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RM 202100003  
Agency Rule Report  
Chapter 10, O&G Conservation

📎 7 attachments (614 KB)

CH10ARR.pdf; AppA-OCC-Ch10AttSheet.pdf; AppB-OCC-Ch10RIS.pdf; AppC-OCC-Ch10EI&EBS.pdf; AppD-OCC-Ch10AdoptedRulesB&W(3-18-21).pdf; RM2021-003CH10attestation.pdf; RM2021-003CH10verification.pdf;

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**Filing ID:** 7860

**Submission Date:** 03/25/2021 09:06:11 am

**Agency Name:** Corporation Commission, Oklahoma - OCC

**Mailing Address 1:** 2101 N. Lincoln Blvd

**Mailing Address 2:** Jim Thorpe Bldg

**City:** Oklahoma City

**State:** OK

**Zip:** 73105



**Type of Filing:** Administrative Rules

**Rule Type:** Permanent

**Adoption Date:** 03/18/2021

**Title Number:** 165

**Chapter Number:** 10

**Sub Chapters:** 3, 17

**Public Comment:** Comments were made and discussions held regarding the proposed rules. Summaries of written comments and oral comments are included in the Agency Rule Report. All comments were addressed and taken into account in the adopted rules.

**Rule Impact:** No adverse economic impact anticipated, and it is anticipated that the proposed rules will not have a negative effect on public health, safety and the environment.

**Reason for Rule:** The rulemaking, which is limited in scope, was initiated at the request of a group of industry stakeholders. Operators and owners of wells doing business in the State will benefit from proposed amendments to OAC 165:10-3-28 modifying allowables for horizontal gas wells; OAC 165:10-17-6 extending the time period to submit initial test results for gas wells; OAC 165:10-17-7 reducing the frequency of gas well tests, and OAC 165:10-17-11 clarifying permitted rates of

production for unallocated gas wells. The proposed rules could encourage operators to drill and produce additional wells, which would result in increased tax revenue for the State of Oklahoma, and ultimately lead to increased revenues that would benefit citizens of the State.

**Statutory Authority to promulgate the rules:** 17 O.S. Â§ 52, 27A O.S. Â§ 1-3-101, and 52 O.S. Â§ 139.

**Fee Increase?** No

**AGENCY RULE REPORT  
OKLAHOMA CORPORATION COMMISSION  
PERMANENT RULEMAKING  
OAC 165:10. OIL & GAS CONSERVATION  
CAUSE NO. RM 202100003**

Pursuant to the Oklahoma Administrative Procedures Act requirements in 75 O.S. §§ 303.1(A) and 308(A), the Oklahoma Corporation Commission ("Commission") hereby respectfully submits this Agency Rule Report to the Honorable J. Kevin Stitt, Governor of the State of Oklahoma, the Honorable Greg Treat, President Pro Tempore of the State Senate, and the Honorable Charles McCall, Speaker of the House of Representatives.

**1. DATE OF THE PUBLICATION OF NOTICE OF PROPOSED RULEMAKING:**

A. The Commission's Notice of Proposed Rulemaking was published in The Journal Record of Oklahoma City, Oklahoma, on February 10, 2021.

B. The Commission's Notice of Proposed Rulemaking was published in The Tulsa World of Tulsa, Oklahoma, on February 10, 2021.

C. 75 O.S. § 250.4 exempts the Commission from the requirements of 75 O.S. §§ 255, 303(A), and 303(B), respectively, to publish a Notice of Intended Rulemaking in The Oklahoma Register.

**2. NAME AND ADDRESS OF THE AGENCY:**

Oklahoma Corporation Commission  
P.O. Box 52000  
Oklahoma City, Oklahoma 73152-2000

**3. TITLE AND NUMBER OF THE RULES:**

Subchapter 3. Drilling, Developing, and Producing  
Part 5. Operations  
165:10-3-28. Horizontal drilling [AMENDED]  
Subchapter 17. Gas Well Operations and Permitted Production  
165:10-17-6. General well testing requirements [AMENDED]  
165:10-17-7. Well tests [AMENDED]  
165:10-17-11. Maximum permitted rates of production for unallocated gas wells  
[AMENDED]

**4. STATUTORY AUTHORITY FOR THE RULES:**

17 O.S. § 52, 27A O.S. § 1-3-101, and 52 O.S. § 139.

**5. FEDERAL OR STATE LAW, COURT RULING, OR OTHER AUTHORITY REQUIRING THE RULES:**

Please see response to item number 4.

**6. STATEMENT OF THE GIST OF THE RULES AND BRIEF SUMMARY OF THE CONTENT OF THE ADOPTED RULES:**

The adopted rules update, streamline, and clarify the Oil & Gas Conservation rules, modify allowables for horizontal gas wells, extend the time period to submit initial test results for gas wells, reduce the frequency of gas well tests, and address permitted rates of production for unallocated gas wells.

**7. STATEMENT EXPLAINING THE NEED FOR THE ADOPTED RULES:**

The rulemaking, which is limited in scope, was initiated at the request of a group of industry stakeholders. Operators and owners of wells doing business in the State will benefit from proposed amendments to OAC 165:10-3-28 modifying allowables for horizontal gas wells; OAC 165:10-17-6 extending the time period to submit initial test results for gas wells; OAC 165:10-17-7 reducing the frequency of gas well tests, and OAC 165:10-17-11 clarifying permitted rates of production for unallocated gas wells. The proposed rules could encourage operators to drill and produce additional wells, which would result in increased tax revenue for the State of Oklahoma, and ultimately lead to increased revenues that would benefit citizens of the State.

**8. DATE AND LOCATION OF THE HEARING AT WHICH THE RULES WERE ADOPTED:**

On March 18, 2021, the rules were adopted in a public hearing held in Courtroom 301, Oklahoma Corporation Commission, Jim Thorpe Office Building, 2101 North Lincoln Boulevard, Oklahoma City, Oklahoma, 73105, before the Commission.

**9. SUMMARY OF COMMENTS AND EXPLANATION OF CHANGES OR LACK OF ANY CHANGES MADE IN THE ADOPTED RULES AS A RESULT OF TESTIMONY RECEIVED AT THE PUBLIC HEARINGS OR MEETINGS HELD OR SPONSORED BY THE AGENCY FOR THE PURPOSE OF PROVIDING THE PUBLIC AN OPPORTUNITY TO COMMENT ON THE RULES OR OF ANY COMMENTS RECEIVED PRIOR TO ADOPTION OF THE RULES:**

Comments submitted in writing by persons or organizations may be viewed on the Commission's website at <http://imaging.occ.ok.gov/imaging/OAP.aspx>, by searching Cause No. RM 202100003.

**Summary of Written Comments:**

Written comments were filed by Devon Energy Production Company, L.P. (Devon). Devon supports proposed changes to OAC 165:10-3-28(h), because such changes modernize the

Commission's rules regarding allowables for both horizontal wells and vertical wells. Devon also supports proposed amendments to the rules in Subchapter 17, because such amendments will simplify and streamline timelines for tests performed on unallocated gas wells.

