

1 SB366
2 157509-3
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

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8 SYNOPSIS: Under existing law, the State Oil and Gas
9 Board regulates drilling units and drainage or
10 production units for oil and gas reservoirs and for
11 wells drilled in search of oil and gas.

12 This bill would define the term horizontal
13 well, would change the statutory acreage
14 limitations for the units for horizontal wells, and
15 would move and reword a provision in the existing
16 statute specifying that certain limitations on the
17 units would not apply to offshore wells.

18
19 A BILL

20 TO BE ENTITLED

21 AN ACT

22
23 To amend Sections 9-17-1 and 9-17-12, Code of
24 Alabama 1975, relating to the State Oil and Gas Board; to
25 further provide for the regulation by the board of drilling
26 units and drainage or production units for horizontal wells
27 and offshore wells.

1 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

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

4 "§9-17-1.

5 "Unless the context otherwise requires, the
6 following terms shall have the following meanings:

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

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

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

17 "(4) DRILLING UNIT. An administrative unit
18 established by the board to provide and allow for the drilling
19 of a well. Prior to establishment of a field and drainage or
20 production unit within the field, the board may establish a
21 drilling unit to allow for the drilling of a well in search of
22 oil and gas.

23 "(5) FIELD. The general area which is underlain or
24 appears to be underlain by at least one pool, and such term
25 shall include the underground reservoir or reservoirs
26 containing crude oil or natural gas or both. The words "field"
27 and "pool" have the same meaning when only one underground

1 reservoir is involved; however, the word "field," unlike
2 "pool," may relate to two or more pools.

3 "(6) GAS. All natural gas, including casinghead gas,
4 and all other hydrocarbons not defined as oil in subdivision
5 (10).

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

9 "~~(7)~~(8) ILLEGAL GAS. Gas which has been produced
10 within the State of Alabama from any well or wells in excess
11 of the amount allowed by any rule, regulation, or order of the
12 board, as distinguished from gas produced within the State of
13 Alabama not in excess of the amount so allowed, which is
14 "legal gas."

15 "~~(8)~~(9) ILLEGAL OIL. Oil which has been produced
16 within the State of Alabama from any well or wells in excess
17 of the amount allowed by any rule, regulation, or order of the
18 board, as distinguished from oil produced within the State of
19 Alabama not in excess of the amount so allowed, which is
20 "legal oil."

21 "~~(9)~~(10) ILLEGAL PRODUCT. Any product of oil or gas,
22 any part of which was processed or derived in whole or in part
23 from illegal oil or illegal gas or from any product thereof,
24 as distinguished from "legal product," which is a product
25 processed or derived to no extent from illegal oil or illegal
26 gas.

1 "~~(10)~~(11) OIL. Crude petroleum oil and other
2 hydrocarbons, regardless of gravity, which are produced at the
3 well in liquid form by ordinary production methods and which
4 are not the result of a condensation of gas after it leaves
5 the pool.

6 "~~(11)~~(12) OPERATOR. The person who is authorized by
7 the board to operate an oil, gas, or Class II injection well,
8 or production facility, or processing facility, or engages in
9 the transportation of hydrocarbons by pipeline, including the
10 handling and disposal of wastes that may be generated during
11 operation of a well, or production facility, or processing
12 facility.

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

17 "~~(13)~~(14) PERSONS. Any natural person, firm,
18 corporation, association, partnership, joint venture,
19 receiver, trustee, guardian, executor, administrator,
20 fiduciary, representative of any kind, or any other group
21 acting as a unit.

22 "~~(14)~~(15) POOL. An underground reservoir containing
23 a common accumulation of crude petroleum oil or natural gas or
24 both and each zone of a general structure which is completely
25 separated from any other zone in the structure.

26 "~~(15)~~(16) PRODUCER. The owner of a well or wells
27 capable of producing oil or gas or both; provided, however,

1 that the word "producer" as used in Section 9-17-25 shall also
2 include any person receiving money or other valuable
3 consideration as royalty or rental for oil or gas produced or
4 because of oil or gas produced, whether produced by him or her
5 or by some other person on his or her behalf, either by lease,
6 contract, or otherwise, and whether the royalty consists of a
7 portion of the oil or gas produced being run to his or her
8 account or a payment in money or other valuable consideration.

