

1 SB366
2 157509-5
3 By Senators Keahey, Marsh, Waggoner, Beason, Allen, Dunn,
4 Reed, Scofield, and Ward
5 RFD: Energy and Natural Resources
6 First Read: 13-FEB-14

1 SB366

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4 ENROLLED, An Act,

5 To amend Sections 9-17-1 and 9-17-12, Code of
6 Alabama 1975, relating to the State Oil and Gas Board; to
7 further provide for the regulation by the board of drilling
8 units and drainage or production units for horizontal wells
9 and offshore wells.

10 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

11 Section 1. Sections 9-17-1 and 9-17-12, Code of
12 Alabama 1975, are amended to read as follows:

13 "§9-17-1.

14 "Unless the context otherwise requires, the
15 following terms shall have the following meanings:

16 "(1) BOARD. The State Oil and Gas Board created by
17 this article.

18 "(2) DEVELOPED AREA or DEVELOPED UNIT. A drainage
19 unit having a well completed thereon which is capable of
20 producing oil or gas in paying quantities; however, in the
21 event it is shown and the board finds that a part of any unit
22 is nonproductive, then the developed part of the unit shall
23 include only that part found to be productive.

24 "(3) DRAINAGE OR PRODUCTION UNIT. The area in a pool
25 which may be drained efficiently and economically by one well.

1 "(4) DRILLING UNIT. An administrative unit
2 established by the board to provide and allow for the drilling
3 of a well. Prior to establishment of a field and drainage or
4 production unit within the field, the board may establish a
5 drilling unit to allow for the drilling of a well in search of
6 oil and gas.

7 "(5) FIELD. The general area which is underlain or
8 appears to be underlain by at least one pool, and such term
9 shall include the underground reservoir or reservoirs
10 containing crude oil or natural gas or both. The words "field"
11 and "pool" have the same meaning when only one underground
12 reservoir is involved; however, the word "field," unlike
13 "pool," may relate to two or more pools.

14 "(6) GAS. All natural gas, including casinghead gas,
15 and all other hydrocarbons not defined as oil in subdivision
16 (10).

17 "(7) HORIZONTAL WELL. A well initially drilled
18 vertically and then turned and drilled at an angle of 75
19 degrees or greater from vertical.

20 "~~(7)~~(8) ILLEGAL GAS. Gas which has been produced
21 within the State of Alabama from any well or wells in excess
22 of the amount allowed by any rule, regulation, or order of the
23 board, as distinguished from gas produced within the State of
24 Alabama not in excess of the amount so allowed, which is
25 "legal gas."

1 "~~(8)~~(9) ILLEGAL OIL. Oil which has been produced
2 within the State of Alabama from any well or wells in excess
3 of the amount allowed by any rule, regulation, or order of the
4 board, as distinguished from oil produced within the State of
5 Alabama not in excess of the amount so allowed, which is
6 "legal oil."

7 "~~(9)~~(10) ILLEGAL PRODUCT. Any product of oil or gas,
8 any part of which was processed or derived in whole or in part
9 from illegal oil or illegal gas or from any product thereof,
10 as distinguished from "legal product," which is a product
11 processed or derived to no extent from illegal oil or illegal
12 gas.

13 "~~(10)~~(11) OIL. Crude petroleum oil and other
14 hydrocarbons, regardless of gravity, which are produced at the
15 well in liquid form by ordinary production methods and which
16 are not the result of a condensation of gas after it leaves
17 the pool.

18 "~~(11)~~(12) OPERATOR. The person who is authorized by
19 the board to operate an oil, gas, or Class II injection well,
20 or production facility, or processing facility, or engages in
21 the transportation of hydrocarbons by pipeline, including the
22 handling and disposal of wastes that may be generated during
23 operation of a well, or production facility, or processing
24 facility.

1 "~~(12)~~(13) OWNER. The person who has the right to
2 drill into and to produce from any pool and to appropriate the
3 production either for himself or herself or for himself or
4 herself and another or others.

5 "~~(13)~~(14) PERSONS. Any natural person, firm,
6 corporation, association, partnership, joint venture,
7 receiver, trustee, guardian, executor, administrator,
8 fiduciary, representative of any kind, or any other group
9 acting as a unit.

10 "~~(14)~~(15) POOL. An underground reservoir containing
11 a common accumulation of crude petroleum oil or natural gas or
12 both and each zone of a general structure which is completely
13 separated from any other zone in the structure.

14 "~~(15)~~(16) PRODUCER. The owner of a well or wells
15 capable of producing oil or gas or both; provided, however,
16 that the word "producer" as used in Section 9-17-25 shall also
17 include any person receiving money or other valuable
18 consideration as royalty or rental for oil or gas produced or
19 because of oil or gas produced, whether produced by him or her
20 or by some other person on his or her behalf, either by lease,
21 contract, or otherwise, and whether the royalty consists of a
22 portion of the oil or gas produced being run to his or her
23 account or a payment in money or other valuable consideration.

