

1 STATE OF OKLAHOMA

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

3 SENATE BILL 341

By: Justice

4
5 AS INTRODUCED

6 An Act relating to oil and gas; creating the 2015 Oil
7 and Gas Conservation and Regulation Modernization
8 Act; stating purpose; amending 52 O.S. 2011, Section
9 87.1, as amended by Section 4, Chapter 201, O.S.L.
10 2012, Section 87.6, as last amended by Section 1,
11 Chapter 400, O.S.L. 2014, Section 87.7, and Section
12 87.8, as amended by Section 2, Chapter 400, O.S.L.
13 2014, and 87.9 (52 O.S. Supp. 2014, Sections 87.1,
14 87.6, 87.7, and 87.8), which relate to common source
15 of supply and the 2011 Shale Reservoir Development
16 Act; modifying purpose of well spacing for certain
17 wells; requiring protection of rights and prevention
18 of waste; modifying Corporation Commission procedures
19 for spacing in certain wells; modifying definition;
20 modifying procedures relating to owner participation
21 in certain subsequent wells; modifying name of
22 certain act; modifying definitions; defining terms;
23 modifying Corporation Commission jurisdiction over
24 certain horizontal wells; modifying allocation of
certain costs and proceeds relating to multiunit
horizontal wells; clarifying state authority over
municipalities, counties and political subdivisions
relating to oil and gas exploration; stating
exception for certain purpose; providing for
rebuttable presumption of validity; voiding certain
regulations; creating the Royalty Standardization
Act; providing short title; stating purpose; defining
terms; stating rights of owners and attributing costs
of production to certain owners; stating application;
repealing 52 O.S. 2011, Section 137, which relates to
powers of cities and towns; providing for
codification; providing for noncodification; and
providing an effective date.

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

1 SECTION 1. NEW LAW A new section of law not to be
2 codified in the Oklahoma Statutes reads as follows:

3 The Legislature has previously recognized the oil and gas
4 industry as one of the industries that has had, and continues to
5 have, a vital role in the future and well-being of our economy and
6 as a result, deserving of conservation and regulation by the state,
7 at the state level. As a result of advances in drilling techniques
8 and other changes in the industry, in order to prevent waste, better
9 protect the correlative rights of the owners of oil and gas mineral
10 interests, harmonize the historical regulatory scheme with modern
11 technology and developments, and to promote uniformity,
12 standardization, and simplification of royalty payments in this
13 state, the Legislature finds this act necessary to advance the
14 public policy of this state. This act may be referred to as the
15 "2015 Oil and Gas Conservation and Regulation Modernization Act".

16 SECTION 2. AMENDATORY 52 O.S. 2011, Section 87.1, as
17 amended by Section 4, Chapter 201, O.S.L. 2012 (52 O.S. Supp. 2014,
18 Section 87.1), is amended to read as follows:

19 Section 87.1. Whenever the production from any common source of
20 supply of oil or natural gas in this state can be obtained only
21 under conditions constituting waste or drainage not compensated by
22 counterdrainage, then any person having the right to drill into and
23 produce from such common source of supply may, except as otherwise
24 authorized or in this section provided, take therefrom only such

1 proportion of the oil or natural gas that may be produced therefrom
2 without waste or without such drainage as the productive capacity of
3 the well or wells of any such person considered with the acreage
4 properly assignable to each such well bears to the total productive
5 capacities of the wells in such common source of supply considered
6 with the acreage properly assignable to each well therein.

7 ~~(a)~~ A. To prevent or to assist in preventing the various types
8 of waste of oil or gas prohibited by statute, or any wastes, or to
9 protect or assist in protecting the correlative rights of interested
10 parties, and to promote the advancement in drilling and production
11 technologies, the Corporation Commission, upon a proper application
12 and notice given as hereinafter provided, and after a hearing as
13 provided in the notice, shall have the power to establish well
14 spacing and drilling units for either vertical or horizontal
15 development, or both, with such units having the ability to coexist
16 with, and be operated independently of, the other unit or units so
17 long as the correlative rights and equities of the owners in
18 coexisting units are protected and waste prevented thereby, and
19 being of specified and approximately uniform size and shape covering
20 any common source of supply, or prospective common source of supply,
21 of oil or gas within the State of Oklahoma; provided, that the
22 Commission may authorize the drilling of an additional well or wells
23 on any spacing and drilling unit or units or any portion or portions
24 thereof or may establish, reestablish, or reform well spacing and

1 drilling units of different sizes and shapes when the Commission
2 determines that a common source of supply contains predominantly oil
3 underlying an area or areas and contains predominantly gas
4 underlying a different area or areas; provided further that the
5 units in the predominantly oil area or areas shall be of
6 approximately uniform size and shape, and the units in the
7 predominantly gas area or areas shall be of approximately uniform
8 size and shape, except that the units in the gas area or areas may
9 be of nonuniform size and shape when they adjoin the units in the
10 oil area or areas; provided, further, that the drilling pattern for
11 such nonuniform units need not be uniform, and provided, further,
12 that the Commission shall adjust the allowable production within the
13 common source of supply, or any part thereof, and take such other
14 action as may be necessary to protect the rights of interested
15 parties. Any order issued pursuant to the provisions hereof may be
16 entered after a hearing upon the petition of any person owning an
17 interest in the minerals in lands embraced within such common source
18 of supply, or the right to drill a well for oil or gas on the lands
19 embraced within such common source of supply, or on the petition of
20 the Conservation Officer of the State of Oklahoma. When such a
21 petition is filed with the Commission, the Commission shall give at
22 least 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) B. In case of a spacing unit of one hundred sixty (160)~~
9 ~~acres or more, no~~ No oil and/or gas leasehold interest outside the
10 ~~spacing unit involved~~ of a unit created pursuant to this section or
11 sections 87.9 or 287.1 of this title may be held by production from
12 the ~~spacing~~ unit more than ninety (90) days beyond expiration of the
13 primary term of the lease.

