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HOUSE BILL NO. 2058

AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by the Joint Conference Committee
on February 27, 2015)

(Patron Prior to Substitute—Delegate Kilgore)

A BILL to amend and reenact § 45.1-361.1 of the Code of Virginia and to amend the Code of Virginia by adding a section numbered 45.1-361.22:2, relating to the release of funds held in escrow.

Be it enacted by the General Assembly of Virginia:

1. That § 45.1-361.1 of the Code of Virginia is amended and reenacted and that the Code of Virginia is amended by adding a section numbered 45.1-361.22:2 as follows:

§ 45.1-361.1. Definitions.

As used in this chapter, unless the context clearly indicates otherwise:

"Abandonment of a well" or "cessation of well operations" means the time at which (i) a gas or oil operator has ceased operation of a well and has not properly plugged the well and reclaimed the site as required by this chapter, (ii) the time at which a gas or oil operator has allowed the well to become incapable of production or conversion to another well type, or (iii) the time at which the Director revokes a permit or forfeits a bond covering a gas or oil operation.

"Associated facilities" means any facility utilized for gas or oil operations in the Commonwealth, other than a well or a well site.

"Barrel" means forty-two U.S. gallons of liquids, including slurries, at a temperature of sixty degrees Fahrenheit.

"Board" means the Virginia Gas and Oil Board.

"Coalbed methane gas" means occluded natural gas produced from coalbeds and rock strata associated therewith.

"Coalbed methane gas well" means a well capable of producing coalbed methane gas.

"Coalbed methane gas well operator" means any person who has been designated to operate or does operate a coalbed methane gas well.

"Coal claimant" means a person identified as possessing an interest in production royalties when a drilling unit is force-pooled or who asserts or possesses a claim to funds that are held in escrow, for a force-pooled coalbed methane gas well, or in suspense, for a voluntarily pooled coalbed methane gas well, by virtue of owning an interest in the coal estate contained within the drilling unit subject to the pooling order or agreement.

"Coal operator" means any person who has the right to operate or does operate a coal mine.

"Coal owner" means any person who owns, leases, mines and produces, or has the right to mine and produce, a coal seam.

"Coal seam" means any stratum of coal twenty inches or more in thickness, unless a stratum of less thickness is being commercially worked, or can in the judgment of the Department foreseeably be commercially worked and will require protection if wells are drilled through it.

"Correlative rights" means the right of each gas or oil owner having an interest in a single pool to have a fair and reasonable opportunity to obtain and produce his just and equitable share of production of the gas or oil in such pool or its equivalent without being required to drill unnecessary wells or incur other unnecessary expenses to recover or receive the gas or oil or its equivalent.

"Cubic foot of gas" means the volume of gas contained in one cubic foot of space at a standard pressure base of 14.73 pounds per square foot and a standard temperature base of sixty degrees Fahrenheit.

"Disposal well" means any well drilled or converted for the disposal of drilling fluids, produced waters, or other wastes associated with gas or oil operations.

"Drilling unit" means the acreage on which one gas or oil well may be drilled.

"Enhanced recovery" means (i) any activity involving injection of any air, gas, water or other fluid into the productive strata, (ii) the application of pressure, heat or other means for the reduction of viscosity of the hydrocarbons, or (iii) the supplying of additional motive force other than normal pumping to increase the production of gas or oil from any well, wells or pool.

"Evidence of a proceeding or agreement" means written evidence that (i) the coal claimant has filed and has pending a judicial or arbitration proceeding against the gas claimant to determine the ownership of the coalbed methane gas and the right to the funds held in escrow or suspense or (ii) the coal claimant and gas claimant have reached an agreement to apportion the funds between them.

"Exploratory well" means any well drilled (i) to find and produce gas or oil in an unproven area, (ii) to find a new reservoir in a field previously found to be productive of gas or oil in another reservoir, or (iii) to extend the limits of a known gas or oil reservoir.

60 "Field rules" means rules established by order of the Virginia Gas and Oil Board that define a pool,
61 drilling units, production allowables, or other requirements for gas or oil operations within an
62 identifiable area.

