

Approved February 21, 1990
Date

MINUTES OF THE HOUSE COMMITTEE ON ENERGY AND NATURAL RESOURCES

The meeting was called to order by Representative Dennis Spaniol at
Chairperson

3:30 ~~xxx~~ p.m. on February 19, 1990 in room 526-S of the Capitol.

All members were present except:

Representative Lucas (Excused)

Committee staff present:

Raney Gilliland, Principal Analyst, Legislative Research
Mary Torrence, Revisor of Statutes' Office
Pat Mah, Legislative Research
Maggie French, Committee Secretary

Conferees appearing before the committee:

Representative David G. Miller, Forty-Third District
Representative Arthur W. Douville, Twentieth District
Representative Lee Hamm, One-Hundred-Eighth District
Mr. Bill Bryson, Interagency Coordinator, Kansas Corporation Commission
Mr. Bill R. Fuller, Assistant Director, Kansas Farm Bureau
Mr. John V. Black, Attorney, Pratt, Kansas
Mr. Gregory J. Stucky, Attorney, Southwest Kansas Royalty Owners
Mr. Walker Hendrix, Eastern Kansas Oil and Gas Association
Mr. Don Schnake, Kansas Independent Oil and Gas Association

Chairman Dennis Spaniol called the meeting to order.

Representative David G. Miller, Forty-Third District, was recognized by the chair and requested the committee to draft and introduce a bill. After discussion, Representative Patrick moved and Representative Grote-wiel seconded the motion to draft and introduce a bill providing for regu-lation of propane by the Kansas Corporation Commission. Motion passed unanimously.

Chairman Spaniol recognized Representative Arthur W. Douville, Twentieth District, who requested drafting and introduction of a bill. Following discussion, motion by Representative Grotewiel, seconded by Representative Patrick to draft and introduce a bill relating to recycling and solid waste management was passed.

House Bill 2696 -- An act concerning oil and gas; relating to notice of applications for and hearings on unit operation.

The chairman requested Raney Gilliland, Principal Analyst, Legislative Research, to briefly describe House Bill No. 2696. Mr. Gilliland said the bill deals with applications for unit operation permits; deletes the 15-day requirement for the hearing, deletes the notice requirement, and would require applicants to give that notice. Discussion followed. Representative Patrick moved to amend House Bill No. 2696. Motion was seconded by Representative Guldner. After further discussion, Repre-sentative Guldner withdrew his second and Representative Patrick with-drew his motion for amendment. Representative Patrick moved to table the amendment to House Bill 2696 and Representative Guldner seconded the motion. Motion passed.

House Bill No. 2699 -- An act concerning the state corporation commission; providing for exemption of certain public utilities from certain aspects of commission regulation.

Motion by Representative Freeman to pass House Bill No. 2699, was second-ed by Representative Lacey. No discussion was forthcoming when called for by the chairman. Motion passed.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ENERGY AND NATURAL RESOURCES,

room 526-S Statehouse, at 3:30 ~~xxx~~/p.m. on February 19, 1990

Chairman Spaniol recognized Representative Freeman who requested information in regard to House Bill No. 2697 from Mr. Bill Bryson, Interagency Coordinator, Kansas Corporation Commission. Mr. Bryson stated examples of violations for a 25-county region are not available at this time; but, he quoted information on two counties from the report submitted to the committee. Representative Freeman requested a list of the leases checked be provided to the committee. After discussion, the chairman requested copies of information on fee-fund expenditures and to whom they were paid provided to the committee.

House Bill 2872 -- An act concerning oil and gas; relating to division orders.

Representative Lee Hamm, One-Hundred-Eighth District, was recognized by Chairman Spaniol. Representative Hamm stated the purpose of this bill is to make sure a lease is not changed by a division order. Representative Hamm introduced Mr. John V. Black, Attorney, Pratt, Kansas. Mr. Black testified as a proponent on House Bill No. 2872. He stated he has clients who have had problems with division orders and something should be done to protect the royalty owners. He related incidents where transportation was charged on leases when it should not have been; oil purchasers sometimes attempt to modify division orders without the royalty owner having anything to say about it, and operators sometimes set themselves up as first purchasers. He believes it is a gross injustice if the oil is delivered and payment is not received for 60 to 90 days and that it would be a good thing to propose a bill to add interest to the royalties. Mr. Black went on to discuss division orders as well as a proposal to amend House Bill 2872 (Attachments 1 and 2). He stated division orders should contain the name, address, social security number and verification that the interest they have is the interest they are receiving; however Mr. Black feels "stipulation of interest" is a better term for it. He stated the lease is the primary instrument and everything will reference back to it. Mr. Black believes a use has developed for the division order attempting to make it into a contract. Chairman Spaniol inquired if the situations that have been dealt with have clear title. Discussion followed including provisions for revoking division orders; setting up purchasing companies by working-interest owners, and provisions requiring notice for change of ownership.

Chairman Spaniol recognized Mr. Bill R. Fuller, Assistant Director, Kansas Farm Bureau, who testified as a proponent on House Bill No. 2696 (Attachment 3). The committee addressed no questions to Mr. Fuller after his testimony.

Chairman Spaniol recognized Mr. Gregory J. Stucky, Attorney, who testified as a proponent on behalf of the Southwest Kansas Royalty Owners. Mr. Stucky stated there are about 2,000 members of the association; that royalty owners are presented with division orders which attempt or purport to change the terms of an oil or gas lease. He went on to say the royalty owners are under the impression that they need to sign those types of division orders in order to receive production to which they are already entitled under the oil and gas lease and that proposed legislation makes it clear that division orders cannot be used in that manner. Discussion followed. Mr. Stucky stated he supports the proposed amendment and he does not believe the amendment would change the common law in the State of Kansas, but would merely codify that law.

