

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL**No. 1414** Session of
2013

INTRODUCED BY EVERETT, GERGELY, ROZZI, PASHINSKI, F. KELLER,
MILLARD, METZGAR, GODSHALL, MAHONEY, MIRABITO, CUTLER, QUINN,
GINGRICH, MAJOR, HESS, TOOHIL, COHEN, AUMENT, BAKER, MUSTIO,
KULA, GIBBONS, KORTZ, CARROLL, LAWRENCE, CHRISTIANA, VEREB,
MOUL, DENLINGER, ENGLISH, MURT AND MARSHALL, MAY 16, 2013

AS REPORTED FROM COMMITTEE ON ENVIRONMENTAL RESOURCES AND
ENERGY, HOUSE OF REPRESENTATIVES, AS AMENDED, JUNE 4, 2013

AN ACT

1 Amending the act of July 20, 1979 (P.L.183, No.60), entitled "An
2 act regulating the terms and conditions of certain leases
3 regarding natural gas and oil," further providing for
4 validity of leases and guaranteeing a royalty; adding
5 definitions; providing for apportionment; further providing
6 for commencement of guaranteed royalty; providing for payment
7 information to interest owners and for accumulation of
8 proceeds from production; and making editorial changes.

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

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13 certain leases regarding natural gas and oil," is repealed:

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

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

2 Section 1.1. Short title.

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

5 Section 1.2. Definitions.

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

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

10 "Division order." An agreement signed by an interest owner
11 that:

12 (1) Directs the distribution of proceeds from the sale
13 of oil, gas, casing head gas or other related hydrocarbons.

14 (2) Directs and authorizes the payor to make payment for
15 the products taken in accordance with the terms of the
16 agreement.

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

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

21 "Qualified escrow account." An escrow account administered
22 by a noninterested party which must be a financial institution
23 licensed by the Department of Banking and Securities of the
24 Commonwealth.

25 Section 1.3. Royalty guaranteed.

26 A lease or other such agreement conveying the right to remove
27 or recover oil, natural gas or gas of any other designation from
28 the lessor to the lessee shall not be valid if the lease does
29 not guarantee the lessor at least one-eighth royalty of all oil,
30 natural gas or gas of other designation removed or recovered

1 from the subject real property.

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

3 [Section 2.]

4 Section 2. Escalation required for alteration to original
5 state.

6 An oil, natural gas or other designation gas well or oil,
7 natural gas or other designation gas lease which does not
8 provide a one-eighth metered royalty shall be subject to [such]
9 an escalation equal to one-eighth metered royalty when its
10 original state is altered by new drilling, deeper drilling,
11 redrilling, artificial well stimulation, hydraulic fracturing or
12 any other procedure [for increased] to increase production. A
13 lease shall not be affected when the well is altered through
14 routine maintenance or cleaning.

15 Section 4. The act is amended by adding a section to read:

16 Section 2.1. Apportionment.

17 Where an operator has the right to develop multiple
18 contiguous leases separately, the operator may develop those
19 leases jointly by horizontal drilling unless expressly
20 prohibited by a lease. In determining the royalty where multiple
21 contiguous leases are developed, in the absence of an agreement
22 by all affected royalty owners, the production shall be
23 allocated to each lease in proportion to the amount of <--
24 production SUCH PROPORTION AS the operator reasonably determines <--
25 to be attributable to each lease.

26 Section 5. Section 3 of the act is amended to read:

27 [Section 3.]

28 Section 3. Commencement of guaranteed royalty.

29 Whenever [such an increased production] a procedure to
30 increase production has been completed prior to [the effective

1 date of this act] September 18, 1979, metering and the [above]
2 royalty required under section 1.3 or 2 shall commence [within
3 90 days after the effective date of this act] not later than
4 December 17, 1979.

5 Section 6. The act is amended by adding sections to read:
6 Section 3.1. Payment information to interest owners.

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

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

17 (2) Month and year of gas production.

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

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

21 (5) Total amount of severance and other production taxes
22 and other deductions permitted under the division order,
23 lease, servitude or other agreement with the exception of
24 windfall profit tax.

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

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

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

1 (5).

2 (9) Interest owner's share of the sales value less the
3 interest owner's share of taxes and deductions from paragraph
4 (5).

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

7 Section 3.2. Accumulation of proceeds from production.

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

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

16 (c) Qualified escrow accounts.--Any escrow account
17 established by a lessee to accumulate funds payable to a lessor
18 shall be a qualified escrow account. An administrator of a
19 qualified escrow account shall deliver to the lessor or, if
20 ownership is in dispute, the potential owner an annual statement
21 with the same information as if a proceeds check had been
22 issued, as well as the rate of interest for the qualified escrow
23 account.

24 (d) Conflicts.--If there is any conflict between a division
25 order and an oil and gas lease, the terms and conditions of the
26 oil and gas lease shall control. A division order may not amend
27 or supplement the terms and conditions of an oil and gas lease.

28 Section 7. Section 4 of the act is amended to read:

29 [Section 4.]

30 Section 4. Effective date.

1 This act shall take effect [in 60 days] September 18, 1979.

2 Section 8. The addition of section 1.3 of the act is a
3 continuation of former section 1 of the act. Any reference in
4 any lease or other such agreement to former section 1 of the act
5 shall be deemed to be a reference to section 1.3 of the act.

6 Section 9. The amendment, addition or repeal of sections 1,
7 1.3, 2, 3 and 4 of the act shall apply retroactively to
8 September 18, 1979.

9 Section 10. This act shall take effect in 60 days.