

VERTICAL SEVERANCE CLAUSES

PUGH CLAUSE (SOMETIMES REFERRED TO AS A FREESTONE RIDER):

"If a part of the leased premises is included in a pooled unit or units, then, at the end of the primary term, only the land that is included in the pooled unit or units shall continue to be held by the lease."

(This language makes the creation of the pooled unit or units a condition for the application of the Pugh Clause to the lease. If no pooled unit is created, there is no vertical severance.)

An alternative on much smaller tracts is "All or Nothing." "If any part of the leased premises is included in a unit, then all the land much be included."

USE THIS ON SMALLER TRACTS.

RUBBERBAND CLAUSE (A MODIFIED PUGH CLAUSE):

"If all or a part of the leased premises is included in a production unit or units (whether a pooled or unpooled), then, at the end of the primary term, only the land in the production unit or units shall continue to be held by the lease. In the event that the land is included in more than one production unit, then each production unit shall be view for purposes of the lease as individual and distinct leases and the lease provisions apply separately to each."

This language makes the creation of a production unit, whether it is pooled or not, the condition for the applications of the vertical severance clause. It makes each production unit a separate lease. Production or operation from one production unit cannot continue the lease on a production unit where production or operations have ceased. Each production unit will revert to the landowner as operations or production ceases.

This also means that during the lease term, the horizontal severance clause applies on a unit-by-unit basis. Thus, a deep well drilled on one production unit will not hold any land below a swallow well drilled on another unit.)

USE THIS ON LARGER TRACTS.