

Stricken language would be deleted from and underlined language would be added to the law as it existed prior to this session of the General Assembly.

1 State of Arkansas  
2 83rd General Assembly  
3 Regular Session, 2001  
4

*As Engrossed: S3/8/01*

# A Bill

SENATE BILL 813

5 By: Senator Mahony  
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## For An Act To Be Entitled

9 AN ACT CONCERNING OIL AND GAS ROYALTY PAYMENTS;  
10 AND FOR OTHER PURPOSES.  
11

### Subtitle

12 AN ACT CONCERNING OIL AND GAS ROYALTY  
13 PAYMENTS.  
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17 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:  
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19 SECTION 1. Arkansas Code 15-74-703 is amended to read as follows:

20 15-74-703. Entitlement of royalty interests to premiums and bonuses.

21 All purchasers of oil ~~and gas~~ or other liquid hydrocarbons shall pay to  
22 the royalty interest the same premium or bonus above the posted market price  
23 for oil or ~~gas~~ other liquid hydrocarbons they pay to the leaseholder or  
24 working interest under any oil, gas, or mineral lease on lands from which oil  
25 or ~~gas~~ other liquid hydrocarbons may be purchased under contract with the  
26 lease owner or operator.  
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28 SECTION 2. Arkansas Code 15-74-704 is amended to read as follows:

29 15-74-704. Paying part of production cost or giving bonus or premium  
30 without paying share to royalty interest.

31 It shall be unlawful for any purchaser of oil or ~~gas~~ other liquid  
32 hydrocarbons to enter into any contract with any lessee or operator under any  
33 oil, gas, or mineral lease, whereby the purchaser undertakes to pay any of the  
34 cost or expense of operation or production, steaming, treating, or running oil  
35 or ~~gas~~ other liquid hydrocarbons or any other bonus or premium under any name  
36 or subterfuge whatsoever, without providing for paying to the royalty interest

1 its proportionate share according to interest therein.

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3 SECTION 3. Arkansas Code 15-74-705 is amended to read as follows:

4 15-74-705. Purchaser's price for royalty ~~gas~~ paid on oil that is  
5 produced and sold.

6 It shall be the duty of both the lessee, or his assignee, and any  
7 pipeline company, corporation, or individual contracting for the purchase of  
8 oil or ~~gas~~ other liquid hydrocarbons that is produced and sold under any oil,  
9 gas, or mineral lease to protect the royalty of the lessor's interest by  
10 paying to the lessor or his assignees the same price, including premiums,  
11 steaming charges, and bonuses of whatsoever name for royalty oil or ~~gas~~ other  
12 liquid hydrocarbons that is produced and sold, that is paid the operator or  
13 lessee under the lease for the working interest thereunder.

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15 SECTION 4. Arkansas Code 15-74-706 is amended to read as follows:

16 15-74-706. Contracting to buy royalty ~~gas~~ oil for less than price paid  
17 operator or lessee.

18 It shall be unlawful for any pipeline company, corporation, or  
19 individual purchasing oil or ~~gas~~ other liquid hydrocarbons from the operator  
20 or lessee of any oil, gas, or mineral lease to enter into any contract with  
21 the operator or lessee whereby the purchaser acquires the royalty oil or ~~gas~~  
22 other liquid hydrocarbons reserved in the oil, gas, or mineral lease for any  
23 price less than the price paid the operator or lessee of the lease.

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25 SECTION 5. Arkansas Code 15-74-707 is amended to read as follows:

26 15-74-707. Time of royalty payment - Monthly statements to royalty  
27 owner.

28 (a) It shall be the duty of any purchaser of oil or ~~gas~~ other liquid  
29 hydrocarbons to pay the royalty interest at the same time it pays the lessee  
30 or producer. However, the parties may expressly waive the time and manner of  
31 payment in writing.

32 (b) The purchaser shall at some time not later than the ~~twelfth~~ last  
33 day of each month furnish each royalty owner with a statement showing the  
34 correct amount of oil or ~~gas~~ other liquid hydrocarbons purchased during the  
35 previous month together with the correct amount paid each in interest  
36 therefor.

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SECTION 6. Arkansas Code 15-74-708 is amended to read as follows:

15-74-708. ~~Forfeiture~~ Payment of lease treble damages upon lessee receiving more than share from sale - Purchaser to pay treble value.

(a) ~~Any~~ Notwithstanding any terms or conditions contained in any oil, gas, and mineral lease, any leaseholder or operator who contracts for the sale of gas or oil or other liquid hydrocarbons to any pipeline company or other purchaser, under and by virtue of the terms of which the lessee receives a greater amount than the royalty owners in proportion to interest therein, or receives a bonus, or by any other means conspires with a purchaser to receive from the sale of the oil and gas or other liquid hydrocarbons more than his just proportionate share therefrom shall forfeit his rights in and to the leasehold premises pay to the royalty owners treble the value of the amount of oil wrongfully withheld from the royalty interest.

(b) Any pipeline company or other purchaser of oil ~~and gas~~ or liquid hydrocarbons that disburses payment directly to the royalty owners who contracts with any lessee as set out in subsection (a) of this section to the injury of the royalty owners shall ~~forfeit to the royalty owners treble value of the amount of oil or gas runs thus wrongfully taken from the royalty interest~~ be jointly and severally liable with the lessee to the royalty owners.

