Unit Operation of Oil and Gas Fields Part I

Blakely M. Murphy

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THE UNIT OPERATION OF OIL AND GAS FIELDS†

PART I. VOLUNTARY UNIT OPERATION ¹

I.

General Application of Anti-Trust Legislation

With the demonstration of the validity of the engineering concept that the management, operation and development of a field or pool as a unit increases production and lessens waste, the oil and gas industry evinced a desire to perfect agreements which would bring about the voluntary operation of the geologic unit as an operational unit.² In the path...
of this interest there were obstacles which had to be cleared away. The principal fear was that there might be a violation of the state or federal statutes relating to monopolies, trusts and restraints of trade. The practical difficulty in securing the consent of numerous and varied owners of oil and gas rights to an agreement presented another real stumbling block in those areas where these rights were widely dispersed. Many questions of interpretation as to the effect of unilateral voluntary agreements between lessees upon the express or implied covenants of their oil and gas leases were posed.

Unit operation requires joint activity on the part of those interested in the operation and development of a field or pool as a unit, or as a cooperative project. It is not necessary that the oil produced, or any gas, distillate, or condensate be jointly refined or marketed. It is necessary that the liquid hydrocarbons be extracted from the gas and that they be separated into the usable constituents of liquid hydrocarbons by joint processing to realize the benefits of the unit or cooperative management. The very purpose of the unit operation may be the cycling of natural gas to recover additional hydrocarbons. In that event the extraction and separation of these hydrocarbons cannot be efficiently carried out independently by those owning the right to produce in the unit area.

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3 Dobson v. Arkansas Oil & Gas Commission, 218 Ark. 160, 235 S.W. (2d) 33 (1950). The proponents of unit operation in the Dobson case had secured the signatures of ninety-seven percent of the operators and seventy-five percent of the royalty owners to the unit plan of operation at the time the petition was filed. At the time the case came to trial the contract had been signed by all of the operators and by ninety-six percent of the royalty owners. Those who had not signed had an interest of .003004 percent of the total oil and gas which might be produced in the field. See Mahony, Arkansas, in A Legal Report of Oil and Gas Conservation for the Year 1950 2 (Murphy ed. 1951).
A. Voluntary Unit Operation in Those States Which Have No Statutes Expressly Permitting Voluntary Unit Operation or Cooperative Development: ⁴

An agreement between lessors, lessees and royalty owners for the unit or cooperative operation, development, or management of private lands in a cooperative or unit area is valid, absent a violation of state or federal anti-trust legislation. It is generally believed that these agreements do not constitute violations of the state or federal anti-trust laws.⁵

The normal purposes of the voluntary unit operation or cooperative development plan are to increase the ultimate recovery of oil and gas from the common source of supply and to prevent the waste of oil and gas. The joint agreements are not designed to restrict the production of oil and gas so as to affect price structures by stiffening supply, though some limitation due to good conservation practice may be effected from a short range standpoint. The effect of the unit agreement or the cooperative plan upon the production from a common source of supply is without a significant effect upon the total production of oil or gas in the particular state or in the United States.

An agreement between the lessors, lessees and royalty owners within the unit area supersedes the express and implied obligations extant under the terms of the oil and gas leases upon properties located within the area. The terms of the agreement should be reasonable, non-discriminatory and, of course, worthy of inducing the signatures of the parties. The requirements of reasonableness and non-discrimination assume great importance when one or more of the lessors or royalty owners refuse to participate in the plan, even though the greater number agree to the proposal.

⁴ Louisiana, Maryland, Michigan, Missouri, Montana, Nebraska, New York, North Dakota, Ohio, Oregon, Pennsylvania, South Dakota, Tennessee, Utah, Virginia and West Virginia.

B. Voluntary Unit Operation in Those States Which Have Statutes of Limited Authority Permitting Voluntary Unit Operation or Cooperative Development:

A few jurisdictions which do not specifically authorize the execution of voluntary unit or cooperative plans by statute permit these operations in instances where lands belonging to the state are involved within the unit area. This permission may be coupled with a requirement that the approval of the state regulatory agency be secured before putting the program into effect. Plans initiated under the terms of these statutes and approved by the regulatory agency are free from prosecution under state anti-trust and monopoly statutes.

