

## Compulsory Integration Legislation

### STATUS:

**S 5553-B** WINNER Same as [A 8672-B](#)  
Rules (Parment)  
Environmental Conservation Law  
TITLE....Relates to mineral resources and  
the rights and responsibilities of owners  
and operators of wells and natural gas pools  
and fields; repealer  
**This bill is not active in the current  
session.**  
06/02/05REFERRED TO RULES  
06/19/05AMEND AND RECOMMIT TO  
RULES  
06/19/05PRINT NUMBER 5553A  
06/20/05AMEND AND RECOMMIT TO  
RULES  
06/20/05PRINT NUMBER 5553B  
06/22/05ORDERED TO THIRD  
READING CAL.1757  
06/23/05PASSED SENATE  
06/23/05DELIVERED TO ASSEMBLY  
06/23/05referred to environmental  
conservation  
06/24/05substituted for a8672b  
06/24/05ordered to third reading rules  
cal.778  
06/24/05passed assembly  
06/24/05returned to senate  
07/21/05DELIVERED TO GOVERNOR  
08/02/05SIGNED CHAP.386

**A8672-B** Rules (Parment) Same as [S 5553-B](#) WINNER  
Environmental Conservation Law  
TITLE....Relates to mineral resources and  
the rights and responsibilities of owners and  
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**This bill is not active in the current  
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06/02/05 referred to environmental  
conservation  
06/19/05 amend and recommit to  
environmental conservation  
06/19/05 print number 8672a  
06/21/05 reported referred to rules  
06/21/05 amend and recommit to rules  
8672b  
06/22/05 reported  
06/22/05 rules report cal.778  
06/22/05 ordered to third reading rules  
cal.778  
06/24/05 substituted by s5553b  
**S05553 WINNER AMEND=B**  
06/02/05 REFERRED TO RULES  
06/19/05 AMEND AND RECOMMIT TO  
RULES  
06/19/05 PRINT NUMBER 5553A  
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**VOTING:**

<a href="#">06/24/05</a>	S5553-B	Assembly Vote	Yes: 127	No : 0
<a href="#">06/23/05</a>	S5553-B	Senate Vote	Aye: 60	Nay: 0

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**Floor Votes:**

06/24/05 S5553-B Assembly Vote Yes: 127 No : 0

<b>Yes</b> Abbate	<b>Yes</b> Alfano	<b>Yes</b> Arroyo	<b>Yes</b> Aubertine
<b>Yes</b> Aubry	<b>Yes</b> Bacalles	<b>Yes</b> Barclay	<b>Yes</b> Barra
<b>Yes</b> Barraga	<b>Yes</b> Benedetto	<b>Yes</b> Benjamin	<b>Yes</b> Bing
<b>Yes</b> Boyland	<b>Yes</b> Bradley	<b>Yes</b> Brennan	<b>Yes</b> Brodsky
<b>Yes</b> Brown	<b>Yes</b> Burling	<b>Yes</b> Butler	<b>Yes</b> Cahill
<b>Yes</b> Calhoun	<b>Yes</b> Canestrari	<b>ER</b> Carrozza	<b>Yes</b> Casale P
<b>Yes</b> Christensen	<b>Yes</b> Clark	<b>Yes</b> Cohen	<b>Yes</b> Colton
<b>Yes</b> Conte	<b>Yes</b> Cook	<b>Yes</b> Crouch	<b>Yes</b> Cusick
<b>Yes</b> Cymbrowitz	<b>Yes</b> DelMonte	<b>ER</b> Destito	<b>ER</b> Diaz L
<b>Yes</b> Diaz R	<b>Yes</b> DiNapoli	<b>Yes</b> Dinowitz	<b>Yes</b> Eddington
<b>Yes</b> Englebright	<b>Yes</b> Errigo	<b>ER</b> Espaillat	<b>Yes</b> Farrell
<b>Yes</b> Fields	<b>Yes</b> Finch	<b>Yes</b> Fitzpatrick	<b>Yes</b> Galef
<b>Yes</b> Gantt	<b>Yes</b> Gianaris	<b>Yes</b> Glick	<b>Yes</b> Gordon
<b>Yes</b> Gottfried	<b>Yes</b> Grannis	<b>Yes</b> Green	<b>ER</b> Greene
<b>Yes</b> Gunther A	<b>Yes</b> Hayes	<b>ER</b> Heastie	<b>Yes</b> Hevesi
<b>ER</b> Hikind	<b>ER</b> Hooker	<b>AB</b> Hooper	<b>Yes</b> Hoyt
<b>Yes</b> Ignizio	<b>Yes</b> Jacobs	<b>Yes</b> John	<b>Yes</b> Karben
<b>Yes</b> Kirwan	<b>Yes</b> Kolb	<b>Yes</b> Koon	<b>Yes</b> Lafayette
<b>Yes</b> Latimer	<b>Yes</b> Lavelle	<b>Yes</b> Lavine	<b>Yes</b> Lentol
<b>Yes</b> Lifton	<b>ER</b> Lopez	<b>Yes</b> Lupardo	<b>Yes</b> Magee
<b>Yes</b> Magnarelli	<b>Yes</b> Manning	<b>Yes</b> Markey	<b>ER</b> Mayersohn
<b>Yes</b> McDonald	<b>Yes</b> McDonough	<b>ER</b> McEneny	<b>Yes</b> McLaughlin
<b>ER</b> Meng	<b>Yes</b> Miller	<b>Yes</b> Millman	<b>Yes</b> Mirones
<b>Yes</b> Morelle	<b>Yes</b> Mosiello	<b>Yes</b> Nesbitt	<b>Yes</b> Nolan
<b>Yes</b> Norman	<b>Yes</b> Oaks	<b>ER</b> O'Connell	<b>Yes</b> O'Donnell

