

Supreme Court of Texas Oil & Gas Topics

North Shore Energy, L.L.C. v. Harkins

No. 14-0552

Case Summary written by Jordan Fowler, Staff Member.

PER CURIAM.

North Shore Energy, L.L.C. (North Shore), entered into an exclusive option contract with the Harkins family in 2009. The contract granted North Shore the option to select 160-acre plots of land to lease for \$50 per acre with an additional \$200 per acre on the land it selected. The contract stated that North Shore could choose 160 acres out of the 1,210.8824 acres described in the agreement.

North Shore notified the Harkins that it was exercising its option to lease 169.9 acres of land and paid them the fees. The portion contained part of the Hamman Lease tract, on which North Shore drilled a well. The well produced oil, so North Shore purchased an easement from the Harkins family to connect it to a pipeline outside of the acreage.

Dynamic Production Inc. (Dynamic) contacted North Shore to negotiate a deal to shoot seismic across the acreage, but North Shore turned down the offer. Dynamic's attorneys reviewed North Shore's option contract and determined that North Shore did not have the right to lease the land where the well was located. Dynamic contacted the Harkins family and made a higher offer for royalties and mineral rights than North Shore, so they leased 400 acres to Dynamic.

North Shore sued the Harkins and Dynamic to quiet title to the lease and asked the court to reform the contract to include the Hamman Lease tract. In response, the Harkins and Dynamic counterclaimed for trespass, tortious interference with contract, and conversion. North Shore amended its petition to seek specific performance because its attorneys believed that the contract actually did include the Hamman tract. All parties moved for summary judgment.

The trial court denied the Harkins and Dynamic's motions for summary judgment and granted North Shore's motion to order the Harkins family to remove Dynamic's lease as a cloud on the title and deliver the oil and gas lease to North Shore. The rest of the claims went

to a jury that found Dynamic interfered with North Shore's option contract and the court entered a judgment against the Harkins and Dynamic for over \$1 million; they appealed.

The appellate court determined that even though the contract was ambiguous, the trial court erred in granting summary judgment. It reversed the trial court's judgment and remanded the case to the trial court. Both parties appealed to the Supreme Court of Texas.

ISSUE:

Whether the contract's ambiguities may be interpreted to allow North Shore to exclude Dynamic from conducting a seismic survey on the land that would give North Shore standing to sue for geophysical trespass.

The Supreme Court affirmed the appellate court's judgment but on different grounds. The Court held that the contract was not ambiguous as a matter of law, and that North Shore's interpretation of the terms contradicted the plain language of the agreement. The Court looked to the reasonableness of each party's interpretation of the contract and determined that North Shore's interpretation was not accurate. The contract did establish a selection agreement, but it did not allow North Shore to choose any acreage out of the larger tract. Rather, it allowed North Shore "to choose one or several parcels of at least 160 acres out of the described 1,210.8224-acre tract."

The Court explained that North Shore's interpretation contradicted traditional canons of construction. North Shore tried to argue that the doctrine of last antecedent allowed it to interpret the contract to allow it to select any desired acres from the tract, because the second clause in the contract referred to "the same land described in [the Export Lease.]"

The Court found that the Harkins and Dynamic's interpretation of the agreement was reasonable, because the text referred to the lease and described the land that was being optioned. The Court reasoned that the lease excluded the Hamman Lease tract from the description and the use of the conjunction "and" between the clauses indicated that they referred only to the 1,210.8224 acres of land.

The Court concluded that since there was only one reasonable interpretation of the option contract, it was not ambiguous. Finally, because an option agreement does not convey a property interest, North

Shore did not have the right to exclusively explore the land. Therefore, North Shore had no standing to sue Dynamic for trespass and the Court remanded the case back to the trial court.