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UNIVERSITY OF HOUSTON LAW CENTER
EXAMINATION FOR OIL AND GAS LAW
FALL 1993

Professor Conine

December 17, 1993
9:00 a.m. to 12:00 noon

INSTRUCTIONS--THREE HOUR EXAMINATION

This test is administered pursuant to the Law Center's honor code. No books, notes, outlines or other materials may be used or referred to during the examination. No student is to discuss or communicate about the exam in any way with another student or any other person until the time designated for return of all exam papers.

Be certain that your exam number is written on the cover of any bluebook(s) or other pages used to answer the questions in the exam. No other identification should appear on the answer materials unless you are an LL.M. candidate, in which case you should also indicate your graduate status with your examine number.

The exam consists of four (4) pages. Be sure your copy is complete and legible before beginning.

The examination consists of three (3) essay questions. A recommended allocation time has been indicated for each question that corresponds roughly, but not precisely, with the credit that can be earned on the exam from that question.

Your answers for these essay questions should be written in a bluebook or typed on letter size paper. Space for answering the questions is limited. Each question indicates the number of pages that can be used to answer that question in a standard (8x10) bluebook containing 25 lines per page. Only one line of text is to appear on each line of these answer pages. Do not write more than one line of text between these lines and do not write on the reverse side of the pages. Material appearing outside this allowed space will not be read. To equalize writing space, typed answers must use no more lines than the number of lines allowed for those answering in bluebooks. The line limitation is indicated for each question.

NOTE: Except where expressly indicated to the contrary by the facts of the questions, you may assume that all instruments described were properly executed, acknowledged, delivered, joined in by the spouse where appropriate, executed by authorized officers or partners of business organizations and duly recorded in the order of execution. Unless the facts indicate that the land involved is in a specific state, your answer should discuss the different results that you would expect to find in states following

the majority and minority rules on the issues involved.

Analyze each question, organize your answer and provide a clear, concise and logical response using the information and concepts studied during the course. Good luck!

QUESTION 1

Recommended time allocation -- 45 Minutes

Answer space allowed -- 4 pages (100 lines)

In 1960, Alice owned 50 acres of land in West Texas. No drilling had yet occurred in the area, so state-wide rules on spacing and density applied to the land. In the same year, Alice granted an oil and gas lease covering the west half of her land to Xon Oil Company. At the same time, Alice granted an oil and gas lease on the east of her land to Yukon Petroleum, Inc. **Both leases** contained all the "standard" provisions except the pooling clause, which was excluded from the lease.

- (a) Xon wants to commence drilling on the lease as soon as possible. Can Xon do so under Texas' conservation laws? How?
- (b) If Xon does drill a commercial well that is producing oil from beneath both halves of Alice's land, what duty (if any) does Yukon have to try to drill?

QUESTION 2

Recommended time allocation -- 1 Hour 15 Minutes

Answer space allowed -- 6 pages (150 lines)

In 1988, Albert owned all of Blackacre and executed two conveyances. One granted "all coal, tin, magnesium, and other minerals" in the west half of Blackacre to Malcolm. The other granted "all oil, gas and other minerals" in the east half of Blackacre to Nancy. In 1989, Malcolm and Nancy joined together to grant a single oil and gas lease to Superior Oil Company covering all of Blackacre. Superior paid a \$1000 bonus for the lease when it was executed. The lease had an habendum clause that provided that the lease would last for "three years and so long thereafter as oil or gas is produced." The gas royalty clause called for the lessee to pay the lessor "for gas sold on the lease, one-eighth (1/8th) of the amount realized from the sale, and for gas sold or used off the lease premises, one-eighth (1/8th) of market value of

gas at the wellhead."

The lessee properly paid delay rentals in 1990 and 1991. Moreover, a well was commenced in 1992 on the west half of Blackacre and successfully completed one day before the end of the primary term of the lease. Tests that day indicated the well to be able to produce natural gas in commercial, or paying, quantities. Unfortunately, there was no pipeline connection in the area and the lessee was unable to produce and sell any gas. For nearly 12 months, Superior tried to find a purchaser who would extend a pipeline to the well and buy the gas. However, no company would do so and still pay market value for the gas.

Superior finally decided to construct its own gathering line to get the gas from the well to a trunkline for a major pipeline company. To do so, Superior laid a pipeline from the well running eastward across the west and east halves of the leased premises. The pipeline was completed in 1993 and gas sales commenced immediately. Superior paid gas royalty to Malcolm and Nancy after deducting the amortized cost of one-eighth of the cost of the pipeline from the revenues received for the sale of the gas. No other payments were made to any party.

Albert, Malcolm and Nancy all want to sue Superior. What basis does each have for doing so, if any? Should a lawsuit include an allegation that Superior has miscalculated the royalties due under the lease?

(Note that the lease is a community lease, meaning that the east and west halves of Blackacre are automatically pooled, so that oil and gas operations on any part of the lease can satisfy the lessee's obligations on any portion of the lease. For purposes of this question, you can assume that the express and implied duties under the lease are not divisible.)

QUESTION 3

Recommended time allocation -- 1 Hour

Answer space allowed -- 5 pages (125 lines)

In 1988, Oliver owned all of Greenacre, a 600 acre tract in the Texas panhandle. During that year, four transfers affecting Greenacre occurred in the following order:

- (1) Oliver conveyed an undivided one-half (1/2) of the mineral estate in Greenacre to Adam, but reserved all executive rights to Oliver.
- (2) Oliver conveyed all of Greenacre to Betty, reserving one-

half (1/2) of the mineral estate to himself without executive rights.

- (3) Betty assigned one-half of her interest in the minerals in the east half of Greenacre to Charles.
- (4) Adam transferred one-half of his interest in the west half of Greenacre to Charles.

Each conveyance that was not a quitclaim deed warranted title to the interest transferred. Charles, believing that Greenacre might contain oil, entered the land in 1989 and drilled a commercial well on the east half of Greenacre without obtaining the consent of Adam, Betty or Oliver. Upon learning that Charles was producing oil from the well and that the geologic information obtained in drilling the well indicated that only one well could be drilled economically on Greenacre, Betty immediately executed an oil and gas lease to herself covering her interest and Adam's interest in all of Greenacre. The lease reserved the usual one-eighth (1/8th) royalty for the lessor and contained an entireties clause.

- (a) Is there any reason or basis for Adam to complain about the lease granted by Betty? If so, what?
- (b) If the lease granted by Betty were invalid, how would the production be divided among the correct owners?

END OF EXAM