Mr. Walker Hendrix, a private attorney specializing in oil and gas work and past president of Eastern Kansas Oil and Gas Association was recognized by the chairman. Mr. Hendrix, testifying as an opponent on House Bill No. 2872 stated the reason division orders come into play is to provide a stipulation of interest and allow for everybody to be paid in a proper amount and it alleviates the royalty owners need to maintain a

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ENERGY AND NATURAL RESOURCES,
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separate distribution network. In essence, the opposition to this bill does not change anything; the common law basicly has taken care of the royalty owner and, in most cases, has favored the royalty owner, Mr. Hendrix commented. Discussion followed on division orders; delays in payment of royalties; use of division order to alter leases, types of leases, etc.

Chairman Spaniol recognized Mr. Don Schnake, Kansas Independent Oil and Gas Association, who testified as an opponent on House Bill No. 2872 (Attachment 4). Mr. Schnake said his organization would like to have an opportunity to review the amendments to this bill and Chairman Spaniol advised Mr. Schnake the information would be furnished to him. Discussion followed.

The chairman concluded hearings on House Bill No. 2872.

House Bill No. 2765 -- An act excluding water protection fees from gross receipts for sales tax purposes.

The chairman announced there were no proponents or opponents who desired to testify on House Bill No. 2765. Representative Guldner stated the intent of the bill passed last year was not to charge sales tax on fees. Discussion centered on what cities are assessing sales tax on these fees and the fact that there was an order from the Department of Revenue saying this could be done.

The hearings on House Bill No. 2765 were concluded by the chairman.

The meeting adjourned at 4:45 p.m.

The next meeting of the committee is scheduled at 3:30 p.m., February 21, 1990.

THE PERMIAN CORPORATION

DIVISION ORDER

Lease No. 643452

April 7, 1983

TO THE PERMIAN CORPORATION, P. O. BOX 1183, HOUSTON, TEXAS 77001

The undersigned, and each of us, certify and guarantee that we are the legal owners of and hereby warrant the title to our respective interests as set out below in all oil produced from all wells on the _____

Imperial Oil Company - _____

farm or lease, located in Pratt County, State of Kansas, more particularly described as follows:

Pratt County, Kansas

way),

and commencing at 7 A.M., the _____ day of first runs, 19____, and until further written notice either from you or us you are authorized to receive oil therefrom, purchase it and pay for it as follows:

CREDIT TO

DIVISION OF
INTEREST

POST OFFICE ADDRESS

*H ENERGY AND NR
2-19-90*

ATTACHMENT 1

The following covenants are also parts of this division order and shall be binding on the undersigned, their heirs, devisees successors, legal representatives and assigns.

FIRST: The oil received and purchased hereunder shall become your property as soon as the same is received into your custody, or that of any pipe line company or carrier designated by you, and the undersigned agree to look solely to you for payment of oil purchased hereunder and shall have no claim or recourse against any subsequent purchaser of said oil.

SECOND: The oil received and purchased hereunder shall be delivered F. O. B. to any pipeline or carrier designated by you which gathers and receives said oil, and you shall pay for such oil to the respective owners according to the division of interest above set forth at the same price per barrel received by the operator of the lease covered by this division order. The word "oil" used herein shall mean crude oil and condensate (or distillate) delivered hereunder.

THIRD: Quality and quantity shall be determined in accordance with the conditions specified in the purchase agreement with lease operator. The oil shall be steamed when necessary to make merchantable and you may refuse to receive any oil not considered merchantable by you.

FOURTH: Settlements and payments shall be made monthly by check mailed from your office to the respective parties at the addresses above given, for the amount of such purchase price due said parties, respectively, less any taxes required by the law to be deducted and paid by you as purchaser.

FIFTH: Abstracts and other evidence of title satisfactory to you will be furnished to you at any time on demand. In the event of failure to so furnish such evidence of title, or in the event of any dispute or question at any time concerning title to the above lands, or the oil produced therefrom, you may hold the proceeds of all oil received and run, without interest, until indemnity satisfactory to you has been furnished or until such dispute or question of title is corrected or removed to your satisfaction. And in the event any action or suit is filed in any Court affecting title either to the real property above described or to the oil produced therefrom in which any of the undersigned are parties, written notice of filing of such action shall immediately be furnished you by the undersigned, stating the Court in which the same is filed and the title of such action or suit, and you or any carrier transporting oil for your account shall be held harmless from any judgment rendered in such suit and all reasonable costs and expenses incurred in defending against said claim, whether in your defense or in the defense of the carrier transporting oil for your account, and the undersigned shall pay said judgment and said costs and expenses.

SIXTH: The undersigned severally shall notify you of any change of ownership, and no transfer of interest shall be binding upon you until a transfer order and the recorded instrument evidencing such transfer, or a certified copy thereof, shall be furnished to you. Transfers of interest shall be made effective not earlier than the first day of the calendar month in which notice is received by you. You are relieved hereby of any responsibility for determining if and when any of the interests hereinabove set forth shall or should revert to or be owned by other parties as a result of the completion or discharge of money or other payments from said interest and the signers hereof whose interests are affected by such money or other payments, if any, assume said responsibility and shall give you notice in writing by registered letter addressed to you at the above address, when any such money or other payments have been completed or discharged or when any other division of interest than that set forth above shall, for any reason, become effective and to furnish transfer orders accordingly, and that in the event such notice shall not be received, you shall be held harmless in the event of, and are hereby released from any and all damage or loss which might arise out of any overpayment.

