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SFA BILL ANALYSIS

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House Bill 5261 (Substitute S-2 as reported)
Sponsor: Representative Larry DeVuyst
House Committee: Forestry and Mineral Rights
Senate Committee: Economic Development, International Trade and Regulatory Affairs

CONTENT

The bill would amend the Natural Resources and Environmental Protection Act to provide that a person who entered into a gas lease as a lessee after the bill's effective date, could not deduct from the lessor's royalty any portion of postproduction costs unless specifically allowed by the lease. If a lease explicitly provided for this deduction, the lessee could deduct postproduction costs only for the following items, unless the lease explicitly and specifically provided for the deduction of other items:

-- Removal of carbon dioxide, hydrogen sulfide, molecular nitrogen, or other constituents, except water, whose removal would enhance the value of the gas.
-- Transportation after the point of entry into a pipeline system (as described in the bill).

The bill also would prohibit a lessee from charging postproduction costs incurred on gas produced from one drilling unit, pooled or communitized area, or unit area, against a lessor's royalty for gas produced from another drilling unit, pooled or communitized area, or unit area.
A person who entered into a gas lease as a lessee before or after the bill's effective date, and who charged the lessor for any portion of postproduction costs, would have to give the lessor written notice of the availability of a specific itemized explanation of all postproduction costs to be assessed. If the lessor requested this information, the lessee would have to provide it.

A division order or other document from a lessee that stipulated how production proceeds were distributed could not alter or define the terms of a lease, unless it was voluntarily agreed to by both parties. As a condition for the payment of royalties, a lessee or other payor would be entitled to a signed division order from the payee containing only provisions specified in the bill, unless both parties had volunarily agreed to other provisions.

The bill would take effect 91 days after its enactment, and is tie-barred to House Bill 4259.

Proposed MCL 324.61503b Legislative Analyst: S. Lowe

FISCAL IMPACT

The bill would have no fiscal impact on State government, since current State oil and gas leases include language on postproduction costs. The bill would have an indeterminate impact on local government, depending on the amount of mineral rights leases on local government-owned land.

Date Completed: 3-19-98 Fiscal Analyst: G. Cutler

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.