McCRACKEN LAND SERVICES

Oil & Gas Lease Clause Glossary

The common clauses, in plain terms

The clauses that run an oil and gas lease

An oil and gas lease is a bundle of clauses that together decide what is granted, how long it lasts, and what keeps it alive. These are the ones you meet most, in plain terms.

Clause	What it does
Granting clause	Grants the lessee the right to explore for and produce, and names the substances and the land covered.
Habendum clause	Sets the term: a primary term of a fixed number of years, then a secondary term that continues as long as there is production (or operations). The “for a term of X years and as long thereafter” language.
Royalty clause	Fixes the lessor's royalty share of production, and whether post-production costs come out of it.
Shut-in royalty clause	Lets the lessee hold a well that is capable of production but shut in, by paying a shut-in royalty, so the lease does not lapse for lack of a market.
Delay rental clause	In a rental-form lease, lets the lessee defer drilling during the primary term by paying periodic delay rentals. A paid-up lease pays these up front and has no rental clause.
Pooling clause	Lets the lessee combine the leased land with other tracts into a unit, so production anywhere on the unit holds the lease (see the Pooling references).
Pugh clause	Severs the lease so production on part of it does not hold the rest, by acreage (horizontal) or by depth (vertical). See the Pugh Clauses reference.
Continuous development / retained acreage	Requires ongoing drilling after the primary term, and releases the acreage or depths the lessee stops developing.
Dry hole and operations clauses	Keep the lease alive between wells if the lessee drills a dry hole or continues operations within set time limits.
Cessation of production clause	Gives the lessee a set window to restore or begin new operations if production stops in the secondary term, before the lease lapses.
Proportionate reduction clause	If the lessor owns less than the full mineral interest, the royalty and payments are reduced to the fraction actually owned.
Warranty clause	The lessor warrants title to the leased minerals, and ties in with proportionate reduction.
Surrender clause	Lets the lessee release all or part of the lease and end its obligations on the released part.

Clause	What it does
Force majeure clause	Suspends the lessee's obligations when performance is prevented by events beyond its control.

Notes for title work

Topic	Note
Read the habendum first	It tells you what holds the lease and when it could have lapsed. Everything else modifies it.
Savings clauses buy time	Shut-in, dry hole, operations, and cessation clauses can keep a lease alive with no current production. Check them before you call a lease expired.
Pooling and Pugh interact	A pooling clause can hold the whole lease off one unit well unless a Pugh clause cuts it back. Read them together.
Proportionate reduction	If your lessor owned a fraction, confirm the royalty was reduced to match. It usually is, by this clause.

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