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

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

16 The order establishing such spacing or drilling units shall set
17 forth: (1) the outside boundaries of the surface area included in
18 such order; (2) the size, form, and shape of the spacing or drilling
19 units so established; (3) the drilling pattern for the area, which
20 shall be uniform except as hereinbefore provided; and (4) the
21 location of the permitted well on each such spacing or drilling
22 unit. To such order shall be attached a plat upon which shall be
23 indicated the foregoing information. Subject to other provisions of
24 Section 86.1 et seq. of this title, the order establishing such

1 spacing or drilling units shall direct that no more than one well
2 shall thereafter be produced from the common source of supply on any
3 unit so established, and that the well permitted on that unit shall
4 be drilled at the location thereon as prescribed by the Commission,
5 with such exception as may be reasonably necessary where it is
6 shown, upon application, notice and hearing in conformity with the
7 procedural requirements of Section 86.1 et seq. of this title, and
8 the Commission finds that any such spacing unit is located on the
9 edge of a pool and adjacent to a producing unit, or for some other
10 reason that to require the drilling of a well at the prescribed
11 location on such spacing unit would be inequitable or unreasonable.
12 Whenever such an exception is granted, the Commission shall adjust
13 the allowable production for the spacing unit and take such other
14 action as may be necessary to protect the rights of interested
15 parties.

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

1 of the Cimarron Meridian may be spaced with adjoining section unit,
2 and the shape thereof shall be determined by the Commission.

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

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

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

1 a common source of supply, covered by a pending spacing application,
2 at a location other than that approved by a special order of the
3 Commission authorizing the drilling of such well is hereby
4 prohibited. The operation of any well drilled in violation of any
5 spacing so entered is also hereby prohibited. When two or more
6 separately owned tracts of land are embraced within an established
7 spacing unit created pursuant to this section or Section 87.9 of
8 this title, or where there are undivided interests separately owned,
9 or both such separately owned tracts and undivided interests
10 embraced within such established spacing unit, the owners thereof
11 may validly pool their interests and develop their lands as a unit.
12 Where, however, such owners have not agreed to pool their interests
13 and where one such separate owner has drilled or proposes to drill a
14 well on the unit to the common source of supply, the Commission, to
15 avoid the drilling of unnecessary wells, or to protect correlative
16 rights, shall, upon a proper application therefor and a hearing
17 thereon, require such owners to pool and develop their lands in the
18 spacing unit as a unit. The applicant shall give all the owners
19 whose addresses are known or could be known through the exercise of
20 due diligence at least fifteen ~~(15)~~ days' notice by mail, return
21 receipt requested. The applicant shall also give notice by one
22 publication, at least fifteen (15) days prior to the hearing, in
23 some newspaper of general circulation published in Oklahoma County,
24 and by one publication, at least fifteen (15) days prior to the date

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

1 or rights owned by the other owners therein and upon their shares of
2 the production from such unit to the extent that costs incurred in
3 the development and operation upon the unit are a charge against
4 such interest by order of the Commission or by operation of law.
5 Such liens shall be separable as to each separate owner within such
6 unit, and shall remain liens until the owner or owners drilling or
7 operating the well have been paid the amount due under the terms of
8 the pooling order. The Commission is specifically authorized to
9 provide that the owner or owners drilling, or paying for the
10 drilling, or for the operation of a well for the benefit of all
11 shall be entitled to production from such well which would be
12 received by the owner or owners for whose benefit the well was
13 drilled or operated, after payment of royalty, until the owner or
14 owners drilling or operating the well have been paid the amount due
15 under the terms of the pooling order or order settling such dispute.
16 No part of the production or proceeds accruing to any owner of a
17 separate interest in such unit shall be applied toward payment of
18 any cost properly 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, or
7 section 87.9 of this title to the contrary, the Corporation
8 Commission shall have jurisdiction upon the filing of a proper
9 application therefor, and upon notice given as provided in
10 subsection (a) of this section, to establish spacing rules for
11 horizontally drilled oil or gas wells whereby horizontally drilled
12 oil or gas wells may have well spacing units established of up to
13 six hundred forty (640) acres plus tolerances and variances as
14 allowed for gas wells pursuant to subsection (c) of this section.
15 For purposes of this subsection a "horizontally drilled oil or gas
16 well" shall mean an oil or gas well drilled, completed or
17 recompleted in a manner in which the horizontal component of the
18 completion interval in the geological formation exceeds the vertical
19 component thereof and which horizontal component extends a minimum
20 of one hundred fifty (150) feet in the formation. The Corporation
21 Commission shall promulgate rules necessary for the proper
22 administration of this subsection.

23 G. As a condition to granting a permit to drill any well in a
24 unit created pursuant to this section or Section 87.9 of this title

1 after January 1, 2016, the Commission shall require that any owner
2 who participates or who participated in the drilling and development
3 of the initial well drilled in the unit pursuant to a pooling order
4 authorized by this section be entitled to a separate election on the
5 subsequent well, and each subsequent well proposed in the unit,
6 after January 1, 2016, so long as the pooling order remains in
7 effect and if the pooling order was entered by the Commission:

8 1. After January 1, 2016; or

9 2. Prior to January 1, 2016, and

10 a. the pooling order was still in effect as January 1,
11 2016, and

12 b. the owner was vested with the right to participate in
13 the drilling and development of additional wells in
14 the unit as of January 1, 2016.