C. Voluntary Unit Operation in Those States Which Have Statutes Expressly Permitting Voluntary Unit Operation or Cooperative Development:

To remove those doubts which exist as to the application of the state anti-trust and monopoly procedures to voluntary plans of unit or cooperative development, a number of states have enacted specific statutes authorizing the adoption, upon a voluntary basis, of these plans and specifically exempting them from the application of the state anti-trust laws.  

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6 E.g., ILL. ANN. STAT. c. 93, § 102 (Jones Cum. Supp. Aug. 1951) authorizes unit or cooperative development of a producing or prospective petroleum field by agreement when the Department of Finance finds it to be “in the best interest of the State and of the production of petroleum…” The purpose of the section is to encourage unit plans of development upon state lands. It applies to units which include state and private lands, but not to private lands alone. Indiana has a similar statute. IND. ANN. STAT. tit. 46, § 1613 (Burns Cum. Supp. 1951). Illinois and Indiana both have enacted statutes approving voluntary units under certain conditions. See note 7 infra.

7 ALA. CODE ANN. tit. 26, § 179 (36)B, § 179 (36)E (Supp. 1947) authorizes unit or cooperative development and requires the approval of the Alabama Oil and Gas Board. ARIZ. CODE ANN. c. 11, § 1330 (Cum. Supp. 1951) approves unit or cooperative development and requires the approval of the State Land Commissioner. ARK. STAT. ANN. tit. 53, § 115-C (1947) was in point but was repealed by ARK. STAT. ANN. tit. 53, § 115-C-1 (Cum. Supp. 1951). Apparently the change as made applies only to compulsory units formed under the 1951 law and not to voluntary units. ARK. STAT. ANN. tit. 53, § 130 (1947) permits voluntary agreements for secondary recovery purposes and requires the approval of the Arkansas...
California and Kansas authorize voluntary agreements but do not make specific exemptions from their state monopoly acts.  

In those statutes requiring a certain method of approval of the unit or cooperative plan by a state regulatory agency, those preparing and signing the agreement should do so in strict compliance with the statutory requirement. These

Oil and Gas Commission. The Commission must find that the operation of the pool under the agreement prevents waste. Col. Stat. Ann. c. 118, § 68 (12) (Cum. Supp. 1951) authorizes unit or cooperative development with the approval of the Colorado Oil and Gas Commission. The plan is to be offered to the Commission, and if after hearing it is found the plan prevents waste, it is to be adopted and approved. Fla. Stat. c. 377, §§ 28, 29 (1949) sanction unit or cooperative development when approved by the Florida Board of Conservation. Ga. Code Ann. tit. 43, § 717 (e) permits unit or cooperative development when approved by the Georgia Oil and Gas Commission. Ill. Stat. Ann. c. 93, § 135 (1) (Jones Supp. Oct. 1951), authorizes agreements for unit or cooperative development when approved by the Illinois Department of Mines and Minerals. Ind. Stat. tit. 46, § 1714, (e) (Cum. Supp. 1951) permits unit or cooperative development when approved by the Department of Conservation. Miss. Code Ann. § 6132-22(e) (Cum. Supp. 1950) authorizes agreements for unit or cooperative development and requires that the Mississippi Oil and Gas Board approve such agreements. Okla. Stat. tit. 52, § 287.15 (1951) states that no agreement between or among lessees or other owners of oil and gas rights entered into to bring about unit development violates the anti-trust and monopoly statutes of the state. While this section is found with the 1951 compulsory unit operation statute, it is broad enough to cover all agreements rather than only those entered into under compulsion. Tex. Stat., Rev. Civ. art. 6008b (Vernon Supp. 1950) permits agreements subject to the approval of the Texas Railroad Commission. Wash. Laws 1951, c. 146, §§ 35, 49, provides that persons may validly integrate their lands to form a unit subject to the approval of the Washington Oil and Gas Conservation Committee. No plan for this type operation violates the anti-trust laws of the state. Wyo. Comp. Stat. Ann. c. 57, § 1114 (Cum. Supp. 1951) authorizes agreements for unit or cooperative development subject to approval by the Wyoming Oil and Gas Conservation Commission.

