

1 **SENATE FLOOR VERSION**

2 February 19, 2015

3 SENATE BILL NO. 807

By: Bingman and Crain of the
Senate

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7 An Act relating to oil and gas; amending 52 O.S.
8 Section 87.6, as last amended by Section 1, Chapter
9 400, O.S.L. 2014, 87.7, and 87.8, as amended by
10 Section 2, Chapter 400, O.S.L. 2014 (52 O.S. Supp.
11 2014, Sections 87.6 and 87.8), which relate to the
12 2011 Shale Reservoir Development Act; modifying name
13 of act, providing short title; modifying definitions;
14 providing for planned development of certain common
15 sources of supply of oil and gas; modifying
16 Corporation Commission jurisdiction and
17 administration of certain wells; modifying procedures
18 for allocating resources and costs for certain
19 horizontal wells; and providing an effective date.

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

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

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

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

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

4 2. "Application" means a written request filed by an owner of
5 the right to drill seeking approval to drill, complete and produce a
6 multiunit horizontal well or to create a horizontal well
7 unitization;

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

19 4. "Commission" means the Corporation Commission;

20 5. "Completion interval" means, for an open hole completion in
21 a horizontal well, the interval from the point of entry to the
22 terminus and, for a cased and cemented completion in a horizontal
23 well, the interval from the first perforations to the last
24 perforations;

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

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

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

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

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

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

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

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

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

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

24

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

6 16. "Targeted reservoir" means any shale reservoir or any
7 portion of the Marmaton common source of supply or any other common
8 source of supply which has been:

9 a. designated by the Commission through a rule or
10 emergency rule as a common source of supply that is
11 potentially suited for development through a multiunit
12 horizontal well, or

13 b. determined by the Commission as part of the order
14 approving the multiunit horizontal well as a common
15 source of supply that is appropriately suited for
16 development through a multiunit horizontal well for
17 that particular application,

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

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

23 18. "Wellbore royalty interest" means, for each separate
24 multiunit horizontal well, the sum of resulting products of each

1 affected unit's royalty share for that unit, as defined by the PRSA,
2 multiplied by that unit's allocation factor for production and
3 proceeds;

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

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

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

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

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

20 Section 87.7. ~~Corporation Commission Jurisdiction.~~

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

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

16 SECTION 3. 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 any targeted reservoir or reservoirs in order to
22 prevent waste and protect the correlative rights of the owners of
23 oil and gas rights.

24

1 B. Ownership, Allocation of Costs, Commingled Production, and
2 Proceeds.

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

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

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

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

1 in regard to the development involving the portion of the multiunit
2 horizontal well or wells located within the affected unit.
3 Furthermore, if the Commission has previously entered an order
4 pooling the interests of owners in an affected unit in which a
5 multiunit horizontal well or wells have been drilled or are proposed
6 to be drilled, the Commission, under Section 87.1 of this title may,
7 upon the filing of a proper application therefor, amend the pooling
8 order to the extent necessary to have the pooling order cover the
9 development involving the portion of the multiunit horizontal well
10 or wells located within the affected unit.

11 4. The application shall include:

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

1 affected units if the well or wells are approved by
2 the Commission upon the filing of a proper application
3 at a future date, and

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

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

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

21 7. The wellbore royalty proceeds for a multiunit horizontal
22 well shall be allocated to each affected unit by multiplying the
23 royalty contribution factor of the unit by the wellbore royalty
24 proceeds, with the resulting product being the royalty proceeds for

1 that unit. Each royalty interest owner in an affected unit shall be
2 entitled to receive the owner's proportionate royalty share of the
3 allocated royalty proceeds for that unit.

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

12 C. Application, Notice and Retained Jurisdiction.

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

1 any remedy or relief available at law or in equity for injuries
2 caused by any action or inaction of the applicant, operator or any
3 other affected party.

4 SECTION 4. This act shall become effective November 1, 2015.

5 COMMITTEE REPORT BY: COMMITTEE ON ENERGY
6 February 19, 2015 - DO PASS
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