Written comments were filed by Marathon Oil Company (Marathon). Marathon supports the proposed rules, because such rules promote streamlining of testing regimes, and modernization of determination of allowables for unallocated gas wells and capable wells. Marathon also asserts that the proposed rules will result in a more efficient administrative process for the Commission, while reducing burdens on operators, and that the rules will promote the commercial development of Oklahoma's resources and improve the competitive environment while protecting correlative rights.

Written comments were filed by the Oklahoma Energy Producers Alliance (OEPA). OEPA supports the proposed rules, especially the proposed addition of OAC 165:10-3-28(h)(5), which promotes parity regarding allowables for both horizontal wells and vertical wells.

Written comments were filed by Ovintiv USA, Inc. (Ovintiv). Ovintiv supports the proposed rules, because such rules modernize the regulatory scheme for establishing allowables for unallocated gas wells, and streamline processes for testing unallocated gas wells. Ovintiv also noted that the proposed rules represent a consensus of industry stakeholders and Commission staff after months of discussions.

Written comments were filed by The Petroleum Alliance of Oklahoma (Petroleum Alliance). The Petroleum Alliance supports the proposed rules, because such rules promote the goal of modernizing rules regarding horizontal well development, and clarify unallocated gas well testing requirements.

Written comments were filed by The State Chamber (State Chamber). The State Chamber supports the proposed rules, because such rules encourage the drilling of wells and alleviate regulatory mandates, which in turn increases revenue and production from such wells. The State Chamber urged the Commission to adopt the proposed rules, because such rules benefit Oklahoma, its oil and gas producers, and the broader business community.

#### **Summary of Public Meeting Comments:**

A Technical Conference was held on February 11, 2021, at 9:30 a.m. at the Oklahoma Corporation Commission, Jim Thorpe Office Building, Courtroom 301, 2101 North Lincoln Boulevard, Oklahoma City, Oklahoma, to afford the public an opportunity to comment on, and suggest additions and/or revisions to, the proposed rules. Commission Oil & Gas Conservation Division (OGCD) Staff took comments received at the Technical Conference under consideration. Commissioners Hiett, Anthony, and Murphy attended the Technical Conference.

During the Technical Conference, oral comments were provided by Katie Altshuler of Marathon Oil Company (Marathon). Ms. Altshuler noted that industry's suggested changes are designated as proposals one in the proposed rules filed February 5, 2021. A formula to calculate allowables for horizontal gas wells is included in changes to OAC 165:10-3-28(h)(2) in proposal

one. Vertical wells have a more limited drainage area than horizontal wells. Marathon supports Staff's addition of OAC 165:10-3-28(h)(5) in proposal two in the proposed rules filed February 5, 2021, establishing parity in the allowables for horizontal wells and vertical wells in concurrently existing units producing from the same common source of supply.

Ms. Altshuler noted that changes in the frequency of performing potential tests for the purpose of obtaining a higher allowable are in OAC 165:10-17-7(b)(2) in proposal one in the proposed rules filed February 5, 2021. Industry suggests the potential tests be performed every twenty-four months, rather than on an annual basis. The test schedule will be more efficient for well operators to administer, and previous compliance issues should improve with the new test schedule. The test schedule also helps protect well operators from potential economic loss, and minimizes the potential adverse impact on operators' investments in wells. Shutting in wells to conduct potential tests can cause mechanical failures in wells, losses in the productivity of wells, etc. She suggested, as a compromise between industry's and Staff's positions, that potential tests be performed on unallocated gas wells once every twelve months for the first two years after the initial potential tests, and every two years thereafter. Staff agreed with Ms. Altshuler's suggestions, and revised the proposed rules to incorporate her suggestions in OAC 165:10-17-7(b)(2) in the proposed rules filed March 3, 2021, and March 16, 2021.

Ms. Altshuler commented that industry suggests changing the definition of the term "capable well" in OAC 165:10-17-11(a)(4) in proposal one of the proposed rules filed February 5, 2021, to mean those unallocated gas wells having a wellhead absolute flow potential of 3000 mcf/d or greater, rather than the current 2000 mcf/d or greater, and all other wells are minimum wells. She said more discussion is needed regarding the definition of the term "capable well." After further discussions with industry, Staff filed proposed rules on March 3, 2021, and March 16, 2021, changing the definition of the term "capable well" in OAC 165:10-17-11(a)(4) to mean those unallocated gas wells with a production rate of 3000 mcf/d or greater, and all other wells are minimum wells.

Michael McGinnis, OGCD Deputy Director, stated it was his understanding that industry agreed with Staff's utilization of the minimum horizontal well allowable as established in the current proration order in the formula to determine horizontal gas well allowables in OAC 165:10-3-28(h)(2) in proposal two filed February 5, 2021.

Mike Mathis of Continental Resources said that great progress is being made regarding the proposed rules, with some compromises being involved, and he agreed with Ms. Altshuler that more discussion is needed regarding the definition of "capable well" in OAC 165:10-17-11(a)(4).

Chad McDougall of JMA Energy Company, LLC (JMA) suggested that the word "horizontal" be removed from the references to "minimum horizontal well allowable" appearing in OAC 165:10-3-28(h)(2) in proposal two of the proposed rules filed February 5, 2021. There should be no differentiation between minimum allowables for horizontal wells and other types of wells. Staff agreed with Mr. McDougall's suggestion, and the phrase "minimum well allowable" was inserted in OAC 165:10-3-28(h)(2) in the proposed rules filed March 3, 2021, and March 16, 2021.

Mr. McDougall expressed concern regarding Staff's addition of OAC 165:10-3-28(h)(5) in proposal two in the proposed rules filed February 5, 2021, establishing parity in the allowables for horizontal wells and vertical wells in concurrently existing units producing from the same common source of supply. He questioned whether the proposal could violate the prohibition against collateral attacks on Commission orders. In response to Mr. McDougall's comments, Staff added the phrase "except as otherwise specified by Order of the Commission" to OAC 165:10-3-28(h)(5) in the proposed rules filed March 3, 2021, and March 16, 2021.

Mr. McDougall suggested that language be added to OAC 165:10-17-7(b)(1)(C) in proposal two in the proposed rules filed February 5, 2021, to specify that allowables for unallocated gas wells are to be from the date of first sales, provided that a Form 1002A Completion Report for the well is timely filed with the Commission. If the Form 1002A Completion Report for the well is not timely filed, the allowable should become effective on the first day of the month in which the Completion Report is approved by the Commission. Staff agreed with Mr. McDougall's suggestions, and incorporated his suggestions in OAC 165:10-17-7(b)(1)(C) in the proposed rules filed March 3, 2021, and March 16, 2021.

Mr. McDougall said that more discussion is needed regarding the definition of the term "capable well" in OAC 165:10-17-11(a)(4). He said that one option would be to define the term "capable well" as those unallocated gas wells with a certain production rate. After further discussions with industry and after considering Mr. McDougall's suggestion, Staff filed proposed rules on March 3, 2021, and March 16, 2021, changing the definition of the term "capable well" in OAC 165:10-17-11(a)(4) to mean those unallocated gas wells with a production rate of 3000 mcf/d or greater, and all other wells are minimum wells.