8 Cal. Pub. Res. Code § 3301 (Deering 1944) authorizes voluntary agreements for cooperative or unit development with the approval of the Supervisor of Wells. However, there is no anti-trust exemption. Kan. Gen. Stat. Ann. c. 55, § 604(D) (Corricker 1949) states that when it appears to the Kansas Corporation Commission that those who have a right to drill and produce oil from any pool, prospective pool, or part, have agreed upon a plan for the development of the pool, the Commission, after notice and hearing, may approve the plan. This applies to oil pools only. No specific anti-trust exemption is provided. N.M. Stat. Ann. c. 69, § 213½ (e) (Cum. Supp. 1951) states that whenever the owners in any pool have agreed upon a plan for the development or operation of such a pool, which in the judgment of the New Mexico Oil Conservation Commission has the effect of preventing waste and which is fair to the royalty owners, the plan is to be adopted by the Commission. The Commission, upon hearing and after notice, may modify the plan to an extent necessary to prevent waste. The statute contains no specific anti-trust exemption.
statutes do not affect the express or implied conditions of an oil and gas lease, nor the necessity of securing the approval and subsequent signature of those who hold interests in the oil and gas rights within the proposed area.

Many of the jurisdictions which authorize the formation of voluntary plans of unit or cooperative development provide, either by the same or other enactments, that state officials may participate in the agreement to bring about the inclusion of state-owned lands in the unit area.

The lessees of land owned by the Federal Government are authorized to act in the collective adoption of a unit or cooperative development program for the further operation of a field or pool whenever the Secretary of the Interior certifies that such a plan is necessary or advisable in the public interest. The federal legislation had as one purpose the removal of possible application of federal anti-trust laws. Incidentally, doubt has been expressed as to whether or not the act confers immunity upon holders of leases upon private lands who voluntarily unite with federal lessees.

D. The Possibility of Using General Conservation Statutes Authorizing Regulatory Agencies to Prevent Waste In Protecting Those Participating in Voluntary Unit Operations:

The modern conservation statute, with its basic requirement of waste prevention, presents a possible source of

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60 Stat. 952, 30 U.S.C. § 226e (1946). See also Hardwicke, op. cit. supra note 1, at 37 n.29, 156.

Hardwicke, op. cit. supra note 1, at 37-8.

Tex. Stat., Rev. Civ. art. 6014(g) (Vernon 1948) negatived expressly any intent in the act (the article defines waste) to require repressuring or unit operation. It has been argued that the Railroad Commission of Texas through the issuance of an order may but is not required to order unit or cooperative development. Walker, The Problem of the Small Tract Under Spacing Regulations, Oil and Gas Journal, Aug. 11, 1938, p. 41. See also Hardwicke, Texas-1938, 1948 in Conservation of Oil and Gas, A Legal History — 1948 447, 471-2 (Murphy ed. 1949). Thompson, A Summary of the Statutes, the Rules, Regulations, and Orders, and the Judicial Decisions Which Pertain to Pressure Maintenance and Recycling 8 (Murphy ed. 1949), indicates that the Railroad Com-
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protection in connection with the establishment of a voluntary unit or cooperative development plan. The regulatory bodies are charged with a duty to prevent waste and they may halt production in a field or pool where the operation is wasteful. After determining that waste is present, the agency has alternatives in its corrective action. It may close in the field completely until the extravagant methods are corrected, or more reasonably, it may recommend the adoption of conservation measures which will prevent waste, and incorporate within its order administrative approbation of voluntary plans acceptable to the owners of the oil and gas rights.

The protection is much stronger in those states which specifically authorize the administrative agency to regulate secondary recovery methods which include cycling, pressure maintenance and water flooding. The normal processes of the voluntary unit or cooperative development plan call for more than the unit management of the properties. These plans envision a joint program to increase the ultimate recovery of oil and gas from the field or pool. The administrative agency in its regulation of the conservation program may exercise control over the regimen of secondary recovery and in that capacity give an administrative blessing to the performance of voluntary plans.

