

Who should define the terms of an oil and gas lease?

Whose job is it to determine which expenses can be deducted from royalty payments under the terms of an [oil and gas lease](#)? Is it the lessee or the operator? People argue both positions and all parties desire clarity in who bears this burden.



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Unfortunately, there are many interpretations of the differing forms of deductions language in leases, and the courts have not had the opportunity to make a decision. Many operators

have recently requested input from the lessee on royalty valuation, but some lessees may balk at this idea because current practice typically provides that the operator cuts the checks.

Pursuant to [52 O.S. § 570.8\(A\)](#), a working interest owner in a gas well shall furnish to the operator the name, address, royalty interest, taxpayer identification number, and payment status of royalty interest owners for whom they hold a lease. While this language does not place the burden on the working interest owner to tell the operator how royalty proceeds should be valued under the terms of the lease, it is understandable that an operator wishes for input from the lessee, as they are a party to the lease.

However, when an operator asks a lessee to determine how royalty proceeds should be valued under the terms of the lease, the lessee may fear liability to the royalty interest owner in the event that the operator is paying the royalty contrary to how the lessor interprets the terms of the lease.

The lessee should take comfort in the language in 52 O.S. § 570.9(D), which states that any working interest owner that pays or causes to be paid royalty proceeds for gas production in accordance with the Production Revenue Standards Act valued according to the terms of such working interest owner's lease shall be relieved of all liability to the royalty interest owners for any further payment of proceeds from such production.

The valuation of royalties will affect both the royalty owner and the lessee, and without any guidance from the courts, there is no definitive answer as to who should define the exact terms of the lease. One can understand why neither the operator, nor the lessee, wants the burden of defining the lease terms, as they affect royalty deductions. Only time will tell whose job it is after all.

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