



THE NORTH DAKOTA SUPREME COURT ISSUES ITS OPINION IN *BLASI V. BRUIN E&P PARTNERS, LLC*

On May 20, 2021, the North Dakota Supreme Court issued its opinion in *Blasi v. Bruin E&P, LLC*, 2021 ND 86, answering a certified question from the United States District Court for the District of North Dakota. The Court held that oil royalties are properly valued at the well when the royalty clause provides that the lessee is to deliver “to the credit of the Lessor, free of cost, in the pipeline to which Lessee may connect wells on said land, the equal [fractional] part of all oil produced and saved from the leased premises.”

Approximately fifteen putative class actions from oil and gas lessors are pending before the United States District Court for the District of North Dakota. The plaintiffs in those class actions generally allege that oil and gas operators have improperly taken deductions from the oil royalties accruing under the oil and gas leases at issue by valuing production at the well. The plaintiffs argue the valuation location is independent of the well’s location and “the pipeline” means a downstream pipe used to transport oil to a refinery. The United States District Court for the District of North Dakota certified a question of law to the North Dakota Supreme Court concerning whether the oil royalty should be calculated at the well.

The North Dakota Supreme Court began its analysis by exercising its discretion to answer the certified question, noting that the lease language has been common in North Dakota for over sixty years and presented a significant issue of law. Addressing the merits, the Court held that the oil royalty clause unambiguously established the valuation point at the well. It reasoned that “the words describing the contemplated location—i.e., the place where the lessee ‘may connect’ a pipeline . . . is at the ‘wells on said land.’” The Court rejected the plaintiffs’ claim that the valuation point should be at some point further downstream because the oil royalty clause unambiguously referred to the leased premises and the plaintiffs’ interpretation would interject considerable uncertainty in the valuation location. The Court also noted that its conclusion is consistent with case law from other jurisdictions. The Court concluded, “We hold, as a matter of law, that the oil royalty provision in this case unambiguously sets a valuation point at the well.”

If you have any questions regarding the updates above or how they may affect your operations, please contact Crowley Fleck PLLP.

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