Shea Loper, of Ovintiv USA, Inc., said that he appreciated all of the comments made during the Technical Conference, and that he looked forward to working with staff to modify the definition of "capable well" in OAC 165:10-17-11(a)(4).

Heather Lacy of Devon Energy Production Company, L.P. stated she agreed with Ms. Altshuler that potential tests should be performed on unallocated gas wells once every twelve months for the first two years after the initial potential tests, and every two years thereafter. She also agreed that more discussion is needed regarding the definition of the term "capable well" in OAC 165:10-17-11(a)(4).

A public hearing took place before the Commission on March 18, 2021, at 9:30 a.m. at the Oklahoma Corporation Commission, Jim Thorpe Office Building, Courtroom 301, 2101 North Lincoln Boulevard, Oklahoma City, Oklahoma, to afford the public an opportunity to make oral comments concerning the proposed rules.

During the public meeting, oral comments were provided by Katie Altshuler of Marathon Oil Company, H. Parker Bowles of the Oklahoma Energy Producers Alliance, Shea Loper of Ovintiv USA, Inc., and Howard L. (Bud) Ground of The Petroleum Alliance of Oklahoma. The commenters expressed their support for the proposed rules, and commended the OGCD Staff for their efforts in involving industry representatives in discussions regarding the proposed rules.

The Commission considered the proposed rules filed on March 16, 2021. After acknowledging all written and oral comments, the Commission voted to approve the proposed rules filed on March 16, 2021, without further modification.

**10. LIST OF PERSONS OR ORGANIZATIONS WHO APPEARED OR REGISTERED FOR OR AGAINST THE ADOPTED RULES AT PUBLIC HEARINGS HELD BY THE COMMISSION OR THOSE WHO COMMENTED IN WRITING BEFORE OR AFTER SAID HEARINGS:**

**Appendix "A"** is a list of persons or organizations who appeared at the public hearing before the Commission, which took place on March 18, 2021, in Courtroom 301, Oklahoma Corporation Commission, Jim Thorpe Office Building, 2101 North Lincoln Boulevard, Oklahoma City, Oklahoma.

**List of persons or organizations who submitted written comments for or against the adopted rules:**

Devon Energy Production Company, L.P.  
333 West Sheridan Avenue  
Oklahoma City, OK 73102

Marathon Oil Company  
5555 San Felipe Street  
Houston, TX 77056

Oklahoma Energy Producers Alliance  
P.O. Box 2389  
Ada, OK 74821

Ovintiv USA, Inc.  
Republic Plaza  
370 17<sup>th</sup> Street, Suite 1700  
Denver, CO 80202

The Petroleum Alliance of Oklahoma  
500 N.E. 4<sup>th</sup> Street  
Oklahoma City, OK 73104

The State Chamber  
330 NE 10<sup>th</sup> Street  
Oklahoma City, OK 73104



**11. RULE IMPACT STATEMENT:**

**Appendix "B"** is a copy of the Rule Impact Statement, filed with the Commission on February 23, 2021.

**12. ECONOMIC IMPACT AND ENVIRONMENTAL BENEFIT STATEMENT:**

**Appendix "C"** is a copy of the Economic Impact and Environmental Benefit Statement, filed with the Commission on February 23, 2021.

**13. RULES INCORPORATED FROM A BODY OUTSIDE THE STATE:**

N/A

**14. RECORDED VOTE OF EACH COMMISSIONER REGARDING ADOPTION OF THE RULES:**

On March 18, 2021, Commissioners J. Todd Hiatt, Bob Anthony, and Dana L. Murphy voted 3-0 to adopt the rules on a permanent basis and submit such rules to the Governor and the Legislature for their approval, pursuant to the Administrative Procedures Act, 75 O.S. §§ 250-323.

**15. PROPOSED EFFECTIVE DATE OF ADOPTED RULES:**

The rules adopted by the Commission on March 18, 2021, are attached as **Appendix "D."** The proposed effective date is July 1, 2021.

## APPENDIX "A"

Cause No. RM 202100003  
OAC 165:10, Oil & Gas  
Conservation

**ATTENDANCE SIGN-IN**

OKLAHOMA CORPORATION COMMISSION

**Public Hearing**

March 18, 2021 @ 9:30 a.m.  
Courtroom 301, Jim Thorpe Office Building  
2101 North Lincoln Boulevard  
Oklahoma City, Oklahoma 73105

**FILED**  
MAR 22 2021

COURT CLERK'S OFFICE - OKC  
CORPORATION COMMISSION  
OF OKLAHOMA

<u>ENTITY / GROUP REPRESENTING</u>	<u>NAME &amp; TITLE</u>	<u>ADDRESS &amp; EMAIL</u>
Continental Resources, Inc.	Mike Mathis Regulatory Affairs Advisor	20 N. Broadway Oklahoma City, OK 73102 <a href="mailto:Mike.Mathis@clr.com">Mike.Mathis@clr.com</a>
Hartzog Conger Cason	Jessica Hatcher	201 Robert S. Kerr Avenue, Suite 1600 Oklahoma City, OK 73102 <a href="mailto:jhatcher@hartzoglaw.com">jhatcher@hartzoglaw.com</a>
Hirsch, Heath & White, PLLC	Karl F. Hirsch	901 Cedar Lake Boulevard Oklahoma City, OK 73114 <a href="mailto:khirsch@hhwlawfirm.com">khirsch@hhwlawfirm.com</a>
Marathon Oil Company	Katie Altshuler Government & Community Relations Manager	7301 N.W. Expressway, Suite 110 Oklahoma City, OK 73132 <a href="mailto:KAltshuler@MarathonOil.com">KAltshuler@MarathonOil.com</a>
Oklahoma Energy Producers Alliance	H. Parker Bowles Regulatory Affairs Chairman	P. O. Box 2389 Ada, OK 74821 <a href="mailto:HPBowls@gmail.com">HPBowls@gmail.com</a>
Ovintiv USA, Inc.	Shea Loper Director, Government Relations	Republic Plaza 370 17 <sup>th</sup> Street, Suite 1700 Denver, CO 80202 <a href="mailto:SheaLoper@Ovintiv.com">SheaLoper@Ovintiv.com</a>
The Petroleum Alliance of Oklahoma	Howard L. (Bud) Ground Director of Regulatory Affairs	500 N.E. 4 <sup>th</sup> Street, Suite 200 Oklahoma City, OK 73104 <a href="mailto:Bud@okpetro.com">Bud@okpetro.com</a>

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF A PERMANENT  
RULEMAKING OF THE OKLAHOMA  
CORPORATION COMMISSION AMENDING  
OAC 165:10, OIL & GAS CONSERVATION

CAUSE NO. RM 202100003

**FILED**  
FEB 23 2021

COURT CLERK'S OFFICE - OKLAHOMA  
CORPORATION COMMISSION  
OF OKLAHOMA

**RULE IMPACT STATEMENT**

Pursuant to 75 O.S. § 303(D) of the Oklahoma Administrative Procedures Act, the Oil & Gas Conservation Division ("OGCD") of the Oklahoma Corporation Commission ("Commission") submits the following Rule Impact Statement for its proposed rules regarding Title 165, Chapter 10 of the Oklahoma Administrative Code ("OAC").