SECTION 7. Arkansas Code Title 15, Chapter 74 is amended to add an additional subchapter to read as follows:

Subchapter 8 -- Natural Gas Royalty Act

15-74-801. Title.

This subchapter shall be known and may be cited as the "Natural Gas Royalty Act".

15-74-802. Definitions.

For the purpose of this subchapter:

(1) "Gas" means natural gas that is not produced and sold with any liquid hydrocarbons;

(2)(A) "Market value" means the actual proceeds of sales of gas, untreated and uncompressed, at the wellhead from which it is produced.

1           (B) However, if the gas is not marketable as it is produced at  
2 the wellhead because it fails to satisfy the criteria of minimum quality gas,  
3 then "market value" shall mean the proceeds of sales of the gas at the  
4 wellhead, after treatment or compression sufficient to cause it to satisfy the  
5 criteria;

6           (3) "Minimum quality gas" means gas for which a market exists at the  
7 wellhead, or if no such market exists at the wellhead, gas which satisfies  
8 each of the following criteria:

9           (A) Pressure of fifty (50) pounds per square inch at sixty (60)  
10 degrees Fahrenheit;

11           (B) Presence of not more than one-fourth (1/4) grain of hydrogen  
12 sulphide nor more than ten (10) grains of total sulphur per one hundred (100)  
13 cubic feet;

14           (C) Presence of not more than seven (7) pounds of water per  
15 million cubic feet; and

16           (D) Average BTU content of not less than nine hundred fifty (950)  
17 BTU per cubic feet;

18           (4) "Reasonable and prudent operator" means an oil and gas operator  
19 engaged to obtain profits for the lessor and the lessee who bases its  
20 development of the leasehold upon the following considerations:

21           (A) The quantity of gas capable of being produced from the  
22 premises as indicated by prior exploration and development;

23           (B) The local market or demand;

24           (C) Means of transporting to market;

25           (D) Extent and result of operations, if any, on adjacent lands;

26           (E) Character of the reservoir; and

27           (F) Custom and usage within the natural gas industry; and

28           (5) "Wellhead" means the location of the well from which gas is  
29 produced.

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31           15-74-803. Payment of royalties on gas production.

32           (a) If an oil and gas lease requires the lessee to pay royalties on gas  
33 production based upon the market value of the gas produced, the "market value"  
34 shall have the meaning set out in this subchapter and royalties shall be  
35 payable based upon the lease terms, and upon the proportionate share of all  
36 payments received for all gas sold, and delivered by the lessee that was

1 produced on the lease premises or lands pooled therewith.

2 (b) If an oil and gas lease requires the lessee to pay royalties on gas  
3 production based upon the proceeds from the sale of gas from the lease, and  
4 the sale occurs at the wellhead before any treatment, separation, gathering,  
5 transportation, or compression other than that required to cause the gas to  
6 become minimum quality gas, the "proceeds" means the actual proceeds received  
7 by the lessee for the gas sold and delivered, whether or not the lessee is  
8 required to cause the gas to become minimum quality gas.

9 (c)(1) Subdivision (c)(2) applies if an oil and gas lease requires the  
10 lessee to pay royalties on gas production based upon the proceeds from the  
11 sale of gas from the lease; and:

12 (A) The sale occurs at a point away from the wellhead; or

13 (B) The lessee, acting as a reasonable and prudent  
14 operator, enhances the value of the gas by supplying treatment, dehydration,  
15 separation, gathering, transportation, or compression in excess of that  
16 required to cause the gas to become minimum quality gas; or

17 (C) Both subdivisions (c)(1)(A) and (c)(1)(B).

18 (2) If the criteria of subdivision (c)(1) are met, then  
19 "proceeds" means the actual proceeds received by the lessee for the gas sold  
20 and delivered reduced by the lessee's actual direct expenses, if reasonably  
21 incurred to:

22 (A) Supply the treatment, dehydration, separation, and  
23 compression in excess of that required to cause the gas to satisfy the  
24 criteria of minimum quality gas; and

25 (B) Gather, compress, and transport the gas to a point of  
26 sale away from the wellhead.

27 (d) In no event shall a lessee be required to pay royalties on any  
28 payments made to lessee other than payments made for gas produced and sold.

29 (e) This section shall not be applicable to any producing unit or well  
30 that produces liquid hydrocarbons only, or gas containing hydrogen sulfide in  
31 excess of thirty (30) parts per million.

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33 15-74-804. Time of royalty payment.

34 Gas royalties shall be paid as set forth in § 15-72-305.

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36 15-74-805. Payment of treble damages upon lessee receiving more than

1 share from sale.  
2 Notwithstanding any terms or conditions contained in any oil, gas, and  
3 mineral lease, any leaseholder or operator who contracts for the sale of gas  
4 to any pipeline company or other purchaser, under and by virtue of the terms  
5 of which the lessee receives a greater amount than the royalty owners in  
6 proportion to interest therein, or receives a bonus, or by any other means  
7 conspires with a purchaser to receive from the sale of the gas, more than his  
8 just proportionate share therefrom, shall pay to the royalty owners treble the  
9 value of the amount of gas wrongfully withheld from the royalty interest.

10 */s/ Mahony*

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