63 "First point of sale" means, for oil, the point at which the oil is sold, exchanged or transferred for
64 value from one person to another person, or when the original owner of the oil uses the oil, the point at
65 which the oil is transported off the permitted site and delivered to another facility for use by the original
66 owner; and for gas, the point at which the gas is sold, exchanged or transferred for value to any
67 interstate or intrastate pipeline, any local distribution company, any person for use by such person, or
68 when the gas is used by the owner of the gas for a purpose other than the production or transportation
69 of the gas, the point at which the gas is delivered to a facility for use.

70 "Fund" means the Gas and Oil Plugging and Restoration Fund.

71 "Gas" or "natural gas" means all natural gas whether hydrocarbon or nonhydrocarbon or any
72 combination or mixture thereof, including hydrocarbons, hydrogen sulfide, helium, carbon dioxide,
73 nitrogen, hydrogen, casing head gas, and all other fluids not defined as oil pursuant to this section.

74 *"Gas claimant" means a person identified as possessing an interest in production royalties when a*
75 *drilling unit is forced-pooled or who asserts or possesses a claim to funds that are held in escrow, for a*
76 *force-pooled coalbed methane gas well, or in suspense, for a voluntarily pooled coalbed methane gas*
77 *well, by virtue of owning an interest in the gas estate contained within the drilling unit subject to the*
78 *pooling order or agreement.*

79 "Gas or oil operations" means any activity relating to drilling, redrilling, deepening, stimulating,
80 production, enhanced recovery, converting from one type of a well to another, combining or physically
81 changing to allow the migration of fluid from one formation to another, plugging or replugging any
82 well; ground disturbing activity relating to the development, construction, operation and abandonment of
83 a gathering pipeline; the development, operation, maintenance, and restoration of any site involved with
84 gas or oil operations; or any work undertaken at a facility used for gas or oil operations. The term
85 embraces all of the land or property that is used for or which contributes directly or indirectly to a gas
86 or oil operation, including all roads.

87 "Gas or oil operator" means any person who has been designated to operate or does operate any gas
88 or oil well or gathering pipeline.

89 "Gas or oil owner" means any person who owns, leases, has an interest in, or who has the right to
90 explore for, drill or operate a gas or oil well as principal or as lessee. In the event that the gas is owned
91 separately from the oil, the definitions contained herein shall apply separately to the gas owner or oil
92 owner.

93 *"Gas title conflicts" means conflicting ownership claims between gas claimants; the term does not*
94 *include conflicting ownership claims between gas claimants and coal claimants.*

95 "Gathering pipeline" means (i) a pipeline which is used or intended for use in the transportation of
96 gas or oil from the well to a transmission pipeline regulated by the United States Department of
97 Transportation or the State Corporation Commission or (ii) a pipeline which is used or intended for use
98 in the transportation of gas or oil from the well to an off-site storage, marketing, or other facility where
99 the gas or oil is sold.

100 "Geophysical operator" means a person who has the right to explore for gas or oil using ground
101 disturbing geophysical exploration.

102 "Gob" means the de-stressed zone associated with any full-seam extraction of coal that extends above
103 and below the mined-out coal seam.

104 "Ground disturbing" means any changing of land which may result in soil erosion from water or
105 wind and the movement of sediments into state waters, including, but not limited to, clearing, grading,
106 excavating, drilling, and transporting and filling of land.

107 "Ground disturbing geophysical exploration" or "geophysical operation" means any activity in search
108 of gas or oil that breaks or disturbs the surface of the earth, including but not limited to road
109 construction or core drilling. The term shall not include the conduct of gravity, magnetic, radiometric
110 and similar geophysical surveys, and vibroseis or other similar seismic surveys.

111 "Injection well" means any well used to inject or otherwise place any substance associated with gas
112 or oil operations into the earth or underground strata for disposal, storage or enhanced recovery.