**I. Brief description of the purpose of the proposed rules:**

The purpose of the proposed rules is to update, streamline, and clarify the Oil & Gas Conservation rules, modify allowables for horizontal gas wells, change general well testing requirements, reduce the frequency of gas well tests, and address permitted rates of production for unallocated gas wells.

**II. Description of the classes of persons who most likely will be affected by the proposed rules, including classes that will bear the costs of the proposed rules, and any information on cost impacts received by the agency from any private or public entities:**

The persons who will most likely be affected by, and bear the costs of, the proposed rules include operators of wells, and working interest owners. In its Notice of Proposed Rulemaking, the OGCD invited public comment and requested business entities which may be impacted by the proposed rules to provide written comments stating such cost impacts. To date, no information regarding any cost impacts has been received from any private or public entity.

**III. Classes of persons who will benefit from the proposed rules:**

Some operators and owners of wells doing business in the State will benefit from proposed amendments to OAC 165:10-3-28 modifying allowables for horizontal gas wells; OAC 165:10-17-6 extending the time period to submit initial test results for gas wells; OAC 165:10-17-7 reducing the frequency of gas well tests, and OAC 165:10-17-11 clarifying permitted rates of production for unallocated gas wells. The proposed rules could encourage operators to drill and produce additional wells, which would result in increased tax revenue for the State of Oklahoma, and ultimately lead to increased revenues that would benefit citizens of the State.

**IV. Description of the probable economic impact of the proposed rules upon affected classes of persons or political subdivisions, including a listing of all fee changes and, whenever possible, a separate justification for each fee change:**

It is anticipated that the proposed rules will result in cost savings to operators and owners of wells doing business in the State, and that the proposed rules may encourage the drilling of additional wells. Well operators and owners should experience increased revenue associated with production from such wells. It is not anticipated that the proposed rules will have an adverse economic impact upon political subdivisions. The proposed rules contain no fee changes.

**V. Probable costs and benefits to the agency and to any other agency of the implementation and enforcement of the proposed rules, the source of revenue to be used for implementation and enforcement of the proposed rules, and any anticipated effect on state revenues, including a projected net loss or gain in such revenues if it can be projected by the agency:**

The Commission will benefit from the proposed rules through increased efficiency and streamlining of processes. It is not anticipated that the proposed rules will result in increased costs to the Commission, as such proposed rules will be implemented and enforced by the Commission through its existing resources and personnel. The proposed rules should have no effect on any other agency. The proposed rules contain no fee changes, and any increase in production from wells would result in additional tax revenue for the State of Oklahoma.

**VI. Determination of whether implementation of the proposed rules will have an economic impact on any political subdivisions or require their cooperation in implementing or enforcing the rules:**

It is not anticipated that implementation and enforcement of the proposed rules will have an economic impact on any political subdivisions or require their cooperation in implementing or enforcing the rules.

**VII. Determination of whether implementation of the proposed rules may have an adverse economic effect on small business as provided by the Oklahoma Small Business Regulatory Flexibility Act:**

It is not anticipated that the proposed rules will have an adverse economic impact on small businesses. In its Notice of Proposed Rulemaking, the OGCD invited business entities to submit comments describing the potential cost impacts of the proposed rules. To date, no information regarding any potential cost impacts has been received.

**VIII. Explanation of the measures the agency has taken to minimize compliance costs and a determination of whether there are less costly or nonregulatory methods or less intrusive methods for achieving the purpose of the proposed rules:**

There are no known less costly, nonregulatory methods or less intrusive methods for achieving the purpose of the proposed rules.

**IX. Determination of the effect of the proposed rules on the public health, safety and environment and, if the proposed rules are designed to reduce significant risks to the public health, safety and environment, an explanation of the nature of the risk and to what extent the proposed rules will reduce the risk:**

It is anticipated that the proposed rules will not have a negative effect on public health, safety and the environment.

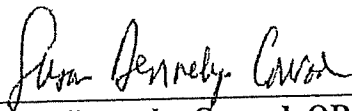
**X. Determination of any detrimental effect on the public health, safety and environment if the proposed rules are not implemented:**

It is anticipated that the proposed rules will not have a negative effect on public health, safety and the environment.

**XI. Date of preparation of Rule Impact Statement:**

This Rule Impact Statement was prepared on the 23rd day of February, 2021.

Prepared by:



Susan Dennehy Conrad, OBA #12249  
Deputy General Counsel  
Judicial & Legislative Services Division  
OKLAHOMA CORPORATION COMMISSION  
P.O. Box 52000  
Oklahoma City, Oklahoma 73152  
Ph: (405) 521-3939; Fax: (405) 521-4150  
Email: Susan.Conrad@occ.ok.gov  
*Attorney for the Oil & Gas Conservation Division*

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF A PERMANENT  
RULEMAKING OF THE OKLAHOMA  
CORPORATION COMMISSION AMENDING  
OAC 165:10, OIL & GAS CONSERVATION

CAUSE NO. RM 202100003

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ECONOMIC IMPACT AND ENVIRONMENTAL BENEFIT STATEMENT

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Pursuant to 27A O.S. § 1-1-206, the Oil & Gas Conservation Division of the Oklahoma Corporation Commission submits the following Economic Impact and Environmental Benefit Statement for its proposed rules regarding Title 165, Chapter 10 of the Oklahoma Administrative Code.

**I. Economic Impact of the Proposed Rules:**

It is anticipated that the proposed rules will result in cost savings to operators and owners of wells doing business in the State, and that the proposed rules may encourage the drilling of additional wells. Well operators and owners should experience increased revenue associated with production from such wells. The proposed rules contain no fee changes.

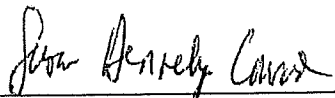
**II. Environmental Benefit of the Proposed Rules:**

It is anticipated that the proposed rules will not have a negative effect on public health, safety and the environment.

**III. Date of Preparation of Economic Impact and Environmental Benefit Statement:**

This Economic Impact and Environmental Benefit Statement was prepared on February 23, 2021.

Prepared by:



**Susan Dennehy Conrad, OBA #12249**  
Deputy General Counsel  
Judicial & Legislative Services Division  
OKLAHOMA CORPORATION COMMISSION  
P.O. Box 52000  
Oklahoma City, Oklahoma 73152  
Ph: (405) 521-3939; Fax: (405) 521-4150  
Email: Susan.Conrad@occ.ok.gov  
*Attorney for the Oil & Gas Conservation Division*

**FILED**  
FEB 23 2021

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CORPORATION COMMISSION  
OF OKLAHOMA

## APPENDIX "D"

### CHAPTER 10. OIL & GAS CONSERVATION

#### SUBCHAPTER 3. DRILLING, DEVELOPING, AND PRODUCING

##### PART 5. OPERATIONS

###### **165:10-3-28. Horizontal drilling**

(a) **Scope.** This Section affects a horizontal well with one or more laterals.