The regulatory agency's approbation of a plan entered into under its orders to prevent waste or to regulate secondary recovery would not give blanket immunity from antitrust suits to the participants. It is suggested, however, that the persons participating in a unit or cooperative program occupy a position of relatively greater immunity when they are able to demonstrate that they entered into the plan with the approval of the state agency or at its indirect request, than are those persons who enter into the agreement without

mission of Texas has entered an order requiring repressuring. Railroad Commission of Texas, Sp. Order No. 3-6475 (July 14, 1944), for the Lake Creek Field, Montgomery County, Texas.
this administrative action. It is not suggested that the approval would extend its protection to plans which violate state anti-trust or monopoly statutes in aspects beyond that of a joint agreement to develop and operate the unit area. For example, an agreement fixing resale prices for hydrocarbons separated from gas produced within the unit area would receive no stamp of legitimacy from the agency directive.

The Federal Government has indicated that it does not consider the anti-trust statutes applicable to those practices, adopted jointly, which are lawful operations essential to conservation and waste prevention, where they have received the legitimate approval of the state administrative authority.¹²

II.

The Voluntary Unit Agreement

A voluntary unit agreement may be formed between lessors, lessees and those persons who own interests in the oil and gas rights within the unit area, or by lessees alone. It is of interest to the future conduct of the operation that the greatest number of those interested as lessors, lessees and royalty owners join the agreement, since, by so doing, many problems involving lease obligations and duties will be eliminated. In the event this happy sequence of signatures cannot

be arranged, those persons who desire to participate may still make an agreement.

The voluntary unit agreement is regulated by statute in scope, as well as in the requirements for approval of its contents necessary to avoid the application of state anti-trust and monopoly laws.

13 See note 7 supra. For a detailed analysis of the statutes, see Appendix, Part 2, infra.

Many aspects of voluntary unit operation plans are similar to those in compulsory operating agreements. The time or date the agreement is to be initiated could be the same in both; the parties to make the proposals and participate in the deliberations leading to the formation of a plan could be identical; and there is no basic difference in the actual drafting of the two agreements. With the exception of the provisions of the compulsory plan based upon a statute and designed to compel formation of the unit, the terms of the voluntary plan cover the same integral parts as the compulsory plan.

In order to anticipate and provide for the most important contingencies, the draftsman should follow an exhaustive check list in preparing a voluntary unit agreement. He should also bear in mind his responsibility to the contract law as this agreement is a contractual obligation. The common law of contracts, as modified by statute, must be strictly pursued. The execution or ratification of the agreement must be in such form as to entitle the instrument to recordation in the appropriate office of the state in which the unit area is located.

Great care should be exercised to include within the terms of the initial basic agreement all those issues on which agreement must be reached at a later date, and to cover with sufficient exactitude those items which are presently included but which may give rise to possible disagreement or misinterpretation.

An agreement to which all of the lessors or royalty owners do not affix their signatures adds further responsibility to the draftsman's task. Its terms should be reasonable and fair in order to avoid arbitrary discrimination against those who reject the instrument.

For an illustrative check list, see Appendix, Part 1, infra.
A. The Voluntary Unit Agreement, The Oil and Gas Lease and Its Express and Implied Covenants: 16

Generally, no problem arises from the express or implied covenants of the oil and gas lease where all the lessors, lessees and royalty owners have joined voluntarily in the plan of unit operation. The possibilities of a breach of the covenants are limited in scope and the responsibility for a breach is placed upon the unit rather than upon the lessee. The significant situation arises where a lessor or royalty owner is asked to participate in the voluntary plan and he refuses to do so. In the jurisdictions where no compulsory statutes exist, it is clear that the lessor or royalty owner may not be forced to participate in the voluntary plan. Those interested in the unit may desire to go ahead without the dissident party; in that event legal results of importance follow.

In Stott v. Tide Water Associated Oil Co., 17 the plaintiffs leased their lands to the defendant who held other leases covering 2215 of a total of 7355 acres of land above a common source of wet gas. In 1939 recycling operations were commenced by two other operators in the reservoir and in December of that year the defendant adopted the same technique. When the plaintiffs were invited to join the proposed unit on the same terms offered royalty owners in other tracts subject to defendant's leases, they refused. The defendant conducted recycling operations upon its other properties and continued to produce the wells on the plaintiffs' lands, although this production was limited, because of the limited market for dry gas, and due to the conservation orders of the Railroad Commission of Texas prohibiting gas flaring.


