

CHAPTER 85: OIL AND GAS DRILLING

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§ 85.01 Definitions

For the purpose of this chapter the following words and terms shall have the scope and meaning defined and set out in connection with each:

(a) Person shall include both the singular and the plural, and shall mean and include any person, individual, firm, partnership, association, corporation, club, society, cooperative, trust, municipal corporation, or political subdivision whatsoever.

(b) Well shall mean any hole or bore to any sand, formation, strata, or depth, which is drilled, bored, sunk, dug, or put down for the purposes of either exploring for or ascertaining the existence of any oil, gas, or liquid hydrocarbons for the purpose of producing and recovering any oil, gas, or liquid hydrocarbon.

(c) Permittee shall mean the person to whom is issued a permit for the drilling and operation of a well under this chapter.

(d) Drilling Unit shall mean one contiguous body or block of land composed of one or more tracts or lots of land, comprising a total surface area of twenty (20) acres of land subject to a tolerance of five per cent (5%), more or less, provided that the separation of such tracts or lots by streets or alleys shall not serve to render such tracts or lots not contiguous for purposes of this chapter.

(e) Technical Terms All technical or oil and gas industry words or phrases used herein and not specifically defined herein shall have that meaning customarily attributable thereto by prudent operators in the oil and gas industry.

§ 85.02 Oil And Gas Inspector; Appointment; Compensation; Duty to Enforce Chapter

The City Council may at any time appoint an oil and gas inspector and set his compensation. It shall be the duty of the oil and gas inspector to enforce the provisions of this chapter.

§ 85.03 Location In Or Obstruction of Streets

No well shall be drilled and no permit shall be issued for any well to be drilled at any location which is within any of the streets or alleys of the City and no street or alley shall be blocked or encumbered or closed in any drilling or production operation, except by special permit by order of the City Council, and then only temporarily.

§ 85.04 Location near Residence or Buildings

No well shall be drilled and no permit shall be issued for any well to be drilled at any location which is nearer than two hundred (200) feet of any residence, building, or structure without the applicant having first secured the written permission of the owner or owners thereof.

§ 85.05 Drilling Unit Map Designated

The drilling, completion and operation of only one completed well for oil to each reservoir may be authorized by permit of the City Council, as provided in this chapter, on each drilling unit shown and designated on the official map of the City on file in the office of the City Secretary. Such map being the representation of the territory within the entire City and being Exhibit "A", and it is hereby referred to and made a part hereof for all purposes. It shall be unlawful to commence or complete more than one well in each reservoir on each such unit; provided that in the event a well is lost or abandoned as a dry hole, the permittee may relocate the well on the drilling unit involved and drill and complete such relocated well under the permit for the first well by filing a plat and certificate showing the abandonment of the first well and the location of the second well.

§ 85.06 Bond Required Prior To Drilling

In the event a permit be issued by the City Council under the terms of this chapter for the drilling and operation of a well, no actual drilling operations shall be commenced until a surety bond, duly executed by permittee, as principal, and by a reliable surety company authorized to do business in the state, as surety, in the amount and upon the conditions prescribed in this section shall be filed with and approved in writing by the City Secretary or until an instrument executed by the surety as hereinafter prescribed is filed with and approved, in writing, by the City Secretary of the City which makes the drilling and operation of such well subject to the terms and conditions of two surety bonds totaling two hundred thousand dollars (\$200,000.00) in the aggregate, previously filed by permittee hereunder. Such bond filed by applicant shall be in the sum of not less than one hundred thousand dollars (\$100,000.00) and shall run to the City, for the benefit of the City and all persons concerned, conditioned that the permittee will comply with the terms and conditions of this chapter in the drilling and operation of the well; that the permittee will promptly restore the streets and sidewalks and other public property of the City which may be disturbed or damaged in the operations to their former conditions, as near as practicable; that the permittee will promptly clear all premises of all litter, trash, waste, and other substances used, allowed, or occurring in the drilling or producing operations and will grade, level, and restore such property to the same surface condition, as near as practicable, as existed when operations for the drilling of the well were first commenced; and that the permittee will pay to the owners of any buildings, improvements, goods, or chattels located on the property any extra cost of insurance of such property imposed by reason of the granting of the permit or the operations carded on thereunder and that the permittee will promptly pay and discharge any liability imposed by law for damages on account of injury to property, either public or private, or bodily injury, including death suffered by any person, resulting from the drilling operations, production and maintenance of such well, equipment, facilities, or appurtenances thereto; and that the permittee will indemnify and hold the City harmless from any and all liability growing out of or attributable to the granting of such permit. Such bond filed by a permittee hereunder shall become effective on or before the date filed with the City Secretary and remain in force and effect until the expiration of the term of the permit issued, subject to the right of the surety company to cancel same after thirty (30) days written notice of such intention has been given to the City Secretary but the privilege of cancellation shall not affect any liability which may have arisen hereunder unto the time the bond is actually

