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Louisiana Appellate Court Affirms Holding Prior Lessee Liable for Imprudent Operations of Subsequent Lessee

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The Louisiana Court of Appeal for the Third Circuit, in *Rainbow Gun Club, Inc., et al. v. Denbury Resources, Inc., et al.*, recently affirmed a trial court ruling that imposed liability on SKH Energy Partnership, LP (SKH), a former lessee of mineral interests, for a one-fourth share of more than \$10 million in damages.

In this case, more than 170 mineral lessors, as well as royalty owners, sued SKH, as well as Denbury Resources, Inc., Denbury Onshore, LLC, and Specter Exploration, Inc., for damages arising from the Denbury defendants' imprudent operations in the drilling of a well. SKH had assigned its interest in the mineral leases and, in 2003, Denbury Resources, Inc., as the operator, spud a well that produced dry gas for a few years until being plugged and abandoned in 2008. Plaintiffs alleged that, during the drilling of the well, drill pipe had become stuck in the original hole. As a result, plaintiffs claimed that "extraneous water invasion" resulted in a total loss of the gas reservoir and asserted damages based on negligence and breach of obligations under the various mineral leases.

Denbury Resources, Inc., Denbury Onshore, LLC, and Specter Exploration, Inc., settled prior to trial, and several other defendants were dismissed on summary judgment, leaving only SKH to proceed to trial. After trial, the court awarded more than \$2.5 million in damages against SKH, holding it responsible under the mineral leases even though it had assigned its interests. Both the trial and appellate courts noted that Section 31:129 of the Louisiana Revised Statutes does not relieve an assignor of its obligations under a mineral lease unless the lessor expressly discharges him in writing. Therefore, as no evidence established the existence of such a discharge, the appellate court affirmed the decision holding SKH solidarily liable for the breach of the obligation to act as a prudent operator.

The appellate court also addressed an argument by SKH that it should not be held liable for a one-fourth share of damages because of the other defendants' settlements. Under this argument, SKH contended that, because the other three defendants held a 100 percent interest in the leases at the time of the imprudent operations and SKH did not commit any acts of negligence, SKH could not be held liable to the plaintiffs for any damages. Nevertheless, in reviewing this argument, the appellate court relied on Louisiana Civil Code provisions holding that the payment of a debt by one obligor benefits the other obligors only in the amount of the paying obligor's portion. So, as only three of the four obligors in this instance had settled, the court held SKH to be responsible for a one-fourth share of the obligation.

This decision highlights the potential for lessors to argue continued liability of a mineral lessee under the Louisiana Mineral Code after assigning a mineral lease where the lessor does not expressly discharge such lessee from future obligations and liabilities. If the lessor does not provide such a discharge in writing, the lessor could attempt to argue that a prior lessee who assigns or subleases a mineral interest is liable for the actions and breaches of its assignee or sublessee.