

Energy companies seek to overturn Pinedale ruling

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CHEYENNE -- Energy companies developing a rich southwest Wyoming gas field urged the Wyoming Supreme Court on Thursday to overturn a lower court ruling that says they owe a share of their profits to the successors of a now-defunct oil company.

District Judge Norman E. Young of Lander ruled last year that Shell Rocky Mountain Production and several other companies are bound to share 5 percent of their profits from certain wells in the Pinedale Anticline.

Other companies involved include Williams Production Rocky Mountain Co., Arrowhead Resources and Lance Oil and Gas Co. Young ordered the companies to make the payments to Doyle Hartman, a Midland, Texas-based oil operator, and other investors.

The Pinedale Anticline has been the site of enormous natural gas developments in recent years, and lawyers on both sides say the profits at issue are huge.

Lawyer Mike Sullivan, a former Wyoming governor, represented Hartman and the others. He told the court that his clients' interests "may be worth hundreds of millions."

According to court records, Questar and Wexpro, two energy companies with interests in the Pinedale Anticline, have already paid Hartman and the other plaintiffs more than \$9.5 million, in addition to granting them perpetual interests in some leases, to settle their claims.

The origins of the dispute go back to 1954, when the now-defunct Novi Oil Company entered into agreements with other operators who were then trying to develop fields around Pinedale.

According to court filings, Novi signed over its mineral leases to more than 6,300 acres in the area to the other energy companies in exchange for a promised 5 percent share of any future profits from development of more than 90,000 acres then called the Pinedale Unit.

The federal government sometimes approves handling parcels of leases as a unit to allow operators to avoid losing individual leases for failure to develop them, provided that at least some of the leases are developed.

Hartman and the others sued in 2006 over their claim for profits under the agreement.

Young ruled in April 2008 that Hartman and the others are successors to the Novi agreement. The judge also ruled that the contract created a "net profits interest" that ran with the energy leases so that any other companies that picked them up would also be bound to pay 5 percent of eventual profits to Novi or its successors.

Lawyers for Shell and the other companies argued on Thursday that the original contract language specified that the obligation to pay Novi only lasted as long as the federally recognized Pinedale Unit remained intact. The federal government dissolved the Pinedale Unit decades ago and created new units over time in the area.

"This is a case about a trial court led astray," said Cheyenne lawyer Nancy Freudenthal, representing Arrowhead Resources, Ltd. She said there are no leases committed to the Pinedale Unit anymore, and accordingly there are no profits and "no payments can be done."

Gene Gallegos, a New Mexico lawyer representing Hartman and the others, countered that the defendants are wrong to assert that the end of the Pinedale Unit meant the end of the net profit agreement.

"These were sophisticated parties," Gallegos said. "The bottom line is that they knew what they were doing."

Gallegos said that if the parties intended the profit agreement to expire with the dissolution of the Pinedale Unit, they could have specified so, but they didn't.

After hearing arguments from lawyers on both sides, Chief Justice Barton R. Voigt said the state supreme court will issue a written decision on the case later.

