

Piranha Partners v. Neuhoﬀ: A Review

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The Texas Supreme Court, in *Piranha Partners v. Neuhoﬀ*, 596 S.W.3d 740 (Tex. 2020), recently considered the question of whether an interest was conveyed in only a particular well or the entire tract of land, and found that when the Assignment is read in its entirety, the tract of land was conveyed.

In 1975, Neuhoﬀ Oil & Gas (“Neuhoﬀ”) purchased an undivided two-thirds (2/3) working interest in a mineral lease (“Section 28 Lease”). Subsequently, Neuhoﬀ assigned its working interest in the Section 28 Lease, reserving a three and three-fourths percent (3.75%) overriding royalty interest (“Section 28 ORI”). Finally, by assignment (“Neuhoﬀ-Piranha Assignment”), Neuhoﬀ assigned the Section 28 ORI to Piranha Partners (“Piranha”). As of the execution date of the Neuhoﬀ-Piranha Assignment, only one (1) well had been completed on the Section 28 Lease, known as the Puryear B #1-28 well.

Subsequently, an additional three (3) wells were successfully drilled on the Section 28 Lease. The operator of these additional wells continued making payments to Neuhoﬀ (rather than Piranha) until title opinions were obtained that reflected Piranha as owning the Section 28 ORI, not just an overriding royalty interest in the Puryear B #1-28 well.

Neuhoﬀ filed suit, arguing that the Neuhoﬀ-Piranha Assignment only assigned an overriding royalty interest in the Puryear B #1-28 well, whereas Piranha argued that

Neuhoﬀ sold the overriding royalty in all of Section 28, not just the Puryear B #1-28 well.

The Court noted that when interpreting conveyances, it must look at the intentions of both parties; the seller’s intent when drafting the sales documents and what the buyer believed they were purchasing, as reflected within and limited to the “four corners” of the conveyance. While the parties’ different interpretations alone do not constitute ambiguity, it is only considered ambiguous when both parties’ interpretations can be reasonably drawn from the documents.

The Court further noted that the granting clause of the Neuhoﬀ-Piranha Assignment did not expressly describe the interest being conveyed, but referred to the description contained in Exhibit A thereto for the description of the interest being conveyed:

Lands and Associated Well(s): Puryear #1-28
Wheeler County, Texas
NW/4, Section 28, Block A-3, HG&N Ry Co. Survey

Oil and Gas Lease(s)/Farmout Agreement(s):

Oil & Gas Lease(s)
Lessor: [the Puryears]
Lessee: Marie Lister
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This description notes the “Lands and Associated Well(s)”, which identifies the land in addition to the well that existed at the time, and “Oil and Gas Lease(s)” which identifies the lease that was burdened by Section 28 ORI. Exhibit A does not offer further clarification as to whether the interest conveys the well, land, or the lease.

Piranha argued that the following canons of construction regarding conveyance interpretation should be applied to the Neuhoﬀ-Piranha Assignment:

1. Confer upon the grantee the greatest estate that the terms of the instrument will permit. *Waters v. Ellis*, 158 Tex. 342, 312 S.W.2d 231, 234 (1958).
2. Reject any alleged exception, reservation, or limitation that is not expressly and clearly stated in the written document. *Perryman v. Spartan Texas Six Capital Partners, Ltd*, 546 S.W.3d 110, 119 (2018).
3. Resolve any doubts against the party who drafted the document. *Garrett v. Dils Co.*, 299 S.W.2d 904, 906 (1957), and

Neuhoﬀ contended that because the Assignment is unambiguous, the court could determine the parties’ intent by harmonizing any conflicting language. *Citizens Nat. Bank in Abilene v. Texas & P. Ry. Co.*, 150 S.W.2d 1003, 1006 (1941).

The Court found Exhibit A to be ambiguous because, although it identified the well, land, and lease, it failed to identify whether the well, land, or lease defined the scope of the overriding royalty assigned, thus making either party’s interpretation reasonable. The court used a “holistic and harmonizing approach” to all portions of the Assignment, considering each portion equally. In doing so, it became apparent that the rest of the clauses in the Assignment showed that it included any working

interest, leasehold rights, overriding royalty interests, and reversionary rights that Neuhoﬀ may have had, and that Neuhoﬀ conveyed its entire interest under the Section 28 Lease.

The Court reasoned that in reading Exhibit A in conjunction with the other provisions of the Assignment, the Lands and Associated Well(s) section simply identified the only well in existence at the time, and did not limit the overriding royalty to that single well.

Piranha Partners v Neuhoﬀ demonstrates the need to have all parts of a conveyance comport with one another, so that the description of the interest intending to be conveyed is unambiguous. When a conveyance is generated piecemeal

by several parties, ambiguity may inadvertently result. Uniformity and specificity throughout a conveyance minimizes the potential for subsequent disagreements and associated litigation.

About the authors:

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In addition to his legal practice, M. Ryan Kirby is also a frequent speaker at seminars for various Landmen's organizations; he also serves as an Adjunct Professor at South Texas College of Law, where he teaches the Texas Oil, Gas and Land Titles course.



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