

Act No. 246  
Public Acts of 1999  
Approved by the Governor  
December 28, 1999  
Filed with the Secretary of State  
December 28, 1999  
EFFECTIVE DATE: March 28, 2000

**STATE OF MICHIGAN  
90TH LEGISLATURE  
REGULAR SESSION OF 1999**

**Introduced by Reps. DeVuyst, Julian, DeHart, Sanborn, Bovin, Howell, Jelinek, Raczkowski, Koetje,  
Rick Johnson, Tabor, Patterson, Mortimer, Caul, Bradstreet, Vear and Mead**

# **ENROLLED HOUSE BILL No. 4281**

AN ACT to amend 1994 PA 451, entitled "An act to protect the environment and natural resources of the state; to codify, revise, consolidate, and classify laws relating to the environment and natural resources of the state; to regulate the discharge of certain substances into the environment; to regulate the use of certain lands, waters, and other natural resources of the state; to prescribe the powers and duties of certain state and local agencies and officials; to provide for certain charges, fees, and assessments; to provide certain appropriations; to prescribe penalties and provide remedies; to repeal certain parts of this act on a specific date; and to repeal certain acts and parts of acts," (MCL 324.101 to 324.90106) by adding section 61503b; and to repeal acts and parts of acts.

*The People of the State of Michigan enact:*

Sec. 61503b. (1) A person who enters into a gas lease as a lessee after the effective date of this section shall not deduct from the lessor's royalty any portion of postproduction costs unless the lease explicitly allows for the deduction of postproduction costs. If a lease explicitly provides for the deduction of postproduction costs, the lessee may only deduct postproduction costs for the following items, unless the lease explicitly and specifically provides for the deduction of other items:

(a) The reasonable costs of removal of carbon dioxide (CO<sub>2</sub>), hydrogen sulfide (H<sub>2</sub>S), molecular nitrogen (N<sub>2</sub>), or other constituents, except water, the removal of which will enhance the value of the gas for the benefit of the lessor and lessee.

(b) Transportation costs after the point of entry into any of the following:

(i) An independent, nonaffiliated, third-party-owned pipeline system.

(ii) A pipeline system owned by a gas distribution company or any subsidiary of the gas distribution company, which is regulated by the Michigan public service commission.

(iii) An affiliated pipeline system, if the rates charged by the pipeline system have been approved by the Michigan public service commission, or if the rates charged are reasonable, as compared to independent pipeline systems, based on the pipeline system's location, distance, cost of service, and other pertinent 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 either of the following:

(a) The plan for unit operations that is the subject of the supervisor's order as provided in section 61706.

(b) An applicable agreement providing for unit operations.

(3) If a person who has entered into a gas lease as a lessee prior to or after the effective date of this section charges the lessor for any portion of postproduction costs, the lessee shall notify the lessor in writing of the availability of the following information and if the lessor requests in writing to receive this information, the lessee shall provide the lessor, in writing, a specific itemized explanation of all postproduction costs to be assessed.

(4) A division order or other document that includes provisions that stipulate how production proceeds are distributed, received by the lessor from the lessee, shall not alter or define the terms of a lease unless voluntarily and explicitly agreed to by both parties in a signed document or documents in which the parties expressly indicate their intention to amend the lease. A lessee shall not precondition the payment of royalties upon the lessor signing a division order or other document that stipulates how production proceeds are distributed, except as provided in this subsection. As a condition for the payment of royalties under a lease other than a lease granted by the state of Michigan, a lessee or other payor shall be entitled to receive a signed division order from the payee containing only the following provisions, unless other provisions have been voluntarily and explicitly agreed to by both parties in a signed document or documents in which the parties expressly indicate their intention to waive the provisions of this subsection:

(a) The effective date of the division order.

(b) A description of the property from which the oil or gas is being produced and the type of production.

(c) The fractional or decimal interest in production, or both, claimed by the payee, the type of interest, the certification of title to the share of production claimed, and, unless otherwise agreed to by the parties, an agreement to notify the payor at least 1 month in advance of the effective date of any change in the interest in production owned by the payee and an agreement to indemnify the payor and reimburse the payor for payments made if the payee does not have merchantable title to the production sold.

(d) The authorization to suspend payment to the payee for production until the resolution of any title dispute or adverse claim asserted regarding the interest in production claimed by the payee.

(e) The name, address, and taxpayer identification number of the payee.

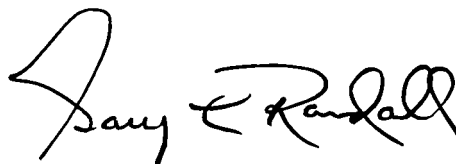
(f) A statement that the division order does not amend any lease or operating agreement between the interest owner and the lessee or operator or any other contracts for the purchase of oil or gas.

Enacting section 1. Enacting section 2 of 1998 PA 127 is repealed.

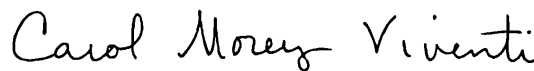
Enacting section 2. This amendatory act takes effect upon the expiration of 90 days after the date of its enactment.

Enacting section 3. This amendatory act does not take effect unless House Bill No. 4280 of the 90th Legislature is enacted into law.

This act is ordered to take immediate effect.



Clerk of the House of Representatives.



Secretary of the Senate.

Approved .....

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Governor.