113 "Inspector" means the Virginia Gas and Oil Inspector, appointed by the Director pursuant to
114 § 45.1-361.4, or such other public officer, employee or other authority as may in emergencies be acting
115 in the stead, or by law be assigned the duties of, the Virginia Gas and Oil Inspector.

116 "Log" means the written record progressively describing all strata, water, oil or gas encountered in
117 drilling, depth and thickness of each bed or seam of coal drilled through, quantity of oil, volume of gas,
118 pressures, rate of fill-up, fresh and salt water-bearing horizons and depths, cavings strata, casing records
119 and such other information as is usually recorded in the normal procedure of drilling. The term shall
120 also include electrical survey records or electrical survey logs.

121 "Mine" means an underground or surface excavation or development with or without shafts, slopes,

drifts or tunnels for the extraction of coal, minerals or nonmetallic materials, commonly designated as mineral resources, and the hoisting or haulage equipment or appliances, if any, for the extraction of the mineral resources. The term embraces all of the land or property of the mining plant, including both the surface and subsurface, that is used or contributes directly or indirectly to the mining, concentration or handling of the mineral resources, including all roads.

"Mineral" shall have the same meaning as ascribed to it in § 45.1-180.

"Mineral operator" means any person who has the right to or does operate a mineral mine.

"Mineral owner" means any person who owns, leases, mines and produces, or who has the right to mine and produce minerals and to appropriate such minerals that he produces therefrom, either for himself or for himself and others.

"Nonparticipating operator" means a gas or oil owner of a tract included in a drilling unit who elects to share in the operation of the well on a carried basis by agreeing to have his proportionate share of the costs allocable to his interest charged against his share of production from the well.

"Offsite disturbance" means any soil erosion, water pollution, or escape of gas, oil, or waste from gas, oil, or geophysical operations off a permitted site which results from activity conducted on a permitted site.

"Oil" means natural crude oil or petroleum and other hydrocarbons, regardless of gravity, which are produced at the well in liquid form by ordinary production methods and which are not the result of condensation of gas after it leaves the underground reservoir.

"Orphaned well" means any well abandoned prior to July 1, 1950, or for which no records exist concerning its drilling, plugging or abandonment.

"Participating operator" means a gas or oil owner who elects to bear a share of the risks and costs of drilling, completing, equipping, operating, plugging and abandoning a well on a drilling unit and to receive a share of production from the well equal to the proportion which the acreage in the drilling unit he owns or holds under lease bears to the total acreage of the drilling unit.

"Permittee" means any gas, oil, or geophysical operator holding a permit for gas, oil, or geophysical operations issued under authority of this chapter.

"Person under a disability" shall have the same meaning as ascribed to it in § 8.01-2.

"Pipeline" means any pipe above or below the ground used or to be used to transport gas or oil.

"Plat" or "map" means a map, drawing or print showing the location of a well or wells, mine, quarry, or other information required under this chapter.

"Pool" means an underground accumulation of gas or oil in a single and separate natural reservoir. It is characterized by a single natural pressure system so that production of gas or oil from one part of the pool tends to or does affect the reservoir pressure throughout its extent. A pool is bounded by geologic barriers in all directions, such as geologic structural conditions, impermeable strata, or water in the formation, so that it is effectively separated from any other pool which may be present in the same geologic structure. A coalbed methane pool means an area which is underlain or appears to be underlain by at least one coalbed capable of producing coalbed methane gas.

"Project area" means the well, gathering pipeline, associated facilities, roads, and any other disturbed area, all of which are permitted as part of a gas, oil, or geophysical operation.

"Restoration" means all activity required to return a permitted site to other use after gas, oil, or geophysical operations have ended, as approved in the operations plan for the permitted site.

"Royalty owner" means any owner of gas or oil in place, or owner of gas or oil rights, who is eligible to receive payment based on the production of gas or oil.

"State waters" means all water, on the surface and under the ground, wholly or partially within or bordering the Commonwealth or within its jurisdiction and which affect the public welfare.