SEVENTH: This division order shall become valid and binding on each and every owner above named as soon as signed by him or her regardless of whether any of the other above named owners have so signed; and in consideration of the purchase of oil hereunder, consent is given hereby to you and any pipe line company which you may cause to connect with the wells or tanks on said land, to disconnect and remove such pipe lines, in case of termination by either you or us of purchases under this division order.

EIGHTH: Working interest owners and operators who sign this division order, and each of them, guarantee and warrant for your benefit and that of any pipe line or other carrier designated by you to run or transport said oil, that all oil tendered hereunder has been and will be produced and handled in compliance with the Fair Labor Standards Act of 1938, and any amendments thereto, and all other federal, state and municipal laws, rules and regulations.

IN ACCORDANCE WITH FEDERAL LAW, PLEASE INDICATE YOUR SOCIAL SECURITY OR IDENTIFICATION NUMBER BELOW:

1-2

DIVISION ORDER

TO: **TEXACO TRADING AND TRANSPORTATION INC.**
Attn: Title Dept. / Central Region
Post Office Box 5568 T.A.
Denver, Colorado 80217-5568

Lease No. 13717

Date: August 7, 1989

The undersigned, and each of them, guarantee and warrant that they are the legal owners of their respective interests, in the proportions hereinafter stated, in all oil produced and saved from the

TIMBERLINE OIL & GAS --

located in Pratt County, State of Kansas, described as:

Effective at 7:00 A.M. August 1, 1989, and until further written notice, you are authorized to receive all such production, for your own purchase or for resale, to receive payment therefor, to give credit for all proceeds derived therefrom and pay therefor as follows:

OWNER NO.	CREDIT TO	TYPE	DIVISION OF INTEREST

DNS - Effective Date

REQUIREMENT: RECORDED DEED

117377-A

IF YOU NEED ASSISTANCE WITH YOUR ACCOUNT PLEASE CALL THE NUMBERS LISTED ON THE REVERSE

All covenants appearing on the reverse side hereof are incorporated herein by reference and the undersigned agree that each shall be deemed and considered an essential part of this division order in like manner and with the same effect as if printed above our signatures.

SIGNATURE OF WITNESS	SIGNATURE OF OWNER	SOCIAL SECURITY OR TAX I.D. NUMBER
X	X	X
X	X	

TTTT ROUTING:

REC'D		
N/A		
SUSPENSE		
DI ACCT		
ANALYST		
DIGEST		

PAYMENT FOR THIS INTEREST SHOULD BE SENT TO:

COPY

DAYTIME TELEPHONE NUMBER () _____

Please check box if this is a NEW ADDRESS and applied to all leases with this owner number.

The following covenants are also part of this division order and shall become valid and binding upon each and every interest owner above named upon execution hereof by such interest owner, and upon his or her successors, legal representatives and assigns, without regard to whether any other interest owner or owners have so signed.

FIRST: All oil received and purchased hereunder shall be merchantable oil and shall become your property as soon as the same is received into your custody or that of any carrier designated by you.

SECOND: The oil received and purchased hereunder shall be delivered f.o.b. to any carrier designated by you which gathers and receives said oil and you agree to pay for such oil to the respective owners according to the division of interests herein specified at the price being posted or paid by you at the time of such delivery; provided, however, that whenever it shall become necessary to truck oil from the leased premises, the additional costs resulting therefrom shall be deducted from the purchase price prior to computing payments to be made hereunder. The term "oil" as used in this division order, shall include all marketable liquid hydrocarbons.

THIRD: You shall compute quantity and quality, making corrections for temperature and deductions for impurities, according to the customs and prevailing practice in effect at the time and place of delivery and subject to rules and regulations prescribed by any governmental authority having jurisdiction in the premises.

FOURTH: Payments shall be made monthly for oil received and purchased during the preceding month, by your checks delivered or mailed to the respective parties at the addresses above stated; provided that if, at any time, the monthly payment due any party hereunder shall be less than twenty-five dollars (\$25.00), you may defer such payment, without interest, until the amount payable to such party equals or exceeds the sum of twenty-five dollars in which event, payment shall be made at the next regular settlement date. You are hereby authorized to withhold from the proceeds of any and all runs made hereunder each interest owner's proportionate share of any tax levied and assessed by any governmental authority on the oil received and purchased hereunder and to pay the same in our behalf.

FIFTH: Satisfactory abstracts or other evidence of title will be furnished to you at any time on demand. Upon failure to furnish such evidence of title, or in the event of a claim or controversy which in your opinion, concerns title to any interest hereunder, you may withhold, without interest and without liability, proceeds of all oil received by you hereunder until you have been furnished with indemnity satisfactory to you or competent evidence that such claim or controversy has been settled. In the event any action or suit is filed affecting title either to the real property above described or to the production therefrom in which any of the interest owners are parties, written notice thereof stating the court in which the same is filed shall be immediately furnished to you by such owner against whom the action is commenced. Each interest owner agrees to hold you harmless and to protect and indemnify you against any and all loss, cost, expenses or liability which may arise from such suit.

SIXTH: Working interest owners and/or operators who execute this division order, and each of them, guarantee and warrant that all oil tendered hereunder has been or will be produced and delivered in compliance with all applicable federal, state and local laws, orders, rules and regulations.

SEVENTH: No transfer of any interest or change in the right to receive payments hereunder, however accomplished, shall be effective as to you until 7:00 A.M. on the first day of the calendar month in which you are furnished a proper division or transfer order together with proof satisfactory to you evidencing such transfer or change in the right to receive payments hereunder, and you are hereby relieved of any and all liability for payment made prior to receipt of a proper transfer order and a certified copy of the instrument of transfer.

