

**SENATE SUBSTITUTE FOR
HOUSE BILL NO. 5262**

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

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 SEC. 61503A. (1) BEGINNING 12 MONTHS AFTER THE EFFECTIVE
2 DATE OF THIS SECTION, A PERSON WHO HAS ENTERED INTO A GAS LEASE
3 AS A LESSEE PRIOR TO OR AFTER THE EFFECTIVE DATE OF THIS SECTION
4 SHALL DO ALL OF THE FOLLOWING:

5 (A) STARTING AFTER PRODUCTION BEGINS, FOR A WELL THAT BEGINS
6 CONTINUOUS GAS PRODUCTION AFTER THE EFFECTIVE DATE OF THIS SEC-
7 TION, OR STARTING ON THE EFFECTIVE DATE OF THIS SECTION FOR A
8 WELL THAT BEGAN CONTINUOUS GAS PRODUCTION ON OR BEFORE THE EFFEC-
9 TIVE DATE OF THIS SECTION, PROVIDE THE LESSOR WHO HAS AN INTEREST
10 IN THE LEASED PROPERTY WITH MONTHLY REVENUE STATEMENTS WRITTEN IN
11 PLAIN ENGLISH THAT PROVIDE ALL OF THE FOLLOWING:

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1 (i) UNDER THE HEADING "UNIT PRICE", THE PRICE RECEIVED BY
2 THE LESSEE PER 1,000 CUBIC FEET OR 1,000,000 BTUS OF GAS SOLD.
3 THE LESSEE SHALL PAY TO THE LESSOR HIS OR HER PROPER SHARE OF THE
4 GROSS PROCEEDS OR VALUE, AS PROVIDED IN THE LEASE.

5 (ii) A STATEMENT OF THE DEDUCTIONS TAKEN FROM THE LESSOR'S
6 ROYALTY, AND THE PURPOSE OF THOSE DEDUCTIONS. THE STATEMENT OF
7 THE DEDUCTIONS SHALL BE ITEMIZED, EXCEPT THAT A LESSEE MAY GROUP
8 DEDUCTIONS UNDER GENERAL CATEGORIES IF THE LESSEE STATES THAT A
9 SEPARATE ITEMIZED STATEMENT OF THE DEDUCTIONS WILL BE FURNISHED
10 UPON WRITTEN REQUEST AND STATES THE ADDRESS TO WHICH A WRITTEN
11 REQUEST FOR AN ITEMIZED STATEMENT SHOULD BE DIRECTED. THIS SEC-
12 TION DOES NOT PROHIBIT A LESSEE FROM MAKING DEDUCTIONS ON AN
13 ESTIMATED BASIS FOR A CALENDAR YEAR OR OTHER 12-MONTH ACCOUNTING
14 PERIOD IF THIS IS DISCLOSED IN THE MONTHLY REVENUE STATEMENT OR
15 THE SEPARATE ITEMIZED STATEMENT. IF AN ESTIMATE IS USED, THE
16 LESSEE SHALL DETERMINE THE ACTUAL AMOUNT AND MAKE ANY NECESSARY
17 ADJUSTMENTS WITHIN 180 DAYS AFTER THE END OF THE CALENDAR YEAR OR
18 OTHER 12-MONTH ACCOUNTING PERIOD. HOWEVER, IF ANY COSTS HAVE NOT
19 BEEN FINALLY DETERMINED, THE LESSEE MAY RESERVE AN AMOUNT WHICH
20 THE LESSEE CONSIDERS IN GOOD FAITH TO BE ADEQUATE TO COVER THE
21 COSTS THAT HAVE NOT BEEN FINALLY DETERMINED AND SHALL MAKE ANY
22 NECESSARY ADJUSTMENTS WHEN THE ACTUAL COSTS HAVE BEEN FINALLY
23 DETERMINED.