"Stimulate" means any action taken by a gas or oil operator to increase the inherent productivity of a gas or oil well, including, but not limited to, fracturing, shooting or acidizing, but excluding (i) cleaning out, bailing or workover operations and (ii) the use of surface-tension reducing agents, emulsion breakers, paraffin solvents, and other agents which affect the gas or oil being produced, as distinguished from the producing formation.

"Storage well" means any well used for the underground storage of gas.

"Surface owner" means any person who is the owner of record of the surface of the land.

"Waste from gas, oil, or geophysical operations" means any substance other than gas or oil which is (i) produced or generated during or results from the development, drilling and completion of wells and associated facilities or the development and construction of gathering pipelines or (ii) produced or generated during or results from well, pipeline and associated facilities' operations, including, but not limited to, brines and produced fluids other than gas or oil. In addition, this term shall include all rubbish and debris, including all material generated during or resulting from well plugging, site restoration, or the removal and abandonment of gathering pipelines and associated facilities.

"Waste" or "escape of resources" means (i) physical waste, as that term is generally understood in

the gas and oil industry; (ii) the inefficient, excessive, improper use, or unnecessary dissipation of reservoir energy; (iii) the inefficient storing of gas or oil; (iv) the locating, drilling, equipping, operating, or producing of any gas or oil well in a manner that causes, or tends to cause, a reduction in the quantity of gas or oil ultimately recoverable from a pool under prudent and proper operations, or that causes or tends to cause unnecessary or excessive surface loss or destruction of gas or oil; (v) the production of gas or oil in excess of transportation or marketing facilities; (vi) the amount reasonably required to be produced in the proper drilling, completing, or testing of the well from which it is produced, except gas produced from an oil well or condensate well pending the time when with reasonable diligence the gas can be sold or otherwise usefully utilized on terms and conditions that are just and reasonable; or (vii) underground or above ground waste in the production or storage of gas, oil, or condensate, however caused. The term "waste" does not include gas vented from methane drainage boreholes or coalbed methane gas wells, where necessary for safety reasons or for the efficient testing and operation of coalbed methane gas wells; nor does it include the plugging of coalbed methane gas wells for the recovery of the coal estate.

"Water well" means any well drilled, bored or dug into the earth for the sole purpose of extracting therefrom potable, fresh or usable water for household, domestic, industrial, agricultural or public use.

"Well" means any shaft or hole sunk, drilled, bored or dug into the earth or into underground strata for the extraction, injection or placement of any gaseous or liquid substance, or any shaft or hole sunk or used in conjunction with such extraction, injection or placement. The term shall not include any shaft or hole sunk, drilled, bored or dug into the earth for the sole purpose of pumping or extracting therefrom potable, fresh or usable water for household, domestic, industrial, agricultural, or public use and shall not include water boreholes, methane drainage boreholes where the methane is vented or flared rather than produced and saved, subsurface boreholes drilled from the mine face of an underground coal mine, any other boreholes necessary or convenient for the extraction of coal or drilled pursuant to a uranium exploratory program carried out pursuant to the laws of this Commonwealth, or any coal or non-fuel mineral core hole or borehole for the purpose of exploration.

§ 45.1-361.22:2. Release of funds held in escrow or suspense because of conflicting claims to coalbed methane gas.

A. For a coalbed methane gas well that was force-pooled prior to July 1, 2015, the coalbed methane gas well operator shall, on or before January 1, 2016, apply to the Board for the release of the funds in escrow and give written notice of such application to all conflicting claimants identified in the pooling orders, or to the successors of such claimants where the successors are known to the coalbed methane gas well operator or have identified themselves to the coalbed methane gas well operator or the Board. Such notice shall be in accordance with the applicable provisions of § 45.1-361.19 and, if unknown persons or unlocatable conflicting claimants are subject to escrow, such notice shall also be published in a newspaper of general circulation in the county or counties where the drilling unit is located once each week for four successive weeks. The application shall include a detailed accounting in accordance with subdivision 5 of § 45.1-361.22. The Board shall order payment of the principal and accrued interest, less escrow account fees, held in escrow, along with all future royalties attributable to the drilling unit, to each gas claimant identified in the pooling order unless, within 45 days of the coalbed methane gas well operator's notice of its application, the coal claimant provides the Board and the coalbed methane gas well operator with evidence of a proceeding or agreement. The Board, pursuant to its authority granted by § 45.1-361.15, may extend the time for filing the application and delay the payment of funds for gas title conflicts, the existence of unknown gas claimants, the existence of unlocatable gas claimants, unresolved gas heirship issues, or other reasons beyond the reasonable control of the coalbed methane gas well operator and shall not order payment where the gas claimant fails to provide the Board with information needed under applicable law or regulation to distribute the funds.

