AN ACT concerning oil and gas; relating to horizontal drilling; amending K.S.A. 55-1304 and 55-1305 and repealing the existing sections.

Be it enacted by the Legislature of the State of Kansas:

New Section 1. (a) As used in this section:

(1) "Commission" means the state corporation commission; and

(2) "horizontally drilled well" means a well with a horizontal displacement of the well bore drilled at an angle of at least 80 degrees within the productive common source of supply of at least 300 feet.

(b) Upon proper application and notice and a hearing, the commission shall have the authority to establish horizontal drilling units of approximately uniform size and shape covering any actual or prospective common source of supply of oil and gas within the state for the purposes of preventing unlawful waste of oil or gas and protecting the correlative rights of interested parties.

(c) Any order issued pursuant to this section may be entered after a hearing upon:

(1) The application of any person owning either: (A) An interest in the minerals; or (B) the right to drill a well for oil or gas on the lands embraced within the proposed horizontal drilling unit. Such application may only be made if one or more persons who collectively own at least an undivided 50% of the interest in the minerals or the right to drill a well for oil or gas from the total lands embraced within the proposed horizontal unit support the application; or

(2) the petition of the commission.

(d) Upon proper application and notice and a hearing, the commission shall have jurisdiction to establish horizontal drilling units for horizontally drilled wells containing 640 acres plus 10% tolerance, and in such cases where the evidence supports the application, up to 1,280 acres.

(e) Upon the entry of an order by the commission creating a horizontal drilling unit, the separately owned tracts and oil and gas rights embraced within the horizontal spacing unit shall be combined to form a single unit for the purposes of drilling for and producing oil or gas. Operations and production from one tract within the unit shall constitute operations and production from all separate tracts within the unit. All existing and future property rights, oil and gas leases, contracts and other
rights or obligations embraced within a unit shall be regarded as amended
and modified only to the extent necessary to conform to the provisions of
this section. For the purposes of this section, the owner or owners of oil
and gas rights in and under an unleased tract of land shall be regarded as
the owner of a royalty interest equivalent to the highest royalty interest
provided in an oil and gas lease owned, or contracted to be owned, by the
applicant in such unit to the extent the proportion the unleased tract bears
to the total acreage within the unit as determined by the commission.
Nothing in this section pools the owner of the working interest, nor does it
otherwise bind the owners of the right to drill any well within the unit, to
participate in the drilling of any well within the unit. If such parties within
a horizontal drilling unit do not voluntarily agree to jointly develop a unit,
such rights may be unitized pursuant to the Kansas unitization act, K.S.A.
55-1301 et seq., and amendments thereto.
(f) In establishing a horizontal well spacing unit for a common source
of supply, the acreage embraced within each unit may include acreage
from more than one governmental section, but shall not exceed 1,280
acres.
(g) The horizontal spacing unit established shall constitute a
developed unit as long as a well capable of producing oil or gas is located
in the common source of supply covered by such unit.
(h) The commission shall promulgate rules and regulations necessary
for the administration of this section.
Sec. 2. K.S.A. 55-1304 is hereby amended to read as follows: 55-
1304. The commission may make an order providing for the unitization
and unit operation of such pool or part thereof sought to be unitized, if,
Upon application of any working interest owner and after notice and
hearing in accordance with the provisions of the Kansas administrative
procedure act, the commission may make an order providing for the
unitization and unit operation of a pool or part thereof sought to be
unitized if the commission finds all of the following conditions exist:
(a) (1) The primary production from a the pool or a the part thereof
sought to be unitized has reached a low economic level and, without
introduction of artificial energy, abandonment of oil or gas wells is
imminent; or
(2) the unitized management, operation and further development of
the pool or the part thereof sought to be unitized is economically feasible
and reasonably necessary to prevent waste within the reservoir and thereby
increase substantially increase the ultimate recovery of oil or gas; or
(3) the development of the pool or part thereof by the drilling of a
horizontal well or wells will maximize recovery within the reservoir and
thereby substantially increase the ultimate recovery of oil and gas;
(b) the value of the estimated additional recovery of oil or gas
substantially exceeds the estimated additional cost incident to conducting such operations; and

(c) the proposed operation is fair and equitable to all interest owners.

Sec. 3. K.S.A. 55-1305 is hereby amended to read as follows: 55-1305. (a) The order providing for the unitization and unit operation of a pool or a part thereof shall be upon terms and conditions that are just and reasonable and shall prescribe a plan for unit operations that shall include:

(1) a legal description in terms of surface area of the pool or a part thereof to be so operated, termed "the unit area";

(2) a statement of the nature of the operations contemplated;

(3) an allocation to the separately owned tracts in the unit area of all the oil and gas that is produced from the unit area and is saved, being the production that is not used in the conduct of operations on the unit area or not unavoidably lost. The allocation shall be in accord with the agreement, if any, of all interest owners. If there is no such agreement as to the allocation, the commission shall determine the relative value of the separately owned tracts in the unit area, exclusive of physical equipment, for development of oil and gas by unit operations, and the production allocated to each tract shall be the proportion that the value of each tract so determined bears to the total value of all tracts in the unit area;

(4) a provision for the credits and charges to be made in the adjustment among the working interest owners in the unit area for their respective investments in wells, tanks, pumps, machinery, materials and equipment contributed to the unit operations;

(5) a provision providing how the costs of unit operations, including capital investments, shall be determined and charged to the separately owned tracts and how such costs shall be paid, including a provision providing when, how and by whom the unit production allocated to a working interest owner who does not pay the share of the cost of unit operations charged to such owner, or to the interest of such owner, may be sold and the proceeds applied to the payment of such costs;