15 An owner who elects not to participate in a subsequent well
16 pursuant to this subsection shall:

17 (1) not be divested of the right to participate in
18 other proposed subsequent wells;

19 (2) not be entitled to receive a cash bonus under the
20 pooling order; and

21 (3) surrender the right to participate in the
22 proposed well reserving the highest royalty rate
23 provided for in the pooling order for that unit.

24

1 SECTION 3. AMENDATORY 52 O.S. 2011, Section 87.6, as
2 last amended by Section 1, Chapter 400, O.S.L. 2014 (52 O.S. Supp.
3 2014, Section 87.6), is amended to read as follows:

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

7 B. As used in the ~~2011 Shale Reservoir~~ Extended Lateral
8 Horizontal Well Development Act:

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

12 2. "Application" means a written request filed by an owner of
13 the right to drill seeking approval to drill, complete and produce a
14 multiunit horizontal well or to create a ~~horizontal well unitization~~
15 an extended lateral horizontal unit;

16 3. ~~"Associated common source of supply" means a common source~~
17 ~~of supply which is subject to a drilling and spacing unit formed by~~
18 ~~the Corporation Commission and located in all or a portion of the~~
19 ~~lands in which the completion interval of a multiunit horizontal~~
20 ~~well is located, or which is located within the boundaries of a unit~~
21 ~~created through a horizontal well unitization, and which is~~
22 ~~immediately adjoining the shale common source of supply in which the~~
23 ~~completion interval of the horizontal well is located, and which is~~
24 ~~inadvertently encountered in the drilling of the lateral of such~~

1 ~~horizontal well when such well is drilled out of or exits, whether~~
2 ~~on one or multiple occasions, such shale common source of supply;~~

3 4. "Commission" means the Corporation Commission;

4 ~~5.~~ 4. "Completion interval" means, for an open hole completion
5 in a horizontal well, the interval from the point of entry to the
6 terminus and, for a cased and cemented completion in a horizontal
7 well, the interval from the first perforations to the last
8 perforations;

9 5. "Extended lateral" means a lateral in a horizontal well
10 wherein the horizontal component is equal to, or greater than, eight
11 thousand (8,000) feet;

12 6. "Extended lateral horizontal unit" means a unit created for
13 a targeted reservoir pursuant to Section 87.9 of this title;

14 7. "Horizontal well" means a well drilled, completed, or
15 recompleted with one or more laterals which, for at least one
16 lateral, the horizontal component of the completion interval exceeds
17 the vertical component of the completion interval and the horizontal
18 component extends a minimum of one hundred fifty (150) feet in the
19 formation;

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

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

24

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

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

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

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

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

24

- 1 ~~b. any applicable proposed allocation factor or factors~~
2 ~~for allocating the costs, production and proceeds from~~
3 ~~the proposed unit,~~
- 4 ~~c. the anticipated timing and anticipated sequence of~~
5 ~~drilling of each horizontal well in the proposed unit,~~
6 ~~and~~
- 7 ~~d. any other specific terms, provisions, conditions and~~
8 ~~requirements set forth in Section 87.9 of this title~~
9 ~~or determined by the Commission to be reasonably~~
10 ~~necessary or proper to effectuate or accomplish the~~
11 ~~purpose of Section 87.9 of this title;~~

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

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

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

19 ~~16.~~ 14. "Targeted reservoir" means any ~~shale reservoir or any~~
20 ~~portion of the Marmaton~~ common source of supply which has been:

- 21 a. designated by the Commission through a rule or
22 emergency rule as a common source of supply that is
23 potentially suited for development through a multiunit
24 horizontal well, or

1 b. determined by the Commission as part of the order
2 approving the multiunit horizontal well as a common
3 source of supply that is appropriately suited for
4 development through a multiunit horizontal well for
5 that particular application,

6 and in designating or determining whether a particular common
7 source of supply should be considered a targeted reservoir, the
8 Commission may limit its designation to certain geographical areas
9 or to the use of either multiunit horizontal wells or extended
10 lateral horizontal units, or any combination thereof;

11 ~~17.~~ 15. "Terminus" means the end point of the borehole of a
12 horizontal well;

13 ~~18.~~ 16. "Wellbore royalty interest" means, for each separate
14 multiunit horizontal well, the sum of resulting products of each
15 affected unit's royalty share for that unit, as defined by the PRSA,
16 multiplied by that unit's allocation factor for production and
17 proceeds;

18 ~~19.~~ 17. "Wellbore royalty proceeds" means the proceeds or other
19 revenue derived from or attributable to any production of oil and
20 gas from the multiunit horizontal well multiplied by the wellbore
21 royalty interest;

22 ~~20.~~ 18. "Unit" means a drilling and spacing unit for a single
23 common source of supply created pursuant to Section 87.1 of this
24

1 title or a an extended lateral horizontal well-unitization unit
2 created pursuant to Section 87.9 of this title;

3 ~~21.~~ 19. "Unit's royalty contribution factor" means the royalty
4 share for an affected unit, as defined by PRSA, multiplied by that
5 unit's allocation factor, then divided by the total wellbore royalty
6 interest; and

7 ~~22.~~ 20. "Vertical component" means the calculated vertical
8 distance from the point of entry to the terminus.