EIGHTH: This division order shall remain in full force and effect until cancelled by any party hereto upon giving sixty days written notice in advance of any such cancellation which shall be mailed to the respective parties at the addresses shown herein. Cancellation by any interest owner or owners shall not be effective as to the interests of any other owner.

NINTH: It is understood and agreed between the parties that this Division Order is subject to the terms of the Oil and Gas Lease of record, and nothing herein is intended to modify or change said Oil and Gas Lease, and in the event of a conflict, the Lease shall control.

TEXACO TRADING AND TRANSPORTATION INC.
CORPORATE OFFICES

[Office Hours 7:30 A.M. - 4:30 P.M. MTN]

Associate Analyst: Sheila McGuire

If you need assistance with:	Please call:
Questions about this Division Order	(303) 860-3639
Frac Oil Recoveries	(303) 860-3270
Owner Payment / Monthly Production Payment	(303) 860-3220
Operator Purchase Statement	(303) 860-3410
Owner Name and Address *	(303) 860-3570
Suspense Payments	(303) 860-3220
Telecopy (FAX)	(303) 860-3210
Telecopy Verification	(303) 860-3442
Title Department/Northern & Western Region	(303) 860-3220
TTY - Service for Hearing & Visually Impaired	628 87813
All Other Departments	(303) 861-4475

* Please send written notice of any name or address change to:
Title Department/Name and Address, P.O. Box 5568, Denver, Co. 80217
Be sure to indicate your owner and tax identification numbers.

14

LEASE NO. 080290200100

TO: MUSTANG FUEL CORPORATION
2000 Classen Center - 800 East
Oklahoma City, Oklahoma 73106

OPERATOR MFCO
2000 Classen Center 800 East
Oklahoma City, OK 73106

Each of the undersigned guarantees and warrants that he is the legal owner in the proportion set out below of all the oil, condensate and/or liquid hydrocarbons produced from the lease or unit known as _____, which lease or unit is described as follows:

_____ Fifteen West
(15W),

in Pratt County, State of Kansas, and commencing at 7:00 A.M.,

on the 1st day of January, 1989, subject to the Covenants appearing on the reverse side hereof, which same are binding upon the undersigned, their successors, legal representatives and assigns, you are authorized until one year from date of the first purchase hereunder and thereafter from year to year unless terminated after the first full year by written notice of at least 60 days prior to the end of the year to receive oil, condensate and/or liquid hydrocarbons therefrom, giving credit as directed below:

CREDIT TO

DIVISION OF INTEREST

SEE ATTACHED EXHIBIT

Your Copy

IMPORTANT: YOUR CORRECT ADDRESS AND YOUR SOCIAL SECURITY NUMBER OR TAX ACCOUNT NUMBER MUST BE FURNISHED.

NOTE: The lease number appearing in the upper right hand corner of this Division Order will be shown along with your owner number on the remittances covering your interest.

WITNESSES	SIGNATURE OF OWNER	ADDRESS	*TAXPAYER NUMBER

* This is your Social Security or other identification number as required by Federal Internal Revenue Code. Under the penalties of perjury, I certify that the taxpayer identification number provided on this form is true, correct, and complete.

(Over)

The provisions on the back side hereof are part of this Division Order.

The following covenants are a part of this Division Order:

1. The oil run hereunder shall become your property upon the delivery thereof to you or to any carrier, pipeline, person, firm or corporation designated by you to receive said oil.
2. The oil purchased and received hereunder shall be delivered F.O.B. to any carrier, pipeline, tanks or other facilities designated by you to gather and receive said oil. You agree to pay for such oil to the respective owners thereof according to the division of interest herein specified at the price posted by you for oil of the same grade, gravity and quality from the field or area in which the aforesaid lease or premises is located on the date said oil is received by you, less trucking or pipeline gathering charges (including transportation taxes) deemed necessary by you. Where automatic metering devices are used or where required by purchase contracts you are authorized to use the average daily runs for each month as the actual daily runs from such premises.
3. Quantities of oil purchased hereunder shall be run and measured in terms of 42 U.S. gallons of 231 cubic inches adjusted to sixty (60) degrees Fahrenheit per barrel from regularly compiled tank tables for the tanks from which oil is delivered, or from certified tank truck gauges on oil taken in tank trucks, or in accordance with any rules and regulations prescribed by any authorized governmental entity, or in accordance with any accepted practices or customs prevailing at the time and place of delivery. You may deduct from all oil received all basic sediment, dirt, water and other impurities, and, in addition, may correct the volume of oil to normal temperature of sixty (60) degrees Fahrenheit. Where a well produced oil after liquid hydrocarbons have been injected into the same, deductions may be made by you for an amount of oil equivalent to the amount of liquid hydrocarbons so injected. You may require that such oil be treated when necessary to render it merchantable. You have the unqualified right to refuse to receive any oil not considered merchantable by you or of acceptable quality. Before making payments to the owners hereunder there shall be deducted therefrom any severance, gross production, occupation or other taxes on such oil or the production or the purchaser thereof imposed by law and required to be deducted by you as purchaser of said oil.
4. The proceeds of such oil, after deducting any taxes or other charges as are herein provided, shall be paid monthly for oil received and purchased during the preceding month according to the division of interest set out herein by check or draft therefor mailed to each party at their address herein designated; provided, however, that at your option no payments need be made to or for the account of any individual interest holder until the aggregate sum due on account of such interest shall amount to \$15.00 or more.
5. All working interest owners and all parties hereto who are connected with the operation of the said lease herein referred to guarantee and warrant that all oil sold hereunder has been and will be produced and handled in compliance with the provisions of the Federal Fair Labor Standards Act of 1938 as heretofore or hereafter amended and all other applicable federal, state and other governmental laws, rules and regulations.
6. Should the interest of the undersigned in the oil produced from the herein-described land or from any formation underlying said land be unitized with other lands or other formations, either voluntarily, by operation of law or by order of state or other governmental authority, this division order shall thereafter be deemed to be modified to the extent necessary to conform with the applicable unitization agreement or plan, and all revisions or amendments thereto, but otherwise to remain in full force and effect as to all other provisions. In such event the portion of the unitized oil sold hereunder shall be the interest of the undersigned in that portion of the total unitized oil which is allocated to the herein-described land or formation underlying said land and shall be deemed for all purposes to have been actually produced from said land or formation underlying said land.
7. Each of the undersigned hereby covenants and warrants and agrees to defend the title to the oil credited to such undersigned owner according to the division of interest hereinabove indicated, as well as that it has the authority to sell the oil, condensate, and/or liquid hydrocarbons and agrees to defend all interest hereafter acquired, and further agrees to indemnify and save you or any other purchaser of said oil, and any carrier designated by you or other purchaser to receive the said oil, and each of them, harmless against all and every charge or expense of any kind whatsoever which may be suffered or incurred by or on account of receiving or purchasing or transporting said oil, or by reason of any and all claims of any kind whatsoever as to said oil, including but not limited to any claim for conversion of such production. Satisfactory abstracts and other evidences of title will be furnished you upon demand. In the event of a failure to furnish such abstracts or evidence of title, or in the event of any dispute or question at any time concerning title to the land or indicated interest, or oil, condensate, and/or liquid hydrocarbons produced and/or processed therefrom, or the authority of the undersigned to sell the same, you may withhold the payment for all oil, condensate, and/or liquid hydrocarbons received and run, without interest until indemnity satisfactory to you has been furnished, or until such dispute or question of title is settled and determined to your satisfaction. If any action or suit is filed in any court affecting title, either to the real property above described, the indicated interest, or oil, condensate, and/or liquid hydrocarbons produced and/or processed therefrom, including the authority of the undersigned to sell the same, you and/or your nominee pipe line company, or other production purchaser, shall be held harmless from any judgment rendered in such suit, including any award made in such judgment for punitive or exemplary damages, and you shall be reimbursed for all the reasonable costs and expenses incurred in defending against said claims, including the cost of any appeal, plus witness fees, meals, lodging, and travel expenses incurred by your witnesses and attorneys in defending the action or suit. If it becomes necessary to institute legal proceedings against the undersigned to enforce the indemnity provisions contained herein, the undersigned agrees to pay court costs, plus the reasonable costs and expenses incurred by you in prosecuting the action against the undersigned, including witness fees, meals, lodging, and travel expenses of witnesses and attorneys, together with an attorney's fee equal to fifteen percent (15%) of the judgment rendered against you, plus interest at the rate of ten percent (10%) per annum, until paid, on the amount of the judgment rendered against you, with the ten percent (10%) interest being assessed from the date that judgment against you has been satisfied and released. It is further agreed that the attorney fees to be paid by the undersigned will be due, regardless of whether the litigation is handled by your in-house or staff counsel or referred to counsel engaged in the private practice of law.
8. Without impairment of any warranty herein contained abstracts or other evidence of the undersigned's title to said oil shall be furnished at any time upon demand. If, in your opinion the undersigned does not have good and merchantable title to the oil produced and the interest claimed therein by such undersigned, or in case of adverse claim of title to the land or mineral interest from which said oil may be produced or to which said oil is allocated under any unit operation, or to any of such oil, you may withhold, without interest and without liability the purchase price or proceeds of said oil, until indemnity satisfactory to you has been furnished or until such title is made acceptable to you, or until such adverse claim is settled to your satisfaction. If suit is filed affecting the interest of any of the undersigned, written notice thereof shall be given to you at the above address by the party or parties affected, together with a certified copy of the complaint, petition or bill of particulars filed, and the party or parties affected thereby agree to indemnify you against any judgment rendered herein and to reimburse you for any costs, attorneys' fees or other expenses incurred in connection therewith.
9. You will not be responsible for any change of ownership in the absence of actual notice and proof thereof satisfactory to you, and receipt by you of a proper and executed transfer order reflecting such changes of ownership. Each of the undersigned agrees to notify you in writing of any change in his ownership and agrees that any transfer, assignment or conveyance of any of his interest hereunder shall be made subject to this division order and effective at 7:00 o'clock A.M. on the first day of the calendar month following the receipt of said notice, satisfactory proof thereof and transfer order by you. Without regard to whether any contingency or condition is expressly stated in this division order, you are hereby relieved of any responsibility for determining when any of the interest herein shall increase, diminish, change, be extinguished or revert to other parties as a result of the completion or discharge of money, production or other payments from said interest or the production attributable thereto, or as a result of the expiration of any time or term limitation (either definite or indefinite), or as a result of the increase or decrease in production, or as a result of a change in producing depth or formation, the method or means of production, or as a result of a change in the allocation of production affecting the above tract or any portion thereof under any agreement or by order of governmental authority, or resulting from any other contingency, and until you receive the aforesaid notice, satisfactory proof and transfer orders to the contrary, you are hereby authorized to remit pursuant to the above division of interest. In the event the aforesaid written notice, satisfactory proof and transfer orders are not received by you, you shall be held harmless for error resulting in over or under payment, or a wrong payment of any sums.
10. You are authorized to purchase all the oil, condensate and/or liquid hydrocarbons, which may be produced from the above described premises including, but not limited to distillate, condensate, drip gasoline and the like. If and as often as oil, condensate and/or liquid hydrocarbons are so purchased, all of the terms and covenants of this division order shall apply thereto, and oil as used herein shall be interpreted as including all such oil, condensate and/or liquid hydrocarbons being purchased by you as is applicable except that the price to be paid for such liquids shall be the price which is agreed upon from time to time between you as purchaser and the operator of the said premises as seller, it being understood and agreed that each of the undersigned hereby designates the said operator as his agent for the purpose of selling the said oil, condensate and/or liquids.
11. If the parties hereto have also entered into an oil, condensate and/or liquid hydrocarbon sale contract, and if any of the provisions of said contract and this division order differ, or are in conflict, or create any uncertainty or ambiguity, the provisions of said contract shall govern and prevail.
12. This division order may be executed in counterparts and shall be binding on and shall inure to the benefit of each signer hereto, his heirs, successors, and assigns, whether or not it is executed by all parties named herein.
13. The terms and conditions of this Division Order are subject to and are inferior to all the provisions of the Lease on said property. In the event of a conflict, the terms of the Lease will control. This Division Order is to verify the interest of the royalty owner only, it does not constitute a consent to the operator posing as first purchaser or waive any rights the royalty owner has to be paid by the actual first purchaser.

