



TEXAS LAND & MINERAL OWNERS ASSOCIATION OFFICIAL NEWSLETTER

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2nd Quarter 2019

GOVERNOR ABBOTT SIGNS LAW TO PROTECT ROYALTY OWNERS

The Texas Land & Mineral Owners Association is excited to announce the passage of our legislative priority during the 86th Legislative Session. On June 10, Governor Greg Abbott signed House Bill 3838 into law that will help protect royalty owners from fraudulent behavior by “leasing” companies. The bill was authored by Representative Ernest Bailes from Shepherd, who is a member of the House Energy Resources Committee, and Senator Brian Birdwell from Granbury, who is Chairman of the Senate Natural Resources and Economic Development Committee.



Representative Ernest Bailes
Shepherd

Recently, companies have been approaching mineral owners with a “lease” document that in reality sold a portion of the royalty interest to the company. The victims of this scam include people of all ages and sophistication in leasing minerals. The “lease” is very similar to the Producers 88 agreement and was drafted in such a way that, by the time the royalty owner identified there was an issue, there was nothing that could be done to remedy their loss. Lawsuits have been filed by current victims and are still ongoing. While H.B. 3838 doesn’t prohibit these activities, it requires certain phrases to be included on these documents and a remedy for royalty owners if the language is not included on the document.



Chairman Brian Birdwell
Granbury

This issue was first brought to our attention in the fall and TLMA knew it needed to be addressed during this legislative session. There are more victims than we would ever like to see, but we are hopeful that this bill will significantly limit that number. This bill required months of negotiations with other royalty owner associations and oil and gas companies and associations in order to ensure that it would not prevent legitimate leasing by companies—including top leasing.

TLMA is extremely grateful to Representative Bailes and Chairman Birdwell for their leadership in getting this bill passed and helping provide protections for all royalty owners in Texas.

MORE INSIDE THIS ISSUE:

- Update from the Executive Director
- Additional 86th Legislative Session Efforts
- Why Mineral Management is Critical to Avoid Suspended Funds
- Save the Date for Upcoming Member Meetings
- Wayne Christian Elected Chairman of the Railroad Commission
- Upcoming Dates of interest

UPDATE FROM THE EXECUTIVE DIRECTOR

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Happy Summer!

Whether it's going on family vacations, getting ready to send a kid off to college, or just enjoying the break, I hope you are enjoying the summer so far.

I recently had a conversation with a colleague about how long it takes to adjust back to "normal" work and life after legislative session ends. It seems this year, we were working down to the wire on HB 3838 and then came to a sudden stop.

The legislative process really is where my passion is. There are so many things that happen behind the scenes that make it so exciting. It's trying and exhausting at times, but in the end, when you're successful, you're quickly reminded how important the work is to all of the mineral owners in Texas. A sense of accomplishment is always a welcome feeling at the end of the session.


I am extremely pleased with the outcome of our legislative efforts. While we did not get every bill passed, we got one signed by the Governor and kept other harmful bills from passing.

In years past, we have hosted town hall meetings across the state for our members to provide updates on general issues, legislative issues, and to recruit new members. This year we are going to change that to fewer larger meetings around the state. You can find more information about those meetings on Page 6. I hope you will join us because I think they will be very interesting!

Please don't forget to always give us feedback and suggestions. Our job is to serve you. If we don't know what you'd like to get out of the association, we cannot ensure that we are exceeding your expectations.

We are still working toward our goal of 1,000 members by the end of the year. Please tell your neighbors, friends and family to join! They can join online or by mail. If they need an application through the mail, just have them call the TLMA office and we'll send an application to them.

I look forward to the next 20 years of advocating for your rights as land and mineral owners!



ADDITIONAL 86TH LEGISLATIVE SESSION EFFORTS

In addition to the passage of House Bill 3838, TLMA also worked on the following legislative issues:

S.B. 817 by Senator Juan “Chuy” Hinojosa—This bill would require that the BTU value of the gas produced be included on all check stubs, instead of upon request by the royalty owner as currently required by law. Through the negotiations, TLMA was asked to make concessions to the bill that would not have provided the benefits being sought for when it was filed. It was because of that TLMA decided to focus our efforts on other issues. This bill received a hearing in the Senate Natural Resources and Economic Development Committee, but was not brought up for a vote.

