

By: Davis

S.B. No. 1870

A BILL TO BE ENTITLED

AN ACT

relating to the regulation of mineral interest pooling by the Railroad Commission of Texas.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. The Legislature finds that the exploration and production of unconventional reservoirs of minerals in this State pose unique circumstances pertaining to the establishment of production units in areas where property ownership is highly fragmented. The production of minerals in these reservoirs should avoid waste and at the same time minimize drilling locations in dense urban settings. The establishment of units through pooling requests may in the proper circumstances accomplish both purposes. Existing commission approaches to production units of minerals in unconventional reservoirs are uneven and fail to adequately address compensation to the mineral owners of this State. Upon a showing of reasonable necessity, an owner located in an unconventional reservoir may seek to establish a unit through pooling pursuant to this Section.

SECTION 2. Section 102.002, Natural Resources Code, is amended to read as follows:

In this chapter:

(1) "Mineral" means and is limited to oil and gas.

(2) "Commission" means the Railroad Commission of Texas.

1 (3) "Unconventional Reservoirs" means a Railroad
2 Commission-designated field which produces hydrocarbons from one
3 or more of the following geologic formations: Barnett Shale,
4 Bossier Shale, Eagle Ford, Haynesville, Woodford, and any other
5 field which is geologically correlative to the formations listed
6 above, including fields designated by the commission as
7 "Unconventional Reservoirs" after notice and hearing.

8 SECTION 3. Section 102.011, Natural Resources Code, is
9 amended to read as follows:

10 (a) Conventional Reservoirs. When two or more separately
11 owned tracts of land are embraced in a common reservoir of oil or
12 gas for which the commission has established the size and shape of
13 proration units, whether by temporary or permanent field rules, and
14 where there are separately owned interests in oil and gas within an
15 existing or proposed proration unit in the common reservoir and the
16 owners have not agreed to pool their interests, and where at least
17 one of the owners of the right to drill has drilled or has proposed
18 to drill a well on the existing or proposed proration unit to the
19 common reservoir, the commission, on the application of an owner
20 specified in Section 102.012 of this code and for the purpose of
21 avoiding the drilling of unnecessary wells, protecting correlative
22 rights, or preventing waste, shall establish a unit and pool all of
23 the interests in the unit within an area containing the approximate
24 acreage of the proration unit, which unit shall in no event exceed
25 160 acres for an oil well or 640 acres for a gas well plus 10 percent
26 tolerance.

27 (b) Unconventional Reservoirs. When two or more

1 separately-owned tracts of land overlie an Unconventional
2 Reservoir productive of oil or gas and where there are
3 separately-owned interests in oil and gas within an existing or
4 proposed unit and the owners have not agreed to pool their
5 interests, and where at least one of the owners of the right to
6 drill, has drilled, or has proposed to drill a well on the existing
7 or proposed unit to the Unconventional Reservoir, the commission,
8 on the application of an owner specified in Section 102.012 of this
9 code and for the purpose of avoiding he drilling of unnecessary
10 wells, protecting correlative rights, or preventing waste, may upon
11 a proper showing, establish a unit and pool all of the interests in
12 the unit. Such unit shall be of such a size and shape as to minimize
13 as much as reasonably possible the number of surface locations for
14 wells to properly and fully develop the unit for said
15 Unconventional Reservoir. Such unit shall not exceed 640 acres
16 plus ten percent tolerance.

17 (c) The application and the evidence at any hearing must
18 demonstrate reasonable necessity for the establishment of the unit
19 and pooling request. The commission may not grant a request under
20 this subsection that is made for the mere convenience of the
21 operator, for purposes of locating a wellbore in avoidance of Rule
22 37 requirements or to unnecessarily coerce owners into negotiating
23 a lease of their mineral interests.

24 SECTION 4. Section 102.014, Natural Resources Code, is
25 amended to read as follows:

26 (a) The commission shall not require the owner of a mineral
27 interest, the productive acreage of which is equal to or in excess

1 of the standard proration unit for the reservoir, to pool his
2 interest with others unless requested by the holder of an adjoining
3 mineral interest, the productive acreage of which is smaller than
4 such pattern, who has not been provided a reasonable opportunity to
5 pool voluntarily.

6 (b) If the conditions specified in Subsection (a) of this
7 section exist, the commission shall pool the smaller tract with
8 adjacent acreage on a fair and reasonable basis and may authorize a
9 larger allowable for the unit if it exceeds the size of the standard
10 proration unit for the reservoir.

11 (c) This section shall not apply to Unconventional
12 Reservoirs.

13 SECTION 5. Section 102.017, Natural Resources Code, is
14 amended to read as follows:

15 (a) The applicant shall bear the burden of proof on all
16 issues and ~~After~~ notice and hearing, all orders affecting the
17 pooling shall be made on terms and conditions that are fair and
18 reasonable and will afford the owner or owners of each tract or
19 interest in the unit the opportunity to produce or receive his fair
20 share.

21 (b) Each order shall:

22 (1) describe the land included in the unit,
23 identifying the reservoir to which it applies;

24 (2) set forth the reasonable necessity for the
25 establishment of the unit;

26 (3) designate the location of the well; and

27 (4) appoint an operator for the unit.

1 SECTION 6. Section 102.051, Natural Resources Code, is
2 amended to read as follows:

3 (a) For the purpose of determining the portions of
4 production owned by the persons owning interests in the pooled
5 unit, the production shall be allocated to the respective tracts
6 within the unit in the proportion that the number of surface acres
7 included within each tract bears to the number of surface acres
8 included in the entire unit.

9 (b) notwithstanding the provisions in Subsection (a) of
10 this section, if the commission finds that allocation on a
11 surface-acreage basis does not allocate to each tract its fair
12 share, the commission shall allocate the production so that each
13 tract will receive its fair share, which for any nonconsenting
14 owner shall be no less than the would receive under a
15 surface-acreage allocation.

16 (c) For the purpose of this section, the owner or owners of
17 unleased oil and gas rights in and under land pooled for production
18 from an Unconventional Reservoir shall be regarded as a lessee to
19 the extent of 7/8 interest in and to said rights and a lessor to the
20 extent of the remaining 1/8 interest therein.

21 SECTION 7. This Act takes effect September 1, 2011.