

Getting Royalty Interests Right: Appeal Preserves Longstanding Industry Interpretations of Mineral Interests

January 15, 2020

Where we started: Our client, a global petrochemical company, was the holder of an overriding royalty interest (ORRI) valued at hundreds of millions of dollars on an oil field on the outer continental shelf adjacent to Louisiana. After years of litigation, a federal district court held that the mineral instruments creating the ORRI did not obligate companies with a working interest to pay royalties to our client for a lengthy period of time. The case involved important issues that affected the oil and gas industry broadly, not just our client – and not just in Louisiana but across the Gulf region. Our firm, which did not try the case, was retained to handle the appeal.

Our strategy – plus more: On appeal to the U.S. Fifth Circuit Court of Appeals, we marshaled a creative combination of legal, historical, and practical arguments to show that the lower court had misconstrued the “calculate and pay” clause in the contract — one that is standard throughout the oil and gas industry.

Upshot: After extensive briefing and oral argument, the Fifth Circuit agreed with McGlinchey’s position, vacated the trial court’s ruling, and issued an opinion that has been cited as authoritative in over 60 cases.