

SESSION OF 2006

**SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2673**

As Recommended by House Committee  
on Utilities

**Brief\***

The bill would amend the statute that establishes the procedure used by gas and oil royalty owners to obtain information from royalty payors regarding royalty payments. The bill would enable royalty owners to obtain more information than is possible under current law. The bill also would enact two new statutes: one would require royalty payors to provide notification of the requirements of the law to royalty owners; the other would create an avenue for resolution of disputes when payors do not provide required information to royalty owners.

The amendment to KSA 55-1622 included in the bill would enumerate information that a payor would have to provide, upon written request, to a royalty owner. That information would include:

- Each lease, property or well identification number used by the producer and the corresponding identification information used by the Department of Revenue (KDOR), Kansas Corporation Commission (KCC) or American Petroleum Institute (API);
- Each lease, property or well name and the corresponding county, section, township and range location;
- The field name or producing formation;
- The total produced volume for each well, lease or unit as reported to the KCC and KDOR, for a given sales period for which payment has been made or is due to the royalty owner;
- A list of the amount and purpose of any other deductions or adjustments made to the royalty payment that are not identified on the payment statement;
- Whether any payments reported on the payor's statement are

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\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

from a split-stream sale and, if so, the manner in which the payor accounts to the royalty owner for the sale. The bill would define the term “split stream sale”; and

- Whether any production for which payment is made has been sold to an affiliate of the payor. The bill would define the term “affiliate.”

Any request for information described above would have to be made via certified mail and would have to include the sales period or periods for which the information is requested. The recipient of the request for information would have 60 days during which to respond. The response would have to be sent to the requestor via certified mail. A payor would not be required by the bill to:

- Provide any information in response to a request made on behalf of multiple royalty owners;
- Provide any information for sales periods more than a year prior to the first day of the month in which the request is made, unless an adjustment to the royalty owner’s payment is for a sales period more than a year in the past; and
- Seek information from other payors or third parties.

If a payor does not have the specified information requested by a royalty owner, the payor would be required to provide the royalty owner with the name and address of the seller of the production for which the royalty payment is made. (“Seller” would be defined by the bill to be the lessee of the oil and gas lease for which royalty payments are made.) In that instance, the royalty owner would be able to request the information from the seller. The seller would be required to respond to the royalty owner in the same manner as the payor was required to respond.

A new statute that would be enacted by the bill would require payors to annually notify royalty owners of the specific provisions of KSA 55-1622. The annual notice also would have to include a statement that the law is not meant to discourage or prohibit a royalty owner from contacting a payor by other means, or in regard to other information, about a royalty payment. The required statement also would inform royalty owners that they may obtain information from the KCC or from the Kansas Geological Survey.

Finally, a second new statute would be enacted by the bill to

provide a mechanism for resolving disputes that arise from a payor's failure to provide requested information as required by the law. Two avenues for resolving such disputes would be available: mediation or civil suit.

## **Background**

Current law provides for royalty owners to obtain from a payor a list of the amount and purpose of any deductions or adjustments to a royalty payment if the request for that information is made in writing. A response to any such request must be made within 60 days.

The bill was the result of discussions between royalty owners and gas and oil producers that began after the House Utilities Committee hearing on 2005 HB 2146, which would have amended the statute that details information to be provided on a royalty payment check stub. After that hearing and subsequent subcommittee work on the issue, the House Utilities Committee recommended and the House adopted HR 6024. The resolution established a task force of the interested parties and the KCC, Geological Survey and KDOR that met during the 2005 interim to resolve the issues. At the House Utilities Committee hearing on the bill, the Committee received the report of the task force formed pursuant to 2005 HR 6024. HB 2673 is the outcome of the task force effort.

Testimony in support of the bill was presented by representatives of the Southwest Kansas Royalty Owners Association, Kansas Independent Oil and Gas Association, the Kansas Farm Bureau and the Wilson County Farm Bureau Association. No opponents of the bill presented testimony to the House Committee.

The Fiscal Note prepared by the Division of the Budget states that the bill would have no fiscal impact on the Corporation Commission which would be required by the bill to provide a list of qualified mediators pursuant to the dispute resolution provisions of the bill.