

# A “PIPQ” Case Involves a Comparison of Two Baskets



*versus*



## A Basket of Bills

## A Basket of Revenue

The lessor will want this basket to be “full to the brim,” including every expense incurred.

This basket is always the revenue allocable to 1.0 minus the lessor’s royalty under the mineral lease (Article 124).

The lessee will want to limit this to “lifting expenses,” eliminating capital or extraordinary, non-recurring expenses.

Since this basket is a simple function of math, the battle in a “PIPQ” case essentially concerns other basket’s content.

If the value of the basket of revenue exceeds the value of the basket of bills (even by a little), the lessee wins; the lease is producing in “paying quantities.”

A critical issue is the period of time during which the comparison is made; courts tend to view the matter in a longer time frame to avoid anomalies.