cancelled. Permittee in the event of cancellation of the surety bond above provided for shall automatically suspend his right to operate under his permit until such time as permittee shall furnish another bond as required by this chapter. Each bond shall accrue to the benefit of any person with reference to the conditions above stated and may be sued upon by him.

If in accordance with the provisions of this section a permittee has filed with the City two one hundred thousand dollar (\$100,000.00) surety bonds to cover the drilling and operation of wells under this chapter, the permittee may drill and operate an additional well or wells hereunder without filing an additional surety bond as specified above, provided the permittee files with the City Secretary an instrument, approved at the City Secretary, duly executed by the surety company named as surety, in each of the permittee's bonds on file with the City agreeing that such bonds are in full force and effect in the aggregate sum of two hundred thousand dollars (\$200,000.00) and that the terms and conditions of each bond shall thereafter likewise apply to the drilling and operation of the additional well or wells named therein.

The City Council may waive the requirement for a surety bond as described in this section as to any permittee when it finds and determines that such permittee is financially responsible and capable of meeting obligations for amounts in excess of \$200,000.00. Upon such a determination, the City Council may allow the permittee to file with the City Secretary, in lieu of any surety bond, a letter of acceptance and indemnity binding and obligating such permittee to abide by the conditions prescribed in this section for surety bonds and to indemnify and hold the City harmless from any and all liability growing out of or attributable to the granting of any and all permits held by such permittee.

§ 85.07 Only One Well per Drilling Unit Permitted; Proviso

It shall be unlawful to drill to each reservoir more than one well on each drilling unit; provided that in the event a well is lost or abandoned as a dry hole, the permittee may relocate the well on the drilling unit involved and drill and complete such relocated well under the permit required in section 115.40 for the first well by filing a plat and certificate showing the abandonment of the first well and the location of the second well.

§ 85.08 Notice Required To Re-work Well; Exception

Any operator desiring to rework a well shall give the City Council written notice of his intent prior to the commencement of operations, except in an emergency, in which event an operator may proceed without notice.

§ 85.09 Derrick And Rig; Watchman Required

It shall be unlawful for any person to use or operate in connection with the drilling or reworking of any well within the City limits any wooden derrick or any steam-powered rig and all engines shall be equipped with adequate mufflers approved by the City Council. It shall likewise be unlawful to permit any derricks to remain on the premises or drilling site for a period longer than thirty (30) days after completion or abandonment of the well. At all times from the start or erection of a derrick, or a mat, or a gin-pole, until the well is abandoned and plugged, or

completed as a producer and enclosed with a fence as provided in this chapter, the permittee shall keep a watchman on duty on the premises.

§ 85.10 Pits

Only portable slush-tanks for mud or water shall be permitted in connection with the drilling and reworking operation. Such tanks and their contents shall be removed from the premises and the drilling site within ten (10) days after completion of the well.

§ 85.11 Casing Generally

The productive string shall be new pipe and shall have a mill test of twenty-one hundred (2,100) pounds for wells six thousand (6,000) feet or less in depth. The surface casing shall be new pipe and shall have a mill test of eleven hundred (1, 100) pounds.