<b>Yes</b> O'Mara	<b>ER</b> Ortiz	<b>Yes</b> Ortloff	<b>Yes</b> Parment
<b>Yes</b> Paulin	<b>Yes</b> Peoples	<b>Yes</b> Peralta	<b>Yes</b> Perry
<b>Yes</b> Pheffer	<b>AB</b> Powell	<b>Yes</b> Pretlow	<b>Yes</b> Quinn
<b>Yes</b> Rabbitt	<b>Yes</b> Raia	<b>Yes</b> Ramos	<b>Yes</b> Reilich
<b>Yes</b> Reilly	<b>Yes</b> Rivera J	<b>Yes</b> Rivera N	<b>ER</b> Rivera P
<b>Yes</b> Robinson	<b>Yes</b> Saladino	<b>Yes</b> Sanders	<b>Yes</b> Sayward
<b>ER</b> Scarborough	<b>Yes</b> Schimminger	<b>Yes</b> Schroeder	<b>Yes</b> Scozzafava
<b>Yes</b> Seddio	<b>Yes</b> Seminerio	<b>Yes</b> Stephens	<b>Yes</b> Stringer
<b>Yes</b> Sweeney	<b>Yes</b> Tedisco	<b>Yes</b> Thiele	<b>ER</b> Titus
<b>Yes</b> Tokasz	<b>Yes</b> Tonko	<b>Yes</b> Towns	<b>Yes</b> Townsend
<b>Yes</b> Walker	<b>Yes</b> Weinstein	<b>ER</b> Weisenberg	<b>Yes</b> Weprin
<b>ER</b> Wirth	<b>Yes</b> Wright	<b>Yes</b> Zebrowski	<b>Yes</b> Mr. Speaker

