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Lauchle v. The Keeton Group, LLC ***No. 4:08-cv-1868; 2010 WL 78924 (M.D. Pa. March 8, 2011)***

(August 17, 2011)

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Early in 2008, a group of landowners (“Plaintiffs”) entered into nearly identical oil-and-gas leases with the Defendant, Keeton Group, LLC (“Keeton Group”). In the late fall, Plaintiffs sought a declaration as to whether the leases were valid under Pennsylvania’s Guaranteed Minimum Royalty Act (“GMRA”). The GMRA requires that all leases for oil and gas must provide the lessor with 1/8 royalties. As a result of the litigation, the Keeton Group ceased all development of drilling activities, and sought an equitable extension of the leases while the litigation was pending. In essence, the Keeton Group invited the court to hold that a lawsuit to invalidate an oil-and-gas lease constituted a repudiation of the lease, and that the proper remedy is an equitable extension of the lease term by the length of time the lawsuit was pending.

Plaintiffs’ cited *Derrickheim Company v. Brown* to support the contention that a lawsuit does not act as a repudiation of the lease. In *Derrickheim*, the Pennsylvania Supreme Court ruled that a lawsuit initiated by the lessee to resolve a cloud on the title did not warrant an equitable extension of the lease. The Keeton Group noted that unlike *Derrickheim*, it was the lessors, not the lessees, that initiated this lawsuit.

Ultimately the court relied on *Derrickheim* and declined to equitably extend the Plaintiffs' leases with the Keeton Group. The court declined to establish a party-driven, bright line rule for fear that such a rule would discourage lessors from bringing actions to determine the validity of their leases, since such action would risk a finding that lessors had repudiated those agreements. Further, the court noted that this type of imbalance this would favor oil companies, signaling a move to providing protections to landowner-lessors.



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