The Shut-In Royalty Clause

When a shut-in payment saves a lease, and when it fails.

What the clause does

After the primary term most leases last only as long as there is production. If a gas well is shut in (for example, waiting on a pipeline) there is no production. The shut-in clause lets the lessee pay a shut-in royalty while a well **capable of producing in paying quantities** is shut in, and the lease is treated as producing.

Three things I check

1. **Was the well capable of production?** In *Anadarko Petroleum Corp. v. Thompson* (Tex. 2002), capable means the well will produce in paying quantities if the valve is turned on, not a well that still needs to be completed or repaired.
2. **Was the payment on time, in the right amount, to the right people?** Many leases set a deadline after shut-in, and some end the lease automatically if it is not paid.
3. **How long can it run?** Many leases limit shut-in to a total number of years (for example two or three) after the primary term.

On a lease review

☐ Pull the well records from the Railroad Commission
☐ Find the dates production stopped and started
☐ Ask for proof of each shut-in payment
☐ No proof of payment: the lease goes on the report as a question, not as held

Sources: Anadarko Petroleum Corp. v. Thompson, 94 S.W.3d 550 (Tex. 2002). Example names and numbers are for illustration. General education only, not legal, tax or financial advice. I am not an attorney; talk to a licensed attorney in your state about your situation.