



# Ohio Legislative Service Commission

## Bill Analysis

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### H.B. 528

129th General Assembly  
(As Introduced)

Reps. Carney and Okey

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## BILL SUMMARY

- Requires the lessee of an oil and gas lease to provide to the lessor monthly oil and gas production statements, and specifies the minimum information that must be included in a monthly statement, including information on the royalties paid to the lessor.
- Establishes procedures and requirements in accordance with which a lessor may conduct an audit of the lessee's records and documents related to production or post-production costs under the lease.

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## CONTENT AND OPERATION

### Monthly oil and gas production statements

Under the bill, the lessee of an oil and gas lease that is necessary for the formation of a drilling unit in which is located a well and all applicable assignees, lessees, and successors-in-interest must provide to the lessor a statement each month during which the lease is in effect.<sup>1</sup> A drilling unit is the minimum acreage on which one well may be drilled, but does not apply to a well for injecting gas into or removing gas from a gas storage reservoir.<sup>2</sup>

The statement must contain at least all of the following:

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<sup>1</sup> R.C. 1509.081(A).

<sup>2</sup> R.C. 1509.01(G), not in the bill.

(1) An identification of the lease, the property that is the subject of the lease, or the well that is located in the drilling unit that was formed in whole or in part with the lease;

(2) The nature of the royalty clause in the lease;

(3) The lessor's royalty interest under the lease expressed in decimals;

(4) The period for which the lessee, assignee, or successor-in-interest is paying royalties to the lessor;

(5) The identity of each product, defined as oil, gas, condensate, and liquid hydrocarbon,<sup>3</sup> on which the lessee, assignee, or successor-in-interest is paying royalties. In addition, the statement must include the grade, quality, or other applicable classification of each product.

(6) A separate listing of the total volume of each product on which the lessee, assignee, or successor-in-interest is paying royalties;

(7) The price or value on which the lessee, assignee, or successor-in-interest calculates the royalty payments;

(8) The total amount of severance taxes, production taxes, windfall profit taxes, and other taxes paid on the lessor's share of the production;

(9) The accounting method used to determine each royalty payment. In addition, if the lessee, assignee, or successor-in-interest uses a workback accounting method, the statement must include the nature and amount of each expense that was deducted in determining the royalty payments.

(10) The lessor's share of the total value or price of the production before and after any deductions;

(11) The amount of the royalty payment;

(12) The name and address of all entities to which the lessee, assignee, or successor-in-interest sold or otherwise transferred any product for the immediately preceding month;

(13) If any product was sold or otherwise transferred to more than one entity in the immediately preceding month, a separate indication of the amount of oil, gas,

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<sup>3</sup> R.C. 1509.081(C).

condensate, and liquid hydrocarbon, as applicable, that was sold or otherwise transferred to each entity;

(14) The address and telephone number of the lessee, assignee, or successor-in-interest that the lessor may use to contact the lessee, assignee, or successor-in-interest with questions regarding royalty payments; and

(15) If no production occurred in the immediately preceding month, the reason for the lack of production.<sup>4</sup>

### **Request for records by lessor for audit purposes**

The bill authorizes the lessor of an oil and gas lease that is necessary for the formation of a drilling unit in which is located a well or the lessor's agent, for the purpose of conducting an audit, to request the lessee or the lessee's employees, officers, accountants, attorneys, or other agents to provide a copy of any and all records and documents that are related to the exploration, production, processing, sale, marketing, taxes, gathering, dehydration, compression, transportation, treatment, or other post-production costs for any product resulting from the well. Not later than 30 days after receipt of a request for such records and documents, the lessee and the lessee's employees, officers, accountants, attorneys, and other agents must provide to the lessor or the lessor's agent all relevant records and documents requested.<sup>5</sup>

If the lessee of an oil and gas lease that is necessary for the formation of a drilling unit in which is located a well receives a request for records and documents from the lessor pursuant to the bill, the lessee immediately must send to each entity to which the lessee sold or otherwise transferred any product resulting from the well a written document that instructs and authorizes the entity to provide to the lessor or the lessor's authorized agent all records and documents that are related to the sale or transfer that are in the possession of the entity or the entity's employees, accountants, attorneys, or other agents. In addition, the lessee immediately must send a written document to all applicable taxing authorities that instructs and authorizes each such taxing authority to provide to the lessor or the lessor's authorized agent all records and documents regarding taxes levied on, paid by, or refunded to the lessee or to the lessee's assignees, successors-in-interest, or agents. If a taxing authority does not accept the written document as sufficient authorization for release of the tax information, the lessee must

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<sup>4</sup> R.C. 1509.081(A).

<sup>5</sup> R.C. 1509.081(B)(1).

execute any additional documents that are necessary for that taxing authority to provide tax information to the lessor or the lessor's authorized agent.<sup>6</sup>

Such a written document required to be submitted by a lessee must include both of the following:

(1) A statement that the authorization to provide all records and documents to the lessor does not expire; and

(2) A statement that the lessee waives all legal claims or causes of action for the provision of records and documents to the lessor.<sup>7</sup>

A lessee or the lessee's assignee or successor-in-interest, as applicable, must provide a copy of each such written document to all subsequent assignees and successors-in-interest.<sup>8</sup>

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## HISTORY

ACTION	DATE
Introduced	05-01-12

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<sup>6</sup> R.C. 1509.081(B)(2).

<sup>7</sup> R.C. 1509.081(B)(3).

<sup>8</sup> R.C. 1509.081(B)(4).