Haynes Boone Secures Appellate Victory in Oil and Gas Royalty Dispute

By David Ammons, Garrett S. Martin | July 24, 2025

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Haynes Boone secured a significant appellate win in a complex royalty dispute brought by the City of Crowley, Texas. On July 17, the Fort Worth Court of Appeals unanimously affirmed a trial court ruling in favor of Haynes Boone's client, a major oil and gas producer, reinforcing key principles for royalty valuation under Texas oil and gas leases.

In a unanimous memorandum opinion, the court sided with Haynes Boone's position, holding that royalties must be calculated based on the market value of gas at the point of sale—the wellhead—not on the combined sum of the wellhead market value plus post-sale postproduction costs. The court concluded that the leases "add to" provision did not void the core royalty obligation to pay on the value of gas at the wellhead. The court's decision affirms the trial court's judgment and adopts reasoning aligned with the appellate court's prior holding in *Shirlaine W. Props. Ltd. v. Jamestown Res., L.L.C.*, a prior case in which Haynes Boone also secured an appellate victory for the producer.

"'We are seeing more and more leases in Texas with 'add to' provisions. This ruling is a clear reaffirmation of Texas law and a win for contractual clarity in interpreting leases with these clauses," said Partner David Ammons, lead counsel in the appeal. "We're proud to have secured this result for not just our client but also for producers statewide who may be able to make better-informed decisions regarding royalty obligations and defend against ever-frequent claims. The court's opinion reflects sound reasoning and strengthens the legal foundation supporting wellhead-based royalty valuation."

The case provides clarity for Texas producers. The court agreed with Haynes Boone that because the point of sale occurred at the wellhead and no postproduction costs were incurred before that sale, the lessee did not "realize proceeds after deduction" of post-sale costs. Thus, no additional sums were owed to the lessor.

"This decision protects against efforts to impose new economic burdens on upstream producers," said Haynes Boone Partner Garrett Martin, also counsel in the appeal. "It confirms that producers are not required to inflate royalty payments by factoring in downstream costs."

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