9 SECTION 4. AMENDATORY 52 O.S. 2011, Section 87.7, is
10 amended to read as follows:

11 Section 87.7. Corporation Commission Jurisdiction.

12 The Corporation Commission shall have jurisdiction, upon the
13 filing of a proper application therefor, to permit the drilling,
14 completing and producing of a multiunit horizontal well in
15 conformity with Section ~~4~~ 87.8 of this ~~act~~ title, or to create a
16 ~~horizontal well-unitization~~ an extended lateral horizontal unit in
17 conformity with Section ~~5~~ 87.9 of this ~~act~~ title, if the Commission
18 finds that the multiunit horizontal well or the ~~horizontal well~~
19 ~~unitization~~ extended lateral horizontal unit will prevent waste and
20 will protect the correlative rights of the owners of oil and gas
21 rights. Furthermore, for the planned development of a common source
22 of supply through the use of horizontal well technology where there
23 is currently production from the common source of supply within an
24 existing unit or units, and the planned horizontal well or wells

1 would extend beyond the boundaries of one or more of the existing
2 units, an alternative to creating a new unit or units pursuant to
3 Section 87.1 or 87.9 of this title or modifying, superseding,
4 amending or vacating the existing drilling and spacing unit or
5 units, to accommodate the horizontal development, is the utilization
6 of a multiunit horizontal well or wells pursuant to Section 87.8 of
7 this title.

8 SECTION 5. AMENDATORY 52 O.S. 2011, Section 87.8, as
9 amended by Section 2, Chapter 400, O.S.L. 2014 (52 O.S. Supp. 2014,
10 Section 87.8), is amended to read as follows:

11 Section 87.8. A. Under the conditions contained in this
12 section, the Corporation Commission is authorized to allow multiunit
13 horizontal wells in any targeted reservoir or reservoirs in order to
14 prevent waste and protect the correlative rights of the owners of
15 oil and gas rights.

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

18 The Commission shall require the allocation to each of the units
19 affected by a multiunit horizontal well of the actual and reasonable
20 drilling, completion and production costs associated with ~~a~~ such
21 multiunit horizontal well ~~to each of the affected units which the~~
22 ~~well actually penetrates within the completion interval~~ and shall
23 further require the allocation to each of the units affected by a
24 multiunit horizontal well of the commingled production, and the

1 proceeds from the sale thereof, from the completion interval of a
2 such multiunit horizontal well, with any allocation to be in a
3 manner that will prevent waste and protect the correlative rights of
4 the owners of the oil and gas rights in each of the affected units
5 ~~which the well actually penetrates within the completion interval.~~

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

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

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

24

1 development involving the portion of the multiunit horizontal well
2 or wells located within the affected unit.

3 4. The application shall include:

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

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

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

24

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

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

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

21 8. The multiunit horizontal well shall be subject to the
22 provisions of the Product Revenue Standards Act (PRSA). The
23 operator of the multiunit horizontal well shall be the designated
24 royalty distributor pursuant to the PRSA for the multiunit

1 horizontal well, unless there is a diversity of operators in the
2 affected units from which the multiunit horizontal well is producing
3 and another operator in each of the affected units agrees to perform
4 separately the PRSA royalty distribution functions for the unit.

5 C. Application, Notice and Retained Jurisdiction.

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

21 SECTION 6. AMENDATORY 52 O.S. 2011, Section 87.9, is
22 amended to read as follows:

23 Section 87.9. A. Extended Lateral Horizontal ~~Well Unitization~~
24 Units for ~~Shale~~ Targeted Reservoirs.

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

12 B. Prerequisites for ~~Unitization~~ an extended lateral horizontal
13 unit.

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

16 1. The proposed ~~unitization of~~ creation of the extended lateral
17 horizontal unit for the ~~shale~~ drilling and completion of extended
18 lateral horizontal wells in the targeted reservoir is reasonably
19 calculated to increase the ultimate recovery of oil and gas from the
20 ~~shale targeted~~ reservoir through the use of horizontal well
21 technology to drill one or more horizontal wells in the unit;

22 2. The initial proposed horizontal well will be an extended
23 lateral horizontal well;

24

1 3. The use of extended lateral horizontal well technology to
2 drill the horizontal well or wells in the ~~shale~~ targeted reservoir
3 is feasible, will prevent waste, will protect correlative rights and
4 will with reasonable probability result in the increased recovery of
5 substantially more oil and gas from the shale reservoir within the
6 unit than would otherwise be recovered;

7 ~~3.~~ 4. The estimated additional cost, if any, of conducting the
8 extended lateral horizontal well operations is not anticipated to
9 exceed the value of the additional oil and gas to be recovered; and

10 ~~4.~~ 5. The ~~unitization~~ creation of the extended lateral
11 horizontal unit and the use of extended lateral horizontal well
12 technology to drill one or more extended lateral horizontal wells is
13 for the common good and will result in the general advantage of the
14 owners of the oil and gas rights within the unit.

