Jackson Walker LLP

Post-Production Cost Deductions from Royalty and Why it Matters to the Midstream Sector

Gas and Power Institute, October 27, 2023

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Key Question

Does the royalty owner bear its share of post-production costs (“PPCs”) such that the operator may deduct them from royalty payments?

Key Question

Yes, as a default rule, royalty owners bear PPCs unless applicable lease or contract language says otherwise.

What's a PPC?

- Costs incurred to enhance the value or marketability of oil and gas after it has been produced at the well
- Expenses incurred on production downstream of the wellhead, generally before sale
- Commonly include costs for transportation, gathering, compression, separation, dehydration, processing, and marketing

Organization

- Seminal Texas cases
- Four recent cases that analyze whether post-production costs are deductible from royalties under particular contract language
- Two recent cases that analyze “add-back” clauses in the context of post-production cost deductibility

Title search: Post-Production Cost Deductions from Royalty and Why it Matters to the Midstream Sector