for allocating to
17 each of the royalty interest owners and to the working
18 interest owners the costs, production and proceeds
19 from each proposed multiunit horizontal well under the
20 application.

21 ~~5.~~ 4. Production from ~~the completion interval in the~~ a targeted
22 reservoir or reservoirs in a multiunit horizontal well from each of
23 the affected units in which a multiunit horizontal well is completed
24 may be commingled in the wellbore of the well and produced to the

1 surface. The commingled production from a multiunit horizontal well
2 shall be allocated to each of the affected units based upon the
3 allocation ~~factors~~ approved by the Commission.

4 ~~6.~~ 5. The surface of the lands included in any unit which is to
5 be affected by a multiunit horizontal well may be used for the
6 drilling and other operations on or in connection with such
7 multiunit horizontal well, even though such multiunit horizontal
8 well may affect other units in other tracts of land, and such use of
9 such surface shall be subject to the rights and obligations of the
10 parties under Section 318.2 et seq. of Title 52 of this title.

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

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

1 proportionate royalty share of the allocated royalty proceeds for
2 that unit as described above.

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

11 C. Application, Notice and Retained Jurisdiction.

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

1 caused by any action or inaction of the applicant, operator or any
2 other affected party.

3 SECTION 5. It being immediately necessary for the preservation
4 of the public peace, health and safety, an emergency is hereby
5 declared to exist, by reason whereof this act shall take effect and
6 be in full force from and after its passage and approval.

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