H.B. 3372 by Representative Tom Craddick and S.B. 1988 by Senator Pat Fallon—This bill was a result of the *ConocoPhillips v. Koopman* Supreme Court ruling that John McFarland wrote about in the 1st Quarter 2018 Newsletter. The bill would have prevented a royalty owner from suing an operator for non-payment due to a title dispute. TLMA is adamantly opposed to the language as it was filed. H.B. 3372 passed out of the House committee, but neither of these bills passed their respective chamber.

H.B. 2948 by Representative Chris Paddie and S.B. 1008 by Senator Bryan Hughes —These bills would have limited a landowner’s ability to challenge any mining company decisions on their land unless the issues were raised during the regulatory permitting process at the Railroad Commission. These types of projects go on for decades and it would be impossible for a landowner to think of and raise every issue as early on as the permitting process. The house bill received a hearing in the House Energy Resources Committee but did not come up for a vote. There was no Senate hearing on the bill.

H.B. 3246 by Representative Drew Darby—Under current law, it is unclear who is the owner of the water produced in oil and gas production. H.B. 3246 assigns ownership to the producer, not the surface estate owner. There were changes made that addressed some of the concerns TLMA has, but TLMA is opposed to this bill because it does not address all of the issues we brought forward. This bill passed both chambers and is effective September 1, 2019.

H.B. 3226 by Representative Charlie Geren—H.B. 3226 aligned the timing of a Mineral Interest Pooling Act permit in statute with the Railroad Commission of Texas rules. This bill passed both chambers and was signed into law on May 17. It is effective September 1, 2019. TLMA testified on this bill to ensure it did not lead to an expansion of forced pooling.

SB 421 by Senator Lois Kolkhorst and HB 991 by Representative Dewayne Burns—These two bills were the comprehensive eminent domain reform bills. These bills were much more pared down than in previous legislative sessions. The bills contained three major provisions—initial offer requirements, easement term requirements, and required a public meeting. As in previous sessions, the bill became subject to the landowner versus oil and gas industry politics. The Senate and House passed different versions of the bill and it was sent to a conference committee. The conference committee did not agree on the issues of the bill and the bill did not become law.

Railroad Commission Budget—When an operator abandons an oil or gas well in Texas, it becomes the
(continued on page 5)

WHY MINERAL MANAGEMENT IS CRITICAL TO AVOID SUSPENDED FUNDS

The multi-billion dollar oil and gas industry divides its income among millions of companies, shareholders, and mineral and royalty owners which can include institutions and individuals. Very few mineral or royalty owners have the knowledge or expertise to be well equipped to manage their interests properly and proactively.

One area of confusion related to royalty income, specifically for mineral and royalty owners, is suspended funds (also known as money withheld, withheld funds, suspended interest, and suspense, among others). Millions of dollars each year are held in suspense by operators and purchasers due to unknown ownership in a lease, unit, or well. In Texas, oil and gas operators are required to pay owners within 60-120 days from the date of sale of the product, but sometimes extenuating circumstances prevent this from occurring. A multitude of reasons exist as to why funds are held in suspense including, but not limited to, uncured title, an ownership dispute between parties, or even something as simple as an incorrect or unknown mailing address. Depending on the state, operators and purchasers are required to “escheat,” these suspended funds to the state after 3-10 years. Most mineral or royalty owners do not have the tools to resolve these issues with the state or even search their databases. Even though handling some of these issues can be easily resolved once uncovered, knowing where to look can be difficult.

