

## 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13 certain leases regarding natural gas and oil," is repealed: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.]

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

1 Section 1.1. Short title.

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

4 Section 1.2. Definitions.

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

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

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

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

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

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

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

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

24 Section 1.3. Royalty guaranteed.

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

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

2 [Section 2.]

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

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

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

15 Section 2.1. Apportionment.

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

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

26 [Section 3.]

27 Section 3. Commencement of guaranteed royalty.

28 Whenever [such an increased production] a procedure to  
29 increase production has been completed prior to [the effective  
30 date of this act] September 18, 1979, metering and the [above]

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

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

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

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

16 (2) Month and year of gas production.

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

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

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

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

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

28 (8) Interest owner's share of the total value of sales  
29 prior to deduction of taxes and deductions from paragraph  
30 (5).

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

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

6 Section 3.2. Accumulation of proceeds from production.

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

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

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

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

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

28           [Section 4.]

29 Section 4. Effective date.

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

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

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

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