COPY

TO: KOCH OIL COMPANY
POST OFFICE BOX 2239
WICHITA, KANSAS 67201

LEASE NO.	12003
TRACT NO.	
ANALYST	GHL/11

April 11, 19 88

The undersigned, and each of them, guarantee and warrant that they are the legal owners in the proportions set out below of all the oil (which, for the purposes hereof, includes all liquid hydrocarbons purchased hereunder) produced from the Oil Producers Inc. of Kansas
Bucklin Lease #12003 Farm, and described as _____

in Pratt County or Parish, State of Kansas, commencing at 7:00 A.M., the 1st
day of March, 19 88, and until further written notice either from you or us you are authorized to receive for purchase on the terms hereinafter stated oil therefrom to the extent of your requirements giving credit as directed below:

LEASE NUMBER	OWNER NUMBER	NAME	INTEREST	TYPE INT.	TRACT	WPT CODE	SUSP CODE
12003							

WITNESS: (Sign Below)	OWNERS: (Sign Below) (PRINT OR TYPE YOUR COMPLETE ADDRESS AND TAX IDENTIFICATION NUMBER)

The following covenants are part of this division order and shall be binding on the above signed, their successors, legal representatives, and assigns:

FIRST The oil run in pursuance of this division order shall become your property upon the delivery thereof to you or any Agent designated by you. You are not expected to receive oil in definite quantities nor for fixed periods nor to provide storage.

Should the oil produced from any formation in and under the herein described land be either commingled with other oil, whether such other oil be produced from one or more formations having different ownership in and under the herein described lands or in and under any other lands, or be placed in tank batteries located elsewhere than on the herein described land, prior to the time it becomes your property, the oil, commingled or otherwise, sold hereunder, shall be deemed to be the interest of the above signed in that portion of the total oil delivered which is allocated to the herein described land on the basis of the formula prescribed by the operators of the leases covering the formations or tracts of land involved and the data supplied to you with respect thereto, and you are authorized to accept such information, rely upon the same and make settlement hereunder on the basis of the quality and gravity of such commingled oil so allocated without liability to the above signed.

Should the interest of the above signed in the oil produced from the herein described land be unitized with oil produced from one or more other tracts of land, this division order shall thereafter be deemed to be modified to the extent necessary to conform with the applicable unitization agreement or plan, and all revisions or amendments thereto, but otherwise to remain in full force and effect as to all other provisions. In such event, the portion of the unitized oil sold hereunder shall be the interest of the above signed in that portion of the total unitized oil which is allocated to the herein described land and shall be deemed for all purposes to have been actually produced from said land.

SECOND - The oil received and purchased hereunder shall be delivered f.o.b. to your own facilities or any agent designated by you, which gathers and receives said oil, and you agree to pay for such oil to the respective owners according to the division of interest hereinabove specified, (the price agreed upon between you and the operator) less any tax you may be required to pay with respect thereto or the proceeds thereof and less applicable deductions including marketing and inactive account adjustments.

THIRD - Quantities of oil purchased hereunder shall be determined by the method of measurement and computation employed by you or the Agent designated by you to receive such oil including but not by way of limitation the gauging of storage tanks using regularly compiled tank tables, the use of certified truck gauges, and the use of meters or any other reasonably accurate method of measurement and computation. You shall correct the volume and gravity to a temperature of 60° Fahrenheit and you shall deduct from such corrected volume the full percentages of basic sediment, water, and other impurities as shown by your test. You may refuse to receive any oil not considered merchantable by you.

FOURTH We agree to furnish evidence of title satisfactory to you. Until such evidence is furnished or in the event of any adverse claim, oil lien or dispute at any time concerning title to the above described real property or the oil produced therefrom, you may withhold payment for oil accruing to the interest or interests affected thereby until you are indemnified to your satisfaction or until such adverse claim, lien or dispute shall have been fully settled, without liability for interest in either case. If suit is filed affecting the interest of any of the above signed, written notice thereof shall be given you, at the above address by party or parties affected, together with a certified copy of the complaint or petition filed. If you are made a party to such proceedings, the party or parties affected agree to indemnify you against any judgment rendered therein and to reimburse you for any costs, attorney's fees or other expenses incurred in connection therewith.

