An Act

ENROLLED SENATE
BILL NO. 78

By: Bingman and Fields of the Senate

and

Trebilcock of the House

An Act relating to oil and gas; amending 52 O.S. 2011, Section 87.6, as amended by Section 1, Chapter 264, O.S.L. 2012 (52 O.S. 2013, Section 87.6) and 87.8, which relate to the 2011 Shale Reservoir Development Act; defining terms; modifying definitions; authorizing the Corporation Commission to allow multiunit horizontal wells in certain targeted areas; stating requirements; and declaring an emergency.

SUBJECT: 2011 Shale Reservoir Development Act

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

SECTION 1. AMENDATORY 52 O.S. 2011, Section 87.6, as amended by Section 1, Chapter 264, O.S.L. 2012 (52 O.S. Supp. 2013, Section 87.6), is amended to read as follows:

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 Development Act".

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

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

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

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

4. "Commission" means the Corporation Commission;

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

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

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

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

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

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

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

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

a. a map or maps indicating the location of each existing well in the proposed unit and the anticipated location of each horizontal well proposed to be drilled in the proposed unit that is anticipated to be necessary, based upon the information and knowledge then available to the applicant, for the full and efficient development and operation of the proposed unit for the recovery of oil and gas from the shale reservoir within the proposed unit,

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

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

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

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

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

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

~~15.~~ 16. "Targeted reservoir" means any shale reservoir or any portion of the Marmaton common source of supply;

17. "Terminus" means the end point of the borehole of a horizontal well ~~in the shale reservoir~~;

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

~~17.~~ 19. "Wellbore royalty proceeds" means the proceeds or other revenue derived from or attributable to any production of oil and gas from the multiunit horizontal well multiplied by the wellbore royalty interest;

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

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

~~20.~~ 22. "Vertical component" means the calculated vertical distance from the point of entry to the terminus.

SECTION 2. AMENDATORY 52 O.S. 2011, Section 87.8, is amended to read as follows:

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

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

The Commission shall require the allocation of the reasonable drilling, completion and production costs associated with a multiunit horizontal well to each of the affected units which the well actually penetrates within the completion interval and shall further require the allocation of the commingled production and proceeds from the completion interval of a multiunit horizontal well, with any allocation to be in a manner that will prevent waste and protect the correlative rights of the owners of the oil and gas rights in each of the affected units which the well actually penetrates within the completion interval.

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

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

3. A multiunit horizontal well shall be treated as a well in each of the affected units and shall be subject to all of the rules otherwise applicable to any other well in any of the affected units.

In allowing a multiunit horizontal well, the Commission, under Section 87.1 of ~~Title 52 of the Oklahoma Statutes~~ this title, may grant any necessary exceptions to the permitted well location tolerances in each of the affected units for the well and permit the well as an additional well in each of the affected units. When an owner has drilled or proposes to drill a multiunit horizontal well or wells and the owners of a present right to drill in any of the affected units have not agreed to pool their interests in the unit for the affected common sources of supply, the Commission, under Section 87.1 of ~~Title 52 of the Oklahoma Statutes,~~ this title, may, upon the filing of a proper application therefor, require the owners to pool their interests in each affected unit on a unitwide basis as to the respective unit in regard to the development involving the portion of the multiunit horizontal well or wells located within the affected unit. Furthermore, if the Commission has previously entered an order pooling the interests of owners in an affected unit in which a multiunit horizontal well or wells have been drilled or are proposed to be drilled, the Commission, under Section 87.1 of ~~Title 52 of the Oklahoma Statutes,~~ this title may, upon the filing of a proper application therefor, amend the pooling order to the extent necessary to have the pooling order cover the development involving the portion of the multiunit horizontal well or wells located within the affected unit.

4. The application shall include:

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

   b. a map or maps indicating the location of each currently existing well in each affected unit which is the subject of the application and the anticipated location of each multiunit horizontal well currently proposed to be drilled in each affected unit as a result of the application and any other horizontal well not included in the current application, but anticipated to be necessary, based upon the information and knowledge then available to the applicant, for the full and efficient development and operations of the ~~shale~~ targeted reservoir within the affected units if the well or wells are approved by

the Commission upon the filing of a proper application at a future date, and

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

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

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

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

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

C. Application, Notice and Retained Jurisdiction.

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

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

Passed the Senate the 22nd day of May, 2014.

Presiding Officer of the Senate

Passed the House of Representatives the 23rd day of May, 2014.

Presiding Officer of the House
of Representatives

OFFICE OF THE GOVERNOR

Received by the Office of the Governor this 23rd

day of May, 2014, at 9:08 o'clock P M.

By: Audrey Rockwell

Approved by the Governor of the State of Oklahoma this 3rd

day of June, 2014, at 10:56 o'clock A M.

Governor of the State of Oklahoma

OFFICE OF THE SECRETARY OF STATE

Received by the Office of the Secretary of State this 3rd

day of June, 2014, at 1:38 o'clock P. M.

By: Chris Benge