B. For a coalbed methane gas well force-pooled on or after July 1, 2015, the Board, in its pooling order, shall direct the coalbed methane gas well operator to pay royalties to the gas claimant unless the coal claimant provides the coalbed methane gas well operator and the Board with evidence of a proceeding or agreement not later than the time and place of the pooling hearing. The coalbed methane gas well operator shall provide written notice of the hearing to the gas claimants and coal claimants in accordance with § 45.1-361.19. However, the Board, pursuant to its authority granted by § 45.1-361.15, shall not order the coalbed methane gas well operator to make payment to a gas claimant where there are gas title conflicts, unknown gas claimants, unlocatable gas claimants, unresolved gas heirship issues, or other reasons beyond the reasonable control of the coalbed methane gas well operator or where the gas claimant fails to provide the coalbed methane gas well operator with the information required under applicable law or regulation to pay royalties. In such cases, the coalbed methane gas well operator shall provide each affected gas claimant and the Board with written notice of the same in accordance with the applicable provisions of § 45.1-361.19. Where payment is not required to be made due to the gas claimant's failure to provide needed information under applicable law or regulation, the

notice shall identify the information that is needed to enable the payment to be made.

C. For a coalbed methane gas well voluntarily pooled at any time, the coalbed methane gas well operator shall pay royalties, including past royalties held, to each gas claimant unless, within 45 days of the coalbed methane gas well operator's provision of written notice to the coal claimant that the operator will be paying royalties to the gas claimants, the coal claimant provides the coalbed methane gas well operator and each gas claimant with evidence of a proceeding or agreement. For units voluntarily pooled before July 1, 2015, the coalbed methane gas well operator shall provide such written notice to the gas claimants and coal claimants on or before January 1, 2016. For units voluntarily pooled on or after July 1, 2015, the coalbed methane gas well operator shall provide such written notice to the gas claimants and coal claimants not later than 45 days after production commences. However, the coalbed methane gas well operator shall not be required to make payment to a gas claimant where there are gas title conflicts, unknown gas claimants, unlocatable gas claimants, unresolved gas heirship issues, or other reasons beyond the reasonable control of the coalbed methane gas well operator or where the gas claimant fails to provide the coalbed methane gas well operator with information to process or pay royalties. In such cases, the coalbed methane gas well operator shall provide each affected gas claimant with written notice of the same. Where payment is not required to be made due to a gas claimant's failure to provide needed information, the notice shall identify the information that is needed to enable the payment to be made.

D. Any pending judicial or arbitration proceeding shall be pursued by the coal claimant with diligence and shall not be voluntarily dismissed or nonsuited without the consent of the gas claimant. No default judgment shall be entered against a gas claimant. Royalties shall be paid as determined by the final order in the proceeding. A prevailing gas claimant shall be entitled to recover from that coal claimant reasonable costs and attorney fees if such person substantially prevails on the merits of the case and the coal claimant's position is not substantially justified.

E. A coalbed methane gas well operator paying funds to a gas claimant in accordance with this section shall have no liability to a coal claimant for the payments made by the coalbed methane gas well operator to a gas claimant.

F. This section shall not operate to extinguish any other right or cause of action or defenses thereto that may exist including, but not limited to, claims for an accounting or a claim under § 8.01-31. Nothing in this section shall create, confer, or impose a fiduciary duty.