

**SUBJECT:** Notification of changes in payor for oil and gas royalties

**COMMITTEE:** Energy Resources — committee substitute recommended

**VOTE:** 6 ayes — Holzheuser, Hawley, Driver, Merritt, Moffat, Torres  
0 nays  
3 absent — Davis, Smithee, Wilson

**WITNESSES:** None

**BACKGROUND :** Royalty payments on revenues from the sale of oil or gas produced from Texas wells must be distributed in a timely fashion. A payor, the party that distributes the proceeds, must make payment to the payee on or before 120 days after the end of the month of the first sale of production from the well. After that, payments must be made on a timely basis as specified in the lease or agreement.

**DIGEST:** CSHB 2981 would require that new payors give written notice to each payee to whom they are responsible for distributing oil and gas proceeds. The notice would have to be sent to the payee's most recent known address on or before 120 days after the end of the month of the first sale of production from the well.

The notice would have to provide the payor's telephone number; the lease, property, well name, or well identification number; the month and year for which payment was being made; the total number of barrels sold; the price per barrel; state severance and profit taxes paid and other deductions; and an address at which additional information could be obtained.

Payors obligated to pay interest that did not furnish the required notice would be liable for interest at a rate two percent above the percentage rate charged on loans to depository institutions by the New York Federal Reserve Bank, unless a different interest rate was specified by agreement between payor and payee.

CSHB 2981 would take effect September 1, 1997.

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**SUPPORTERS SAY:** CSHB 2981 would fill a void in the law. Although payors of oil and gas proceeds are required to make timely royalty payments, the law is silent on the issue of notification of a change of payor. Because of the lack of notice, the royalty owner is left with no notice and no one to contact if problems or questions arise. This bill would obligate new payors to provide payees with written notice and provide a small two percent interest penalty if they failed to do so within the specified time limits.

**OPPONENTS SAY:** No apparent opposition.

**NOTES:** The committee substitute provided that written notice be sent to the payee's most recent address within a specific time period and deleted requirements that the notice be sent by certified mail and providing for a \$1,000 penalty for failure to notify a payee.