

- SUBJECT:** Information the RRC must provide to royalty interest owners
- COMMITTEE:** Energy Resources — committee substitute recommended
- VOTE:** 7 ayes — West, Farabee, Crownover, Corte, Crabb, Gonzalez Toureilles, Howard  
0 nays
- WITNESSES:** For — (*Registered but did not testify*: Ken Hodges, Texas Farm Bureau; Bill Stevens, Texas Alliance of Energy Producers)  
Against — None  
On — Stacie Fowler, Debbie LaHood, Railroad Commission of Texas; (*Registered but did not testify*: Tommie Seitz, Railroad Commission of Texas)
- BACKGROUND:** A royalty interest owner has a nonpossessory, legal right to a share of the gross production or proceeds from the sale of oil or gas from an oil or gas well. It is a real property interest in Texas.
- Natural Resources Code, sec. 91.501, requires a payor, the party who must distribute oil and gas proceeds to the royalty interest owner pursuant to a division order, lease, servitude, or other agreement, to make payments to the interest owner from the proceeds derived from the sale of oil or gas production.
- Sec. 91.504(e), added by the 77th Legislature in 2001, requires that at least once every 12 months a payor must provide a statement to each royalty interest owner to whom the payor must make a payment. In this statement, the payor informs the interest owner of the right to request information from the payor regarding itemized deductions, the heating value of the gas, and the Railroad Commission (RRC) identification number for the lease, property, or well that may not have been provided to the interest owner. The payor must respond to the request by certified mail not later than the 60th day after receiving the request.

This section also states that royalty interest owners may obtain additional information about production and related information by contacting the RRC's Office of Public Assistance or by accessing its website.

DIGEST:

CSHB 1161 would amend Natural Resources Code section 91.504 by limiting the information a royalty interest owner could obtain from the RRC. The interest owner would be limited to obtaining information regarding production that had been reported to the RRC and could be obtained either by contacting the oil and gas division of the RRC or by accessing the RRC's website. The interest owner would have to provide the identification number of the lease and the county in which the lease was located to obtain the information.

The bill would take effect September 1, 2005.

SUPPORTERS  
SAY:

CSHB 1161 would clarify the information royalty interest owners could request and note that the RRC could provide only production data that had been reported to the RRC. Since sec. 91.504(e) has been in effect, it has become obvious that the statement is more confusing than helpful to royalty owners. The way the statute is written now, royalty interest owners are entitled to request information from the RRC that the commission does not collect, such as the amount of individual royalty interest the requestor has accrued.

The RRC has no authority over lease and royalty matters, including leasing, payment of royalties, or the right to receive royalties, and cannot intervene in royalty matters. Royalty interest is treated as a contractual agreement between the interest owner and the company (operator), and disputes are handled through the court system. However, because the RRC collects certain production information that is useful to interest owners, such as if the company is a current valid operator in Texas (current P-5 on file), if there is a producing well on the land, or if there are any production records, the agency receives many requests for assistance from interest owners.

Because the RRC has the authority only to track annual production data, requests for other information are costing the commission unnecessary time and manpower. The RRC gets a significant number of these requests from interest owners in the form of calls and letters, then has to either contact the interest owners and inform them of the RRC's inability to provide the information requested or try to transmit the interest owners'

requests on to the payor. The Office of Public Assistance usually gets three to five such requests per week.

The bill also would reduce unnecessary paperwork by requiring royalty interest owners to contact the oil and gas division of the RRC. This would save the RRC time because the oil and gas division is the appropriate division from which an interest owner should request production data. Under the current statute, interest owners are directed to the Office of Public Assistance, which handles legislative issues and is an improper place for such inquiries.

**OPPONENTS  
SAY:**

CASHB 1161 may not adequately clarify the information that could be requested by an interest owner. Interest owners might still believe, based on the language, that "information regarding production" includes information on their individual royalty interest earnings. The language should specify that such information is not collected by the RRC and cannot be provided to them. It also should clarify what information cannot be provided, rather than what information the RRC can provide.

**NOTES:**

The committee substitute changed "production data" to "information regarding production."