9 "~~(16)~~(17) PRODUCT. Any commodity made from oil or
10 gas and shall include refined crude oil, crude tops, topped
11 crude, processed crude petroleum, residue from crude
12 petroleum, cracking stock, uncracked fuel oil, fuel oil,
13 treated crude oil, residuum, gas oil, casinghead gasoline,
14 natural gas gasoline, naphtha, distillate, gasoline, kerosene,
15 benzine, wash oil, waste oil, blended gasoline, lubricating
16 oil, blends or mixtures of oil with one or more liquid
17 products or byproducts derived from oil or gas and blends or
18 mixtures of two or more liquid products or byproducts derived
19 from oil or gas, whether hereinabove enumerated or not.

20 "~~(17)~~(18) REASONABLE MARKET DEMAND. As to oil, the
21 amount of oil reasonably needed for current consumption and
22 use, together with a reasonable amount of oil for storage and
23 working stock and, as to gas, the amount of gas of any type
24 reasonably needed to supply the current consumption and use of
25 such type of gas.

26 "~~(18)~~(19) TENDER. A permit or certificate of
27 clearance, approved and issued or registered under the

1 authority of the board, for the transportation of oil, gas, or
2 products.

3 "~~(19)~~(20) WASTE. In addition to its ordinary
4 meaning, such term shall mean "physical waste" as that term is
5 generally understood in the oil and gas industry. It shall
6 include any of the following:

7 "a. The inefficient, excessive, or improper use or
8 dissipation of reservoir energy and the locating, spacing,
9 drilling, equipping, operating, or producing of any oil or gas
10 well or wells in a manner which results or tends to result in
11 reducing the quantity of oil or gas ultimately to be recovered
12 from any pool in this state.

13 "b. The inefficient storing of oil and the locating,
14 spacing, drilling, equipping, operating, or producing of any
15 oil or gas well or wells in a manner causing or tending to
16 cause unnecessary or excessive surface loss or destruction of
17 oil or gas.

18 "c. Abuse of the correlative rights and
19 opportunities of each owner of oil and gas in a common
20 reservoir due to nonuniform, disproportionate, and unratable
21 withdrawals causing undue drainage between tracts of land.

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

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

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

1 "g. Underground waste however caused and whether or
2 not defined.

3 "h. The creation of unnecessary fire hazards.

4 "i. The escape into the open air, from a well
5 producing both oil and gas, of gas in excess of the amount
6 which is necessary in the efficient drilling or operation of
7 the well.

8 "j. The use of gas, except sour gas, for the
9 manufacture of carbon black.

10 "k. The escape of gas into the open air, from a well
11 producing gas, in excess of the amount which is necessary for
12 safety reasons or for the efficient drilling, testing, and
13 operation of the well.

14 "l. Production of oil and gas in excess of
15 reasonable market demand.

16 "§9-17-12.

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

21 "(1) That it shall be necessary at any time for the
22 producer from or the owner of, a tract of land in the pool, or
23 an interest associated therewith or derived therefrom, in
24 order that he or she may obtain the tract's just and equitable
25 share or the just and equitable share of the interest of the
26 production of such pool, as the share is set forth in this
27 section, to drill and operate any well or wells on such tract

1 in addition to the well or wells as can without waste produce
2 the share.

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

10 "(b) (1) In order to prevent the waste of oil and gas
11 resources, to protect and enforce the correlative rights of
12 the owners and producers in a pool and to avoid the drilling
13 of an excessive and unnecessary number of wells, the board
14 shall, after notice and hearing, establish drainage or
15 production units for each pool. Furthermore, the board shall,
16 after notice and hearing, establish special field rules for
17 each pool, and the special field rules established by the
18 board shall designate, among other things, the drainage or
19 production units for the field and production allowables for
20 each drainage or production unit. A drainage or production
21 unit, means the maximum area which may be efficiently and
22 economically drained by one well. With respect to wells
23 drilled and completed in shale natural gas reservoirs as
24 defined by the board, when a party affirmatively demonstrates
25 to the board after notice and hearing, with substantial
26 evidence based on geologic and engineering evidence and
27 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
26 drainage or production unit established by the board shall
27 constitute a developed unit as long as a well is located