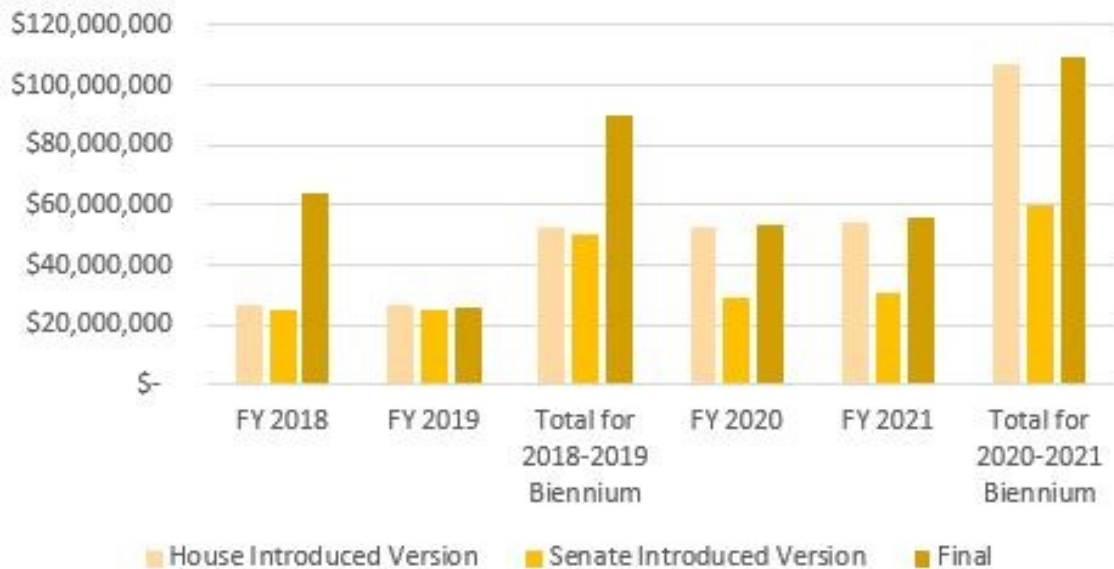
Mineral and royalty owners are most affected by suspended funds. In most mature basins, mineral and royalty interests are split up several ways causing there to be small interest owners that are difficult to locate. Many times they are unaware that they even own the interest and do not include them in their deeds or conveyances when filing them at the county clerk’s office. This puts a burden on the operator down the road due to the cloud in title that this creates. More often than not, the operator or purchaser does not have malicious intent, but rather these owners can be difficult to track down. Not all operators have the administrative capacity or capability to chase down every unknown or suspended owner. It takes a skilled landman, or multiple, to be able to find all the pieces of an interest ownership puzzle, which becomes expensive very quickly. There are also times when an operator will only credit the owner for a portion of their interest. On occasion, the operator may only pay the portion of the owner’s interest that they are certain of, leaving the remainder in suspense or disputed. This is where it becomes extremely important for mineral and royalty owners to understand exactly what they own to ensure they are being paid accurately.

It is nearly impossible to locate suspended funds as a mineral or royalty owner by utilizing manual processes to manage interests. Trying to use hard copy folders, excel sheets, and state websites all at once can be ineffective and inefficient. In order to help facilitate this process, it is critical to first understand exactly what you own and find a process, potentially a software product, that works best to compare production and well activity to the check stub detail. It is imperative for the owner to understand the location of their properties, what is producing within close proximity, and exactly what is in pay status vs. potential missing payments. Be aware that gaining access to production information, well activity, and detailed revenue information can be very costly through standard channels, which is often what hinders individual owners from accessing this data. *(cont. on page 7)*

ADDITIONAL 86TH LEGISLATIVE EFFORTS CONTINUED

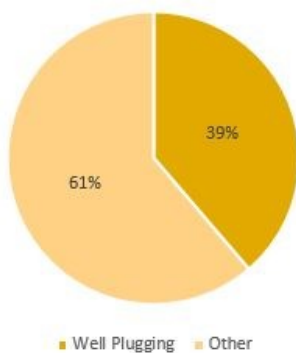
responsibility of the State to ensure that it is plugged appropriately. In 2017, the RRC was given \$38.2 million from the Economic Stabilization Fund for the well plugging program. These additional funds have allowed the RRC to make significant progress in the number of wells plugged per year. TLMA testified this session in support of the RRC budget request for that amount of funding for the upcoming biennium. The House and Senate proposed different budgets for well plugging efforts. In the end, the House budget was the agreed upon amount and none of the funds were from the Economic Stabilization Fund. I've included a chart below to show the comparisons.

RRC Well Plugging Budget



The total amounts appropriated for FY 2020 and FY 2021 are \$53,493,886 and \$55,797,266, respectively, which is almost 40% of the RRC's total budget.

RRC Budget FY 2020

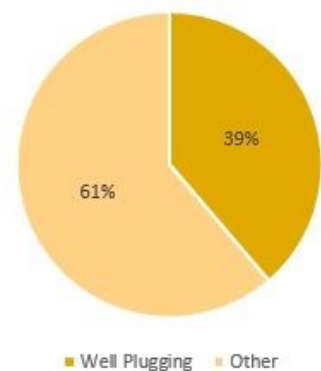


RRC Total Appropriated Funds:

FY 2020—\$138,163,986

FY 2021—\$144,035,330

RRC Budget FY 2021



TLMA is extremely fortunate to have the guidance of industry experts who donate their times to come testify before the Legislature. A special thank you to the following people who helped TLMA have a significant impact this session, many times with only a few hours notice.

Tom Daniel

Trey Scott

Joseph Fitzsimons

John McFarland

Nicholas Miller

save the date

As mentioned earlier in the newsletter, for years TLMA has hosted town hall style meetings around the state for our members. The purpose of these meetings was to provide an update on legislative session and other issues, as well as membership recruitment.