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**Floor Votes:**

06/23/05 S5553-B Senate Vote Aye: 60 Nay: 0

<b>Aye</b> Alesi	<b>Aye</b> Andrews	<b>Aye</b> Balboni	<b>Aye</b> Bonacic
<b>Aye</b> Breslin	<b>Aye</b> Brown	<b>Aye</b> Bruno	<b>Aye</b> Connor
<b>Aye</b> DeFrancisco	<b>Aye</b> Diaz	<b>Aye</b> Dilan	<b>Aye</b> Duane
<b>Aye</b> Farley	<b>Aye</b> Flanagan	<b>Aye</b> Fuschillo	<b>Aye</b> Golden
<b>Exc</b> Gonzalez	<b>Aye</b> Hannon	<b>Aye</b> Hassell-Thompson	<b>Aye</b> Johnson
<b>Aye</b> Klein	<b>Aye</b> Krueger	<b>Aye</b> Kruger	<b>Aye</b> Larkin
<b>Aye</b> LaValle	<b>Aye</b> Leibell	<b>Aye</b> Libous	<b>Aye</b> Little
<b>Aye</b> Maltese	<b>Aye</b> Marcellino	<b>Aye</b> Marchi	<b>Aye</b> Maziarz
<b>Aye</b> Meier	<b>Aye</b> Montgomery	<b>Aye</b> Morahan	<b>Aye</b> Nozzolio
<b>Exc</b> Onorato	<b>Aye</b> Oppenheimer	<b>Aye</b> Padavan	<b>Aye</b> Parker
<b>Aye</b> Paterson	<b>Aye</b> Rath	<b>Aye</b> Robach	<b>Aye</b> Sabini
<b>Aye</b> Saland	<b>Aye</b> Sampson	<b>Aye</b> Savino	<b>Aye</b> Schneiderman
<b>Aye</b> Serrano	<b>Aye</b> Seward	<b>Aye</b> Skelos	<b>Aye</b> Smith A
<b>Aye</b> Smith M	<b>Aye</b> Spano	<b>Aye</b> Stachowski	<b>Aye</b> Stavisky
<b>Aye</b> Trunzo	<b>Aye</b> Valesky	<b>Aye</b> Volker	<b>Aye</b> Winner
<b>Aye</b> Wright	<b>Aye</b> Young		

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**SUMMARY:**

WINNER, YOUNG

Amd SS23-0305, 23-0701, 23-0901 & Art 23 Title 5, add S23-0503, rpld & add S23-0501, En Con L; rpld & add S5-333 sub 5, Gen Ob L

Relates to mineral resources and the rights and responsibilities of owners and operators of wells and natural gas pools and fields.  
EFF. DATE 08/02/2005 (SEE TABLE)

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**SPONSORS MEMO:**

**NEW YORK STATE SENATE  
INTRODUCER'S MEMORANDUM IN SUPPORT  
submitted in accordance with Senate Rule VI. Sec 1**

**BILL NUMBER:** S5553B

**SPONSOR:** WINNER

**TITLE OF BILL:** An act to amend the environmental conservation law and the general obligations law, in relation to mineral resources; and to repeal certain provisions of the environmental conservation law and the general obligations law relating thereto

**PURPOSE OR GENERAL IDEA OF BILL:**

The purpose of this legislation is to eliminate uncertainty in the unitization and integration process relating to the exploration and development of oil and gas reserves, protect investment associated with the development of oil and gas reserves, and protect the correlative rights of all landowners and adds consumer protection measures to facilitate the orderly leasing of oil and gas rights.

**SUMMARY OF SPECIFIC PROVISIONS:**

Section 1: Paragraph e of subdivision 8 of section 23-0305 of the environmental conservation law is amended.

Section 2: Paragraph e of subdivision 9 of section 23-0305 of the environmental conservation law is amended.

Section 3: Subdivision 11 of section 23-0305 of the environmental conservation law is amended.

Section 4: Paragraph f of subdivision 14 of section 23-0305 of the environmental conservation law is amended.

Section 5: The title heading of title 5 of article 23 of the environmental conservation law is amended.

Section 6: Section 23-0501 of the ECL is repealed and two new sections 23-0501 and 23-0503 are added. The new sections add new definitions to clarify existing concepts and refines existing definitions for clarity. Defines statewide spacing units for specific formations; defines "well operator."

Adds new statutory procedures governing the application for and issuance of well drilling permits (based largely on existing DEC practice) including a fast-track approval process for units that conform to state-wide spacing. Adds streamlined procedure for individuals to contest units that do not conform with statewide spacing units, but requires that they meet the substantive and significant threshold for adjudication.

Section 7: Section 23-0701 of the ECL is amended by adding a requirement for DEC to issue an order memorializing voluntary integration agreements following notice and an opportunity for a hearing.