15 Upon making these findings, the Commission may enter an order
16 creating the extended lateral horizontal unit and providing for the
17 ~~unitized~~ operation of the ~~shale~~ extended lateral horizontal unit for
18 the targeted reservoir described in the order, all upon terms and
19 conditions as may be shown by the evidence to be fair, reasonable,
20 equitable and which are necessary or proper to protect and safeguard
21 the respective rights and obligations of the several persons
22 affected, including royalty owners, owners of overriding royalties
23 and others, as well as the lessees. ~~The application shall set forth~~
24 ~~a description of the proposed unit with a map or plat thereof~~

1 ~~attached, shall allege the existence of the facts required to be~~
2 ~~found by the Commission as provided in this subsection and shall~~
3 ~~have attached thereto a recommended plan of development which is~~
4 ~~applicable to the proposed unit and which is fair, reasonable and~~
5 ~~equitable.~~

6 C. Size of the Unit.

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

- 16 1. ~~Geological features existing within the proposed unit;~~
17 2. ~~The proposed location or orientation of the horizontal~~
18 ~~wells;~~
19 3. ~~The length of the laterals of the proposed horizontal wells;~~
20 4. ~~The proposed use of multilateral wells; or~~
21 5. ~~Any combination thereof.~~

22 D. Ownership of Oil and Gas Rights within the Extended Lateral
23 Horizontal Unit.

24

1 Where there are, or may thereafter be, two or more separately
2 owned tracts within the unit, each owner of oil and gas rights
3 within the extended lateral horizontal unit shall own an interest in
4 the extended lateral horizontal unit of the same character as the
5 ownership of the owner in the separately owned tract. From and
6 after the effective date of the order of the Commission creating the
7 extended lateral horizontal unit and subject to the provisions of
8 any pooling order covering the extended lateral horizontal unit, the
9 interest of each owner in the extended lateral horizontal unit shall
10 be defined as the percentage of interest owned in each separate
11 tract by the owner, multiplied by the proportion that the acreage in
12 each separately owned tract bears to the entire acreage of the
13 extended lateral horizontal unit. The costs incurred in connection
14 with and the production and proceeds from the wells in the extended
15 lateral horizontal unit shall be allocated to each separate tract in
16 the extended lateral horizontal unit and shall be borne or shared by
17 the owners in each separate tract based upon and determined by the
18 interest of each owner in the tract. However, if a well or wells
19 already exist within the area of the proposed extended lateral
20 horizontal unit which are producing or have produced or appear to be
21 productive from the ~~shale~~ targeted reservoir being ~~unitized~~ included
22 in the extended lateral horizontal unit or if an owner subsequently
23 creates a unit pursuant to Section 87.1 of this title, the
24 Commission may ~~adjust~~ :

1 1. Allow existing units created pursuant to Section 87.1 of
2 this title to coexist with, and be operated independently of, the
3 extended lateral horizontal unit; and/or

4 2. Adjust the sharing of future costs incurred in connection
5 with and future production and proceeds from any existing well or
6 any subsequent well in the proposed extended lateral horizontal unit
7 or in a unit created pursuant to Section 87.1 of this title, in any
8 manner deemed necessary by the Commission in order to protect the
9 correlative rights of the owners within the existing wells, proposed
10 unit or future units, including providing for the sharing of future
11 costs incurred in connection with and future production and proceeds
12 from any existing well or any subsequent well in a manner different
13 from any other well in the unit so long as the various methods of
14 sharing future costs, production and proceeds from the existing and
15 subsequent wells in the proposed ~~unit prevents~~ units prevent waste
16 and ~~protects~~ protect the correlative rights of all the affected
17 owners. For the purpose of this section, any owner or owners of oil
18 and gas rights in and under an unleased tract of land within the
19 extended lateral horizontal unit, unless the owner has relinquished
20 the drilling rights or working interest of the owner in the
21 applicable ~~shale~~ targeted reservoir in the tract of land under a
22 pooling order entered by the Commission which order remains in
23 effect, shall be regarded as a lessee to the extent of a seven-

24

1 eighths (7/8) interest in and to the rights and a lessor to the
2 extent of the remaining one-eighth (1/8) interest therein.

3 E. The Plan of Development Application.

4 The application shall include ~~a proposed plan of development.~~

5 ~~Based upon the facts and conditions found to exist with respect to a~~
6 ~~proposed unit, the Commission shall determine the necessary terms,~~
7 ~~provisions, conditions and requirements to be included in the plan~~
8 ~~of development for the unit:~~

9 1. A map or maps indicating the location of each existing well
10 in the proposed unit and the anticipated location of each horizontal
11 well proposed to be drilled in the proposed extended lateral
12 horizontal unit that is anticipated to be necessary, based upon the
13 information and knowledge then available to the applicant, for the
14 full and efficient development and operation of the proposed
15 extended lateral horizontal unit for the recovery of oil and gas
16 from the targeted reservoir within the proposed extended lateral
17 horizontal unit;

18 2. The anticipated timing and anticipated sequence of drilling
19 of each horizontal well in the proposed extended lateral horizontal
20 unit, as set forth in paragraph 1 of this subsection; and

21 3. Any other specific terms, provisions, conditions and
22 requirements determined by the Commission to be reasonably necessary
23 or proper.

