



ROYALTY PAYMENT REQUIREMENTS IN TEXAS FOR ROYALTY OWNERS

As outlined in the Texas Natural Resources Code

YOUR RIGHTS UNDER THE LAW - Sections 91.401(2) and 91.501

Working interest owners in a well or property have the responsibility to pay or cause to be paid any royalties due under the lease agreement from which the working interest was derived. This is true even if the working interest owner is not the operator of the well or property. The working interest owner can cause the royalty to be paid by entering into an agreement with the operator or purchaser of production to pay the royalties on their behalf.

The purpose of this brochure is to provide royalty owners with basic royalty payment information.

The requirements covered in this brochure are outlined in the *Texas Natural Resources Code Section 91 Subchapters J and L*. The code is located on the Internet at:

<http://www.capitol.state.tx.us/statutes/nr.toc.htm>

The requirements include :

- When royalties are paid, when royalties can be suspended, and what interest rate is paid when interest is due
- What should be reported with a payment
- The statutory components of a division order
- What kind of notice you, as royalty owner, should receive is a working interest has been purchased or the company making the payment changes
- What information you can request of an operator

WHEN YOU SHOULD EXPECT PAYMENT - Sections 91.402(a) and (f)

Initial payment

- 120 days after end of month of first sale

Ongoing payments

- 60 days after end of calendar month in which oil production is sold
- 90 days after end of calendar month in which gas production is sold

Payments must be paid when the payment reaches \$100, or

- if the payment amount doesn't reach \$100 within 12 months but is greater than \$10, that amount must be paid annually.
- Payments that do not reach \$10 annually must be paid upon the sale or plugging of the well or at your request.
- A royalty owner can request, in writing, payment monthly if the amount is over \$25 but less than \$10.

WHAT MUST BE REPORTED WITH A PAYMENT - Section 91.502

1. Property Identification (name, number, or both; and county and state)
2. Sales month and year
3. Barrels of oil or amount of gas
4. Price per barrel of oil or Mcf of gas
5. Severance or other taxes deducted
6. Other deductions or adjustments as specific to your lease
7. Net value of total sales after adjustments
8. Owner decimal interest
9. Owner gross value (sales value before tax deductions)
10. Owner net value (sales value after deductions)
11. Address and phone number of where additional information can be obtained.

WHAT YOU CAN REQUEST - Sections 91.404(b), 91.504, and 91.505

Failure to make payment

You can notify your operator in writing by mail of failure to make timely payment. They must then either make the payment or respond in writing within 30 days of receipt of the notice why there was nonpayment. (You, as the royalty owner, may have cause of action for nonpayment in a court where the well is located).

Additional information

You may request by certified mail additional information regarding itemized deductions, the heating value of the gas, and the Railroad Commission of Texas (RRC) identification number for the lease, property, or well. Your request must be responded to within 60 days of receipt of your request. Additional information regarding production and related information may be obtained by contacting the RRC office or accessing their website (www.rrc.state.tx.us).

Additional requests sent by certified mail for information not covered by Section 91.504 must be responded to within 30 days of receipt of request.

Operators must notify you annually that you can request information.

Contact the Texas Land and Mineral Owners Association (512-479-5000, www.tlma.org) for a copy of the sample form letter for requesting information from an operator.

CHANGE OF COMPANY MAKING THE PAYMENT - Sections 91.407(a), (b), and (c)

If there is a change in the company making the payment, they must notify you in writing of the change at your most recent known address. The notice must include property name and number, effective date (month and year), and the new company's address and phone number. A division order, check detail, or other written communication that includes all of the above information will satisfy the requirement.

SUSPENDING PAYMENTS - Sections 91.402(b) and 91.402 (f)

Payments may be withheld without interest beyond the time limits set out as noted previously (provided your lease does not provide otherwise) when:

- A dispute concerning the title that would affect distribution of payments
- A reasonable doubt exists that you have sold or authorized the sale of your share of the oil or gas
- A reasonable doubt exists that you have clear title to the interest in the proceeds of production
- A requirement in the title opinion that places in issue the title, your identity, or your whereabouts which has not been satisfied after a reasonable request for this information has been made by the operator.
- Payments have not yet reached \$100 (see When You Should Expect Payment above)

WHEN INTEREST IS DUE - Sections 91.403 and 91.407(d)

Late payment interest is due at a rate of 2 percentage points above the rate charged on loans to depository institutions by the New York Federal Reserve Bank when:

- The payment is late and the title is clear
- The payment is late, a division order is offered that does not comply with statutes, or the division order is not signed

Late payment interest is due at a rate of 4 percentage points above the rate charged on loans to depository institutions by the New York Federal Reserve Bank when:

- The payment is late and notice that there is a new operator has not been provided

The purpose of this paper is to increase awareness of royalty payment requirements. It is not intended to serve as legal advice. Consult with your own attorney about questions concerning your royalty payments. Also, your lease or another contract may provide different requirements for payment than in the statute.