

HISTORY OF OIL AND GAS
AND THE
FORMATION
OF THE
INTERSTATE OIL COMPACT
COMMISSION



"Colonel" Edwin Drake, in top hat, stands in front of first oil well near Titusville, Pennsylvania, in 1859. The title of "Colonel" had been invented to impress the local backwoodsmen, who though Drake was crazy for trying to drill for oil.

HISTORY OF THE DEVELOPMENT OF OIL AND GAS

“Colonel” Drake

- In 1859, “Colonel” Drake drills the first oil and gas well in Titusville, PA.
- Kerosene
- Lubrication
- “Drake’s discovery would, in due course, bequeath mobility and power to the world’s population, play a central role in the rise and fall of nations and empires, and become a major element in the transformation of human society.”



An oil dealer in Ohio, delivers kerosene—the “new light”—door-to-door from his horse-drawn tank wagon.

RULE OF CAPTURE

Original Rule of Capture—The owner of a tract of land acquires title to the oil and gas which he produces from wells drilled thereon, though it may be proved that part of such oil and gas migrated from adjoining lands. A corollary of the rule of capture is the so-called offset well or self-help protection rule. If, under the rule of capture, one is allowed to acquire title to all the oil and gas that is brought to the surface, the only protection that an oil and gas owner has against loss of his or her oil and gas to neighboring owners is the right to drill offset wells that would intercept the oil and gas otherwise being drawn to the neighboring wells. *B. Kramer and P. Martin, The Law of Pooling and Unitization*; §2.01 (2005).

Barnard v. Monongahela Natural Gas Co. Pa. Supreme Court 1907

- Every owner [has a right] to drill a well on his own land at whatever spot he may see fit. If, then, the landowner drills on his own land at such a spot as best subserves his purposes, what is the standing of the adjoining landowner whose oil or gas may be drained by this well? . . . What then has been held to be the law?

Barnard con' d

- It is this, as we understand it, every landowner or his lessee may locate his wells wherever he pleases, regardless of the interests of others. . . . What then can the neighbor do? Nothing; only go and do like wise. He must protect his own oil and gas.

Borys v. Canadian Pacific Railroad Co. Alberta Supreme Court 1953

- [I]f any substance is withdrawn from [a landowner's] property, thereby causing any fugacious matter to enter his land, the surrounding owners have no remedy against him. The only safeguard is to be the first to get to work, in which case, those who make the recovery become owners of the material which they withdraw from any well which is situated on their property or from which they have authority to draw.

ADVERSE CONSEQUENCES OF RULE OF CAPTURE

- Drilling of unnecessary wells
- Waste by leaving oil and gas in the reservoir
- Inefficiency of drilling wells at high rates
- Failure to drill at the optimum geologic location
- Producing natural gas (gas cap) thereby reducing reservoir pressure
- Unlimited production causes huge swings in the price of oil



Oil Creek, Pennsylvania, in 1865.



