

**SUBSTITUTE FOR
HOUSE BILL NO. 5261**

(As amended December 10, 1997)

A bill to amend 1994 PA 451, entitled
"Natural resources and environmental protection act,"
(MCL 324.101 to 324.90106) by adding section 61503b.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 SEC. 61503B. (1) A PERSON WHO ENTERS INTO A GAS LEASE AS A
2 LESSEE AFTER THE EFFECTIVE DATE OF THIS SECTION SHALL NOT DEDUCT
3 FROM THE LESSOR'S ROYALTY ANY PORTION OF POSTPRODUCTION COSTS
4 UNLESS THE LEASE EXPLICITLY ALLOWS FOR THE DEDUCTION OF POSTPRO-
5 Duction COSTS. IF A LEASE EXPLICITLY PROVIDES FOR THE DEDUCTION
6 OF POSTPRODUCTION COSTS, THE LESSEE MAY ONLY DEDUCT POSTPRODUC-
7 TION COSTS FOR THE FOLLOWING ITEMS, UNLESS THE LEASE EXPLICITLY
8 AND SPECIFICALLY PROVIDES FOR THE DEDUCTION OF OTHER ITEMS:
9 (A) THE REASONABLE COSTS OF REMOVAL OF CARBON DIOXIDE (COW),
10 HYDROGEN SULFIDE (HWS), MOLECULAR NITROGEN (NW), [
11

HB5261, As Passed House, December 10, 1997

Sub. H.B. 5261 (H-3) as amended December 10, 1997 2

1] OR OTHER CONSTITUENTS [, EXCEPT WATER,] THE REMOVAL OF WHICH
WILL ENHANCE THE

2 VALUE OF THE GAS FOR THE BENEFIT OF THE LESSOR AND LESSEE.

3 (B) TRANSPORTATION COSTS AFTER THE POINT OF ENTRY INTO ANY
4 OF THE FOLLOWING:

5 (i) AN INDEPENDENT, NONAFFILIATED, THIRD-PARTY-OWNED PIPE-
6 LINE SYSTEM.

7 (ii) A PIPELINE SYSTEM OWNED BY A GAS DISTRIBUTION COMPANY
8 OR ANY SUBSIDIARY OF THE GAS DISTRIBUTION COMPANY, WHICH IS REGU-
9 LATED BY THE MICHIGAN PUBLIC SERVICE COMMISSION.

10 (iii) AN AFFILIATED PIPELINE SYSTEM, IF THE RATES CHARGED BY
11 THE PIPELINE SYSTEM HAVE BEEN APPROVED BY THE MICHIGAN PUBLIC
12 SERVICE COMMISSION, OR IF THE RATES CHARGED ARE REASONABLE, AS
13 COMPARED TO INDEPENDENT PIPELINE SYSTEMS, BASED ON THE PIPELINE
14 SYSTEM'S LOCATION, DISTANCE, COST OF SERVICE, AND OTHER PERTINENT
15 FACTORS.

[(2) A LESSEE SHALL NOT CHARGE POSTPRODUCTION COSTS INCURRED ON
GAS PRODUCED FROM 1 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. AS USED IN THIS
SUBSECTION, "UNIT AREA" MEANS THE FORMATION OR FORMATIONS THAT ARE
UNITIZED AND SURFACE ACREAGE THAT IS A PART OF THE UNITIZED LANDS, AS
DESCRIBED IN THE PLAN FOR UNIT OPERATIONS THAT IS THE SUBJECT OF THE
SUPERVISOR'S ORDER AS PROVIDED IN SECTION 61706.]

16 [(3)] IF A PERSON WHO HAS ENTERED INTO A GAS LEASE AS A LESSEE
17 PRIOR TO OR AFTER THE EFFECTIVE DATE OF THIS SECTION PLANS TO OR
18 DOES CHARGE THE LESSOR FOR ANY PORTION OF POSTPRODUCTION COSTS,
19 THE LESSEE SHALL NOTIFY THE LESSOR IN WRITING OF THE AVAILABILITY
20 OF THE FOLLOWING INFORMATION AND IF THE LESSOR REQUESTS IN WRIT-
21 ING TO RECEIVE THIS INFORMATION, THE LESSEE SHALL PROVIDE THE
22 LESSOR BOTH OF THE FOLLOWING IN WRITING:

23 (A) DETAILED INFORMATION REGARDING [THE] OPERATIONS RELATED TO
24 GAS PRODUCTION ASSOCIATED WITH THAT PROPERTY.

25 (B) A SPECIFIC ITEMIZED EXPLANATION OF ALL POSTPRODUCTION
26 COSTS TO BE ASSESSED.

04055'97 (H-3)
Sub. H.B. 5261 (H-3) as amended December 10, 1997 3

1 [(4)] A DIVISION ORDER OR OTHER DOCUMENT THAT INCLUDES

HB5261, As Passed House, December 10, 1997

2 PROVISIONS WHICH STIPULATE HOW PRODUCTION PROCEEDS ARE
3 DISTRIBUTED, RECEIVED BY THE LESSOR FROM THE LESSEE, SHALL NOT
4 ALTER OR DEFINE THE TERMS OF A LEASE UNLESS VOLUNTARILY AGREED TO
5 BY BOTH PARTIES. A LESSEE SHALL NOT PRECONDITION THE PAYMENT OF
6 ROYALTIES UPON SIGNING A DOCUMENT DESCRIBED IN THIS SUBSECTION
[UNLESS VOLUNTARILY AGREED TO BY BOTH PARTIES].

7 Enacting section 1. This amendatory act takes effect upon
8 the expiration of 90 days after the date of its enactment.