(b) **Definitions.** The following words and terms, when used in this Section, shall have the following meaning, unless the context clearly indicates otherwise:

(1) **"Adjacent common source of supply"** shall mean a common source of supply which is immediately adjacent to and adjoining the targeted reservoir(s) in a multiunit horizontal well being drilled or a well being drilled in a horizontal well unitization pursuant to 52 O.S. § 87.6 et seq. and which is inadvertently encountered in the drilling of the lateral of a multiunit horizontal well or a well pursuant to a horizontal well unitization when such well is drilled out of or exits, whether on one or multiple occasions, the targeted reservoir(s), and which is not the primary target of the subject well and shall not be included in the relinquished rights pursuant to 52 O.S. § 87.1(h). In the event that an adjacent common source of supply may be inadvertently encountered in the drilling of the lateral of a multiunit horizontal well or a well pursuant to a horizontal well unitization when such well is drilled out of or exits, whether on one or multiple occasions, the targeted reservoir(s), then said inadvertently entered adjacent common source of supply shall be included as part of the targeted reservoir only for the purpose of the inadvertent penetrations, and any subsequent completion, commingling and production of said adjacent common source of supply with the targeted reservoir(s), but not for future development of said adjacent common source of supply [52 O.S. § 87.6(B)(1)].

(2) **"Completion interval"** shall mean, for open hole completions, the interval from the point of entry to the terminus and, for cased and cemented completions, the interval from the first perforations to the last perforations [52 O.S. § 87.6(B)(5)].

(3) **"Conventional reservoir"** shall mean a common source of supply that is not an unconventional reservoir.

(4) **"Date of first production"** shall mean the date hydrocarbons are first produced from the horizontal well, whether or not production occurs during drilling, completion, or through permanent surface equipment.

(5) **"Directional survey"** shall mean that survey or report showing the location of any point of the wellbore as it relates to the surveyed surface location from the surface to the terminus of each lateral.

- (6) **"Horizontal component"** shall mean the calculated horizontal distance from the point of entry to the terminus [52 O.S. § 87.6(B)(8)].
- (7) **"Horizontal well"** shall mean a well drilled, completed, or recompleted with one or more laterals which, for at least one lateral, the horizontal component of the completion interval exceeds the vertical component of the completion interval and the horizontal component extends a minimum of 150 feet in the formation [52 O.S. § 87.6(B)(6)].
- (8) **"Horizontal well unit"** shall mean a drilling and spacing unit established by the Commission, after application, notice, and hearing, for a common source of supply into which a horizontal well has been or will be drilled.
- (9) **"Horizontal well unitization"** shall mean a unitization for a targeted reservoir created pursuant to 52 O.S. § 87.6 et seq. [52 O.S. § 87.6(B)(7)].
- (10) **"Lateral"** shall mean the portion of the wellbore of a horizontal well from the point of entry to the terminus [52 O.S. § 87.6(B)(9)].
- (11) **"Multiunit horizontal well"** shall mean a horizontal well in a targeted reservoir or targeted reservoirs wherein the completion interval of the well is located in more than one unit formed for the same targeted reservoir, with the well being completed in and producing from such targeted reservoir in two or more of such units [52 O.S. § 87.6(B)(10)].
- (12) **"Non-standard horizontal well unit"** shall mean a horizontal well unit that is not a standard horizontal well unit.
- (13) **"Point of entry"** shall mean the point at which the borehole of a horizontal well first intersects the top of the common source of supply [52 O.S. § 87.6(B)(12)].
- (14) **"Standard horizontal well unit"** shall mean a horizontal well unit that is a square 10-, 40-, 160-, or 640-acre tract or a rectangular 20-, 80-, 320- or 1,280-acre tract in accordance with OAC 165:10-1-22.
- (15) **"Targeted reservoir"** shall mean one or more common sources of supply which will be encountered by the horizontal lateral portion of a horizontal well, and which has been designated by the Commission as part of an order, rule or emergency rule as potentially suited for development for the applied for multiunit horizontal well or horizontal well unitization pursuant to 52 O.S. § 87.6 et seq. Provided, however, that more than one common source of supply may only be granted by the Commission and included in the targeted reservoir upon a showing of reasonable cause by the applicant requesting the multiunit well in the application requesting authority for the multiunit well prior to the drilling of said multiunit well that the inclusion of the additional common source(s) of supply shall prevent waste and protect the correlative rights of all of the owners of the oil and gas rights [52 O.S. § 87.6(B)(14)].
- (16) **"Terminus"** shall mean the end point of the borehole of a horizontal well in the targeted reservoir [52 O.S. § 87.6(B)(15)].



(17) **"True vertical depth"** shall mean that depth at the point of entry perpendicular to the surface as measured from the elevation of the kelly bushing on the drilling rig.

(18) **"Unconventional reservoir"** shall mean a common source of supply that is a shale or a coal bed. "Unconventional reservoir" shall also mean any other common source of supply designated as such by Commission order or rule.

(19) **"Vertical component"** shall mean the calculated vertical distance from the point of entry to the terminus of the lateral [52 O.S. § 87.6(B)(20)].

**(c) General horizontal well requirements.**

(1) Within 60 days after completion of a horizontal well, the operator shall show that the location of the completion interval complies with the applicable general rule, location exception order, or other order of the Commission by submitting the following to the Technical Services Department:

(A) A directional survey run in the horizontal well. The survey shall be submitted electronically using a program provided by the Commission.

(B) A plat constructed from the results of the directional survey showing the completion interval.

(2) The completion interval of an oil and or gas horizontal well shall be located not closer than the minimum distance as set out below from any other oil or gas well completed in the same common source of supply except as authorized by a special order of the Commission:

(A) Three hundred feet from any other oil or gas well completed in the same common source of supply, the top of which is less than 2,500 feet in true vertical depth.

(B) Six hundred feet from any other oil or gas well completed in the same common source of supply, the top of which is 2,500 feet or more in true vertical depth.

(C) This paragraph does not apply to horizontal wells drilled in a unit created for secondary or enhanced recovery operations pursuant to 52 O.S. § 287.1 et seq. or to horizontal wells drilled in a horizontal well unitization created pursuant to 52 O.S. § 87.6 et seq. or to any wells operated by the same operator in the unit. Notification to working interest owners must be indicated on Form 1000.

(3) The perforated interval of an oil or gas non-horizontal well shall be located not closer than the minimum distance as set out below from the completion interval of any oil or gas horizontal well completed in the same common source of supply, except as authorized by a special order of the Commission:

(A) Three hundred feet from any completion interval of any oil or gas horizontal well completed in the same common source of supply, the top of which is less than 2,500 feet in true vertical depth.

(B) Six hundred feet from any completion interval of any oil or gas horizontal well completed in the same common source of supply, the top of which is 2,500 feet or more in true vertical depth.

(C) This paragraph does not apply to non-horizontal wells drilled in a unit created for secondary or enhanced recovery operations pursuant to 52 O.S. § 287.1 et seq.

(d) **Horizontal well requirements in an unspaced common source of supply.** In a horizontal well drilled in a common source of supply in which the Commission has not established any drilling and spacing units or horizontal well units, the completion interval of a horizontal well may not be located closer to the boundaries of the applicable mineral estate, oil and gas leasehold estate, or voluntary unit than the minimum distance set out below except as authorized by a special order of the Commission:

- (1) Not less than 165 feet when the top of the common source of supply is less than 2,500 feet in true vertical depth.
- (2) Not less than 330 feet when the top of the common source of supply is 2,500 feet or more in true vertical depth.

