

SUBJECT: Revising requirement to drill offset well for certain horizontal wells

COMMITTEE: Energy Resources — favorable, without amendment

VOTE: 9 ayes — Goldman, Herrero, Anchia, Darby, Ellzey, Geren, Leman,  
Longoria, Reynolds

1 nay — Craddick

1 absent — T. King

SENATE VOTE: On final passage, May 3 — 30-0

WITNESSES: For — Todd Staples, Texas Oil and Gas Association; (*Registered, but did not testify*: Michael Lozano, Permian Basin Petroleum Association; Ryan Paylor, Texas Independent Producers and Royalty Owners Association)

Against — None

On — Robert Hatter, Texas General Land Office; (*Registered, but did not testify*: Paul Dubois, Railroad Commission; Carrie Clark, University Lands, University of Texas System)

BACKGROUND: Under Natural Resources code secs. 52.034 and 52.173, if oil or gas is produced in commercial quantities from a well located within 1,000 feet of certain public lands, or in any case where such lands are being drained by such a well, the owner, lessee, or other agent in control of the land must drill an offset well. At the determination of the railroad commissioner, the payment of a compensatory royalty would satisfy the obligation to drill an offset well.

Interested parties note that older laws requiring an operator producing oil from certain state land to drill an offset well do not make sense in the context of modern productions methods of horizontal drilling and fracking. They suggest shortening the distance at which the requirement to drill an offset well is triggered if the nearby or draining well is a

horizontal well located in an unconventional fracture treated field.

DIGEST:

SB 1258 would provide that an owner, lessee, or other agent in control of certain state land was not required to drill an offset well if the well producing oil and gas in commercial quantities was a horizontal drainhole well located in an unconventional fracture treated field, unless any take point in the horizontal drainhole well was located closer to the state land than the greater of:

- the minimum distance established by the applicable lease-line spacing requirement of the Railroad Commission; or
- a perpendicular distance of 330 feet.

The bill would define:

- "horizontal drainhole well" as a well that could produce oil or gas along at least 100 feet of a horizontal drainhole;
- "take point" as any point in a horizontal drainhole well where oil or gas could be produced from the reservoir or field interval recognized by the Railroad Commission;
- "unconventional fracture treated field" as an oil or gas field in which horizontal well development and hydraulic fracture treatment were used to recover resources from the field.

The parties to a lease or other agreement entered into before the effective date of the bill could:

- contractually agree to amend the lease or agreement to bring it into conformity with the bill; or
- after reviewing pertinent data, contractually agree that a horizontal drainhole well in an unconventional fracture treated field was incapable of draining the land subject to the lease or agreement.

The bill would take effect September 1, 2021, and apply only to a lease or agreement, or an amendment to a lease or agreement, entered into on or after that date.

NOTES: The House companion bill, HB 3409 by Goldman, was considered by the Energy Resources Committee in a public hearing on April 12 and left pending.