24

1 If a well or wells already exist within the area of the proposed
2 extended lateral horizontal unit which are producing or have
3 produced or appear to be productive from the ~~shale~~ targeted
4 reservoir being ~~unitized~~ included in the extended lateral horizontal
5 unit, the ~~plan of development~~ application shall also include:

6 1. Whether the existing units created pursuant to Section 87.1
7 of this title will coexist with, and be operated independently of,
8 the proposed extended lateral horizontal unit;

9 2. Any adjustments to the sharing of future costs incurred in
10 connection with future development and production, and the sharing
11 of proceeds, from any existing well or any subsequent well which the
12 Commission ~~determines~~ should consider to be necessary in order to be
13 fair, reasonable and equitable, and to protect the correlative
14 rights of the owners, considering the existing development in and
15 the prior and anticipated future production from the ~~shale~~ targeted
16 reservoir within the proposed unit; and

17 ~~2. The~~ 3. If the applicant is proposing that the existing
18 units are to be terminated, the procedure and basis upon which
19 existing wells, equipment and other properties of the several
20 lessees within the unit area are to be taken over and used for the
21 extended lateral horizontal unit operations, including the method of
22 arriving at the compensation therefor, or of otherwise
23 proportionately equalizing or adjusting the investment of the
24

1 several lessees in the project as of the effective date of the
2 extended lateral horizontal unit operation.

3 F. Order of the Commission.

4 The order of the Commission creating the unit shall:

5 1. Designate the size and shape of the extended lateral
6 horizontal unit;

7 2. Set forth the drilling pattern and setbacks for the extended
8 lateral horizontal unit, including the permitted well location
9 tolerances for the permitted wells within the extended lateral
10 horizontal unit;

11 3. Indicate whether existing units created pursuant to Section
12 87.1 of this title will coexist with, and be operated independently
13 of, the proposed extended lateral horizontal unit;

14 ~~4. Approve and adopt the plan of development for the unit, with~~
15 ~~a copy thereof attached to the order~~ any necessary special
16 allocation factors for allocating the costs, production, and
17 proceeds from the proposed extended lateral horizontal unit
18 resulting from existing wells;

19 ~~4.~~ 5. Designate the extended lateral horizontal unit operator;
20 and

21 ~~5.~~ 6. Provide for the conditions upon which the extended
22 lateral horizontal unit, and the order creating the extended lateral
23 horizontal unit, shall terminate.

24 G. ~~Consent by Owners~~ Effective Date and Termination.

1 ~~No~~ The order of the Commission creating a an extended lateral
2 horizontal unit pursuant to this section shall become effective
3 ~~unless and until the proposed unitization has been consented to in~~
4 ~~writing, and the:~~

5 1. Upon written consent submitted to the Commission, by lessees
6 of record of not less than sixty-three percent (63%) of the working
7 interest in the ~~shale~~ targeted reservoir in the area to be included
8 in the unit and by owners of record of not less than sixty-three
9 percent (63%), exclusive of any royalty interest owned by any lessee
10 or by any subsidiary of any lessee, of the one-eighth (1/8) royalty
11 interest in the ~~shale~~ targeted reservoir in the area to be included
12 in the unit in an express writing separate from the oil and gas
13 lease. ~~The,~~ the Commission shall make a finding in the order
14 creating the unit as to whether the requisite consent has been
15 obtained; or

16 2. Immediately upon entry and have a primary term of one (1)
17 year; however, in order to extend the order beyond its primary term,
18 a horizontal well or wells must be drilled and completed within the
19 extended lateral horizontal unit such that the total completed
20 interval for the horizontal component or components within each
21 governmental section of the unit is equal to, or greater than, four
22 thousand (4,000) feet.

23 Where the requisite consent has not been obtained at the time
24 the order creating the unit is entered, ~~the Commission shall,~~ and

1 evidence of the requisite written consent has not been provided to
2 the Commission within one year from the date of the order pursuant
3 to subparagraph 1 of this paragraph, or where the number of feet of
4 completed interval in each governmental section has not been met
5 pursuant to subparagraph 2 of this paragraph during the one (1) year
6 primary term, the order creating the extended lateral horizontal
7 unit shall automatically terminate. The Commission may either upon
8 its own directive or upon application and notice by any interested
9 party, hold any additional and supplemental hearings as may be
10 necessary or requested ~~or required to determine if and when the~~
11 ~~requisite consent has been obtained and the date the unitization~~
12 ~~will become effective. In the event lessees and royalty owners, or~~
13 ~~either, owning the required percentage interest in and to the unit~~
14 ~~area have not so consented to the unitization within a period of six~~
15 ~~(6) months from and after the date on which the order creating the~~
16 ~~unit is entered, the order creating the unit shall cease to be of~~
17 ~~further force and effect and shall be revoked by the Commission~~
18 related to operation of any well or wells drilled with the primary
19 term of a terminated unit. If the order creating the extended
20 lateral unit is extended beyond its primary terms, the order shall
21 continue in effect thereafter so long as any horizontal well drilled
22 within the unit remains capable of producing oil and gas in paying
23 quantities from the targeted reservoir in the unit. Upon
24 termination of the order creating the extended lateral horizontal

1 unit, the unit operator shall file with the Commission a notice of
2 the termination of the extended lateral horizontal unit setting
3 forth and confirming that unit has terminated and unit operations
4 have been abandoned. However, failure of the unit operator to file
5 the required notice shall not be construed to extend the extended
6 lateral horizontal unit beyond the time the unit ceased to be
7 capable of producing oil and gas in paying quantities from the
8 targeted reservoir.

9 H. Notice.

10 The application for the creation of ~~a~~ an extended lateral
11 horizontal well-unitization unit for a ~~shale~~ targeted reservoir
12 under this section, and the notice of hearing on the application,
13 shall be served no less than fifteen (15) days prior to the date of
14 the hearing, by regular mail, upon each person or governmental
15 entity having the right to share in production from the proposed
16 extended lateral horizontal unit covered by the application, as well
17 as other persons or governmental entities required by Commission
18 rules. Any person aggrieved by any order of the Commission made
19 pursuant to this section may appeal therefrom to the Supreme Court
20 of the State of Oklahoma upon the same conditions, within the same
21 time and in the same manner as is provided for in Title 52 of the
22 Oklahoma Statutes, for the taking of appeals from the orders of the
23 Commission made thereunder.