(e) **Drilling and spacing units.**

- (1) A horizontal well may be drilled on any drilling and spacing unit.
- (2) A horizontal well unit may be created in accordance with 165:10-1-22 and 165:5-7-6. Such units shall be created as new units after notice and hearing as provided for by the Rules of Practice, OAC 165:5.
- (3) The Commission may create a non-standard horizontal well unit covering contiguous lands in any configuration or shape deemed by the Commission to be necessary for the development of a conventional reservoir or an unconventional reservoir by the drilling of one or more horizontal wells. A non-standard horizontal well unit may not exceed 1,280 acres plus the tolerances and variances allowed pursuant to 52 O.S. § 87.1.
- (4) A horizontal well unit may be established for a common source of supply for which there are already established non-horizontal drilling and spacing units, and said horizontal well unit may include within the boundaries thereof more than one existing non-horizontal drilling and spacing unit for the common source of supply. Upon the formation of a horizontal well unit that includes within the boundaries thereof one or more non-horizontal drilling and spacing units, the Commission shall provide that such horizontal well unit exists concurrently with one or more of such non-horizontal drilling and spacing units, and each such unit may be concurrently developed.

(f) **Horizontal well location requirements for horizontal well units and horizontal well unitizations.**

(1) **Conventional reservoirs.** In a conventional reservoir, the completion interval of a horizontal well in a horizontal well unit shall be located not less than the minimum distance from the unit boundary as follows:

- (A) Not less than 165 feet from the boundary of any 10-, 20-, or 40-acre horizontal well unit.

(B) Not less than 330 feet from the boundary of any 80- or 160-acre horizontal well unit.

(C) Not less than 660 feet from the boundary of any 320-, 640- or 1,280-acre horizontal well unit.

(2) **Unconventional reservoirs.** In an unconventional reservoir, the completion interval of a horizontal well in a horizontal well unit shall be located not less than the minimum distance from the unit boundary as follows:

(A) Not less than 165 feet from the boundary of any 10-, 20-, or 40-acre horizontal well unit.

(B) Not less than 330 feet from the boundary of any 80-, 160-, 320-, 640- or 1,280-acre horizontal well unit.

(3) **Horizontal well unitizations.** The completion interval of a horizontal well in a horizontal well unitization shall not be located less than 330 feet from the unit boundary.

(g) **Alternative well location requirements.** The Commission may establish well location requirements different from those provided in subsection (f) of this Section when necessary to prevent waste and protect correlative rights. These requirements may be established in the order creating a standard or non-standard horizontal well unit or through a special rule of the Commission covering a conventional or unconventional reservoir in a designated geographic area. (see OAC 165:10, Subchapter 29, Special Area Rules).

(h) **Allowable.**

(1) Horizontal oil well allowables may be established administratively using the standard allowables provided in Appendix A (Allocated Well Allowable Table) supplemented by the additional allowables provided in Appendix C (Table HD) to this Chapter.

(2) The allowable for a horizontal gas well shall be computed in the manner prescribed for a non-horizontal gas well in the same common source of supply. The allowable for a horizontal well in a horizontal well unit 640-acres in size or less shall be the minimum well allowable as established in the current proration order determining the allowable formula issued pursuant to OAC 165:10-17-11, unless a higher allowable is established by conducting a flow potential test. The allowable for a horizontal well in a horizontal well unit in excess of 640-acres in size shall be calculated by multiplying the minimum well allowable by the quotient of the number of acres in the unit divided by 640. If an allowable higher than the minimum well allowable is established by way of a flow potential test, then the higher allowable will be utilized in calculating the appropriate allowable for a horizontal well in a horizontal well unit in excess of 640-acres in size.

(3) The allowable for a horizontal well unit or horizontal well unitization with multiple horizontal gas wells shall be the sum of the allowables for the separate horizontal gas

wells. For this summation, the allowable for each horizontal gas well will be calculated as if it were the only well in the unit.

(4) The allowable for a multiunit horizontal well shall be allocated to each affected unit using the allocation factors determined in accordance with 52 O.S. § 87.8(B)(1).

(5) A non-horizontal well in a non-horizontal drilling and spacing unit which exists concurrently with a horizontal well unit shall be assigned the same allowable as a horizontal well in the horizontal well unit producing from the same common source of supply, except as otherwise specified by Order of the Commission.

(i) **Pooling.** Horizontal well units, horizontal well unitizations and multiunit horizontal wells may be pooled as provided in 52 O.S. § 87.1, 52 O.S. § 87.6 et seq. and Commission Rules of Practice, OAC 165:5.

## **SUBCHAPTER 17. GAS WELL OPERATIONS AND PERMITTED PRODUCTION**

### **165:10-17-6. General well testing requirements**

(a) All single-point and multi-point potential tests shall be calculated for all non-exempt gas wells in a uniform manner with respect to the following:

(1) The potential shall be the calculated wellhead absolute open flow potential of the well determined by obtaining a static column wellhead flowing pressure and shall indicate the capacity of the well to produce against zero psia at the wellhead.

(2) All pressures used in test calculations shall be corrected to pounds per square inch absolute, using 14.4 psia as the average barometric pressure.

(3) The static column wellhead pressure, either measured or calculated as reported in the potential test, shall be no more than 90 percent of the wellhead shut-in pressure. If data cannot be obtained in accordance with the foregoing provisions, an assumed static column wellhead pressure of 90 percent of the wellhead shut-in pressure shall be used to calculate the results of the test. This paragraph supersedes any contrary provision in special pool rules.

(b) The operator of a well shall be responsible for testing the well and submitting the test results to the Conservation Division. The results of a potential test shall be filed with the Conservation Division on Form 1016. If the operator wishes to obtain a copy of the approved Form 1016, he shall enclose with the original form a self-addressed stamped envelope and one additional copy of the test and/or form. The Conservation Division shall acknowledge such requests within 15 days, stating either the date of acceptance of the test results or rerunning the original test if it has been rejected. If any order or rule of the Conservation Division requires witnessing of a test, the operator of the well shall be responsible for securing the presence of an authorized Conservation Division representative to witness the test and sign the Form 1016 for the test.

(c) Unless otherwise prescribed by special pool rules, field testing procedure shall be performed in accordance with the procedures set out in Oklahoma Corporation Commission Manual of Back-Pressure Testing of Gas Wells, Parts I and II, utilizing the specified tables in the Interstate Oil and Gas Compact Commission Manual of Back-Pressure Testing. A gas turbine meter may be used in lieu of an orifice meter for flow measurements in gas well testing.

