

Fundamentals of Oil, Gas and Mineral Law

The Oil and Gas Lease

Part I: Classification, Scope of Grant and Duration

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Nature of the Lease

A Conveyance and a Contract

The Bargain in Texas

Lessor is the Mineral Estate Owner / Lessee is the Oil and Gas Exploration Company (or a predecessor in interest, such as a Landman, Leasing Agent, etc.)

For a Cash Bonus, Lessor conveys a Fee Simple Determinable Interest to Lessee
Lessee Then Owns the Minerals Subject to a Terminal Condition-Production
Lessor Retains a Cost-Free Share of Production-Royalty, plus a Possibility of Reverter

In Other Jurisdictions, (Oklahoma, Kansas), Lessee receives *Profit a Prendre* (an exclusive right to take)

In Louisiana, Lessee Receives a Mineral Servitude

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No Standard Lease Form

Many different forms

Common include the AAPL Form 675 or the Producers 88

Most forms are drafted by Lessees

Typically

- Signed only by Lessor

- Grants the Minerals and Reserves the Royalty

- Contains Various Authorizations to Lessee or its Successors

- Courts Construe Strictly Against Lessees and Resolve Ambiguities against Drafter

When Lessor prepares forms, Lessor usually has bargaining power and forms are designed to protect Lessor

Courts Create Implied Covenants to Protect Lessors and Effectuate the Agreement

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Lessee Objectives

Obtain the Right, not the Obligation, to Develop for a Fixed Term

Maintain the Lease for Its Economic Duration

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Key Lease Provisions for Lessee

Appear in Texas Traditional AAPL Form

Granting Clause

 Mother Hubbard Clause

Lesser Interest / Proportionate Reduction Clause

Free Use Clause

Warranty and Subrogation Clauses

Habendum Clause

Delay Rental Clause

Savings Clauses

 Operations Clause

 Shut-In Payments Clause

 Force Majeure Clause

 Pooling Clause

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Granting Clause

“Lessor, in consideration of the sum of _____ Dollars (\$____), in hand paid, receipt of which is hereby acknowledged, and the royalties herein provided, does hereby grant, lease and let unto Lessee for the purpose of exploring, prospecting, drilling and mining for and producing oil and gas and all other hydrocarbons, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport and own said products, and housing its employees, and without additional consideration, does hereby authorize Lessee to enter upon the land covered hereby to accomplish said purposes, the following described land in _____ County, Texas, to-wit:

[land description]

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