The recycling operations gradually extended the dry gas area within the reservoir and the plaintiffs sued to recover damages to the extent that the royalty fraction of condensate, which might have been removed from the wet gas under their land, had been replaced by dry gas. The district court found that the wet gas had been displaced under a total of 33.9 of plaintiff's acres and gave judgment for the plaintiffs. This was reversed in the Circuit Court of Appeals for the Fifth Circuit, and certiorari was refused by the United States Supreme Court.

The circuit court stated that the leases did not authorize unit operation, that the plaintiffs could properly refuse to participate in the plan. But the plaintiffs could not refuse to cooperate with their lessee for the mutual protection of both parties' interests in the adoption of a practicable and customary plan which was offered universally in the area, and at the same time demand damages. No breach of the implied covenants in the leases was found; the plaintiffs' contention, that an implied covenant "not to injure the lessor's lease" existed, was found to have no standing in the law.

The circuit court noted that since the plan offered was "... reasonable and fair in all respects, the appellants amply fulfilled any duty of fair dealing which may have been imposed upon them by the lessor-lessee relationship."

(To be concluded)

Blakely M. Murphy*

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18 159 F. (2d) 174 (5th Cir. 1946).
20 159 F. (2d) at 177. But see Merrill, Unitization Problems: The Position of the Lessor, 1 Okla. L. Rev. 119, 128-35 (1948).
21 159 F. (2d) at 179.

* Attorney at law, Oklahoma City, Oklahoma; Counsel-Director, the Governor's Joint Committee on Reorganization of the State Government of Oklahoma; Editor, Legal Report on Oil and Gas Conservation Activities; Secretary, The Legal Committee of the Interstate Oil Compact Commission; Secretary, The Committee on Publications, Section of Mineral Law, American Bar Association.
APPENDIX

Part 1

The voluntary plan of unit operation must make provision for many or, in some situations, all of the following elements and proposals:

1. Definitions of the following terms: unit, unit area, person, unit production, lessee, royalty owner, separately owned tract, unit operator, oil and gas, oil and gas rights, unit expense, secondary recovery, costs of secondary recovery equipment, effective date of the unit, the regulatory agency and the officials of the regulatory agency.

2. The name of the unit — it is common to combine the name of the field with that of the common source of supply to form the unit title.

3. The formation of the unit — the bringing together of the lessees' and the royalty owners' rights into the unit.

4. The effect of the formation of the unit. This factor includes:
   (a) Clauses which unite the interests within the unit area as though the area were within a single lease owned by the lessees in undivided interests.
   (b) Clauses which modify the terms of contracts, leases and other instruments affecting the oil and gas rights.
   (c) Provisions which effect or, perhaps, do not effect a transfer of title to tracts or leases within the unit.
   (d) Clauses which provide that the portion of the unit production allocated to each tract be considered as production from that tract.
   (e) Agreements or stipulations in the plan which provide that operations carried on under the agreement should be considered a fulfillment of the terms, covenants and conditions of the leases and the contracts relating to the common source of supply.
   (f) Provisions which subject the unit production to ownership in the proportions provided, subject to the requirement that each lessee account for and pay to his royalty owners for production as required under his leases and contracts.

5. Provisions for the allocation and disposal of the unit production.

6. Utilization of the unit production in unit operations.
7. Operating committee.
8. Unit operator.
9. Unit expense and cost of secondary recovery equipment.
10. Adjustment of investments in leases and operating equipment.
11. Lien of the unit operator.
12. Subsequent adjustments of investments in leases and operating equipment.
13. Oil in lease tankage when the unit operator assumes control and management.
14. The plan of operation.
15. The right to information regarding the unit operation.
16. Liabilities of the operating committee, individually or collectively, and of the unit operators, the lessee and the lessors.
17. Changes of interest in ownership.
18. Accounting systems and audits.
20. Claims, suits and judgments against individual lessees.
21. Title information respecting the tracts within the area.
22. Formations other than the common source of supply and the rights of those to the agreement in such formations.
23. Abandonment of wells.
25. Amendments to the agreement by (a) mutual agreement or (b) by reason of changes in the applicable laws, rules, regulations, and orders of the state or Federal Government, or agencies of the state or Federal Government.
26. Enlargement of the unit area.
27. The execution and ratification of the agreement by means of counterparts.
28. The assumption of control and management of the unit area by the unit operator.
29. Revisions of allocations within the unit plan and of the exhibits with respect to allocations attached to the plan.
30. The effect of loss or failure of title.
31. A force majeure clause.
32. Signatures.
The scope of the voluntary unit agreement is best indicated by an analysis, based upon similarities, of the various state statutory provisions. Since these statutes have been cited in full in notes 7 and 8 supra, a repetition here would be bootless.