FIFTH You will not be responsible for any change of ownership in the absence of actual notice and satisfactory proof thereof. Each signer hereof agrees to notify you in writing of any change in his ownership and agrees that any transfer, assignment, or conveyance of any of his interest hereunder shall be made subject to this division order and effective at 7:00 A. M. on the first day of the calendar month following the receipt of said notice by you. Without regard to whether any contingency is expressly stated in this division order, you are hereby relieved of any responsibility for determining when any of the interests herein shall increase, diminish, be extinguished or revert to other parties as a result of the completion or discharge of money or other payments from said interest, or as a result of the expiration of any time or term limitation (either definite or indefinite), or as a result of the increase or decrease in production, or as a result of a change in the depth, the method or the means of production, or as a result of a change in the allocation of production affecting the above tract or any portion thereof under any agreement or by order of Governmental authority, or resulting from any other contingency, and until you receive notice in writing to the contrary, you are hereby authorized to continue to remit pursuant to the above division of interest. In the event said written notice is not received by you, you shall be held harmless for error resulting in over or under payment, or a wrong payment of any such sum or sums. Should adjustments be necessary you shall have rights to set off any and all individual or joint liabilities we have with you, including but not limited to, proceeds from this and other lease interests owned by us.

SIXTH This order shall bind each interest owner as soon as signed by him, whether or not signed by any other owner. All provisions herein contained shall apply to each signer hereof separately and not jointly. This order may be executed in counterparts, all of which together shall constitute one division order. No interest owner may terminate this order without giving ninety (90) days prior written notice. In consideration of the purchase of oil hereunder, consent is given you and any pipe line company which you may cause to connect with the wells and tanks on said land, to disconnect and remove such pipe lines, in case of termination by either you or us of purchases under this division order.

SEVENTH All parties hereto who are connected with the operation of the lease herein described severally warrant that all oil sold under this division order has been and will be produced and handled in compliance with the provisions of the Federal Fair Labor Standards Act of 1938 as heretofore or hereafter amended, and all other applicable Federal, State and Municipal laws, rules and regulations.

EIGHTH With respect to any gas condensate purchased and sold under the terms and provisions hereof, the owners of interests in the royalty join herein for the purpose only of making the provisions hereof applicable to the proceeds of the sale of such gas condensate.

NINTH: It is understood between the parties that this Division Order is executed for the purposes of indicating and guaranteeing the royalty interest owned by the signator. It is in no way intended to modify or change the conditions of the lease on the property, and in the event of conflicts, the provisions of the lease shall control.

IMPORTANT: TO AVOID DELAY IN PAYMENT — YOUR CORRECT ADDRESS AND YOUR SOCIAL SECURITY NUMBER OR TAX ACCOUNT NUMBER MUST BE SHOWN.

ALL SIGNATURES SHOULD BE PROPERLY WITNESSED.

ALL DIVISION ORDERS MUST BE SIGNED EXACTLY AS SHOWN ON THE REVERSE SIDE TO AVOID DELAY IN PAYMENT.

L-10

HOUSE BILL No. 2872

By Representatives Hamm and Shore

2-7

9 AN ACT concerning oil and gas; relating to payment of
10 proceeds from oil and gas production; stating purpose of
11 division orders; and restricting certain uses of division
12 orders.

13
14 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF KANSAS:
15

16 Section 1. (a) As used in this section, a "division
17 order" is an instrument for the purpose of directing the
18 distribution of royalty payments from the sale of oil, gas,
19 casinghead gas or other related hydrocarbons, in accordance
20 with the terms of the oil and gas lease from which such
21 production was derived. The term division order as defined
22 herein shall include, but is not limited to, instruments
23 commonly referred to as "Stipulation of Interest", "Transfer
24 Order", and "Division Order". A royalty owner is not
25 required to sign a division order as a condition of
26 receiving royalty payments under the terms of the oil and
27 gas lease from which such interest is derived. A division
28 order is executed to enable the party responsible for the
29 remittance and distribution of royalty payments to make
30 those payments directly to the royalty owner.

31
32 (b) A division order shall include the name, address,
33 tax identification number, a stipulation of interest of each
34 interest owner in the oil and gas production from the
35 leasehold estate, and a provision requiring notice of change
36 of ownership.

37 The division order shall also include the name and address
38 of the lessee, or its duly authorized agent, which is
39 responsible for payment of royalties from the leasehold
40 estate and a description in sufficient detail to describe
41 the lease or unit name and its location, including its
42 Section, Township, Range and County.

43
44 (c) A division order is not intended to and does not
45 relieve the lessee, or agents acting on lessee's behalf, of
46 any liabilities or obligation under the oil and gas lease.
47 A division order which modifies or amends the terms of any
48 oil and gas lease is invalid to the extent of the variance.

49
50 (d) A division order may be revoked at any time by any
51 party to the order by duly notifying the issuer of the
52 division order in writing of such revocation. The
53 revocation shall become effective at 7:00 a.m. on the first
54 day of the calendar month following receipt of such notice.

55
56 (e) This act shall not be construed to diminish the
57 rights of royalty owners under common law or otherwise.

58
59
60 Section 2. This act shall take effect and be in full
61 force from and after its publication in the statute book.

H ENERGY AND
NR
2-19-90
ATTACHMENT 2



PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON ENERGY AND NATURAL RESOURCES

RE: H.B. 2872 — Concerning Oil and Gas Division Orders

February 19, 1990
Topeka, Kansas

Presented by:
Bill R. Fuller, Assistant Director
Public Affairs Division, Kansas Farm Bureau

Chairman Spaniol and Members of the Committee:

My name is Bill Fuller. I am the Assistant Director of the Public Affairs Division for Kansas Farm Bureau. We certainly appreciate this opportunity to speak on behalf of the farmers and ranchers who are members of the 105 County Farm Bureaus in Kansas.

