

## HOUSE BILL No. 2320

By Committee on Agriculture and Natural Resources

2-11

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1 AN ACT concerning oil and gas; relating to unit operations; amending  
2 K.S.A. 55-1305 and repealing the existing section.

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

5 Section 1. K.S.A. 55-1305 is hereby amended to read as follows: 55-  
6 1305. The order providing for the unitization and unit operation of a pool  
7 or a part thereof shall be upon terms and conditions that are just and  
8 reasonable and shall prescribe a plan for unit operations that shall  
9 include:

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

12 (b) a statement of the nature of the operations contemplated;

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

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

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

34 (f) a provision whereby a nonoperating working interest owner shall  
35 be furnished, but not more often than once a month, reasonably detailed  
36 information regarding the nature and amount of the various items of costs

1 and expenses, including capital investments, chargeable against the  
2 interest of the nonoperating working interest owners;

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

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

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

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

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

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

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

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

1 overhead charges; and

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

4 No order of the commission providing for unit operations upon a  
5 finding pursuant to subsection (a)(1) of K.S.A. 55-1304, and amendments  
6 thereto, shall become effective unless and until the plan for unit  
7 operations prescribed by the commission has been approved in writing by  
8 those persons who, under the commission's order, will be required to pay  
9 at least 63% of the costs of the unit operation, and also by the owners of  
10 at least 63% of the production or proceeds thereof that will be credited to  
11 royalties, excluding overriding royalties or other like interests which are  
12 carved out of the leasehold estate, and the commission has made a  
13 finding, either in the order providing for unit operations or in a  
14 supplemental order, that the plan for unit operations has been so  
15 approved. No order of the commission providing for unit operations upon  
16 a finding pursuant to subsection (a)(2) of K.S.A. 55-1304, and  
17 amendments thereto, shall become effective unless and until the plan for  
18 unit operations prescribed by the commission has been approved in  
19 writing by those persons who, under the commission's order, will be  
20 required to pay at least 63% of the costs of the unit operation, and also by  
21 the owners of at least 75% of the production or proceeds thereof that will  
22 be credited to royalties, excluding overriding royalties or other like  
23 interests which are carved out of the leasehold estate, and the commission  
24 has made a finding, either in the order providing for unit operations or in  
25 a supplemental order, that the plan for unit operations has been so  
26 approved. If the plan for unit operations has not been so approved at the  
27 time the order providing for unit operations is made, the commission  
28 shall upon application and notice hold such supplemental hearings as may  
29 be required to determine if and when the plan for unit operations has been  
30 so approved. If the persons owning the required percentage of interest in  
31 the unit area do not approve the plan for unit operations within a period  
32 of six months from the date on which the order providing for unit  
33 operations is made, such order shall cease to be of further force and effect  
34 and shall be revoked by the commission, except that the commission may  
35 extend the six-month period not to exceed 60 days for good cause shown.

36 An order providing for unit operations may be amended by the  
37 commission in the same manner and subject to the same conditions as are  
38 necessary or required for an original order providing for unit operations,  
39 except that: (a) If such an amendment affects only the rights and interest  
40 of the working interest owners, the approval of the amendment by the  
41 royalty owners shall not be required; and (b) no such order of amendment  
42 shall change the percentage for the allocation of oil and gas as established  
43 for any separately owned tract by the original order, except with the

1 consent of all persons owning oil and gas rights in such tract; no such  
2 order shall change the percentage for the allocation of cost as established  
3 for any separately owned tract by the original order, except with the  
4 consent of all working interest owners in such tract.

5 The commission by an order may provide for the unit operation of a  
6 pool or a part thereof that embraces a unit area previously established  
7 either by voluntary agreement or order of the commission. Such order, in  
8 providing for the allocation of unit production, shall first treat the unit  
9 area previously established as a single tract, and the part of the unit  
10 production so allocated thereto shall then be allocated among the  
11 separately owned tracts included in such previously established unit area  
12 in the same proportions as those specified in the previous agreement or  
13 order.

14 An order may provide for the unit operation of less than the whole of a  
15 pool where the unit area is of such size and shape as may be reasonably  
16 required for that purpose, and the conduct thereof will have no material  
17 adverse effect upon other parts of the pool.

18 Sec. 2. K.S.A. 55-1305 is hereby repealed.

19 Sec. 3. This act shall take effect and be in force from and after its  
20 publication in the statute book.

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