24 "~~(16)~~(17) PRODUCT. Any commodity made from oil or
25 gas and shall include refined crude oil, crude tops, topped

1 crude, processed crude petroleum, residue from crude
2 petroleum, cracking stock, uncracked fuel oil, fuel oil,
3 treated crude oil, residuum, gas oil, casinghead gasoline,
4 natural gas gasoline, naphtha, distillate, gasoline, kerosene,
5 benzine, wash oil, waste oil, blended gasoline, lubricating
6 oil, blends or mixtures of oil with one or more liquid
7 products or byproducts derived from oil or gas and blends or
8 mixtures of two or more liquid products or byproducts derived
9 from oil or gas, whether hereinabove enumerated or not.

10 "~~(17)~~(18) REASONABLE MARKET DEMAND. As to oil, the
11 amount of oil reasonably needed for current consumption and
12 use, together with a reasonable amount of oil for storage and
13 working stock and, as to gas, the amount of gas of any type
14 reasonably needed to supply the current consumption and use of
15 such type of gas.

16 "~~(18)~~(19) TENDER. A permit or certificate of
17 clearance, approved and issued or registered under the
18 authority of the board, for the transportation of oil, gas, or
19 products.

20 "~~(19)~~(20) WASTE. In addition to its ordinary
21 meaning, such term shall mean "physical waste" as that term is
22 generally understood in the oil and gas industry. It shall
23 include any of the following:

24 "a. The inefficient, excessive, or improper use or
25 dissipation of reservoir energy and the locating, spacing,

1 drilling, equipping, operating, or producing of any oil or gas
2 well or wells in a manner which results or tends to result in
3 reducing the quantity of oil or gas ultimately to be recovered
4 from any pool in this state.

5 "b. The inefficient storing of oil and the locating,
6 spacing, drilling, equipping, operating, or producing of any
7 oil or gas well or wells in a manner causing or tending to
8 cause unnecessary or excessive surface loss or destruction of
9 oil or gas.

10 "c. Abuse of the correlative rights and
11 opportunities of each owner of oil and gas in a common
12 reservoir due to nonuniform, disproportionate, and unratable
13 withdrawals causing undue drainage between tracts of land.

14 "d. Producing oil or gas in such manner as to cause
15 unnecessary water channeling or coning.

16 "e. The operation of any oil well or wells with an
17 inefficient gas-oil ratio.

18 "f. The drowning with water of any stratum or part
19 thereof capable of producing oil or gas.

20 "g. Underground waste however caused and whether or
21 not defined.

22 "h. The creation of unnecessary fire hazards.

23 "i. The escape into the open air, from a well
24 producing both oil and gas, of gas in excess of the amount

1 which is necessary in the efficient drilling or operation of
2 the well.

3 "j. The use of gas, except sour gas, for the
4 manufacture of carbon black.

5 "k. The escape of gas into the open air, from a well
6 producing gas, in excess of the amount which is necessary for
7 safety reasons or for the efficient drilling, testing, and
8 operation of the well.

9 "l. Production of oil and gas in excess of
10 reasonable market demand.

11 "§9-17-12.

12 "(a) Whether or not the total production from a pool
13 is limited or prorated, no rule, regulation, or order of the
14 board shall be such in terms or effect that it will do the
15 following:

16 "(1) That it shall be necessary at any time for the
17 producer from or the owner of, a tract of land in the pool, or
18 an interest associated therewith or derived therefrom, in
19 order that he or she may obtain the tract's just and equitable
20 share or the just and equitable share of the interest of the
21 production of such pool, as the share is set forth in this
22 section, to drill and operate any well or wells on such tract
23 in addition to the well or wells as can without waste produce
24 the share.

1 "(2) As to occasion net drainage from a tract or any
2 interest associated therewith or derived therefrom, unless
3 there is drilled and operated upon the tract a well or wells
4 in addition to such well or wells thereon as can without waste
5 produce the tract's just and equitable share or the just and
6 equitable share of interest, as set forth in this section, of
7 the production of the pool.

