

No. 2013-66

AN ACT

SB 259

Amending the act of July 20, 1979 (P.L.183, No.60), entitled "An act regulating the terms and conditions of certain leases regarding natural gas and oil," adding definitions; providing for payment information to interest owners for accumulation of proceeds from production, for apportionment and for conflicts; and making editorial changes.

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows:

Section 1. Section 1 of the act of July 20, 1979 (P.L.183, No.60), entitled "An act regulating the terms and conditions of certain leases regarding natural gas and oil," is repealed:

[Section 1. A lease or other such agreement conveying the right to remove or recover oil, natural gas or gas of any other designation from lessor to lessee shall not be valid if such lease does not guarantee the lessor at least one-eighth royalty of all oil, natural gas or gas of other designations removed or recovered from the subject real property.]

Section 2. The act is amended by adding sections to read:

Section 1.1. Short title.

This act shall be known and may be cited as the Oil and Gas Lease Act.

Section 1.2. Definitions.

The following words and phrases when used in this act shall have the meanings given to them in this section unless the context clearly indicates otherwise:

"Check stub." The financial record attached to a check.

"Division order." An agreement signed by an interest owner directing the distribution of proceeds from the sale of oil, gas, casing head gas or other related hydrocarbons. The order shall direct and authorize the payor to make payment for the products taken in accordance with the division order.

"Interest owner." A person who is legally entitled to payment from the proceeds derived from the sale of oil or gas from an oil or gas well located in this Commonwealth.

"Mcf." A unit of measurement expressed by 1,000 cubic feet.

Section 1.3. Royalty guaranteed.

A lease or other such agreement conveying the right to remove or recover oil, natural gas or gas of any other designation from the lessor to the lessee shall not be valid if the lease does not guarantee the lessor at least one-eighth royalty of all oil, natural gas or gas of other designations removed or recovered from the subject real property.

Section 3. Section 2 of the act is amended to read:

[Section 2. An oil, natural gas or other designation gas well or oil, natural gas or other designation gas lease which does not provide a one-eighth metered royalty shall be subject to such an escalation when its original state is altered by new drilling, deeper drilling, re-drilling,

artificial well stimulation, hydraulic fracturing or any other procedure for increased production. A lease shall not be affected when the well is altered through routine maintenance or cleaning.]

Section 2. Escalation required for alteration to original state.

An oil, natural gas or other designation gas well or oil, natural gas or other designation gas lease which does not include a one-eighth metered royalty shall be subject to an escalation equal to one-eighth metered royalty when its original state is altered by new drilling, deeper drilling, redrilling, artificial well stimulation, hydraulic fracturing or any other procedure to increase production. A lease shall not be affected when the well is altered through routine maintenance or cleaning.

Section 4. The act is amended by adding sections to read:

Section 2.1. Apportionment.

Where an operator has the right to develop multiple contiguous leases separately, the operator may develop those leases jointly by horizontal drilling unless expressly prohibited by a lease. In determining the royalty where multiple contiguous leases are developed, in the absence of an agreement by all affected royalty owners, the production shall be allocated to each lease in such proportion as the operator reasonably determines to be attributable to each lease.

Section 3.1. Commencement of guaranteed royalty.

Whenever a procedure to increase production has been completed prior to the effective date of this section, metering and the royalty required under section 1.3 or 2 shall commence after December 17, 1979.

Section 3.2. Payment information to interest owners.

Whenever payment is made for oil or gas production to an interest owner, whether pursuant to a division order, lease, servitude or other agreement, all of the following information, at a minimum, shall be included on the check stub or on an attachment to the form of payment, unless the information is otherwise provided on a regular basis:

(1) *A name, number or combination of name and number that identifies the lease, property, unit or well or wells for which payment is being made; and the county in which the lease, property or well is located.*

(2) *Month and year of gas production.*

(3) *Total barrels of crude oil or number of Mcf of gas or volume of natural gas liquids sold.*

(4) *Price received per barrel, Mcf or gallon.*

(5) *Total amount of severance and other production taxes and other deductions permitted under the lease, with the exception of windfall profit tax.*

(6) *Net value of total sales from the property less taxes and deductions from paragraph (5).*

(7) *Interest owner's interest, expressed as a decimal or fraction, in production from paragraph (1).*

(8) *Interest owner's share of the total value of sales prior to deduction of taxes and deductions from paragraph (5).*

(9) *Interest owner's share of the sales value less the interest owner's share of taxes and deductions from paragraph (5).*

(10) Contact information, including an address and telephone number.

Section 3.3. Accumulation of proceeds from production.

(a) General rule.—Proceeds from production of oil and gas may be accumulated and remitted to the persons entitled thereto annually for the 12 months' accumulation of proceeds totaling less than \$100.

(b) Owner to be paid.—Notwithstanding any other provision of this section to the contrary, all accumulated proceeds shall be paid to the owner thereof when production ceases or upon relinquishment or transfer of the payment responsibility.

Section 3.4. Conflicts.

If there is any conflict between a division order and an oil and gas lease, the terms and conditions of the oil and gas lease shall control. A division order may not amend or supplement the terms and conditions of an oil and gas lease.

Section 5. Section 4 of the act is renumbered and amended to read:

[Section 4. This act shall take effect in 60 days.]

Section 20.¹ Effective date.

This act shall take effect in 60 days.

Section 6. This act shall take effect in 60 days.

APPROVED—The 9th day of July, A.D. 2013

TOM CORBETT

¹"Section 4." in enrolled bill.