

# **WEST VIRGINIA LEGISLATURE**

**2018 REGULAR SESSION**

**Committee Substitute**

**for**

**House Bill 4490**

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STORCH AND WALTERS

[The Committee on Energy then the Judiciary;

Reported February 23, 2018.]



1 A BILL to amend and reenact §22-6-8 of the Code of West Virginia, 1931, as amended, relating  
2 to oil and gas permits not to be on flat well royalty leases; legislative findings and  
3 declarations; permit requirements.

*Be it enacted by the Legislature of West Virginia:*

**ARTICLE 6. OFFICE OF OIL AND GAS; OIL AND GAS WELLS; ADMINISTRATION;  
ENFORCEMENT.**

**§22-6-8. Permits not to be on flat well royalty leases; legislative findings and declarations;  
permit requirements.**

1 (a) The Legislature hereby finds and declares:

2 (1) That a significant portion of the oil and gas underlying this state is subject to  
3 development pursuant to leases or other continuing contractual agreements wherein the owners  
4 of such oil and gas are paid upon a royalty or rental basis known in the industry as the annual flat  
5 well royalty basis, in which the royalty is based solely on the existence of a producing well, and  
6 thus is not inherently related to the volume of the oil and gas produced or marketed;

7 (2) That continued exploitation of the natural resources of this state in exchange for such  
8 wholly inadequate compensation is unfair, oppressive, works an unjust hardship on the owners  
9 of the oil and gas in place, and unreasonably deprives the economy of the State of West Virginia  
10 of the just benefit of the natural wealth of this state;

11 (3) That a great portion, if not all, of such leases or other continuing contracts based upon  
12 or calling for an annual flat well royalty, have been in existence for a great many years and were  
13 entered into at a time when the techniques by which oil and gas are currently extracted, produced  
14 or marketed, were not known or contemplated by the parties, nor was it contemplated by the  
15 parties that oil and gas would be recovered or extracted or produced or marketed from the depths  
16 and horizons currently being developed by the well operators;

17           (4) That while being fully cognizant that the provisions of section 10, article one of the  
18 United States Constitution and of section 4, article III of the Constitution of West Virginia, proscribe  
19 the enactment of any law impairing the obligation of a contract, the Legislature further finds that  
20 it is a valid exercise of the police powers of this state and in the interest of the State of West  
21 Virginia and in furtherance of the welfare of its citizens, to discourage as far as constitutionally  
22 possible the production and marketing of oil and gas located in this state under the type of leases  
23 or other continuing contracts described above.

24           (b) In the light of the foregoing findings, the Legislature hereby declares that it is the policy  
25 of this state, to the extent possible, to prevent the extraction, production or marketing of oil or gas  
26 under a lease or leases or other continuing contract or contracts providing a flat well royalty or  
27 any similar provisions for compensation to the owner of the oil and gas in place, which is not  
28 inherently related to the volume of oil or gas produced or marketed, and toward these ends, the  
29 Legislature further declares that it is the obligation of this state to prohibit the issuance of any  
30 permit required by it for the development of oil or gas where the right to develop, extract, produce  
31 or market the same is based upon such leases or other continuing contractual agreements.

32           (c) In addition to any requirements contained in this article with respect to the issuance of  
33 any permit required for the drilling, redrilling, deepening, fracturing, stimulating, pressuring,  
34 converting, combining or physically changing to allow the migration of fluid from one formation to  
35 another, no such permit shall be hereafter issued unless the lease or leases or other continuing  
36 contract or contracts by which the right to extract, produce or market the oil or gas is filed with the  
37 application for such permit. In lieu of filing the lease or leases or other continuing contract or  
38 contracts, the applicant for a permit described herein may file the following:

39           (1) A brief description of the tract of land including the district and county wherein the tract  
40 is located;

41           (2) The identification of all parties to all leases or other continuing contractual agreements  
42 by which the right to extract, produce or market the oil or gas is claimed;

43           (3) The book and page number wherein each such lease or contract by which the right to  
44 extract, produce or market the oil or gas is recorded; and

45           (4) A brief description of the royalty provisions of each such lease or contract.

46           (d) Unless the provisions of subsection (e) of this section are met, no such permit shall be  
47 hereafter issued for the drilling of a new oil or gas well, or for the redrilling, deepening, fracturing,  
48 stimulating, pressuring, converting, combining or physically changing to allow the migration of  
49 fluid from one formation to another, of an existing oil or gas production well, where or if the right  
50 to extract, produce or market the oil or gas is based upon a lease or leases or other continuing  
51 contract or contracts providing for flat well royalty or any similar provision for compensation to the  
52 owner of the oil or gas in place which is not inherently related to the volume of oil and gas so  
53 extracted, produced and marketed.

54           (e) To avoid the permit prohibition of subsection (d) of this section, the applicant may file  
55 with such application an affidavit which certifies that the affiant is authorized by the owner of the  
56 working interest in the well to state that it shall tender to the owner of the oil or gas in place not  
57 less than one eighth ~~of the total amount paid to or received by or allowed to the owner of the~~  
58 ~~working interest at the wellhead for the oil or gas so extracted, produced or marketed before~~  
59 ~~deducting the amount to be paid to or set aside for the owner of the oil or gas in place, on all such~~  
60 ~~oil or gas to be extracted, produced or marketed from the well~~ of the gross proceeds, free from  
61 any deductions for post-production expenses, received at the first point of sale to an unaffiliated  
62 third-party purchaser in an arm's length transaction for the oil or gas so extracted, produced or  
63 marketed before deducting the amount to be paid to or set aside for the owner of the oil or gas in  
64 place, on all such oil or gas to be extracted, produced or marketed from the well. If such affidavit  
65 be filed with such application, then such application for permit shall be treated as if such lease or  
66 leases or other continuing contract or contracts comply with the provisions of this section.

67           (f) The owner of the oil or gas in place shall have a cause of action to enforce the owner's  
68 rights established by this section.

69           (g) The provisions of this section shall not affect or apply to any lease or leases or other  
70 continuing contract or contracts for the underground storage of gas or any well utilized in  
71 connection therewith or otherwise subject to the provisions of §22-9-1 *et seq.* of this code.

72           (h) The director shall enforce this requirement irrespective of when the lease or other  
73 continuing contract was executed.

74           (i) The provisions of this section shall not adversely affect any rights to free gas.

NOTE: The purpose of this bill is to clarify the royalty owed to a royalty owner in an oil and gas lease.

Strike-throughs indicate language that would be stricken from a heading or the present law and underscoring indicates new language that would be added.