§ 85.12 Setting and Cementing Casing

No well shall be drilled within the City limits without properly setting surface casing to a minimum depth of two thousand (2,000) feet. No well shall be drilled within the City limits without cementing the surface casing by the pump and plug method with sufficient cement to completely fill all of the annular space behind such casing to the surface of the grounds. No well shall be drilled within the City without cementing the production string by the pump and plug method with sufficient cement to completely fill all the annular space behind the production string to at least six hundred (600) feet above the highest oil and/or gas bearing horizon. In the event a protection string of casing is used, no well shall be drilled within the City without cementing the protection string by the pump and plug method with sufficient cement to completely fill all the annular space behind the protection string to at least six hundred (600) feet above the highest oil and/or gas bearing horizon.

§ 85.13 Valves and Blow out Preventers

No well shall be drilled within the City limits without properly equipping the surface casing, when set, with at least two (2) ram type blow-out preventers, one of which shall be equipped with blind rams and the other pipe rams. On each well drilled, a valve cock or kelley cock shall be installed on the kelley used.

Each blow-out preventer shall be tested at least once every twenty-four (24) hour period and all control equipment shall be in good working condition and order at all times. Drilling fluid return lines shall be equipped with flow valves where the return line is connected below the top blow-out preventer.

§ 85.14 Drilling Fluid

All operators shall be required to drill with fluid of sufficient weight to exceed the formation pressure anticipated in the Overton Townsite.

§ 85.15 Drill Stem Tests

It shall be unlawful for any person in connection with the drilling and reworking operations of any well within the City limits to take and to complete any drill stem test or tests except during daylight hours and then only if the well effluent during the test is produced through an adequate oil and gas separator to storage tanks, and the effluent remaining in the drill pipe at the time the tool is closed is flushed to the surface by circulating drilling fluid down the annulus and up the drill pipe.

§ 85.16 Tubing

All tubing used in any well within the City limits, drilling to a depth of six thousand (6,000) feet or less, shall be J-55.

§ 85.17 Bradenheads

Each well drilled within the City limits shall be equipped with a bradenhead with a test pressure of not less than six thousand (6,000) pounds per square inch. Bradenheads shall not be welded. The bradenhead installed on the surface casing shall be equipped with fittings having a test pressure rating of not less than six thousand (6,000) pounds per square inch. The bradenhead pressure shall be checked at least once each calendar month and if pressure is found to exist, proper remedial measures shall be immediately taken to eliminate the source and the existence of the pressure.

§ 85.18 Christmas Tree and Well Head Connections

The Christmas tree and all well head connections on each well drilled within the City limits shall be as follows:

(a) On all wells completed at a depth above four thousand (4,000) feet the Christmas tree and well head connections shall have at least a minimum working pressure of two thousand (2,000) pounds per square inch and a minimum test pressure of at least four thousand (4,000) pounds per square inch;

(b) On all wells completed to a depth of from four thousand and one (4,001) to seven thousand (7,000) feet the Christmas tree and well head connections shall have at least a minimum working pressure of three thousand (3,000) pounds per square inch and a minimum test pressure of at least six thousand (6,000) pounds per square inch;

(c) On all wells completed below a depth of seven thousand (7,000) feet the Christmas tree and well head connections shall be at least a working pressure of five thousand (5,000) pounds per square inch and a minimum test pressure of at least ten thousand (10,000) pounds per square inch.

In the event the surface shut-in pressure of any well in the City limits exceeds two thousand (2,000) pounds per square inch, the flow string of the Christmas tree shall be equipped with an automatic closing safety valve in addition to the regular control valves.

§ 85.19 Promises to Be Kept Clean and Sanitary

The premises shall be kept in a clean and sanitary condition, free from rubbish of every character, to the satisfaction of the health officer and the City at all times drilling operations or reworking operations are being conducted and as long thereafter as oil and/or gas is being produced therefrom.

§ 85.20 Mufflers Required

Motive power for all operations after completion of drilling operations shall be electric or property muffled gas or gasoline engines, such mufflers to be approved by the City Inspector.

§ 85.21 Pumping Wells to Be Equipped With Electric Motors

All pumping wells within the City shall be equipped with electric motors.

§ 85.22 Location of Storage Tanks; Right-of-Way for Pipe Lines

(a) All crude oil storage tanks shall be located outside the City limits.