Section 8: Subdivisions 1, 2, 3 and 6 of section 23-0901 of the ECL, subdivision 1 is amended and a new subdivision 13 is added. Adds or clarifies several definitions.

Adds a new, streamlined statutory procedure for the integration of interests in a unit in the absence of voluntary agreement among owners.

Revises the manner in which non-operator owners in a unit can be integrated by providing three options: (1) participate up front in all costs and receive a full working interest in the well's production; (2) not participate up front, and be subject to a 300% risk penalty, and be subject to a proportionate share of costs going forward; or (3) be integrated at a royalty of either the lowest royalty paid to owners who have entered into voluntary agreements with the operator, or 1/8, whichever is greater. Requires that the failure to elect one of the three options results in being integrated as option (3) described above.

Defines what costs are recoverable by the well operator from owners who elect one of the options to receive a full working interest; and specifies the terms of integration that are applicable to all such owners.

Section 9: Subdivision 5 of section 5-333 of the general obligations law is repealed and two new subdivisions 5 and 6 which ensures that individuals leasing oil and gas interests have notice of the significant legal import of the leases; requires that all leases contain an unconditional three business days right of rescission.

Section 10: Effective date.

#### **JUSTIFICATION:**

New York State's gas and oil conservation statute was originally enacted in 1963 to attract the investment capital necessary for exploration and development of the deep oil and gas horizons in New York State while ensuring that the production costs and production revenues would be

shared on a just and reasonable basis, either through voluntary agreements or through orders issued by the Department of Environmental Conservation ("DEC"). It has taken more than 40 years since the enactment of New York's oil and gas conservation statute, but now companies are investing hundreds of millions of dollars into exploration and development of these resources. This investment in a potential source of clean domestic fuel comes at a crucial time. The original legislation did not, however, anticipate the controversy that has developed over implementation of the existing unitization and integration provisions in Article 23. The existing framework encourages inefficiency and discourages investment by bona fide operating companies.

This legislation is intended to remove the uncertainty associated with the process of developing oil and natural gas wells, and to allocate risks and responsibilities among operators and owners of mineral interests (either leased or unleased) on a reasonable and equitable basis. To achieve this objective, the proposed revisions make several types of changes. Generally, this legislation adds several new defined terms, and either explains or clarifies other terms. It also increases the risk penalty for owners who wish to make no up front investment in the well, but wish to obtain a potentially greater share in the revenue. This bill also revises the procedures for obtaining a well permit, establishing drilling units, and integrating interests. The existing law currently allows an operator to drill a well before the unit is finally determined, which has led to significant conflict among operators and the various owners who seek to gain from the successful completion of a well. This bill provides an expedited procedure for determining spacing units such that the spacing unit can be determined before a well is drilled.

Detailed public notice and hearing procedures have been added to ensure that the DEC-administered unitization and integration processes are open and transparent, giving all potentially affected parties the opportunity to participate as they are able, and to obtain revenue from the well commensurate with their risk investment. Time frames for unitization and integration have been imposed, allowing these two processes to run more quickly and consistently.

Most importantly, this legislation fundamentally simplifies the potential methods for integrating ownership interests in a unit in the absence of voluntary agreement by creating three basic options for holders of gas or oil interests: (1) participate up front in all costs and receive a full working interest in the well's production; (2) not participate up front and be carried by the operator subject to cost recoupment plus a 300% risk penalty, and be subject to a proportionate share of costs going forward; or (3) be integrated cost-free as a royalty interest. Finally, this legislation adds a section devoted to consumer protection designed to ensure that all individuals participat-

ing in leases of oil and gas interests have notice of the significant legal import of the leases, and requires that all leases contain an unconditional three business day right of rescission.

**PRIOR LEGISLATIVE HISTORY:**

This is new legislation.

**FISCAL IMPLICATIONS:**

This legislation will have no fiscal implications for the state and local governments.

**EFFECTIVE DATE:**

This act shall take effect immediately and shall apply to any oil or gas well permit issued on or after such effective date except as otherwise provided in this act.

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