

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION ACT (EXCERPT)
Act 451 of 1994

324.61513 Proration or distribution of allowable production among wells; basis; drilling unit; unnecessary wells; pooling of properties; location of well; exceptions; minimum allowable production; allowable production pursuant to rules or orders.

Sec. 61513. (1) When, to prevent waste, the total allowable production for any oil or gas field or pool in the state is fixed in an amount less than that which the field or pool could produce if no restriction were imposed, the supervisor shall prorate or distribute on a reasonable basis the allowable production among the producing wells in the field or pool, to prevent or minimize reasonably avoidable drainage from each developed area which is not equalized by counter drainage. The rules or orders of the supervisor, so far as it is practicable to do so, shall afford the owner of each property in a pool the opportunity to produce his or her just and equitable share of the oil or gas in the pool, being an amount, so far as can be practicably determined and obtained without waste, and without reducing the bottom hole pressure materially below the average for the pool, substantially in the proportion that the quantity of the recoverable oil or gas under the property bears to the total recoverable oil or gas in the pool, and for this purpose to use his or her just and equitable share of the reservoir energy. A well in a pool producing from an average depth of 1,000 feet or less, on the basis of a full drilling unit as may be established under this section, shall be given a base allowable production of at least 100 barrels of oil per well per week; for a well in a pool producing from an average depth greater than 1,000 feet, the base allowable production shall be increased 10 barrels per well per week for each addition 100 feet of depth greater than 1,000 feet, if the allowable production is or can be made without surface or underground waste.

(2) To prevent the drilling of unnecessary wells, the supervisor may establish a drilling unit for each pool. A drilling unit, as described in this subsection, is the maximum area that may be efficiently and economically drained by 1 well. A drilling unit constitutes a developed area if a well is located on the drilling unit that is capable of producing the economically recoverable oil or gas under the unit. Each well permitted to be drilled upon any drilling unit shall be located in the approximate center of the drilling unit, or at such other location on the drilling unit as may be necessary to conform to a uniform well spacing pattern as adopted and promulgated by the supervisor after due notice and public hearing, as provided in this part.

(3) The drilling of unnecessary wells is hereby declared waste because unnecessary wells create fire and other hazards conducive to waste, and unnecessarily increase the production cost of oil and gas to the operator, and therefore also unnecessarily increase the cost of the products to the ultimate consumer.

(4) The pooling of properties or parts of properties is permitted, and, if not agreed upon, the supervisor may require pooling of properties or parts of properties in any case when and to the extent that the smallness or shape of a separately owned tract or tracts would, under the enforcement of a uniform spacing plan or proration or drilling unit, otherwise deprive or tend to deprive the owner of such a tract of the opportunity to recover or receive his or her just and equitable share of the oil or gas and gas energy in the pool. The owner of any tract that is smaller than the drilling unit established for the field shall not be deprived of the right to drill on and produce from that tract, if the drilling and production can be done without waste. In this case, the allowable production from that tract, as compared with the allowable production if that tract were a full unit, shall be in the ratio of the area of the tract to the area of a full unit, except as a smaller ratio may be required to maintain average bottom hole pressures in the pool, to reduce the production of salt water, or to reduce an excessive gas-oil ratio. All orders requiring pooling described in this subsection shall be upon terms and conditions that are just and reasonable, and will afford to the owner of each tract in the pooling plan the opportunity to recover or receive his or her just and equitable share of the oil or gas and gas energy in the pool as provided in this subsection, and without unnecessary expense, and will prevent or minimize reasonably avoidable drainage from each developed tract that is not equalized by counter drainage. The portion of the production allocated to the owner of each tract included in a drilling unit formed by voluntary agreement or by a pooling order shall be considered as if it had been produced from the tract by a well drilled on the tract.

(5) Each well permitted to be drilled upon a drilling unit or tract shall be drilled at a location that conforms to the uniform well spacing pattern, except as may be reasonably necessary where after notice and hearing the supervisor finds any of the following:

(a) That the unit is partly outside the pool or that, for some other reason, a well at the location would be unproductive.

(b) That the owner or owners of a tract or tracts covering that part of the drilling unit or tract on which the well would be located if it conformed to the uniform well spacing pattern refuses to permit drilling at the regular location.

(c) That topographical or other conditions are such as to make drilling at the regular location unduly

burdensome or imminently threatening to water or other natural resources, to property, or to life.

(6) If an exception under subsection (5) is granted, the supervisor shall take such action as will offset any advantage that the person securing the exception may have over other producers in the pool by reason of the drilling of the well as an exception, and so that drainage from the developed areas to the tract with respect to the exception granted will be prevented or minimized and the producer of the well drilled as an exception will be allowed to produce no more than his or her just and equitable share of the oil or gas in the pool as the share is set forth in this part, and to that end the rules and orders of the supervisor shall be such as will prevent or minimize reasonably avoidable drainage from each developed area that is not equalized by counter drainage and will give to each producer the opportunity to use his or her just and equitable share of the reservoir energy.

(7) Minimum allowable production for some wells and pools may be advisable from time to time, especially with respect to wells and pools already drilled on May 3, 1939, when former Act No. 61 of the Public Acts of 1939 took effect, so that the production will repay reasonable lifting costs and thus prevent premature abandonment of wells and resulting wastes.

(8) After the effective date of any rule promulgated or order issued by the supervisor as provided in this part establishing the allowable production, a person shall not produce more than the allowable production applicable to that person, his or her wells, leases, or properties, and the allowable production shall be produced pursuant to the applicable rules or orders.

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