

1 HOUSE BILL NO. 634

2 INTRODUCED BY J. KASSMIER

3
4 A BILL FOR AN ACT ENTITLED: "AN ACT GENERALLY REVISING LAWS RELATED TO OIL AND GAS
5 LEASES; PROVIDING DEFINITIONS; ~~CLARIFYING THAT THE LESSEE PAYS THE COSTS OF~~
6 ~~PRODUCTION FROM THE WORKING INTEREST REQUIRING THE SHARING OF TRANSPORTATION~~
7 ~~COSTS FOR GAS LEASES; REQUIRING THE STATE TO SHARE THE EXPENSE OF TRANSPORTING THE~~
8 ~~OIL TO THE NEAREST MARKET BASED ON THE STATE'S PROPORTIONAL SHARE OF THE ROYALTY~~
9 ~~INTEREST; AND AMENDING SECTIONS 77-3-432, 77-3-434, AND SECTION 82-10-110, MCA; AND~~
10 ~~PROVIDING AN APPLICABILITY DATE AND A RETROACTIVE APPLICABILITY DATE."~~

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

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

15 (1) ~~(a) "Costs of production transportation" means costs incurred to gather and transport gas from~~
16 ~~a wellhead to a point of sale downstream from the well, including but not limited to: all costs incurred for~~
17 ~~exploration, development, primary or enhanced recovery, and abandonment operations, including but not~~
18 ~~limited to lease acquisition, drilling and completion, pumping, lifting, storing or transporting oil to storage tanks~~
19 ~~on the lease, and recycling of oil and gas.~~

20 ~~(b) — The term does not include costs associated with transporting the oil or gas to market, including:~~

21 ~~(i) — compressing;~~

22 ~~(ii) — adjustments for oil gravity; and~~

23 ~~(iii) — British thermal unit content or pressure differential~~

24 ~~(a) compressor operator costs, including wages, communication, and insurance;~~

25 ~~(b) compressor electricity, repairs and maintenance, materials, and supplies;~~

26 ~~(c) compressor general liability;~~

27 ~~(d) field vehicle costs, including repairs, insurance, fuel, and tires; and~~

28 ~~(e) costs of natural gas for compressor and dehydrator.~~

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

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

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

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

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

9 ~~(7) "Working interest" means the lessee's share of production under a lease.~~

11 NEW SECTION. Section 2. **Cost Costs of production transportation.** ~~The Except for leases~~
12 ~~subject to Title 77, chapter 3, part 4, or federal leases, the lessee and lessor shall pay share the~~ costs of
13 ~~production transportation from the working interest.~~

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

16 ~~"77-3-432. **Royalty.** In each oil and gas lease granted by the state under this part, there must be~~
17 ~~reserved to the state as consideration for the lease a royalty in all oil and gas produced and saved from all~~
18 ~~lands covered by the lease and not used for light, fuel, and operation purposes on the leased premises, which~~
19 ~~must be equivalent to the full market value, as ascertained by the board at the date of the lease, of the estate or~~
20 ~~interest of the state in the lands and oil and gas deposits disposed of under the lease. The royalty reservation~~
21 ~~must be set by the board but may not be less than 12 1/2% on gas and not less than 12 1/2% on oil or~~
22 ~~casinghead gasoline for each producing well for the calendar month. The state may shall share the expense of~~
23 ~~transporting the oil to the nearest market on a basis proportional to the state's royalty interest in the oil and at a~~
24 ~~rate per mile acceptable to the department."~~

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

27 ~~"77-3-434. **Manner of making royalty payment.** Such A lease shall must provide for the rendering of~~
28 ~~payment of such a royalty on all oil and gas produced and saved and sold or used off the premises in the~~

1 following manner and upon on the following terms:

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

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

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10 **Section 3.** Section 82-10-110, MCA, is amended to read:

11 **"82-10-110. Division order -- definition -- effect.** (1) As used in this section, the term "division order"
12 is limited to mean an instrument executed by the lessor of an oil or gas lease or other royalty owner to authorize
13 the sale of and direct the distribution of proceeds from the sale of oil, gas, casinghead gas, or other related
14 hydrocarbons.

15 (2) A division order may not alter or amend the terms of the underlying oil or gas lease. A division
16 order does not relieve a lessee of any liabilities or obligations under the terms of the underlying oil or gas lease.

17 (3) A division order must be in writing and:

18 (a) must warrant the division of interest;

19 (b) must contain the name, address, and tax identification number of each interest owner to whom
20 disbursements are made by the holder of the proceeds from the sale of oil, gas, casinghead gas, or other
21 related hydrocarbons;

22 (c) must contain a provision requiring notice of change of ownership; and

23 (d) may contain any other terms that are necessary to facilitate the transaction."

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25 **NEW SECTION. Section 4. Codification instruction.** [Sections 1 and 2] are intended to be codified
26 as an integral part of Title 82, chapter 10, part 1, and the provisions of Title 82, chapter 10, part 1, apply to
27 [sections 1 and 2].

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