

By: Goldman

H.B. No. 3409

A BILL TO BE ENTITLED

AN ACT

1  
2 relating to the duty of a lessee or other agent in control of  
3 certain state land to drill an offset well, pay compensatory  
4 royalty, or otherwise protect the land from drainage of oil or gas  
5 by a horizontal drainhole well located on certain land.

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

7 SECTION 1. Section 66.75, Education Code, is amended by  
8 amending Subsection (a) and adding Subsections (a-1) and (g) to  
9 read as follows:

10 (a) In this section:

11 (1) "Horizontal drainhole well" means a well with a  
12 horizontal drainhole that may produce oil or gas along at least 100  
13 feet of the drainhole.

14 (2) "Take point" means any point in a horizontal  
15 drainhole well where oil and gas can be produced from the reservoir  
16 or field interval recognized by the Railroad Commission of Texas.

17 (3) "Unconventional fracture treated field" means an  
18 oil or gas field in which horizontal well development and hydraulic  
19 fracture treatment must be used to recover resources from all or  
20 part of the field.

21 (a-1) The lessee shall protect the leased premises from  
22 drainage. The lease may contain express terms regarding drainage  
23 as the board may adopt.

24 (g) Notwithstanding any other provision of this section, a

1 lease or other agreement relating to university lands may not  
2 require a lessee to drill an offset well, pay compensatory royalty,  
3 or otherwise protect the leased premises or acreage pooled with the  
4 leased premises from drainage by a horizontal drainhole well  
5 located in an unconventional fracture treated field if no take  
6 point of the horizontal drainhole well is located closer to the  
7 leased premises or acreage pooled with the leased premises than the  
8 applicable lease-line spacing distance requirement of the Railroad  
9 Commission of Texas.

10 SECTION 2. Section 52.034, Natural Resources Code, is  
11 amended by amending Subsections (a) and (d) and adding Subsections  
12 (a-1) and (a-2) to read as follows:

13 (a) In this section:

14 (1) "Horizontal drainhole well" means a well with a  
15 horizontal drainhole that may produce oil or gas along at least 100  
16 feet of the drainhole.

17 (2) "Take point" means any point in a horizontal  
18 drainhole well where oil and gas can be produced from the reservoir  
19 or field interval recognized by the Railroad Commission of Texas.

20 (3) "Unconventional fracture treated field" means an  
21 oil or gas field in which horizontal well development and hydraulic  
22 fracture treatment must be used to recover resources from all or  
23 part of the field.

24 (a-1) Except as provided by Subsection (a-2), if ~~if~~ oil or  
25 gas is produced in commercial quantities from a well located on a  
26 privately owned area or areas of state land leased at a lesser  
27 royalty and the well is located within 1,000 feet of an area leased

1 under this subchapter~~[,]~~ or ~~[in any case where such an area]~~ is  
2 draining an area leased under this subchapter ~~[being drained by~~  
3 ~~such a well or wells]~~, the lessee of the state area shall begin in  
4 good faith and prosecute diligently the drilling of an offset well  
5 or wells on the area leased from the state within 60 days after the  
6 initial production from the draining well or the well located  
7 within 1,000 feet of the leased state area.

8 (a-2) If the well producing oil or gas in commercial  
9 quantities under Subsection (a-1) is a horizontal drainhole well  
10 located in an unconventional fracture treated field, a lessee of a  
11 state area is not required to drill an offset well as provided by  
12 Subsection (a-1) unless any take point in the horizontal drainhole  
13 well is located closer to the leased state area than the minimum  
14 distance established by the applicable lease-line spacing  
15 requirement of the Railroad Commission of Texas.

16 (d) At the determination of the commissioner and with the  
17 commissioner's ~~[his]~~ written approval, the payment of a  
18 compensatory royalty shall satisfy the obligation to drill an  
19 offset well or wells required by Subsection (a-1) ~~[Subsection (a)~~  
20 ~~of this section]~~. Such compensatory royalty shall be paid at the  
21 royalty rate provided by the state lease issued under this  
22 subchapter and shall be paid on the market value at the well of  
23 production from the ~~[draining]~~ well producing oil or gas in  
24 commercial quantities described by Subsection (a-1) ~~[or the well~~  
25 ~~located within 1,000 feet of the leased state area]~~.

26 SECTION 3. Section 52.173, Natural Resources Code, is  
27 amended by amending Subsections (a) and (d) and adding Subsections

1 (a-1) and (a-2) to read as follows:

2 (a) In this section:

3 (1) "Horizontal drainhole well" means a well with a  
4 horizontal drainhole that may produce oil or gas along at least 100  
5 feet of the drainhole.

6 (2) "Take point" means any point in a horizontal  
7 drainhole well where oil or gas can be produced from the reservoir  
8 or field interval recognized by the Railroad Commission of Texas.

9 (3) "Unconventional fracture treated field" means an  
10 oil or gas field in which horizontal well development and hydraulic  
11 fracture treatment must be used to recover resources from all or  
12 part of the field.

13 (a-1) Except as provided by Subsection (a-2), if [~~if~~] oil or  
14 [~~and/or~~] gas is [~~should be~~] produced in commercial quantities  
15 within 1,000 feet of land subject to this subchapter[~~7~~] or if  
16 production of oil or gas is draining [~~in any case where~~] land  
17 subject to this subchapter, [~~is being drained by production of oil~~  
18 ~~or gas~~] the owner, lessee, sublessee, receiver, or other agent in  
19 control of land subject to this subchapter shall in good faith begin  
20 the drilling of a well or wells upon such state land within 100 days  
21 after the draining well or wells or the well or wells completed  
22 within 1,000 feet of the state land commence to produce in  
23 commercial quantities[~~7~~] and shall prosecute such drilling with  
24 diligence to reasonably develop the state land and to protect such  
25 state land against drainage.

26 (a-2) If the well producing oil or gas in commercial  
27 quantities under Subsection (a-1) is a horizontal drainhole well

1 located in an unconventional fracture treated field, the owner,  
2 lessee, sublessee, receiver, or other agent in control of land  
3 subject to this subchapter is not required to drill an offset well  
4 as provided by Subsection (a-1) unless any take point in the  
5 horizontal drainhole well is located closer to the state land than  
6 the minimum distance established by the applicable lease-line  
7 spacing requirement of the Railroad Commission of Texas.

8 (d) At the determination of the commissioner and with the  
9 commissioner's ~~[his]~~ written approval, the payment of a  
10 compensatory royalty shall satisfy the obligation to drill an  
11 offset well or wells required by Subsection (a-1). Such  
12 compensatory royalty shall be paid at a royalty rate established by  
13 the commissioner if the land is unleased, or at the royalty rate  
14 provided by the state lease, if the land is leased. Such  
15 compensatory royalty shall be paid on the market value at the well  
16 of production from the ~~[draining]~~ well producing oil or gas in  
17 commercial quantities described by Subsection (a-1) ~~[or the well~~  
18 ~~located within 1,000 feet of the state land]~~.

19 SECTION 4. This Act takes effect September 1, 2021.