(b) In order to enable the holder of each permit required by this chapter to remove oil, gas, water, or other products from each drilling unit within the City limits to a point or points beyond the City limits, the holder of each permit issued under this chapter for the drilling and operation of a well for oil or gas in the City is hereby granted rights-of-way and easements on, over, under, along, or across the City streets, sidewalks, alleys, and other City property in the City for the purpose of constructing, laying, maintaining, repairing, replaying and removing pipe lines, so long as production or operations may be continued under any permit-issued pursuant to this chapter: Permittees, shall not interfere with or damage existing water, sewer, or gas lines or the facilities of public utilities located on, under, or across the course of such rights-of-way. All crossings for pipe lines under all paved or black topped streets shall be bored or jacked.

§ 85.23 Fence Required Upon Completion

Any person who completes any well as a producer shall have the obligation to enclose such well, together with its surface facilities, by a substantial smooth net wire fence sufficiently high and properly built so as to ordinarily keep persons and animals out of the enclosure, with all gates thereto to be kept locked when the permittee or his employees are not within the enclosure.

§ 85.24 No Smoking Signs To Be Posted

Printed signs reading: "DANGEROUS - NO SMOKING ALLOWED" or similar wording shall be posted in conspicuous places on each producing drilling unit.

§ 85.25 Venting and Flaring Of Gas

No person engaged in drilling or operating any well shall permit gas to escape or be vented into the air within the City limits.

§ 85.26 Disposal of Salt Water

Every permittee shall make adequate provisions for the disposal of all salt water or other impurities which he may bring to the surface, such disposal to be made in such manner as to not contaminate the water supply, present or prospective, or to injure surface vegetation.

§ 85.27 Abandonment And Plugging Procedure

Whenever any well is abandoned it shall be the obligation of the permittee and the operator of the well to set a cast iron bridge plug in the top of all the remaining completion and protection casing sections and a one hundred (100) foot cement plug pumped below and above each such bridge plug; and to set a cast iron bridge plug as low as possible in the surface casing and a one hundred (100) foot cement plug pumped below and above such bridge plug. No surface string or conductor string of casing may be pulled and removed from a well. The production string of casing may be removed from a point one hundred (100) feet or more above the shoe of the protection string. The protection string of casing may be removed from a point one hundred (100) feet or more above the shoe of the surface string of casing. Whenever any such well is abandoned and plugged, it shall be the further obligation of the permittee and the operator of the well to cut the surface casing off at least six (6) feet below the surface of the ground, to place at least a twenty-five (25) foot cement plug in the top of the casing, and to weld the top of the casing completely shut with the resulting hole being completely filled to the surface of the ground and duly tamped. Any additional provisions or precautionary measures prescribed by the state or the railroad commission of the state in connection with abandonment and plugging of a well shall be complied with by the permittee.

§ 85.28 Oil Tax; Collection; Lion

(a) In addition to all other taxes provided by law, there is hereby levied a tax on oil produced within the City of two cents (\$.02) per barrel of forty-two (42) standard gallons. Such tax shall be computed upon the total barrels of oil produced or salvaged through the earth within the City and shall be based upon tank tables showing one hundred per cent (100%) of production and exact measurements of contents. The tax herein levied on oil shall be two per cent (2%) of the market value of said oil whenever the market value thereof is below one dollar (\$1.00) per barrel of forty two (42) standard gallons. The market value of oil, as that term is used herein, shall be the actual market value thereof, plus any bonus or premiums or any other things of value paid

therefor or which such oil will reasonably bring if produced in accordance with the laws of the United States, State of Texas, and the City.

(b) The tax hereby levied shall be a liability of the producer of oil and it shall be the duty of such producer to keep accurate records of all oil produced, making semi-annual reports as required by this chapter.

(c) The purchaser of oil shall pay the tax on all oil purchased and deduct tax so paid from payment due producer or other interest holder, making such payments so deducted to the City Secretary by legal tender or cashier's check payable to the City Secretary, provided that if the oil produced is not sold during the semi-annual period in which produced, then the producer shall pay the tax at the same rate and in the same manner as if the oil were sold.

