

HOUSE BILL NO. 384

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A BILL FOR AN ACT ENTITLED: "AN ACT REQUIRING AN OIL OR GAS LESSEE TO PAY ALL COSTS OF
PRODUCTION UNLESS PARTIES AGREE TO OTHER TERMS; DEFINING TERMS; AMENDING SECTIONS
77-3-432 AND 77-3-434, MCA; AND PROVIDING AN APPLICABILITY DATE AND AN IMMEDIATE EFFECTIVE
DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

NEW SECTION. **Section 1. Definitions.** As used in this part, the following definitions apply:

(1) "Costs of production" means:

(a) all costs incurred for exploration, development, primary or enhanced recovery, and abandonment
operations, including but not limited to lease acquisition, drilling and completion, pumping, lifting, storing or
transporting oil to storage tanks, or recycling of oil and gas; and

(b) any severance, ad valorem, conservation taxes, or any costs associated with transporting the oil or
gas to market, including gathering, compressing, pressurizing, processing, treating, dehydrating, adjustment of
British thermal units, or any associated fuel costs.

(2) "Lessee" means the person, including an operator or producer, entitled under an oil and gas lease
to drill and operate wells.

(3) "Lessor" means a mineral owner who has executed a lease and who is entitled to the payment of a
royalty on production.

(4) "Operator" or "producer" means a person who produces oil and gas.

(5) "Person" means any individual, firm, partnership, limited liability company, or corporation.

(6) "Royalty" means the lessor's share of production under a lease or a royalty owner's share of
production apart from a lease.

(7) "Working interest" means the amount of money retained by the lessee after a royalty is paid to the
lessor.

1 NEW SECTION. **Section 2. Costs of production -- exceptions.** The lessee shall pay costs of
2 production from the working interest unless:

- 3 (1) the board of land commissioners finds that sharing the expense of transporting oil to the nearest
4 market pursuant to 77-3-432 better serves the interest of the state; or
5 (2) a lessor and a lessee agree to other lease terms.

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7 **Section 3.** Section 77-3-432, MCA, is amended to read:

8 "**77-3-432. Royalty.** (1) In each oil and gas lease granted by the state under this part, there must be
9 reserved to the state as consideration for the lease a royalty in all oil and gas produced and saved from all lands
10 covered by the lease and not used for light, fuel, and operation purposes on the leased premises, which must
11 be equivalent to the full market value, as ascertained by the board at the date of the lease, of the estate or interest
12 of the state in the lands and oil and gas deposits disposed of under the lease.

13 (2) The royalty reservation must be set by the board but may not be less than 12 1/2% on gas and not
14 less than 12 1/2% on oil or casinghead gasoline for each producing well for the calendar month.

15 (3) ~~The~~ If the board finds that the best interest of the state is not served by the requirement in [section
16 2], the state may share the expense of transporting the oil to the nearest market on a basis proportional to the
17 state's royalty interest in the oil and at a rate per mile acceptable to the department."

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19 **Section 4.** Section 77-3-434, MCA, is amended to read:

20 "**77-3-434. Manner of making royalty payment.** ~~Such~~ A lease shall provide for the rendering of
21 payment of ~~such~~ a royalty on all oil and gas produced and saved and sold or used off the premises in the
22 following manner and upon the following terms:

23 (1) the lessee shall pay to the state in cash, for all oil and gas royalty reserved, the posted field price
24 existing on the day ~~such~~ the oil or gas is run into any pipeline or storage tank to the credit of the lessee, plus any
25 bonus actually paid or agreed to be paid to the lessee for ~~such~~ that oil or gas; or

26 (2) at the option of the state exercised in writing by the board not ~~often~~ more often than every 30 days,
27 the lessee shall deliver the state's royalty oil or gas free of ~~cost or deductions~~ costs of production as defined in
28 [section 1] into the pipeline to which the wells of the lessee may be connected or into any storage designated by
29 the state and connected with ~~such~~ the wells."

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1 NEW SECTION. **Section 5. Codification instruction.** [Sections 1 and 2] are intended to be codified
2 as an integral part of Title 82, chapter 10, part 1, and the provisions of Title 82, chapter 10, part 1, apply to
3 [sections 1 and 2].

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5 NEW SECTION. **Section 6. Effective date.** [This act] is effective on passage and approval.

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7 NEW SECTION. **Section 7. Applicability.** [This act] applies to oil and gas leases entered into on or
8 after [the effective date of this act].

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