(d) The initial test for all gas wells shall be run into the pipeline within 30 days and test results filed within 4560 days after the date of first sales of gas. Any test filed after the 4560 day limit will not be made effective until the first of the month following the date of acceptance of the test. With regard to initial tests for special allocated gas wells, the operator of the well shall provide twenty-four (24) hours notice to the Conservation Division of its intent to run an initial test in order to give the Conservation Division the opportunity to witness said test, but in no case shall the operator be precluded from performing said test and filing the results as provided for in subsection (b). Initial tests for special allocated gas wells need not be witnessed, nor signatures obtained, if witnessed, in order for the Conservation Division to assign an allowable to said well. Initial tests for unallocated gas wells with calculated open flow of less than two million cubic feet per day are exempt from witnessing by Conservation Division personnel under 165:10-17-7(b)(1).

(e) ~~The annual test~~ Tests for all non-exempt gas wells shall be run into a pipeline in accordance with this Section or applicable pool rules. Any annual test for a well in a special allocated pool, filed late shall not be made effective until the first of the month following the date of acceptance of the test.

~~(g)~~(f) Wells in allocated pools shall be tested in accordance with the requirements for wells in unallocated pools, unless superseded by specific field rules. Form 1016 shall be used to report shut-in pressure tests on wells in allocated and special allocated pools, except for the Guymon-Hugoton Pool #182 which shall use a form 1017 Deliverability Gas Test.

#### **165:10-17-7. Well tests**

##### **(a) Wells in special allocated pools.**

(1) An initial test shall be filed for each newly completed gas well in each special allocated pool. The well shall be tested into a pipeline no later than 30 days after the date of the first sale of gas. Test procedures shall be those specified in the applicable pool rules subject to the uniform requirements of 165:10-17-6.

(2) An annual test shall be filed in accordance with the requirements of the applicable pool rules, subject to the following provisions specific to the Guymon-Hugoton special allocated pool.

##### **(3) Wells in the Guymon-Hugoton special allocated pool.**

(A) The Conservation Division staff will not be required to witness any well test on any well in the Guymon-Hugoton special allocated gas pool unless requested to do so by an offset operator. Operators have a right to witness any well test on any well offsetting said operator's well in the pool. Operators of offsetting wells will be given sufficient prior notice of testing to allow for a representative to be present to witness testing, and will be provided access to the designated witness throughout testing.

(B) Wells in the Guymon-Hugoton special allocated gas pool which are not capable of producing 450 Mcf/day will be exempt from biannual deliverability tests. Operators shall have the right to elect to receive the minimum allowable by deciding not to conduct well deliverability tests on any such wells in the pool. No well shall be exempt from the annual wellhead shut-in pressure test requirements.

For the purpose of the annual wellhead shut-in pressure test, the shut-in pressure shall be measured after the well has been shut-in for approximately 48 hours. In no case shall the well have been shut-in for less than 44 hours at the time the shut-in pressure is taken.

**(b) Wells in unallocated pools.**

**(1) Testing of newly completed or newly recompleted wells.**

(A) An initial test shall be submitted to the Conservation Division for each newly completed gas well or recompleted gas well involving a new formation in an unallocated gas pool under 165:10-17-2. The well shall be tested into a pipeline no later than 30 days after the date of first sale of gas into a pipeline. The flow period for the initial test shall be 24 hours.

(B) It shall not be necessary for the operator to submit the initial flow potential test for an unallocated well with a maximum flow rate of less than the minimum allowable. Only a current 24-hour wellhead shut-in pressure is required, unless otherwise requested by the Commission. A copy of the Form 1002A Completion Report may be submitted in lieu of Form 1016 to establish the minimum allowable, provided the section on the Form 1002A Completion Report requesting a minimum gas allowable is explicitly marked, and the following items are reported:

- (i) current 24 hour shut-in pressure;
- (ii) date of first sales and date of recompletion, if applicable;
- (iii) Oklahoma Tax Commission production unit number; and
- (iv) name of reporting entity of monthly gas volumes for the well (either the purchaser/measurer, or self-reporting operator). If the required information is not provided on the Form 1002A Completion Report submitted to the Commission, an initial test on Form 1016 containing the information must be filed with the Commission to establish an initial allowable for the well.

(C) An initial potential test is required to receive an allowable greater than a minimum allowable. ~~If said initial test is taken between January 1 and April 30 of the calendar year, the test shall be used for allowable purposes for the remainder of that calendar year. If the initial test is taken between May 1 and December 31, the test shall be effective for the remainder of the current calendar year, and for the entire succeeding calendar year.~~ The established allowable shall be from the date of first sales of gas, provided that a complete and correct Form 1002A Completion Report for the well is filed with the Commission within 60 days after the date of first sales. If the Form 1002A Completion Report is filed with the Commission after the 60 day period, the allowable will become effective on the first day of the month in which the Form 1002A Completion Report is approved by the Commission. A request to extend the time to test may be granted by the Conservation Division in order to recover fluids introduced into the well. The request shall be submitted in writing to the Conservation Division with the expected test date.

**(2) ~~Annual testing~~ Testing or retesting of established gas wells.** A potential test to assign a new allowable for an initially tested well may be submitted on Form 1016 at any time after three months from the date of the initial test. To establish or maintain an allowable greater than the minimum allowable after the initial potential test, a potential test shall be run at least once every 12 months for the first two years, and

every two years thereafter. The established allowable from any potential test shall be valid for 12 months from the date of first sales of gas. A test run between January 1 and April 30 shall be effective for the remainder of that calendar year. A test run between May 1 and December 31 shall be effective for the remainder of the current calendar year, and for the entire succeeding calendar year. The Director of the Conservation Division may require additional tests at any time. Tests become effective the first day of the month following acceptance of the test by the Conservation Division.

(A) Unless specifically requested by the Director of the Conservation Division, it shall not be necessary to run ~~an annual~~ a potential test or retest for an established well having a flow rate of less than the minimum allowable.

(B) Upon expiration of a potential test, the well will revert to a minimum allowable status, unless superseded by a later potential test.

(C) If two or more potential tests are submitted for a well, and the effective periods of the tests overlap or conflict, the test having the greatest calculated open flow potential shall be utilized to determine the well's allowable for the overlapping period.

(3) **One-point tests.** The potential test required for each gas well in each unallocated pool shall use the one-point back pressure method and an assumed flow characteristic of 0.85 shall be used in establishing the wellhead absolute open flow. The test shall be governed by the requirements of OAC 165:10-17-6.

(4) **Durability of minimum allowable.** Once an initial allowable is established for a well, that well shall be assigned at least a minimum allowable until such time the well is plugged, reclassified, recompleted or commingled into an additional formation, or is found to be in violation of a rule or order of the Commission. If a potential test is submitted for the well, that test will supersede the minimum allowable for the effective period of the test set out herein.

(5) **Test exemptions for certain minimum wells.**

(A) The following types of gas wells shall be exempt from initial and annual potential and shut-in tests:

(i) Minimum gas wells producing exclusively from coal bed methane formations.

(ii) Minimum gas wells producing from shale formations or including shale formations, if commingled.

(iii) Minimum gas wells using down hole pumps for artificial lift of produced liquids.

(iv) Minimum gas wells producing less than 100 mcf/day.

(B) For these exempt wells operators shall report the initial stabilized rate of production on Form 1002A "Completion Report" in lieu of reporting an initial test on Form 1016 "Backpressure test for Natural Gas Wells".