24 I. Pooling of the Extended Lateral Horizontal Unit.

1 From and after the effective date of an order creating a
2 extended lateral horizontal unit pursuant to this section and
3 subject to the provisions of the order in regard to the matters to
4 be found by the Commission in the creation of the extended lateral
5 horizontal unit ~~and the provisions of the applicable plan of~~
6 ~~development~~, an owner of the right to drill for and produce oil or
7 gas from the unit may request the Commission to pool the oil and gas
8 interests of the owners in the unit on a unitwide basis pursuant to
9 the provisions of subsection ~~(e)~~ E of Section 87.1 of Title 52 of
10 the Oklahoma Statutes in regard to the development of the horizontal
11 well development unit ~~involving a horizontal well or wells.~~

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

13 From and after the effective date of an order creating a
14 extended lateral horizontal unit pursuant to this section, the
15 operation of any well producing from the ~~shale~~ targeted reservoir
16 within the extended lateral horizontal unit defined in the order by
17 persons other than the extended lateral horizontal unit operator, or
18 except in the manner and to the extent provided in the order
19 creating the extended lateral horizontal unit shall be unlawful and
20 is hereby prohibited. ~~Once the order of the Commission creating a~~
21 ~~unit pursuant to this section becomes effective, the unit so created~~
22 ~~shall supersede any drilling and spacing unit previously formed by~~
23 ~~the Commission pursuant to Section 87.1 of Title 52 of the Oklahoma~~
24 ~~Statutes for the same shale reservoir within the area of the new~~

1 ~~unit.~~ Any pooling order which was entered by the Commission
2 pursuant to subsection ~~(e)~~ E of Section 87.1 of Title 52 of the
3 Oklahoma Statutes covering any drilling and spacing unit ~~superseded~~
4 ~~by a unit created pursuant to this section and~~ which was in effect
5 at the time of the creation of the extended lateral horizontal unit
6 shall remain in full force and effect as to any oil and gas
7 interests ~~in the shale reservoir which were relinquished and~~
8 ~~transferred by operation of law under the pooling order~~ and units
9 covered thereby. ~~However, further~~ Further, development of the ~~shale~~
10 targeted reservoir in the area of the extended lateral horizontal
11 unit created pursuant to this section shall ~~not be subject to any of~~
12 ~~the other provisions of any prior pooling order, but shall be~~
13 governed by and pursuant to the order creating the extended lateral
14 horizontal unit, ~~including the applicable plan of development, and~~
15 any subsequent pooling order covering the extended lateral
16 horizontal unit, and any prior orders of the Commission.

17 K. Payment of Proceeds.

18 ~~Units~~ Extended lateral horizontal units created pursuant to this
19 section shall be subject to the terms and provision of the PRSA and
20 the Royalty Standardization Act.

21 L. The Commissioners of the Land Office.

22 The Commissioners of the Land Office, or other proper board or
23 officer of the state having the control and management of state
24 land, and the proper board or officer of any political, municipal,

1 or other subdivision or agency of the state, are hereby authorized
2 and shall have the power on behalf of the state or of any political,
3 municipal, or other subdivision or agency thereof, with respect to
4 land or oil and gas rights subject to the control and management of
5 the respective body, board, or officer, to consent to or participate
6 in any ~~unitization adopted pursuant to the 2011 Shale Reservoir~~
7 ~~Development Act~~ extended lateral horizontal unit created pursuant to
8 this section.

9 M. Retained Jurisdiction.

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

19 SECTION 7. NEW LAW A new section of law to be codified
20 in the Oklahoma Statutes as Section 137.1 of Title 52, unless there
21 is created a duplication in numbering, reads as follows:

22 The drilling, completing, fracture stimulating, and operations
23 of oil and gas wells, and produced water wells related thereto, are
24 of statewide importance and concern wherein primary regulation is by

1 the State of Oklahoma through this title and the jurisdiction
2 granted the Corporation Commission pursuant to Section 139 of Title
3 52 of the Oklahoma Statutes and Section 52 of Title 17 of the
4 Oklahoma Statutes. State regulation does not prohibit
5 municipalities, counties or other political subdivisions from
6 enacting reasonable ordinances, rules, and regulations relating to
7 the local aspects of the oil and gas operations within its
8 boundaries, provided such ordinances, rules, and regulations are
9 reasonable and consistent with, and not in opposition to, the
10 regulation established by this title and the Corporation Commission.
11 No municipal, county or other political subdivision ordinance, rule
12 or regulation may prohibit or ban the drilling, completing, fracture
13 stimulating or operations of oil and gas wells or produced water
14 disposal wells related thereto, within its boundaries without the
15 approval of the Corporation Commission, except that the municipal,
16 county or other political subdivision may enact reasonable setbacks
17 for surface operations based upon the necessity to protect the
18 health, safety, and welfare of its citizens. Upon application and
19 notice, the Corporation Commission shall have the authority and
20 jurisdiction to determine whether a municipal, county or other
21 political subdivision ordinance, rule or regulation related to the
22 drilling, completing, fracture stimulating, and operations of oil
23 and gas wells, and produced water disposal wells related thereto, is
24 reasonable and consistent with, and not in opposition to, regulation

1 by the Corporation Commission. Any municipal, county or other
2 governmental subdivision ordinance, rule or regulation enacted prior
3 to the effective date of this act shall be subject to a rebuttable
4 presumption of validity. Any municipal, county or other political
5 subdivision ordinance, rule or regulation found by the Corporation
6 Commission to be unreasonable or inconsistent with or in opposition
7 to state law or regulation by the Commission shall be void and
8 unenforceable.

