STATE OF OKLAHOMA

1st Session of the 43rd Legislature (1991)

SENATE BILL NO. 65 BY: EASLEY

AS INTRODUCED

AN ACT RELATING TO OIL AND GAS; AMENDING 52 O.S. 1981, SECTION 540, AS LAST AMENDED BY SECTION 1, CHAPTER 241, O.S.L. 1989 (52 O.S. SUPP. 1990, SECTION 540), WHICH RELATES TO PAYMENT OF PROCEEDS; MODIFYING CERTAIN TIME SCHEDULE; AND DECLARING AN EMERGENCY.

BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

SECTION 1. AMENDATORY 52 O.S. 1981, Section 540, as last amended by Section 1, Chapter 241, O.S.L. 1989 (52 O.S. Supp. 1990, Section 540), is amended to read as follows:

Section 540. A. The proceeds derived from the sale of oil or gas production from any oil or gas well shall be paid to persons legally entitled thereto, commencing no later than ~~six (6)~~ three (3) months after the date of first sale, and thereafter no later than sixty (60) days after the end of the calendar month within which subsequent production is sold. Such payment is to be made to persons entitled thereto by the first purchasers of such production. Provided, such purchasers may remit to the persons entitled to such proceeds from production semiannually for the aggregate of six (6) months' accumulation of monthly proceeds of amounts less than Twenty-five Dollars ($25.00). Further provided, that any delay in

determining the persons legally entitled to an interest in such proceeds from production caused by unmarketable title to such interest shall not affect payments to persons whose title is marketable. Provided, however, that in those instances where such proceeds cannot be paid because the title thereto is not marketable, the purchasers of such production shall cause all proceeds due such interest to earn interest at the rate of six percent (6%) per annum to be compounded annually, calculated from date of first sale, until such time as the title to such interest has been perfected. Marketability of title shall be determined in accordance with the then current title examination standards of the Oklahoma Bar Association. The first purchaser shall be exempt from the provisions of this subsection and the owner of the right to drill and to produce under an oil and gas lease or force pooling order shall be substituted for the first purchaser therein where the owner and purchaser have entered into arrangements where the proceeds are paid by the purchaser to the owner who assumes the responsibility of paying the proceeds to persons legally entitled thereto.

B. A division order is an instrument for the purpose of directing the distribution of proceeds from the sale of oil, gas, casinghead gas or other related hydrocarbons which warrants in writing the division of interest and the name, address and tax identification number of each interest owner with a provision requiring notice of change of ownership. A division order is executed to enable the purchaser of the production from the leasehold to make remittance directly to the interest owners for their royalty interest, and is not intended to and does not relieve the lessee of any liabilities or obligations under the oil and gas lease. A division order which varies the terms of any oil and gas lease is invalid to the extent of the variance unless those changes have been previously agreed to by the affected parties. This

subsection shall only apply to division orders executed on or after July 1, 1989.

C. The following information shall be included with each payment made to an interest owner from the sale of oil or gas:

1. Lease or well identification;

2. Month and year of sales or purchases included in the payment;

3. Total barrels or MCF purchased;

4. Price per barrel or MCF, BTU adjustment of gas purchased;

5. Total amount of severance and other production taxes, with the exception of windfall profit tax;

6. Net value of total sales from the property after taxes are deducted;

7. Owner's interest, expressed as a decimal, in production from the lease;

8. Owner's share of the total value of sales prior to any deductions;

9. Owner's share of the sales value less owner's share of the production and severance taxes; and

10. A specific listing of the amount and purpose of any other deductions from the proceeds due to the owner upon request by the owner.

D. Any said first purchasers or owner of the right to drill and produce substituted for the first purchaser as provided herein that violates this section shall be liable to the persons legally entitled to the proceeds from production for the unpaid amount of such proceeds with interest thereon at the rate of twelve percent (12%) per annum to be compounded annually, calculated from date of first sale.

E. The district court for the county in which the oil or gas well is located shall have jurisdiction over all proceedings brought pursuant to this act. The prevailing party in any proceeding

brought pursuant to this act shall be entitled to recover any court costs and reasonable attorney's fees.

SECTION 2. It being immediately necessary for the preservation of the public peace, health and safety, an emergency is hereby declared to exist, by reason whereof this act shall take effect and be in full force from and after its passage and approval.

43-1-256 MJF