(6) **Alternate shut-in pressure.** The Conservation Division may allow the equivalent of the 24-hour shut-in pressure required in this Section and in OAC 165:10-17-6 to be derived from accepted industry methodologies if the operator sufficiently demonstrates to the Division that such calculations will result in an appropriate representation of the actual 24-hour shut-in pressure.

(7) **Minimum compliance.** Each operator shall be responsible for conducting and submitting the required potential tests on the applicable form. All submitted tests

must contain complete and accurate information. Permitted production rates will be granted only to those wells which meet this requirement and all other rules or orders of the Commission.

**165:10-17-11. Maximum permitted rates of production for unallocated gas wells**

**(a) Scope.**

(1) This Section shall apply to each gas well in unallocated status except as otherwise provided by Commission order. The Commission may establish different production rates by:

(A) Location exception order.

(B) Establishment of pool rules for the common source of supply.

(C) Other order adjusting gas production from the well.

(2) For purposes of this Section, the term "well" shall include any drilling and spacing unit with multiple unallocated gas wells, which do not receive separate maximum permitted rates of production by Commission order.

(3) For the purposes of this Section, the term "allowable formula" shall mean the formula used by the Commission for the determination of the daily rates for capable and minimum wells.

(4) For purposes of this Section, the term "capable well" shall refer to those unallocated gas wells ~~having a wellhead absolute flow potential of 2000 mcf/d or greater~~ with a production rate of 3000 mcf/d or greater. All other wells are minimum wells.

(5) For purposes of this Section, the term "daily natural flow" means the wellhead absolute open flow potential determined in the manner described in OAC 165:10-17-6 and OAC 165:10-17-7.

**(b) Commission authority and responsibility.** Production shall be governed by the provisions of 52 O.S. Section 29. Pursuant to said statute, the Commission has the power and authority to adjust allowables to meet reasonable market demand. The Commission, upon its own application, after notice and hearing, shall establish allowables which may be greater or lesser than those set forth in 52 O.S. Section 29.

**(c) Procedure.**

(1) Allowables for wells other than those provided in subsections (a), (e), (f), and (g) of this Section shall be determined pursuant to a proration hearing held at least annually. The Commission may hold additional proration hearings at shorter intervals if necessary. At least 15 days prior to scheduled annual hearings, the Commission shall publish in a newspaper of general circulation in Oklahoma County, the proposed allowable formula for the next proration period. The annual proration hearings shall be held at least 30 days prior to the proration period for which the allowable is being determined. Such hearing shall be for the purpose of gathering comments and hearing testimony from all interested parties concerning the determination of reasonable market demand for the next proration period. As a guideline, but not to the exclusion of any other information that the Commission deems pertinent, the following may be considered by the Commission in determining reasonable market demand and corresponding allowables:

(A) Production from prior years.



- (B) Production from the most recent proration period.
  - (C) Wellhead open flow potentials.
  - (D) New wells, recompletions, temporarily abandoned wells and plugged wells.
  - (E) Gas which is available but is not being produced at the present time.
  - (F) Changes in existing gas markets, forecasts, and new markets for Oklahoma gas.
  - (G) State-wide gas production and the portion thereof attributable to unallocated gas wells.
  - (H) Overproduction and underproduction from the preceding proration period.
- (2) After a proration hearing, the Commission shall publish in a newspaper of general circulation in Oklahoma County, the allowable formula, no later than 15 days prior to the proration period for which the allowable formula is determined.
- (d) **Emergency allowables.**
- (1) When the Commission determines that an emergency gas supply situation exists, the Commission may establish an emergency allowable. The emergency allowable shall provide for the protection of correlative rights including those relating to minimum wells and penalized wells.
  - (2) The Commission may extend or change the emergency allowable for as long as an emergency exists. However, any authorized extension of the emergency allowable shall be by order after notice and hearing.
- (e) **Exceptions.** Upon application, notice, and hearing, the Commission may establish a different allowable for good cause shown.
- (f) **Exclusion for hardship and distressed wells.** The allowable established under this Section shall not limit rates established by special order for those wells classified as hardship or distressed wells.
- (g) **Discovery gas well.**
- (1) For thirty (30) months from the date of first production, a discovery gas well, as defined in this subsection, subject to the provisions of this Section, shall have a production allowable which shall be the greater of one thousand three hundred (1,300) mcf/d or sixty-five percent (65%) of the absolute open flow (AOF) as specified by the Corporation Commission. Such discovery well allowable shall not be available for any discovery gas well wherein two (2) or more separate common sources of supply are commingled and one (1) common source of supply would not qualify a new gas well as a discovery gas well, as defined in this Section.
  - (2) Drilling and spacing units which are downspaced after June 1, 1997, shall not qualify for the discovery gas well allowable.
  - (3) For purposes of this subsection, "discovery gas well" shall mean a new gas well, which is not an off-pattern well, is the first well completed in a common source of supply within a drilling and spacing unit and is at least one (1) mile from all existing gas wells which are completed in the same common source of supply. In the absence of spacing, a discovery well shall be the first well in the governmental section completed in a common source of supply, provided that the discovery gas well shall not be drilled closer than one thousand three hundred twenty (1,320) feet from the boundaries of the governmental section and is at least one (1) mile from all existing gas wells which are completed in the same common source of supply.

(h) **Exclusion for reservoir dewatering.** Allowables shall not apply, regardless of unit size, in the instance of production of gas by reservoir dewatering to extract said gas from reservoirs having initial water saturations at or above fifty (50%) percent.

(i) **Minimum compliance.**

(1) The Conservation Division shall monitor well production at least annually. The allowable for a well shall be based on the product of the number of days in the proration period, multiplied by the applicable allowable formula, provided that said product shall be reduced for overproduction as provided by this Section or by any penalty or limitation on production imposed by applicable Commission order.

(2) Any overproduction existing at the end of the calendar year shall be applied against the allowable for the next calendar year. Furthermore, the overproduced well shall be required to make up overproduction within the first six months of the next calendar year. If the overproduction is not made up within that time period, the flow rate shall not exceed ten percent of the then current allowable until the overproduction is made up.

## ATTESTATION

I, the undersigned, do hereby attest that the copy enclosed herewith is a true and correct copy of amendments to OAC 165:10, Oil & Gas Conservation, which were adopted by the Oklahoma Corporation Commission on March 18, 2021, under permanent rulemaking provisions of the Administrative Procedures Act, 75 O.S., Sections 250 et seq.

I, the undersigned, do hereby attest that such rules were adopted in substantial compliance with the Administrative Procedures Act.



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Travis N. Weedn  
Rules Liaison and Attestation Officer  
Oklahoma Corporation Commission  
March 25, 2021

**NAME OF AGENCY:**

Corporation Commission

**TYPE OF DOCUMENT:**

Agency Rule Report

**LIAISON VERIFICATION:**

I verify that I have reviewed the attached document and that it substantially conforms to filing and format requirements of the Administrative Procedures Act and the rules of the Secretary of State. Additional information may be obtained by contacting me at (405) 521-4137.



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Travis N. Weedn  
Rules Liaison  
Oklahoma Corporation Commission  
March 25, 2021