24 (B) STARTING AT THE END OF THE CALENDAR YEAR OR OTHER
25 12-MONTH ACCOUNTING PERIOD AFTER PRODUCTION BEGINS FOR A WELL
26 THAT BEGINS CONTINUOUS PRODUCTION AFTER THE EFFECTIVE DATE OF
27 THIS SECTION, OR STARTING AT THE END OF THE CALENDAR YEAR OR

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1 OTHER 12-MONTH ACCOUNTING PERIOD WHEN THIS SECTION BECOMES
2 EFFECTIVE FOR A WELL THAT BEGAN CONTINUOUS PRODUCTION ON OR
3 BEFORE THE EFFECTIVE DATE OF THIS SECTION, PREPARE AN ANNUAL
4 ACCOUNTING OF GAS SALES FROM THE LEASED PROPERTY AND ANY DEDUC-
5 TIONS TAKEN FROM THE LESSOR'S ROYALTY DURING THE CALENDAR YEAR OR
6 OTHER 12-MONTH ACCOUNTING PERIOD. THE LESSEE SHALL COMPLETE THE
7 ACCOUNTING WITHIN 180 DAYS AFTER THE END OF THE CALENDAR YEAR OR
8 OTHER 12-MONTH ACCOUNTING PERIOD. HOWEVER, IF ANY COSTS HAVE NOT
9 BEEN FINALLY DETERMINED, THE LESSEE MAY ACCOUNT FOR THESE ON THE
10 BASIS OF A RESERVE WHICH THE LESSEE CONSIDERS IN GOOD FAITH TO BE
11 ADEQUATE TO COVER THE COSTS THAT HAVE NOT BEEN FINALLY DETER-
12 MINED, AND SHALL PREPARE A SUPPLEMENTAL ACCOUNTING WHEN THE
13 ACTUAL COSTS HAVE BEEN FINALLY DETERMINED. THE LESSEE SHALL
14 NOTIFY THE LESSOR OF THE AVAILABILITY OF THE ACCOUNTING WITHIN
15 180 DAYS AFTER THE END OF THE CALENDAR YEAR OR OTHER 12-MONTH
16 ACCOUNTING PERIOD, AND SHALL FURNISH A COPY OF THE ACCOUNTING
17 UPON REQUEST OF THE LESSOR WITHIN 30 DAYS OF RECEIPT OF THE
18 REQUEST. THE NOTIFICATION AS TO THE AVAILABILITY OF THE ACCOUNT-
19 ING MAY BE MADE ON A MONTHLY REVENUE STATEMENT AND NEED NOT BE A
20 SEPARATE DOCUMENT.

21 (2) SUBJECT TO SECTION 61503B(4), THE MONTHLY REVENUE STATE-
22 MENTS AND PAYMENTS UNDER SUBSECTION (1)(A) SHALL BE INITIATED
23 PROMPTLY AFTER THE DETERMINATION OF THE DIVISIONS OF INTEREST OF
24 THE PARTIES ENTITLED TO SHARE IN THE PRODUCTION, UNLESS A VALID
25 AGREEMENT BETWEEN THE LESSEE AND THE LESSOR PROVIDES OTHERWISE.
26 HOWEVER, IF THE ENTITLEMENT OF THE LESSOR TO RECEIVE PAYMENT IS
27 IN QUESTION BECAUSE OF LACK OF GOOD AND MARKETABLE RECORD TITLE

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1 OR BECAUSE OF ANY CIRCUMSTANCE THAT MAY EXPOSE THE LESSEE TO THE
2 RISK OF MULTIPLE LIABILITY OR LIABILITY TO A THIRD PARTY IF THE
3 PAYMENT IS MADE, THE LESSEE MAY DEFER PAYMENT TO THAT LESSOR
4 UNTIL THE TITLE OR OTHER CIRCUMSTANCE HAS BEEN RESOLVED, UNLESS A
5 VALID AGREEMENT BETWEEN THE LESSEE AND THE LESSOR PROVIDES
6 OTHERWISE. IF THE MAILING ADDRESS OF THE LESSOR, OR PLACE WHERE
7 PAYMENT SHOULD BE MADE, IS UNKNOWN, PAYMENT MAY BE DEFERRED UNTIL
8 THE LESSEE RECEIVES THAT INFORMATION. IF THE TOTAL AMOUNT OF THE
9 ROYALTIES IS LESS THAN \$50.00 AT THE END OF ANY MONTH, PAYMENT
10 MAY BE DEFERRED UNTIL THE TOTAL AMOUNT REACHES AT LEAST \$50.00,
11 UNLESS A VALID AGREEMENT BETWEEN THE LESSOR AND THE LESSEE PRO-
12 VIDES OTHERWISE.

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

15 Enacting section 2. This amendatory act does not take
16 effect unless House Bill No. 4259 of the 89th Legislature is
17 enacted into law.