(d) The tax levied herein shall be paid semi-annually on or before the thirty-first (31st) day of each August on oil produced during the preceding first six (6) months of the calendar year and on or before the thirty-first (31st) day of each January on oil produced during the preceding last six (6) months of the preceding calendar year by the purchaser or producer as the case may be, but in no event shall a producer be relieved of responsibility for the tax until same shall have been paid, and provided, in event the amount of the tax herein levied shall be withheld by a purchaser from payments due a producer and the purchaser fails to make payment of the tax to the City, as provided herein, the producer, upon paying such tax, shall be subrogated to the right of the City to collect from the purchaser the tax, penalties, and interest which may have otherwise accrued by failure to make payments as required by this section.

(e) It is further provided that unless such payment of tax on all oil produced during any six (6) months period shall be made on or before the dates specified above, such payment shall become delinquent and a penalty of five per cent (5%) of the amount of the tax shall be added, whereupon such tax and penalty shall bear interest at the rate of three per cent (3%) per annum from the date due until date paid.

(f) The tax herein levied shall be borne ratably by all interested parties, including royalty interests, and producers and/or purchasers of oil are hereby authorized and required to withhold from any payment due interested parties the proportionate tax due.

(g) The City shall have a lien in and upon each oil well and the equipment incident thereto, together with the respective interest of all parties therein, to secure the payment to the City of all taxes due hereunder on oil produced from such oil wells. This lien shall be in addition to any other liens and methods provided herein or by law for the collection of taxes.

§ 85.29 Violations

Any violation of the law of the state or any rules, regulations, or requirements of any state or federal regulatory body having jurisdiction in reference to drilling, completing, equipping, operating, producing, maintaining, or abandoning an oil or gas well or related appurtenances, equipment or facilities, fire protection, blow-out protection, safety protection, or convenience of persons or property shall also be a violation of this chapter and shall be punishable in accordance with the provisions of § 10. 10 of this Code.

Permit To Drill or Operate

§ 85.30 Drilling Permit Required

It shall be unlawful and an offense for any person acting either for himself or acting as agent, employee, independent contractor, or servant of any other person, to commence to drill, to drill or to operate, any well within the City limits, or to work upon or assist in any way in the prosecution or operation of any such well, without a permit for the drilling and operation of such well having first been issued by the authority of the City Council in accordance with the terms and provisions of this chapter.

§ 85.41 Application Contents

Every application for a permit to drill and operate a well upon a drilling unit shall be in writing, signed by the applicant or by some person duly authorized to sign same on his behalf, and it shall be filed with the City Secretary.

No application shall request a permit to drill or operate but one well to each reservoir on a drilling unit, and the said application shall contain full information, including the following:

- (1) The date of the application.
- (2) Name of the applicant.
- (3) Address of the applicant.
- (4) Proposed site of the well accompanied by a plat of the drilling unit showing the description of the lots, blocks or tracts owned or controlled by applicant.
- (5) Name of the fee owner or owners.
- (6) Name of the lease owner or owners.
- (7) Brief description of the land.
- (8) The application shall have attached to it a certified or Photostat copy of the dew, oil and gas lease, or drilling contract with the owners of land covering the lot, block, or tracts in said

drilling unit over which the applicant has control, together with abstracts of title or certificates of title satisfactory to the City Council, to the end that the application will show what proportion and what parts of the drilling unit the applicant owns in fee, or holds under lease, or drilling contract from the owners, and applicant must own in fee or hold under lease or drilling contract from the owners over fifty per cent (50%) of the acreage within a drilling unit before a permit may be issued.

(9) Type of derrick to be used.

(10) Whether the well shall be drilled as an oil or gas well.

(11) The proposed depth of the well.

(12) Motive power of rig that is to be used.

(13) Within thirty (30) days after the completion of a well within the City limits, the operator shall submit to the City Council copies of Railroad Commission of Texas Forms 2 and 3, and electric log. This data shall be classified as "secret" by the City Council for a period of six (6) months.