I. In Alabama, Florida, Georgia, Illinois, Indiana, Mississippi and North Carolina, the agreement must be made — (a) in the interest of oil and gas conservation, and (b) to prevent waste. The agreement must be between owners, operators, or owners and operators, and royalty owners owning (1) separate holdings in the same oil or gas pool, or (2) holdings in an area, or part thereof, which appears from geological or other information to be a common accumulation (common source of supply) of oil, gas, or oil and gas. The agreement may provide for (a) unit operation, or (b) cooperative development. The approval of the state regulatory agency is required to implement the agreement and to exempt it from the state anti-trust and monopoly statutes. The punctuation in all but the Mississippi statute would lead to the belief that cooperative development alone is permitted. It seems certain that either unit or cooperative development is intended. The sections contain elements of ambiguity and might well be redrafted and re-enacted for clarity.

II. In Arizona and Wyoming, the agreement is for (a) repressuring or pressure maintenance, (b) cycling or recycling operations which include extraction or separation of the liquid hydrocarbons from natural gas, or (c) for any other method of unit or cooperative development. The agreement covers a field, pool, or part thereof. The agreement requires the approval of the state regulatory agency, after notice and a public hearing, as being (a) in the public interest, (b) protective of correlative rights, and (c) reasonably necessary to increase ultimate recovery or to prevent waste. The agreement binds only those who execute the agreement, and their heirs, successors, assigns, and legal representatives. Specific exemption from the anti-trust laws is provided in the Arizona and Wyoming statutes.

IIA. In Colorado, the requirements of II are applicable and, in addition, those agreements which were entered into prior to 1951 are validated. The agreement must be approved by the Colorado Oil and Gas Commission, upon notice and after hearing, if it prevents waste as defined in the Act, and if the producers (or a producer if but one) have agreed or adopted a plan for the development and operation of the pool or field. The requirements of the Act do not apply to any lands committed to a unit or cooperative development agreement ap-
proved by the Secretary of the Interior. Specific anti-trust provisions are also provided.

III. The 1939 Arkansas enactment was a type I statute. The enactment now in effect provides that persons owning and operating any oil pool, or a portion thereof, may enter into an agreement for the employment of secondary recovery methods for the production of oil, and if the regulatory agency finds that the operation of the area results in the prevention of waste, the state anti-trust and monopoly statutes are waived.

IV. To be valid in California, the agreement must be aimed at the protection of oil and gas from unreasonable waste. The agreement is between the lessors, lessees, operators, or others owning or controlling royalty or other interests in the separate properties of a producing or prospective oil or gas field. The agreement is to be (a) for the cooperative development and operation of all or a part of the field, (b) for the unit operation or development of all or a part of the field, (c) for the purpose of fixing the time, location, and manner of drilling and operating wells for the production of oil or gas, or (d) for the purpose of providing for the return of gas into the earth for storage or repressuring of an oil or gas field. The approval of the Supervisor of Wells is required. He must also make certain findings. The agreement binds the successors and assigns of those who sign and may be enforced by specific performance.

V. When it is shown to the Kansas Corporation Commission that those who have a right to drill into and to produce oil from a pool or part of a pool, or a prospective pool within Kansas have agreed upon a plan for the development of the pool, a part thereof, or a prospective pool, or for the distribution of the allowed production therefrom, the Kansas Corporation Commission may, after notice and upon hearing, approve the plan or distribution.