9 SECTION 8. NEW LAW A new section of law to be codified
10 in the Oklahoma Statutes as Section 571.1 of Title 52, unless there
11 is created a duplication in numbering, reads as follows:

12 Sections 8 through 11 of this act shall be known and may be
13 cited as the "Royalty Standardization Act".

14 SECTION 9. NEW LAW A new section of law to be codified
15 in the Oklahoma Statutes as Section 571.2 of Title 52, unless there
16 is created a duplication in numbering, reads as follows:

17 To promote uniformity, standardization and simplification of
18 royalty payments in this state, to encourage a more cooperative
19 relationship between Oklahoma's producers and royalty owners, and to
20 decrease the volume of litigation over royalty disputes, the
21 provisions of the Royalty Standardization Act shall be considered a
22 supplement to the Production Revenue Standards Act and the Energy
23 Litigation Reform Act, and the terms defined in Section 570.2 of
24

1 this title shall have the same meaning in this act and shall be
2 further supplemented by this act.

3 SECTION 10. NEW LAW A new section of law to be codified
4 in the Oklahoma Statutes as Section 571.3 of Title 52, unless there
5 is created a duplication in numbering, reads as follows:

6 For purposes of determining the respective rights of the owners
7 to the proceeds due pursuant to the Production Revenue Standards Act
8 and derived from or attributable to the production from an oil or
9 gas well located in this state:

10 1. The working interest owners shall be responsible for the
11 costs of production; and

12 2. The proceeds due owners of a royalty interest or overriding
13 royalty interest shall not be decreased, either directly or
14 indirectly, by any costs of production.

15 SECTION 11. NEW LAW A new section of law to be codified
16 in the Oklahoma Statutes as Section 571.4 of Title 52, unless there
17 is created a duplication in numbering, reads as follows:

18 As used in the Royalty Standardization Act:

19 1. "Working interest" means the interest granted under an oil
20 and gas lease or a pooling order, giving the owner the right to work
21 on the property to search for, develop and produce oil and gas, and
22 the obligation to pay all costs of production, and to receive a
23 portion of the production proceeds;

24

1 2. "Royalty" means the mineral owner's share of production or
2 production proceeds, free of the costs of production;

3 3. "Overriding royalty" means a share of production or
4 production proceeds, free of the costs of production, carved out of
5 the interest of the working interest owner;

6 4. "Costs of production" means all costs incurred for
7 exploration, development, primary or enhanced recovery, production
8 and abandonment operations including, but not limited to lease
9 acquisition, drilling and completion, pumping or lifting, operating,
10 and all costs incurred to obtain a marketable product;

11 5. "Costs incurred to obtain a marketable product" means all
12 costs incurred either directly or indirectly for: (a) recycling, (b)
13 treating, (c) blending, (d) gathering, as defined by section 24.4 of
14 this title, (e) compressing, (f) pressurizing, (g) heater treating,
15 (h) dehydrating, (i) separating, (j) storing, (k) moving the oil to
16 the storage tanks, (l) moving the gas to a field processing plant
17 where the raw natural gas is processed and separated into natural
18 gas liquids and dry methane gas, (m) moving the gas to a gas
19 transmission line or (n) processing and separating the raw gas into
20 natural gas liquids and dry methane gas at a field processing plant,
21 except as otherwise excluded in this section, and shall also include
22 field fuel utilized in these enumerated processes;

23 6. "Costs incurred to obtain a marketable product" does not
24 include: (a) the reasonable and actual direct costs associated with

1 transporting the oil from the storage tanks to market, (b) the
2 reasonable and actual direct costs associated with moving the gas on
3 a gas transmission line to market, (c) twenty-five percent (25%) of
4 the reasonable and actual direct costs associated with processing
5 and separating the raw gas into natural gas liquids and dry methane
6 gas at a field processing plant, but this exclusion shall not exceed
7 two percent (2%) of the value of the separated natural gas liquids
8 and dry methane gas, or (d) the reasonable and actual direct costs
9 associated with fractionation and transportation of the natural gas
10 liquids occurring beyond the field processing plant;

11 7. "Gas transmission line" means a pipeline or pipeline system
12 that is: (a) downstream of the tailgate of a field processing plant
13 where the raw natural gas is processed and separated into natural
14 gas liquids and dry methane gas, (2) an interstate pipeline subject
15 to regulation by the Federal Energy Regulatory Commission, or (3) an
16 intrastate common carrier transmission pipeline, as defined by
17 section 24 of this title.

18 SECTION 12. NEW LAW A new section of law to be codified
19 in the Oklahoma Statutes as Section 571.5 of Title 52, unless there
20 is created a duplication in numbering, reads as follows:

21 The Royalty Standardization Act shall apply to all owners and
22 shall apply to all production occurring on or after January 1, 2016,
23 from all producing wells in the State of Oklahoma, regardless of the
24 date pooled, drilled or of the date of the underlying leases.

1 SECTION 13. REPEALER 52 O.S. 2011, Section 137, is
2 hereby repealed.

3 SECTION 14. This act shall become effective January 1, 2016.
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