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

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

24 "Notwithstanding the provisions of this section, all
25 persons entitled to share in the production of oil or gas from
26 a tract or interest or tracts or interests in land may
27 voluntarily agree to the creation or establishment of a

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

21 "(2) The acreage limitations set forth in this
22 section for drainage or production units for oil reservoirs
23 shall not apply to horizontal wells drilled into oil
24 reservoirs. The board shall determine the size and
25 configuration of drilling units and drainage or production
26 units for horizontal oil wells. Notwithstanding the foregoing,
27 the board shall not have authority to establish a drilling

1 unit or a drainage or production unit in excess of either 640
2 acres or one governmental section or two contiguous half
3 sections, plus 10 percent tolerance for any horizontal well
4 drilled in any oil reservoirs, the 10 percent tolerance
5 provided to allow for irregular sections.

6 "(3) The acreage limitations set forth in this
7 section for drainage or production units for oil reservoirs
8 and for gas reservoirs shall not apply to offshore wells, and
9 the board shall determine the size and configuration of
10 drilling units and drainage or production units of offshore
11 wells.

12 "(c) Each well permitted to be drilled upon any
13 drilling or production unit to a pool in a field with respect
14 to which the board has promulgated special rules shall be
15 drilled at a location on the unit authorized by the special
16 rules, and each well permitted to be drilled upon any drilling
17 or production unit where the location thereof is not
18 prescribed by special rules shall be drilled at a location on
19 the unit authorized by rules of statewide application
20 promulgated by the board, with the exceptions as may be
21 reasonably necessary, where it is shown, after notice and
22 hearing, and the board finds, that the unit is partly outside
23 the pool, or, for some other reason, that a well located in
24 accordance with applicable rules would be nonproductive, would
25 not be at the optimum position in the drilling or production
26 unit for the most efficient and economic drainage of the unit,
27 or where topographical conditions are such as to make the

1 drilling at an authorized location on the unit unduly
2 burdensome or where an exception is necessary to prevent the
3 confiscation of property. Whenever an exception is granted,
4 the board shall take such action as will offset any advantage
5 which the person securing the exception may have over other
6 producers by reason of the drilling of the well as an
7 exception, and so that drainage from developed units to the
8 tract with respect to which the exception is granted will be
9 prevented or minimized and the producer of the well drilled as
10 an exception will be allowed to produce no more than his or
11 her just and equitable share of the oil and gas in the pool,
12 as such share is set forth in this section.

13 "(d) Subject to the reasonable requirements for
14 prevention of waste and to the reasonable adjustment because
15 of structural position, a producer's just and equitable share
16 of the oil and gas in the pool (also sometimes referred to as
17 a tract's just and equitable share) is that part of the
18 authorized production for the pool (whether it be the total
19 which could be produced without any restriction on the amount
20 of production or whether it be an amount less than that which
21 the pool could produce if no restriction on amount were
22 imposed) which is substantially in the proportion that the
23 quantity of recoverable oil and gas in the developed area of
24 his or her tract or interest or tracts or interests in the
25 pool bear or bears to the recoverable oil and gas in the total
26 developed area of the pool, insofar as these amounts can be
27 practically ascertained; and to that end, the rules,

1 regulations, permits, and orders of the board shall be such as
2 will prevent or minimize reasonably avoidable net drainage
3 from each developed unit (that is, drainage which is not
4 equalized by counterdrainage), and will give to each producer
5 the opportunity to use his or her just and equitable share of
6 the reservoir energy. In determining each producer's just and
7 equitable share of the authorized production for the pool, the
8 board is authorized to give due consideration to the
9 productivity of the well or wells located thereon, as
10 determined by flow tests, bottom hole pressure tests, or any
11 other practical method of testing wells and producing
12 structures, and to consider such other factors and geological
13 or engineering tests and data as may be determined by the
14 supervisor to be pertinent or relevant to ascertaining each
15 producer's just and equitable share of the production and
16 reservoir energy of the field or pool."

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