



# The Oil and Gas Lease, Part II: The Royalty Clause in an Oil and Gas Lease

*2019 Fundamentals of Oil, Gas, and Mineral Law*

March 28, 2019

Prof. Tara Righetti, J.D., CPL

1

## Overview

---

- What is the lease royalty?
- Measurement, Calculation, and Payment
- Post Production Costs
- Market Value

2



## The Lease Royalty

“The landowner's share of production, free of expenses of production.”

- Heritage Resources, Inc. v. NationsBank, 939 S.W.2d 118 (Tex. 1996)

“A royalty interest, as one of the five attributes of a mineral estate, is an interest in real property, and thereby has the same attributes as real property. As such, a royalty interest may be severed from the mineral estate and held separately, pooled, conveyed, or reserved in connection with a conveyance of the mineral estate.”

- Aery v. Hoskins, Inc., 493 S.W.3d 684 (Tex. Ct. App – San Antonio)

3



## Royalty Interests

- Lessor's Royalty - Paid to the lessor as main consideration for issuance of the lease
- Non-Participating Royalty – Royalty held by a non-executive interest holder
  - *KCM Financial LLC v. Bradshaw*, 457 S.W.3d 70 (Tex. 2015)
- Overriding Royalty - an interest which is carved from, and constitutes part of, the working interest created by an oil and gas lease.
  - *EOG Resources, Inc. v. Hanson Production Co.*, 94 S.W.3d 697 (Tex. Ct. App – San Antonio, 2002)
- Shut in Royalty is *not* Royalty

4

Find the full text of this and thousands of other resources from leading experts in dozens of legal practice areas in the [UT Law CLE eLibrary \(utcle.org/elibrary\)](https://utcle.org/elibrary)

Title search: The Oil and Gas Lease, Part II: The Royalty Clause in an Oil and Gas Lease

Also available as part of the eCourse

[2019 Fundamentals of Oil, Gas and Mineral Law eConference](#)

First appeared as part of the conference materials for the 2019 Fundamentals of Oil, Gas and Mineral Law session

"The Oil and Gas Lease, Part II: The Royalty Clause in an Oil and Gas Lease"