(6) a provision whereby a nonoperating working interest owner shall be furnished, but not more often than once a month, reasonably detailed information regarding the nature and amount of the various items of costs and expenses, including capital investments, chargeable against the interest of the nonoperating working interest owners;

(7) a provision for carrying any nonoperating working interest owner on a limited, carried or net-profits basis, payable out of production, upon terms and conditions determined by the commission to be just and reasonable, or otherwise financing any nonoperating working interest owner who elects to be carried or otherwise financed or who does not meet the owner's financial obligations with the unit and a provision for establishing a reasonable rate of interest and a penalty on all unpaid
expenses, in amounts established by rules and regulations adopted by the commission, not to exceed:

(1) (A) One hundred percent of the unpaid portion of the owner's share of the cost of aboveground surface equipment beyond the wellhead connection, including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping, plus 100% of the unpaid portion of the owner's share of the cost of operation of the unit, all subject to the rate of interest established;

(2) (B) three hundred percent of the unpaid portion of the owner's share of the costs and expenses of drilling wells in the unitized area, including staking, well site preparation, rigging up, or drilling, and reworking, deepening or plugging back, testing and completing wells; and

(3) (C) three hundred percent of the unpaid portion of the owner's share of the costs and expenses of underground pipeline systems, expenses for injected substances and any other nonrecoupable expenses incurred. All interest and penalties prescribed under this subsection shall be paid from the nonpaying interest owner's share of production;

(4) (8) a provision for the supervision and conduct of the unit operations, including the selection, removal or substitution of an operator from among the working interest owners to conduct the unit operations;

(5) (9) a provision for a voting procedure for the decision of matters to be decided by the working interest owners in respect to which each working interest owner shall have a vote with a value corresponding to the percentage of the costs of unit operations chargeable against the interest of such owner;

(6) (10) the time when the unit operations shall commence and the manner in which, and the circumstances under which, the unit operations shall terminate and for the settlement of accounts upon such termination;

(7) (11) a provision specifying the particular records the unit operator shall keep and the detailed accounting procedure that the unit operator shall follow. A plan of unitization shall not be considered fair and reasonable if it contains a provision for operating charges which include any part of district or central office expense other than reasonable overhead charges; and

(8) (12) such additional provisions that are found to be appropriate for carrying on the unit operations and for the protection of correlative rights.

(b) (1) No order of the commission providing for unit operations upon a finding pursuant to subsection (a)(1) of K.S.A. 55-1304, and amendments thereto, shall become effective unless and until the plan for unit operations prescribed by the commission has been approved in writing by those persons who, under the commission's order, will be required to pay at least 63% of the costs of the unit operation, and also by the owners of at least 63% of the production or proceeds thereof that will be credited
to royalties, excluding overriding royalties or other like interests which are
carved out of the leasehold estate, and the commission has made a finding,
either in the order providing for unit operations or in a supplemental order,
that the plan for unit operations has been so approved.

(2) No order of the commission providing for unit operations upon a
finding pursuant to subsection (a)(2) of K.S.A. 55-1304, and amendments
thereto, shall become effective unless and until the plan for unit operations
prescribed by the commission has been approved in writing by those
persons who, under the commission's order, will be required to pay at least
63% of the costs of the unit operation, and also by the owners of at least
75% of the production or proceeds thereof that will be credited to
royalties, excluding overriding royalties or other like interests which are
carved out of the leasehold estate, and the commission has made a finding,
either in the order providing for unit operations or in a supplemental order,
that the plan for unit operations has been so approved.

(3) No order of the commission providing for unit operations upon a
finding pursuant to subsection (a)(3) of K.S.A. 55-1304, and amendments
thereto, shall become effective unless and until the plan for unit operations
prescribed by the commission has been approved in writing by those
persons who under the commission's order, will be required to pay at least
50% of the costs of the unit operation and the commission has made a
finding, either in the order providing for unit operations or in a
supplemental order, that the plan for unit operations has been approved.

If the plan for unit operations has not been so approved at the time the
order providing for unit operations is made, the commission shall upon
application and notice hold such supplemental hearings as may be required
to determine if and when the plan for unit operations has been so
approved. If the persons owning the required percentage of interest in the
unit area do not approve the plan for unit operations within a period of six
months from the date on which the order providing for unit operations is
made, such order shall cease to be of further force and effect and shall be
revoked by the commission, except that the commission may extend the
six-month period not to exceed 60 days for good cause shown.

(c) An order providing for unit operations may be amended by the
commission in the same manner and subject to the same conditions as are
necessary or required for an original order providing for unit operations,
except that: (a) (1) If such an amendment affects only the rights and
interest of the working interest owners, the approval of the amendment by
the royalty owners shall not be required; and (b) (2) no such order of
amendment shall change the percentage for the allocation of oil and gas as
established for any separately owned tract by the original order, except
with the consent of all persons owning oil and gas rights in such tract; no
such order shall change the percentage for the allocation of cost as
established for any separately owned tract by the original order, except
with the consent of all working interest owners in such tract.
(d) The commission by an order may provide for the unit operation of
a pool or a part thereof that embraces a unit area previously established
either by voluntary agreement or order of the commission. Such order, in
providing for the allocation of unit production, shall first treat the unit area
previously established as a single tract, and the part of the unit production
so allocated thereto shall then be allocated among the separately owned
tracts included in such previously established unit area in the same
proportions as those specified in the previous agreement or order.
(e) An order may provide for the unit operation of less than the whole
of a pool where the unit area is of such size and shape as may be
reasonably required for that purpose, and the conduct thereof will have no
material adverse effect upon other parts of the pool.
Sec. 4. K.S.A. 55-1304 and 55-1305 are hereby repealed.
Sec. 5. This act shall take effect and be in force from and after its
publication in the statute book.