8 "(b) (1) In order to prevent the waste of oil and gas
9 resources, to protect and enforce the correlative rights of
10 the owners and producers in a pool and to avoid the drilling
11 of an excessive and unnecessary number of wells, the board
12 shall, after notice and hearing, establish drainage or
13 production units for each pool. Furthermore, the board shall,
14 after notice and hearing, establish special field rules for
15 each pool, and the special field rules established by the
16 board shall designate, among other things, the drainage or
17 production units for the field and production allowables for
18 each drainage or production unit. A drainage or production
19 unit, means the maximum area which may be efficiently and
20 economically drained by one well. With respect to wells
21 drilled and completed in shale natural gas reservoirs as
22 defined by the board, when a party affirmatively demonstrates
23 to the board after notice and hearing, with substantial
24 evidence based on geologic and engineering evidence and
25 production information derived from wells in an established

1 field, that one well will not efficiently and economically
2 drain the entire drainage or production units provided for in
3 the special field rules, then the board may amend the special
4 field rules to allow more than one well to be drilled and
5 produced within the drainage or production units in the field.
6 In no case, however, may the board establish a spacing unit in
7 a shale natural gas reservoir larger than 320 acres for a
8 vertical well or wells and 640 acres for a horizontal well or
9 wells. With respect to wells drilled and completed in coalbed
10 methane reservoirs as defined by the board, when a party
11 affirmatively demonstrates to the board after notice and
12 hearing with substantial evidence based on geologic and
13 engineering evidence and production information derived from
14 wells in an established field providing for 80-acre drainage
15 and production units, that one well will not efficiently and
16 economically drain the entire 80-acre drainage and production
17 units provided for in the special field rules, then the board
18 may amend the special field rules to allow a second well to be
19 drilled and produced within the 80-acre drainage or production
20 units in the field. In determining whether a well will
21 efficiently and economically drain the 80-acre drainage or
22 production unit, the board shall consider, among other things,
23 whether the well will significantly increase production from
24 the unit, will extend the duration of production from the
25 unit, and whether the second well is an unnecessary well. Any

1 drainage or production unit established by the board shall
2 constitute a developed unit as long as a well is located
3 thereon, which is capable of producing oil or gas in paying
4 quantities, or until the board shall determine and order
5 otherwise after notice and hearing. It is provided, however,
6 that the board shall have no authority to establish a drainage
7 or production unit in excess of either 160 acres or one
8 governmental quarter section plus 10 percent tolerance for any
9 pool deemed by the board to be an oil reservoir or in excess
10 of either 640 acres or one governmental section plus 10
11 percent tolerance, for any pool, deemed by the board to be a
12 gas reservoir, the 10 percent tolerance provided for so as to
13 allow for irregular sections; provided, however, that the
14 board may, after notice and hearing, establish drainage or
15 production units for oil and gas in excess of the aforesaid
16 limitations when it is affirmatively demonstrated that one
17 well can efficiently and economically drain the proposed area
18 and that a larger unit is justified because of technical,
19 economic, environmental or safety considerations, or other
20 reasons deemed valid by the board. To insure protection of
21 coequal and correlative rights, the board may, after notice
22 and hearing, establish drainage or production units for oil
23 and gas pools by a quantum not to exceed 50 percent greater
24 than the aforesaid limitation provided such action is
25 justified by sufficient technical evidence, indicating that

1 the acreage or land in excess of the aforesaid maximum
2 limitations is being drained or is in imminent danger of being
3 drained and that the owners of the excess acreage or lands
4 that the persons owning any interest or combination of
5 interests in the excess acreage or lands cannot otherwise
6 receive their just and equitable share of production from the
7 pool being so drained; provided, however, in the event the
8 excess lands or interests are integrated or pooled by order of
9 the board, then the provisions of Section 9-17-13 shall be
10 applicable to the owners of tracts or interests in the acreage
11 or land in excess of the aforesaid maximum limitations so that
12 the operator of the drainage or production unit in which the
13 tracts or interests are included shall have the right to
14 charge against the interest of each other owner in the
15 production from the wells drilled by the designated operator
16 the actual expenditures required for that purpose, not in
17 excess of what are reasonable, including a reasonable charge
18 for supervision; and the operator shall have the right to
19 receive the first production from the wells drilled thereon
20 which otherwise would be delivered or paid to the other
21 parties jointly interested in the drilling of the well so that
22 the amount due by each of them for his or her share of the
23 expense of drilling, equipping, and operating the well may be
24 paid to the operator of the well out of production, with the
25 value of production calculated at the market price in the

1 field at the time production is received by the operator or
2 placed to his or her credit.