Production from closely-spaced wells in Signal Hill, California



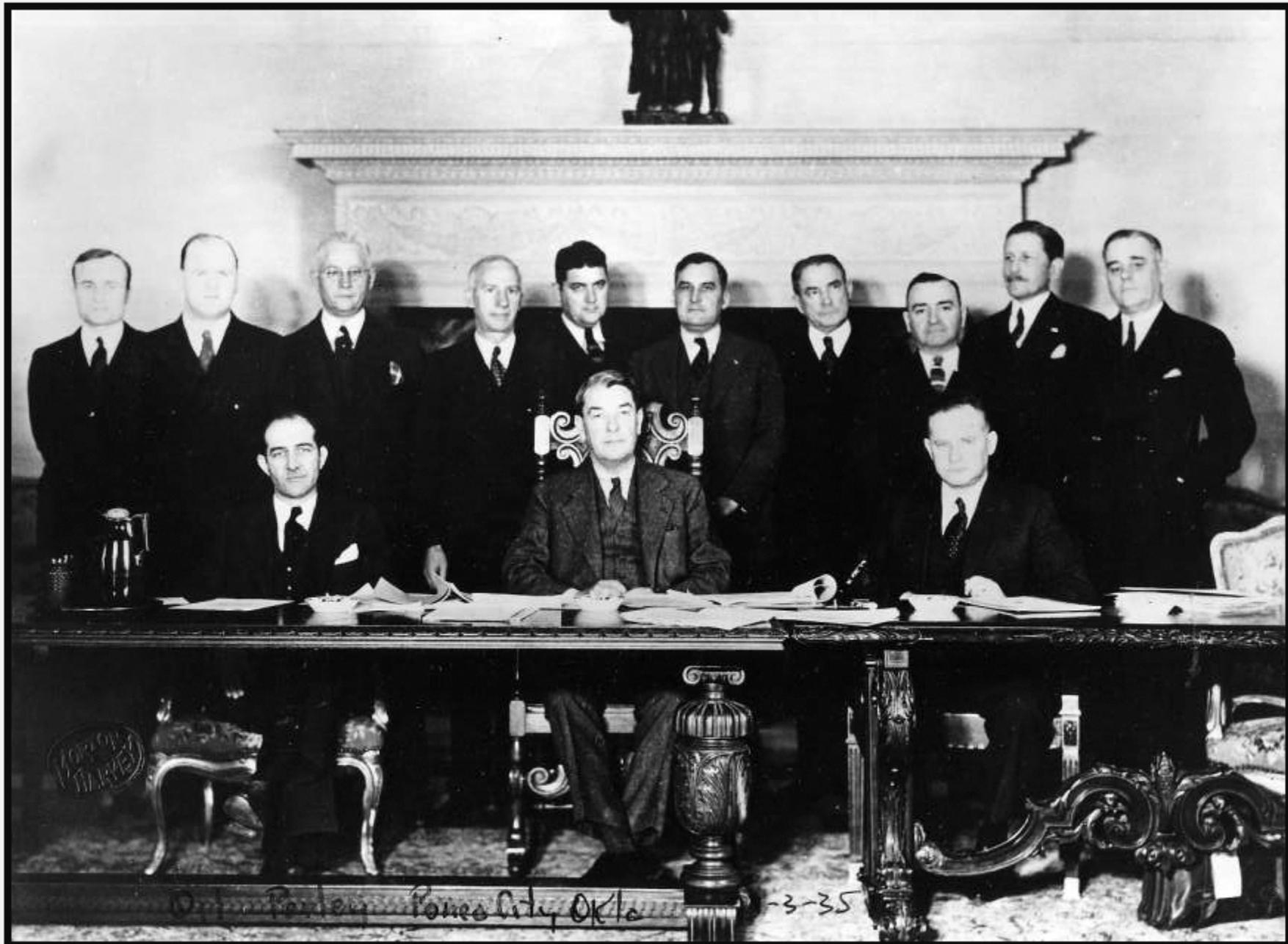
Midway-Sunset field of Standard Oil, taken during the 1920s.

CALLS FOR GOVERNMENTAL ACTION

- Depression in 1930' s
- Calls for governmental action in other economic areas
- Calls for regulation to promote conservation of oil and gas resources
- 1932—Franklin Roosevelt is inaugurated President
- FDR suggests to governors of oil and gas producing states enacting state laws to promote conservation

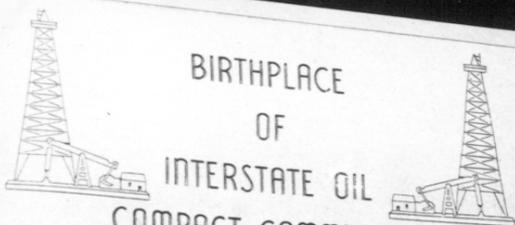
GOVERNOR MARLAND AND PONCA CITY, OKLAHOMA

- Governor E. W. Marland of Oklahoma meets governors from Kansas and Texas and with representatives from Arkansas, California, Louisiana, New Mexico, and Wyoming in Ponca City, Oklahoma
- Heated discussion
- Creation of Interstate Oil Compact Commission
- Congress approves Compact on August 27.
1935



W. H. HARRIS

Organized Bankers - Ponca City, Okla - 3-35



BIRTHPLACE OF INTERSTATE OIL COMPACT COMMISSION

ORIGINAL PLANS FOR CREATING INTERSTATE COMPACT TO CONSERVE OIL AND GAS WERE DEVELOPED ON DECEMBER 4, 1934, AT HOME OF GOVERNOR-ELECT E. W. MARLAND, LOCATED ONE HALF MILE NORTHEAST OF THIS SPOT.