We **support the concept of H.B. 2872.** Our position is based upon a new section in Farm Bureau policy on "Mineral Interests." The 437 voting delegates representing the 105 County Farm Bureaus at the 1989 KFB Annual Meeting adopted this resolution:

Mineral Interests

We believe legislation should provide for an orderly divestiture of mineral interests held by the Farm Credit System. These mineral interests should be appraised and sold to the owners of overlying surface property.

We support legislation to reduce from 20 years to 10 years the time required for unused mineral interests to be returned to the owner of the overlying surface land.

We support legislation which would result in renegotiation of mineral leases involving infill drilling.

We support legislation to give a royalty owner a lien to ensure royalty payments — or an improved, secured creditor position in the case of a mineral producer bankruptcy.

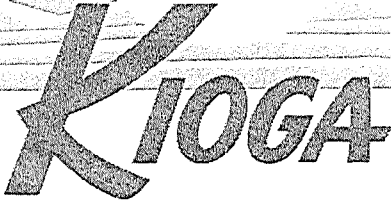
We believe legislation is needed to protect a landowner and royalty owner from division orders which modify or amend the terms of an original lease to the disadvantage of the royalty owner or landowner. We support legislation to require the payment of interest on suspended royalties.

We are told that whenever a "division order" is in conflict with a "lease", the provision of the lease prevails. We understand this policy is based currently upon case law. However, it has been pointed out to us that division orders are sometimes modified with language calling for additional obligations not listed in the original lease. We believe **H.B. 2872** is an attempt to establish in Kansas law by codifying the current policy that is now based upon case law.

Thank you for this opportunity to express Farm Bureaus support for **H.B. 2872.**

*H ENERGY AND NR
2-19-90*

ATTACHMENT 3



KANSAS INDEPENDENT OIL & GAS ASSOCIATION

105 SOUTH BROADWAY • SUITE 500 • WICHITA, KANSAS 67202 • (316) 263-7297

February 19, 1990

Energy and Natural Resources Committee
House of Representatives
State Legislature
Topeka, Kansas

Re: HOUSE BILL No. 2872
AN ACT concerning oil and gas; relating to division orders

My name is Spencer L. Depew, and I am an attorney at law practicing in Wichita, Sedgwick County, Kansas. I am chairman of the Legislative Committee of the Kansas Independent Oil & Gas Association (KIOGA).

I have reviewed House Bill No. 2872 and I make the following comments:

1. I have no objection to the apparent intent of this bill, but I question whether this legislation is necessary. It is my opinion that the import of the bill as contained in Section 1. (c) is already embodied in the common law of the state of Kansas. It is my opinion that under present Kansas law the execution of the division order does not vary the rights, duties and obligations of the lessor and the lessee under an existing oil and gas lease. My conclusion is based upon existing Kansas law as set forth in the case of Maddox v. Gulf Oil Corporation, 222 Kan. 733 (1977), and the case of Holmes v. Kewanee Oil Co., 233 Kan. 544 (1983). The Maddox case defines a division order as an instrument required by the purchaser of oil or gas in order that it may have a record showing to whom and in what proportions the purchase price is to be paid. Its execution is procured primarily to protect the purchaser in the matter of payment for the oil or gas, and may be considered a contract between the sellers on the one hand and the purchaser on the other. The Maddox case then holds that an attempt to modify the lease by placing in the division order a provision which deprives the royalty owner of interest on royalties held in suspense, which division order the lessor signs, is without consideration from the lessee and the provision waiving interest is null and void. The Holmes case reiterates the law as set forth in the Maddox case and in the Holmes case at page 550 the Kansas Supreme Court states:

H ENERGY AND NR
2-19-90

ATTACHMENT 4

"We hold the lessors' signatures on the division orders did not alter the leases."

In the Holmes case, reference is also made to the case of Wagner v. Sunray Mid-Continent Oil Co., 182 Kan. 81 (1957).

In view of the above statements of the Kansas Supreme Court, we question whether there is a present need for House Bill No. 2872.

2. If the Committee nonetheless feels that House Bill No. 2872 needs further consideration, we would recommend that thought be given to reworking the second sentence of Section 1. (c). We would like to see clarification inserted as to whether any variance of the terms of an oil and gas lease shall be considered to be fatal. The proposed bill further states that in that event, the division order shall be "invalid." Is it intended by the bill's sponsors that the word "invalid" is to be construed as being synonymous with "void," or perhaps is the intent that the division order will be "unenforceable"? The sentence then contains a proviso as follows:

". . . unless the changes have been previously agreed to by the affected parties".

Does the previous agreement need to be in writing or may it be oral?

3. We are also concerned about the effect of this bill, if enacted, upon the oil and gas purchasers. Is it intended by the bill's sponsors that every oil and/or gas purchaser must compare its printed division order form with the underlying oil and gas lease or leases in question, and if the purchaser feels that there may be a "variance", should a prudent purchaser suspend all proceeds payable from the sale of oil and/or gas until such time as the purchaser obtains from every person who has signed the division order a statement that the interest owner agrees that there is no "variance" between the terms and provisions of the division order and the underlying oil and gas lease? Or, perhaps the sponsors of the bill intend that the oil and/or gas purchaser in each case will custom draft a division order to comply with the specific oil and gas lease or leases in question, before submitting the same to the interest owners for signature. Either of these procedures would be cumbersome, expensive, time consuming, and would ultimately lead to many delays in the release of funds to the interest owners by the purchaser.

We respectfully request that the House Energy and Natural Resources Committee and its appropriate sub-committees, give consideration to these thoughts in assessing the need for this bill in the state of Kansas at this time.

Respectfully submitted,

Spencer L. Depew