3 "Notwithstanding the provisions of this section, all
4 persons entitled to share in the production of oil or gas from
5 a tract or interest or tracts or interests in land may
6 voluntarily agree to the creation or establishment of a
7 drainage or production unit, or may authorize one or more of
8 the persons entitled to share in such production to create or
9 establish a drainage or production unit, containing as much or
10 more acreage or land than drainage or production units
11 established by the board for the same pool, but not in excess
12 of 160 acres or one governmental quarter section, plus 10
13 percent tolerance, in the case of oil and 640 acres or one
14 governmental section, plus 10 percent tolerance, in the case
15 of gas; subject to the aforementioned qualifications in this
16 section and up to 50 percent greater, as provided hereinabove;
17 a drainage or production unit so created or established shall,
18 subject to the approval of the board, be valid and binding for
19 all purposes even though the drainage or production unit
20 contains more acreage or land than the board has included, or
21 is authorized by this section to include in a drainage or
22 production unit established by it for the same pool; ~~provided,~~
23 ~~however, the spacing limitations set forth herein shall not~~
24 ~~apply to offshore wells and the size and configuration of~~

1 ~~drilling units and drainage or production units of offshore~~
2 ~~wells shall be as is determined proper by the board.~~

3 "(2) The acreage limitations set forth in this
4 section for drainage or production units for oil reservoirs
5 shall not apply to horizontal wells drilled into oil
6 reservoirs. The board shall determine the size and
7 configuration of drilling units and drainage or production
8 units for horizontal oil wells. Notwithstanding the foregoing,
9 the board shall not have authority to establish a drilling
10 unit or a drainage or production unit in excess of either 640
11 acres or one governmental section or two contiguous half
12 sections, plus 10 percent tolerance for any horizontal well
13 drilled in any oil reservoirs, the 10 percent tolerance
14 provided to allow for irregular sections.

15 "(3) The acreage limitations set forth in this
16 section for drainage or production units for oil reservoirs
17 and for gas reservoirs shall not apply to offshore wells, and
18 the board shall determine the size and configuration of
19 drilling units and drainage or production units of offshore
20 wells.

21 "(c) Each well permitted to be drilled upon any
22 drilling or production unit to a pool in a field with respect
23 to which the board has promulgated special rules shall be
24 drilled at a location on the unit authorized by the special
25 rules, and each well permitted to be drilled upon any drilling

1 or production unit where the location thereof is not
2 prescribed by special rules shall be drilled at a location on
3 the unit authorized by rules of statewide application
4 promulgated by the board, with the exceptions as may be
5 reasonably necessary, where it is shown, after notice and
6 hearing, and the board finds, that the unit is partly outside
7 the pool, or, for some other reason, that a well located in
8 accordance with applicable rules would be nonproductive, would
9 not be at the optimum position in the drilling or production
10 unit for the most efficient and economic drainage of the unit,
11 or where topographical conditions are such as to make the
12 drilling at an authorized location on the unit unduly
13 burdensome or where an exception is necessary to prevent the
14 confiscation of property. Whenever an exception is granted,
15 the board shall take such action as will offset any advantage
16 which the person securing the exception may have over other
17 producers by reason of the drilling of the well as an
18 exception, and so that drainage from developed units to the
19 tract with respect to which the exception is granted will be
20 prevented or minimized and the producer of the well drilled as
21 an exception will be allowed to produce no more than his or
22 her just and equitable share of the oil and gas in the pool,
23 as such share is set forth in this section.

24 "(d) Subject to the reasonable requirements for
25 prevention of waste and to the reasonable adjustment because

1 of structural position, a producer's just and equitable share
2 of the oil and gas in the pool (also sometimes referred to as
3 a tract's just and equitable share) is that part of the
4 authorized production for the pool (whether it be the total
5 which could be produced without any restriction on the amount
6 of production or whether it be an amount less than that which
7 the pool could produce if no restriction on amount were
8 imposed) which is substantially in the proportion that the
9 quantity of recoverable oil and gas in the developed area of
10 his or her tract or interest or tracts or interests in the
11 pool bear or bears to the recoverable oil and gas in the total
12 developed area of the pool, insofar as these amounts can be
13 practically ascertained; and to that end, the rules,
14 regulations, permits, and orders of the board shall be such as
15 will prevent or minimize reasonably avoidable net drainage
16 from each developed unit (that is, drainage which is not
17 equalized by counterdrainage), and will give to each producer
18 the opportunity to use his or her just and equitable share of
19 the reservoir energy. In determining each producer's just and
20 equitable share of the authorized production for the pool, the
21 board is authorized to give due consideration to the
22 productivity of the well or wells located thereon, as
23 determined by flow tests, bottom hole pressure tests, or any
24 other practical method of testing wells and producing
25 structures, and to consider such other factors and geological

1 or engineering tests and data as may be determined by the
2 supervisor to be pertinent or relevant to ascertaining each
3 producer's just and equitable share of the production and
4 reservoir energy of the field or pool."

5 Section 2. This act shall become effective on the
6 first day of the third month following its passage and
7 approval by the Governor, or its otherwise becoming law.

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President and Presiding Officer of the Senate

Speaker of the House of Representatives

SB366

Senate 04-MAR-14

I hereby certify that the within Act originated in and passed the Senate.

Patrick Harris
Secretary

House of Representatives
Passed: 20-MAR-14

By: Senator Keahey