

Contact Information:

Terry L. Stowers  
Legislative Director  
(405) 659-8881



Legislative Consultants:

Capitol Gains, LLC  
Bill Case  
(405) 570-2900

“Working together to protect the rights of Oklahoma’s Surface and Mineral Owners through the legislative and legal process.”

## **COSMO Supports SB242 & HB1909** **(The 2011 Shale Reservoir Development Act)**

- The **Coalition of Oklahoma Surface and Mineral Owners (COSMO)**, including two State-wide Royalty Owner organizations, **OK-NARO** (National Association of Royalty Owners) and **Oklahoma Mineral Owners Association** (OMOA), and one of Oklahoma’s oldest, largest and most active royalty companies, **Farmers Royalty Company** (all 3 represented by COSMO), **SUPPORT** the 2011 Shale Reservoir Development Act (**SB242 & HB1909** – the “Act”)
- The Act is **NOT** the same 1,280-acre drilling and spacing unit bills that royalty owners have opposed in prior years. **The Act is the result of 6 months of discussions, negotiations and drafting by the stakeholders, including COSMO** (see the summary of the process prepared by the working group). **The Act is a comprehensive piece of legislation to promote development of shale reservoirs (such as the Woodford Shale and is limited to shale reservoirs), while aiding in preventing waste, aiding in protecting the correlative rights of the owners of oil and gas rights, and harmonize Oklahoma’s historical oil and gas conservation law with the expanding technology of drilling and completing horizontal wells in shale reservoirs, including the use of horizontal laterals of over one mile long, and now approaching two miles in length.**
- **A summary of the provision of the Act are as follows:**
  - **Section 1(p 2)** - Uncodified Legislative Findings.
  - **Section 2 (p 3)** - New Law creating the “2011 Shale Reservoir Development Act” with the definitions used in the Act.
  - **Section 3 (p 7)** - New Law authorizing the OCC to add **two new tools into the toolbox** for the development of shale reservoirs and to aid in the OCC’s charge to prevent waste and protect the correlative rights of the owners of the oil and gas.
  - **Section 4 (p 7)** – New Law (**Tool 1**) **allows drilling of horizontal wells in shale reservoirs across existing unit boundaries (i.e., across two or more existing 640-acre units). These wells are called “multi-unit horizontal wells.”** (This is similar to the approach taken by Arkansas for its shale development).
    - **The drilling & production costs, the oil and gas production and the sales proceeds will be allocated to each of the affected units in a manner to protect the correlative rights of parties in each unit. The default allocation is a proration between the units based upon the feet of perforations in each of the units.** Based upon reasonable testimony, the OCC can adjust the allocations to protect the correlative rights of the parties in each unit, if necessary.



- **The portion of the completed horizontal lateral in each unit will be treated as a separate well for that unit.**
- **The application for a multi-unit horizontal well must include a map showing: (1) all existing wells in each of the affected units; (2) the currently proposed multi-unit horizontal well(s); and (3) all other wells that are anticipated to be necessary for the full and efficient development of the shale reservoir.**
- **The application for a multi-unit horizontal well must include the proposed allocation factors for the well.**
- **The application and notice of hearing must be served on all owners who have a right to share in proceeds from the affected units.**
- **Payment of proceeds from a multi-unit horizontal well shall be subject to the provision of the Production Revenue Standards Act (PRSA).**
- **Section 5 (p 12) – New Law (Tool 2) Creates a new hybrid type of unit for horizontal shale development (a hybrid between a §87.1-drilling and spacing unit and a §287.1 enhanced recovery unit which has been used for decades for secondary recovery methods (often referred to as a “unitization”).**
  - **The new hybrid unit would be two governmental sections (i.e., 1,280 acres).**
  - **The unit could be expanded up to four governmental sections if necessary and under certain conditions.**
  - **The application must include a Plan of Development for the full and efficient development of shale reservoir.**
  - **Costs and proceeds shall be shared just as in a standard §87.1 drilling and spacing unit (all owners share proportionately based upon their ownership), unless adjustments are necessary because of existing development.**
  - **The new larger unit can only be created with the express written consent of at least 63% of working interest owners and 63% of the royalty owners (based on number of acres owned, not number of parties). This is similar to the existing requirement for enhanced recovery units.**
  - **The application and notice of hearing must be served on all owners who have a right to share in proceeds from the affected units.**
  - **Payment of proceeds from a multi-unit horizontal well shall be subject to the provision of the Production Revenue Standards Act (PRSA).**
- **Section 6 (p 22) – Modifies §87.1 to clarify the ability to utilize irregular shaped units (e.g., 640-acre unit that is 1/2 mile wide by 2 miles long).**
- **Section 7 (p 33) – Modifies §287.3 to clarify that enhanced recovery units are not available for primary production (confirming a recent ruling by the OCC).**

**COSMO, OK-NARO, OMOA and Farmers Royalty Company  
SUPPORT the 2011 Shale Reservoir Development Act (SB242 & HB1909)**