PARTICIPANTS FROM TWELVE OIL PRODUCING STATES TOOK PART IN THESE DISCUSSIONS OF NATIONAL AND INTERNATIONAL SIGNIFICANCE.

PURPOSE WAS TO FORM A COMPACT FOR BRINGING ABOUT CONSERVATION AND PREVENTION OF WASTE IN PETROLEUM RESOURCES, THROUGH COORDINATED EFFORTS OF STATES.

COMPACT, CREATING THE INTERSTATE OIL COMPACT COMMISSION, WAS APPROVED FEBRUARY 16, 1935, IN DALLAS, TEXAS, AND WAS RATIFIED THE SAME YEAR BY LEGISLATURES OF OKLAHOMA, TEXAS, NEW MEXICO, COLORADO, ILLINOIS, KANSAS, AND CONSENTED TO BY CONGRESS AUGUST 27, 1935.

BY 1966, THIRTY STATES WERE ACTIVE MEMBERS, AND THREE WERE ASSOCIATE MEMBERS. OFFICIAL OBSERVERS INCLUDED REPRESENTATIVES FROM ALBERTA AND SASKATCHEWAN IN CANADA; COLOMBIA AND VENEZUELA IN SOUTH AMERICA; U. S. DEPARTMENTS OF DEFENSE AND INTERIOR; AND THE FEDERAL POWER COMMISSION.

HEADQUARTERS OF COMPACT COMMISSION ESTABLISHED ON CAPITOL GROUNDS IN OKLAHOMA CITY.

— OKLAHOMA HISTORICAL SOCIETY 1966 —



IOCC

- IOCC encourages member states to “exercise maximum aggressiveness in its efforts to stimulate more rapid and widespread acceptance of comprehensive conservation statutes and regulations.”

Conservation

- IOCC: “In its broadest sense means the use of the most efficient methods of discovery, development and production to insure the greatest recovery of oil and gas from nature’s reservoirs.” IOCC publication 1951.

Commission proposes model statutes and regulations

- Prevention of waste
- Protection of correlative rights
- Well spacing
- Production allowables
- Limiting statewide production

Constitutional challenges to oil and gas conservation laws

- In 1938 in case of Patterson v. Stanolind Oil & Gas Co., Oklahoma Supreme Court upholds Oklahoma spacing limitations.
- In 1939, United States Supreme Court affirms.

Present Rule of Capture under Oil and Gas Conservation Laws—The original rule of capture is modified by oil and gas conservation statutes providing for the prevention of waste and the protection of correlative rights. Some of the principal methods by which conservation commissions perform their duties are establishing production allowables and establishing spacing units and setback requirements limiting the number of oil and gas wells and the location of the wells. Under the present rule of capture, the owner of the oil and gas acquires title to as much oil and gas as he may produce in accordance with oil and gas conservation laws. The oil and gas conservation laws protect the correlative rights of all the owners in the oil and gas reservoir. To the extent that production practices are regulated by a state administrative agency for the prevention of waste and the protection of correlative rights, the rule of capture is modified and limited. *Williams and Meyers, Manual of Oil and Gas Terms, Definition of “Rule of Capture.”* citing *6 SW Legal Fdn. Oil and Gas Inst 297 (1955)*. Similarly, the *Manual of Oil and Gas Terms* quotes a Wyoming case in which the Rule of Capture is defined, “The Wyoming Oil and Gas Conservation Act ‘disclosed that the purpose is to provide a comprehensive regulatory program which prevents waste of Wyoming’s oil and gas resources and protects the correlative rights of property owners. The Act, therefore, represents a legislative modification of the rule of capture. The Act permits the Commission to establish drilling units to protect the public interest by preventing waste and protecting correlative rights.’” *Williams and Meyers, Manual of Oil and Gas Terms, Definition of Rule of Capture, citing Union Pacific v. Texaco, Inc., 882 P.2d 212,223 (Wyo. 1994)*.