

FACT SHEET
on
DENR BILL TO ENCOURAGE THE DEVELOPMENT OF OIL AND GAS
IN SOUTH DAKOTA BY REDUCING THE PERCENTAGE OF OWNERS
REQUIRED TO RATIFY AN OIL AND GAS UNIT

- Existing state law (SDCL 45-9-37 through 51) authorizes the Board of Minerals and Environment to establish a unit operation for oil and gas production.
- A unit operation is mainly used when production from an oil or gas well(s) or field becomes economically marginal and the production company needs to use a secondary or tertiary recovery method, such as pumping water or air into the producing formation, to increase oil and gas production.
- To effectively use secondary and tertiary production methods to enhance the flow of oil or gas, a unit generally needs to include a larger portion of the producing formation that contains the oil or gas than is affected by a single well. Therefore, a unit affects more mineral owners than a single well does. Existing unit operations in South Dakota range in size from 3 to 30 sections of land.
- To form a unit, existing state law requires that 75% of the affected persons who own or lease mineral rights within the proposed unit area must approve of the unit formation.
- Affected mineral owners or lessees are expected to pay a share of the development costs, exclusive of royalties, and then share in the profits, both on some type of pro-rata basis that is negotiated with the production company.
- Surface owners within the unit who do not own mineral rights under their land receive compensation from the oil and gas company for any damages to their land. DENR requires operators to file proof that they have negotiated with the surface landowner on damages. If the surface owner believes the oil and gas company is not offering adequate compensation, the surface owner may file a claim in circuit court.
- There are nine unit operations that have been approved by the Board of Minerals and Environment and are currently in operation; six oil units in Harding County and three oil units in Fall River County.
- North Dakota recently lowered the percentage of affected mineral owners and lessees needed to approve a unit operation from 75% to 60%.
- The North Dakota Petroleum Council reports this change has increased both the number of units formed and increased the oil and gas production in North Dakota.
- Making this same change in South Dakota will bring consistency to oil and gas development opportunities near the North Dakota border.
- Most importantly, making this change will encourage more exploration and increase production of oil and gas resources in South Dakota while protecting all owners' rights and preventing the drilling of unnecessary wells.