§ 85.42 Notice And Publication

At least ten (10) days prior to the date of hearing on the application, a copy of notice in the form herein prescribed shall be sent by registered mail to each owner and lessee of lots, blocks, and tracts in said drilling unit not owned by or under lease to the applicant, addressed to the last known address of such land/or lease owners, if known to the applicant. A copy of such notice shall likewise be published at the cost of applicant in every issue of an official paper of the City for ten (10) days prior to the date of such hearing, or for two consecutive weeks if the paper is published weekly. If the official paper is published weekly, the publication shall be made in one issue thereof before date of hearing. Such notice shall state the lot and block number on which the applicant is asking for a permit to drill and the date and place of hearing, and shall be in words and figures as follows:

"Notice is hereby given that _____ acting under and pursuant to the terms and provisions of AN ORDINANCE REGULATING THE DRILLING, COMPLETION, AND OPERATION OF OIL WELLS WITHIN THE LIMITS OF THE CITY OF OVERTON, TEXAS, AND PROVIDING FOR THE PUBLIC SAFETY IN CONNECTION THEREWITH, being Ordinance No. _____, did, on the _____ day of _____ file with the City Secretary of the City of Overton an application for a permit to drill a well for oil and/or gas upon Lot No. _____, Block No. _____, Overton Townsite, in a drilling unit of _____ acres described as follows:

(Description)

A hearing upon such application will be held in the office of the City Secretary of the City of Overton, Texas, at _____ on the _____ day of _____ at _____ M.

Proof of notice shall be made by the applicant by filing with the City Secretary an affidavit of the printer or publisher of the paper in which the notice is published containing a copy of the notice, and stating the issue in which and period of time during which the notice was published, and an affidavit of the applicant showing the date and persons to whom and the addresses to which the notice was mailed by the applicant, and proof that such addresses are the last addresses of the persons involved known to the applicant.

At the time fixed in such notice a hearing on such application shall be held in the office of the City Secretary.

§ 85.43 Permit Fee; Refund

(a) The fee for a permit required by this chapter shall be as prescribed in the Schedule of Fees (Appendix A of this Code), which amount, in cash, shall accompany the application.

(b) If the permit for under this chapter be refused or if the applicant has notified the City Council in writing that he does not elect to accept the permit as tendered and wishes to withdraw his application or if the bond or surety instrument of the applicant be not approved and the applicant notifies the City Council in writing that he wishes to withdraw his application, then upon the happening of any of these events, the fee filed with the application shall be returned to the applicant, except there shall be retained therefrom by the City the sum of one hundred dollars (\$100.00) as a processing fee.

§ 85.44 Issuance; Contents; Effect

The City Council within thirty (30) days after the filing of the application for a permit to drill and operate a well shall determine whether or not the application complies in all respects with the provisions of this chapter, and if it does, the City Council shall issue a permit for the drilling and operation of the well applied for, conditioned upon applicant filing before commencement of drilling operations thereunder, the surety bond or surety instrument prescribed in section 115.06.

The City Council shall have the power, and reserves the authority, to refuse any application for a permit when by reason of location of the proposed well and the character and value of the permanent improvements already erected on the drilling unit in question or adjacent thereto and the use to which the land and surroundings are adapted for civic purposes, or for sanitary reasons, the drilling of an oil or gas well will be a serious disadvantage to either the health, safety, morals, or welfare of the City and its inhabitants.

Each permit issued shall:

- (1) By reference have incorporated therein all the provisions of this chapter with the same force and effect as if this chapter were copied verbatim in the permit.
- (2) Specify the well location with particularity to lot number, block number, name of addition or subdivision, or other available correct legal description.

(3) Contain and specify that the terms of such permit shall be for a period of six (6) months from the date of the permit and as long thereafter as the permittee is engaged in continuous drilling or reworking operations or oil or gas is produced in commercial quantities from the well drilled pursuant to such permit; provided that if at any time after discovery of oil or gas the production thereof in commercial quantities shall cease, the term shall not terminate if the permittee commences additional reworking operations within six (6) months thereafter, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced in commercial quantities from such well.

(4) Contain and specify such conditions as are by this chapter authorized.

(5) Specify the total depth to which the well may be drilled.

