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Newfield Exploration Co. v. State of North Dakota

On October 13, 2021, the District Court for the Northwest Judicial District issued its order regarding the bench trial of *Newfield Exploration Co. v. State of North Dakota*. This trial came as the result of a remand from the North Dakota Supreme Court interpreting form leases adopted by the State in 1979 that require gas royalty payments on “gross proceeds” and “all consideration” received by the lessee. The North Dakota Supreme Court held that “[g]ross proceeds from which the royalty payments under the leases are calculated may not be reduced by an amount that either directly or indirectly accounts for post-production costs incurred to make the gas marketable.” On remand, the district court held a bench trial on issues related to breach of contract, damages, and defenses.

In a three-page order following trial, Judge Robin A. Schmidt found that the State of North Dakota failed to produce any evidence that a contract existed between Newfield and the State. “The State has not provided the court with any contract or lease between it and Newfield that allows this court to meaningfully review the contract obligations and whether a breach has occurred.” While the State argued that the remand from the Supreme Court was only on the element of damages, the district court disagreed: “This court is not able to assume the existence of a contract.” Further, the court reasoned that the court is unable to assume legal obligations without the State providing one to the court. The district court accordingly dismissed the case with prejudice. The opinion does not reach the damages claimed by the State or the defenses of estoppel and laches presented by Newfield.

Also of note in this case, in a pre-trial summary judgment ruling, the district court upheld the constitutionality of a statute of limitations in HB 1080, which was recently passed by North Dakota’s Legislative Assembly. The State unsuccessfully challenged this law as violating the Trust Clause and Anti-Gift Clause of the North Dakota Constitution, as well as the Contracts Clause of both the North Dakota Constitution and the United States Constitution.

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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