

BILL ANALYSIS

Senate Research Center
83R3418 JXC-F

S.B. 865
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Natural Resources
3/11/2013
As Filed

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

In Texas, a company can demand that a mineral interest owner sign a division order before it will send any proceeds of oil or gas production to the owner. A division order will list a decimal figure that represents the owner's interest in sales from the lease, property, or well.

Today, companies list the decimal interest of the owner on the division order, but they do not include the manner in which they arrived at the figure. If an owner is the sole mineral owner of a large parcel, it is possible for him or her to look at the oil or gas lease to calculate without much difficulty what decimal interest he or she should receive. Increasingly, though, there are numerous fractional owners of one tract, multiple tracts pooled into one unit, or both. In these situations, determining an owner's decimal interest requires information that only the company would have.

S.B. 865 requires a company to set out the method used to calculate the decimal interest on all division orders, or in a separate statement to mineral owners. For royalty interest owners, the company will have to show the number of mineral acres the owner holds, divided by the total number of acres in the unit, and multiplied by the royalty amount set out in the lease. Plainly stating the information on which the company based its decimal interest puts the owner in a better position to catch any mistakes.

As proposed, S.B. 865 amends current law relating to the information required to be provided by a payor of proceeds from the sale of oil or gas from an oil or gas well to a payee.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 91.402, Natural Resources Code, by adding Subsection (d-1), as follows:

(d-1) Requires the division order or a separate statement provided to the payee by the payor to describe the method used to calculate the fractional or decimal interest in production of the payee as stated in the division order and include the calculation of the payee's interest. Requires the payee's fractional or decimal interest in production, if the payee is a royalty interest owner, to be calculated by dividing the number of mineral acres owned by the payee by the number of acres in the drilling or spacing unit for the well and multiplying that amount by the royalty required to be paid under the lease.

SECTION 2. Effective date: September 1, 2013.