(6) Contain and specify that no actual drilling operations shall be commenced until the permittee shall file and have approved an indemnity bond in the designated principal amount and conditioned as specified in section 85.06. The permit issued under this section in duplicate originals, shall be signed by the City Secretary and prior to delivery to the permittee shall be signed by the permittee, with one original to be retained by the City and one by the permittee. When so signed, it shall constitute the permittee's drilling and operating license and the contractual obligation of the permittee to comply with the terms of this permit and bond, as required in section 85.06 of this chapter.

§ 85.45 Termination

When a permit shall have been issued, the same shall terminate and become inoperative without any action on the part of the City unless within six (6) months from the date of issuance actual drilling of the well designated therein shall have commenced. The cessation for a like period of the drilling or reworking operations, or the cessation of the production of oil or gas from the well after production shall have commenced shall operate to terminate and cancel the permit and the well shall be considered as abandoned for-all purposes of this chapter, and it shall be unlawful thereafter to continue the operation or drilling of such well without the issuance of another permit.

§ 85.46 Holder of Major Interest in Drilling Unit Entitled To Permit

In the event an application for a permit for drilling, completion and operation of a well for oil or gas shall be made by any person not owning or not holding oil and gas leases or drilling contracts from the owners of all lots, blocks, or parcels of land included in or embraced within a drilling unit as shown upon the map referred to in section 85.05 a permit shall be issued to such applicant, his heirs, successors, and assigns only upon the following conditions in addition to such other conditions as may be provided in other sections of this chapter: The applicant shall be free to enter into such contracts and agreements with the owners of such other lots, blocks, or tracts as lie may be able to make. If agreements are not reached with all owners of lots, tracts and blocks within the drilling unit, then the owner or owners, of any given lot or lots, block or blocks, tract or tracts, shall have the right or option, by notice to the permittee given in writing

within thirty (30) days after the issuance of a permit for a well on the drilling unit involved, either (1) to treat his interest as a working interest and contribute toward the actual cost and expense of drilling, completing, and operating said well with all necessary appurtenances currently each month in the proportion that the number of square feet in area owned by him in the drilling unit bears to the number of square feet embraced in said unit, and thereupon receive the same proportion of the oil produced and saved from such well or its value at the well at the option of the permittee and a like proportion of natural gas produced, saved and utilized, or sold or the value of same at the well at the option of the permittee; or (2) to treat his interest as a royalty interest and receive delivered free of cost in the pipe line to which the well may be connected, a share of all oil produced and saved from such well equal to one-eighth (1/8) of the proportion of the whole quantity of oil so produced and saved that the number of square feet in the area owned by him bears to the number of square feet in such drilling unit, or at the election of the permittee to receive such proportion of the value the well of the oil so produced, and to receive a like proportion of the gas and casinghead gas produced, saved and utilized, or sold, or at the election of the permittee the value at the well of such proportion of gas or casinghead gas produced, saved and utilized, or sold. If any owner does not exercise the right and adoption above provided, the obligation shall then be upon the permittee, his heirs, successors, and assigns, to make settlement with such owner on the terms provided in option 2 above, providing for the payment of a one-eighth (1/8) royalty. If the owner of a lot or lots, block or blocks, tract, or tracts shall exercise option 1 above and treat his interest as a working interest, as therein provided, the permittee shall be entitled to reimburse himself for such owner's proportionate part of the costs out of such owner's proportionate part of the oil, gas, and casinghead gas, or the value thereof before making deliveries of products or settlement for the value thereof, if option 1 is exercised by the owner of any lot of lots, block or blocks, tract or tracts, such owner shall, within the time provided for notice of his election above set forth, file with the City Secretary a bond or other obligation executed by such owner as principal and by an authorized surety company as surety, in which such principal and surety agree, bind and obligate themselves to pay to the permittee, his heirs, successors, and assigns, currently each month that proportion of the actual and necessary costs and expenses involved in the drilling, completion, and operation of such well that the number of square feet embraced within the lot or lots, block or blocks, tract, or tracts of such owner bears to the total of square feet in such drilling unit, such bond to be approved by the mayor and held by the City Secretary for the benefit of the beneficiaries therein. Permits shall be issued in all such cases upon the condition that the permittee, his heirs, successors, and assigns shall make settlement in accordance with the provisions hereof.