VI. When it is shown to the New Mexico Oil Conservation Commission that the owners in any pool have agreed upon a plan for the development and operation of the pool, or upon a plan for the distribution of the pool's allowable, the Commission will adopt the plan when, in its judgment, the plan prevents waste and is fair to the royalty owners. After notice and hearing the Commission may modify the plan to any further extent necessary to prevent waste.

VII. An agreement in Oklahoma, between lessees or other owners of oil and gas rights in oil and gas properties for the purposes of unit development and operation of such properties, does not violate the laws which relate to trusts, combinations, and monopolies.
VIII. The agreement in Texas must be between (a) persons owning or (b) persons controlling the production, leases, royalties, or other interests in separate properties in the same oil field, gas field, or oil and gas field. The agreement may be for these purposes: (a) to establish pooled units necessary to effect secondary recovery operations for oil and gas including cycling, recycling, repressuring, water flooding, pressure maintenance, and to establish and operate the needed cooperative facilities; and (b) to establish pooled units and cooperative facilities for the conservation and utilization of gas, including extraction and separation of the hydrocarbons from the natural gas or casing-head gas and returning the dry gas to a formation underlying the lands and leases committed to the agreement.

The Texas Railroad Commission must find, after notice and upon a hearing, that (a) the agreement is necessary to accomplish the purposes for which it is made, (b) it is in the interest of the public welfare as reasonably necessary to prevent waste, and to promote the conservation of oil, gas, or oil and gas, and (c) the rights of the owners of all the interests in the field, whether signers or not of the unit agreement, are protected under its operation, (d) the estimated added cost of such operation does not exceed the value of the added recoveries of oil and gas by operations under the agreement for or on behalf of the persons affected including royalty owners, overriding owners, oil and gas payment owners, carried interest owners, lien claimants and others as well as the lessees, (e) the other available or existing methods or facilities for secondary recovery operations, conservation and utilization of gas in the field or area, or methods or facilities for the conservation and utilization of gas in the field or area are inadequate for such purposes, (f) the area covered by the unit agreement contains only such part of the field as has reasonably been defined by development, and (g) the owners of interests in the oil and gas under each tract of land within the area are given an opportunity to participate in the unit upon the same "yardstick basis" as the owners of the oil and gas interests in other tracts.

The agreement may provide for (a) the location and spacing of input wells, (b) the extension of leases covering any part of the lands committed to the unit so long as operations for drilling or reworking are conducted upon the unit, or so long as production of oil and gas in paying quantities is had from any part of the lands or leases committed to the
unit. However, the agreement does not relieve the operator from the obligation to develop reasonably the lands and leases as a whole which are committed to the unit.

The agreement does not bind any person other than one signing the agreement and his successors. No person is compelled or required to sign an agreement.

The Railroad Commission of Texas is to disapprove the agreement where it finds that the area described in the unit agreement is insufficient, or that it covers more acreage than is necessary to accomplish the purposes of the law.

Agreements so executed are subject to the valid orders, rules, and regulations of the Commission which relate to location, spacing, proration, conservation, or matters within its authority (whether adopted before or after the agreement), and no agreement may contain the field rules for the area or field, that being the sole right of the Commission.

The agreement may not provide for: (a) a limitation of production of oil and gas from the unit property, this being left to the Commission; (b) for the cooperative refining of crude petroleum, distillate, condensate, or gas, or any by-product, except that the extraction of liquid hydrocarbons from gas and their separation into propanes, butanes, ethanes, distillate, condensate, or natural gasoline without added processing is not refining; or (c) the cooperative marketing of crude petroleum condensate, distillate, gas, or by-products thereof.

No approval is required of the Commission for the joint development of jointly owned properties by voluntary agreement. No rights which a person enjoys to make and to enter into unit and pooling agreements is affected. The approval of an agreement is not to be construed as a finding that operations of a different kind or character in any part of the field not within the unit are wasteful or not in the interest of conservation. An agreement so approved does not violate the state laws as to anti-trust schemes and monopolies.

IX. In Washington, persons owning interests in separate tracts of land may integrate their interests and manage, operate and develop such lands as a unit, subject to the approval of the Washington Oil and Gas Committee. No plan as approved violates anti-trust statutes.