Capital University Law School

Final Examination

Oil & Gas Law

Spring 1990

Professor Jerry D. Jordan 888-9588

Due to scheduling deadlines, it will be necessary for graduating seniors to turn in their examinations to the Registrar no later than 4:00pm on May 11, 1990. All remaining examinations are due by 4:00pm on May 18, 1990. Please double space your answers.

1) Davis Oil Co. owned all of the working interest in a 40 acre tract located in the southwest quarter of Section 7. Mr. Grant owned the working interest in the 40 acres located immediately west of the Davis tract. The State law required 40 acre spacing. In 1981, Davis drilled a successful oil well to a depth of 6,020 feet. In late 1982, Grant drilled a well which was also completed at a depth of approximately 6,000 feet, but the formation pressure was found to be significantly lower than the pressure encountered in any of the adjoining wells. In attempting to determine the reason for the reduced pressure, and the resulting lower production, Grant engaged a consultant who had also worked on the Davis well. In the course of discussion, the consultant revealed to Grant that the Davis well may have been directionally deviated to a point on or near the Grant tract.

Mr. Grant has asked your advice as to whether he has any recourse against Davis, and the possible result of any action.

Please describe your advice.

2) Noble Gas Co. drilled a successful gas well in 1980 on the Green tract and entered into a "life of well" gas sales contract with U Gas, the utility which owned a pipeline in the area. The contract provided for an original price of \$2.80 per MCF with an escalation provision calling for increases equal to any increases in the Consumer Price Index. The price had reached \$3.68 per MCF in 1988, when U Gas contacted Noble to seek a reduction, based on U Gas consumer pricing problems. Noble refused to lower the price to \$2.70, a price paid by a competing utility, until U Gas offered to participate in a drilling program with Noble in another county, thus providing drilling capital for Noble. A deal was struck, and both parties agreed that the price to be paid for all gas, both from the new wells and from the Green tract would be \$2.80, thereafter.

Your uncle is an investor owning one half of the Green Well. He has just received a check from Noble showing gas sales at \$2.80. He has now called you and asked your advice. What will you advise, and what will be the final result?

3) A young producer, Mark has come to you to ask your advice. He has discovered a 160 acre tract which has good "deep formation" potential. The tract is now owned by Mr. S, who purchased it last year. The tract has two old shallow wells on it, neither of which has produced in

recent years. Mr. S has received no royalties, even though he purchased the minerals with the farm, and is the owner of the one-eighth royalty interest under the old lease to the W Oil Company, which lease was described in the deed which Mr. S received at the time he purchased the property. Mark and Mr. S have asked your advice regarding the validity of the old lease, and Mr S's ability to grant a new lease to Mark, covering the deep formations. What is your advice?

- 4) Assume that Mark and Mr. S (from Question 3) have followed your advice, but that before any legal action was commenced, W Oil started a new well, to the deep formation, and completed it as a producer. Now describe your advice to Mark and Mr. S, and predict the ultimate outcome.
- 5) An oil and gas lease was entered into between Harris as lessor and Donnelly as lessee. The lease provided that Harris would receive one-eighth of the oil produced in kind, and one-eighth of the proceeds from the sale of natural gas. Donnelly expected to produce oil from an exploratory well which was drilled on the premises. Instead, significant natural gas reserves were discovered. However, the nearest pipeline was seven miles to the East, and this line was a high-pressure, interstate transmission line. The pipeline route was over rough terrain and involved at least one river crossing. Consequently, the pipeline cost over \$300,000.00. In addition, compression was needed in order to be able to produce into the transmission line. Donnelly was able to induce Harris to put up the money to build the pipeline and install the compressor. Harris charged \$.50 per MCF for transportation and \$.20 per MCF for compression. Donnelly was able to sell the gas to the transmission company for \$2.00 per thousand.

Describe the royalty calculation for Harris in this case, and give the rationale for your calculations.

6) Shafer Oil has obtained a lease covering the 34 acre Whitney tract in a "hot" area for gas wells drilled to the Clinton formation, which is located at approximately 4,600 feet in depth in this Ohio County. There are wells located on all of the acreage on the north and south sides of the Whitney tract. To the west, there is a well on the adjoining 47 acre tract, located approximately 1,400 feet from the Whitney property line, and the operator of that property has included the entire tract in his drilling unit. To the east of the Whitney tract, there is a subdivision covering seven acres involving 14 lots. Shafer wants to drill on the Whitney tract. He seeks your advice as to his potential problems and the solutions, under Ohio law. Please describe your advice, and the outcome.