



Oil & Gas Leases - Purpose and Nature of Rights

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Goals of the Lessee

1. To be able to explore, drill, develop, and produce for an initial term
2. To exclude others from the same
3. To not have the obligation to explore, drill, develop, or produce
4. If production is obtained, to continue the lease for so long as doing so is profitable.

Goals of the Lessor

1. To get a bonus
2. To get royalties
3. To avoid losing mineral wealth to neighbors
4. To keep surface disruptions minimal
5. To prevent damage or get compensation for any damage
6. To get the land restored after oil-and-gas operations

Implied covenants

burdening lessee in favor of landowner/lessor

Courts have found implied covenants in leases to protect lessors, since the lessor's ability to get a substantial benefit from the lease (royalties) is dependent on the lessor's activity

Some implied covenants recognized by courts in oil-and-gas leases:

- Testing for oil and gas
- Protecting oil and gas against drainage
- Developing if minerals are discovered

Can a lessor get out of a lease where the lessee does not perform?

See CB 2/6-8.

- Landowners can benefit from clauses conditioning the lease interest on payment of the bonus or automatically terminating the lease for nonpayment of bonuses, etc.
- Notice rescission case for fraud based on would-never-pay-more representation!