Many things have evolved over the past 20 years, and the effectiveness of the town halls meetings is one of those things. In light of the 20 year anniversary of TLMA, we are changing the format of the town halls. They will continue to serve the same purpose of educating our members on current issues, things we're working on as an association, and membership recruitment, but will be in a more formal setting over lunch. Each luncheon will feature an invited speaker and an update from me.

Wednesday, September 25—River Oaks Country Club, Houston
Thursday, October 17—Northwood Country Club, Dallas

We are working to secure one more meeting likely to be held in San Antonio. All meetings will be held from 11:30 to 1 p.m. and we will give more details as they are available.

Because of the change in venue and addition of a meal, it is a possibility that we will charge to attend these events. The goal is not to profit from the meetings, but to merely cover our costs.

I hope that you all will enjoy the new format and will attend the meeting in your area. If these prove to be successful, we will consider expanding to more areas in Texas.



WAYNE CHRISTIAN ELECTED CHAIRMAN OF THE RAILROAD COMMISSION



On Tuesday, June 18 the Railroad Commissioners elected Wayne Christian as Chairman of the Railroad Commission of Texas. Following his election, Chairman Christian released the following statement:

“It has been the honor of my life to serve on the Railroad Commission during this historic period of growth for our state’s oil and gas industry,” said Christian. “Largely because of Texas, America has become the largest producer of oil and gas in the world, giving us not only energy security, but national security as well.”

“At the same time we have seen tremendous growth in the industry, we have seen great gains environmentally,” continued Christian. “From 1970 to 2017, the six major pollutants monitored by the EPA plunged by 73%, while the U.S. economy grew 262% and its population by 60%.”

“As Chairman, I look forward to continuing to ensure our agency provides a consistent, predictable regulatory environment that allows businesses to thrive and protects the public from bad actors,” said Christian. “I would like to thank Commissioners Craddick and Sitton for their service and entrusting me with this honor.”

Chairman Christian was first elected to the Commission in November 2016 and began serving the following January. His current term will end in 2022.

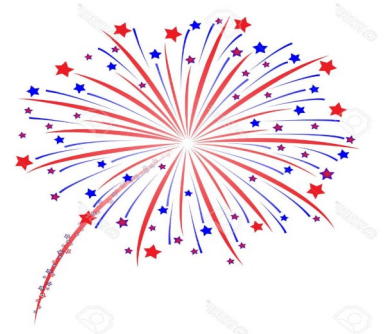
WHY MINERAL MANAGEMENT IS CRITICAL TO AVOID SUSPENDED FUNDS

There are several companies out there that can help including land services companies, mineral management companies, and mineral management software companies, such as MineralWare that are lower cost alternatives. These companies offer software that allows the mineral or royalty owner to see all of their properties and received funds in one platform so that so that they can track all activity outlined above and receive a suggested list of producing wells that should be in pay status. They also offer full suspended funds analysis for existing clients. Tracking down suspended funds is a complicated process, but the great news is that there are options and new innovative platforms out there to help.

There are so many pieces to the oil and gas industry puzzle, and even with everyone’s best efforts, things still tend to fall through the cracks. The first step for any mineral or royalty owner is to understand what they own, what they are in pay on, and why they may or may not be in pay status in certain areas in order to ensure accurate payments.

UPCOMING DATES OF INTEREST

July 21—23—NARO-TX Convention, Austin, TX
August 6—RRC Open Meeting
August 20—RRC Open Meeting
September 2—TLMA Office Closed
September 11—RRC Open Meeting
September 25—TLMA Members Meeting, River Oaks Country Club, Houston
October 17—TLMA Members Meeting, Northwood Country Club, Dallas





Texas Land & Mineral Owners Association
1005 Congress Avenue, Suite 360
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TLMA Membership Information Form

I would like to join TLMA I am a member, please update my contact info

Please return to: TLMA, 1005 Congress Ave., Suite 360, Austin, TX 78701

Name _____

Organization/Ranch Name _____

Address _____

City _____ State _____ Zip _____

Telephone Number _____

Email Address _____

Referred by _____

Don't forget!

If there is a change in your contact information, update TLMA and avoid delays in receiving your newsletter, renewal, and other correspondence.

To update your member information, call Robbie at (512) 479-5000, mail in this form, or log in to your member account online at www.tlma.org.

Find more information, join TLMA, or renew your membership online at www.tlma.org

