SUPREME COURT OF TEXAS

Union Pacific Resources Group, Inc. v. Hankins

111 S.W.3d 69 (Tex. 2003) · No. No. 01-0836 · Decided July 3, 2003

SUMMARY

The Supreme Court of Texas held that a proposed class of gas royalty owners did not satisfy the commonality requirement for class certification under Texas Rule of Civil Procedure 42. The proposed class included both proceeds leases and market-value leases, which involve different legal duties and valuation inquiries concerning implied covenants to obtain the best available price. The court reversed the court of appeals and remanded the case for further proceedings.

CASE DETAILS

COURT	Supreme Court of Texas
WRITING FOR THE COURT	Chief Justice Phillips
JURISDICTION	Texas
DECIDED	July 3, 2003
DOCKET	No. 01-0836
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Interlocutory appeal from an order certifying a class action involving gas royalty claims.
STANDARD OF REVIEW	Class-certification orders are reviewed under the requirements of Texas Rule of Civil Procedure 42, and the trial court must conduct a rigorous analysis based on actual, not presumed, compliance with the rule. The reviewing court must examine the applicable substantive law and understand the claims, defenses, and relevant facts to meaningfully evaluate certification.
PRECEDENTIAL VALUE	published precedential opinion
PARTIES	Union Pacific Resources Group, Inc., Union Pacific Oil & Gas Co., Union Pacific Resources Co., Peach Ridge Pipeline Company, L.P., Duke Energy Fuel, Inc., Rio Bravo Gas Systems, L.L.C., Duke Energy Southwest Ozona Plant, L.L.C. v. Lowell F. Hankins, The Ada L. Pierce Testamentary Trust, The Victor Lenore Pierce Miller Trust

TOPICS

class actions appellate jurisdiction civil procedure oil and gas commercial litigation

PRACTICE AREAS

civil procedure appellate procedure class actions oil and gas commercial litigation

QUESTIONS PRESENTED

1. Whether the certified class satisfied Texas Rule of Civil Procedure 42's commonality requirement when it included both proceeds leases and market-value leases.
2. Whether a court evaluating class certification must consider substantive law bearing on the merits of the claims, including the distinction between proceeds leases and market-value leases.
3. Whether the court of appeals had jurisdiction over the interlocutory class-certification appeal based on an asserted conflict with a prior Supreme Court decision.

HOLDINGS

1. A court evaluating class certification must consider applicable substantive law and conduct a rigorous analysis of the actual, rather than presumed, conformance of the claims with Rule 42's certification requirements.
2. The proposed class did not satisfy Rule 42's commonality requirement because none of the identified issues both inhered in the complaints of all class members and were subject to generalized proof.
3. Questions concerning preferential affiliate transactions, third-party sale prices, and marketing fees did not establish commonality for a class combining proceeds and market-value leases.

KEY QUOTATIONS

> *"Because a covenant to obtain the best price reasonably attainable is implied under Texas law only to proceeds leases, not to market-value leases, we conclude that the royalty owners have not established that there are "questions of law or fact common to the class" sufficient to support certification."* (69)

> *"By choosing to delay analysis of Yzaguirre until "another stage of litigation," the court of appeals ignored applicable substantive law crucial to understanding the claims and defenses in this case."* (72)

> *"The question before us at this time is merely whether such unity of value can be established through common proof, and we hold that it cannot."* (75)

FACTUAL BACKGROUND

Union Pacific leased land in Crockett County, produced gas, and paid royalties to lessors. The royalty owners alleged that Union Pacific sold gas to affiliated companies at preferential index prices, that the affiliates resold the gas to third parties at higher prices, and that Union Pacific improperly paid marketing-related fees to affiliates, reducing royalty payments. The certified class included royalty owners whose leases calculated royalties either on proceeds received or on current market value.

PROCEDURAL HISTORY

The trial court certified a class of Crockett County gas royalty owners asserting that Union Pacific breached an implied covenant to reasonably market gas and obtain the best current price reasonably obtainable. The court of appeals affirmed the certification order. After this Court's decisions in Bernal and Yzaguirre, the court of appeals abated the case for development of a trial plan, then again affirmed without addressing Yzaguirre's effect on class certification. The Supreme Court of Texas reversed and remanded for further proceedings.

DISPOSITION

reversed_and_remanded

REMAND INSTRUCTIONS

Remanded to the trial court for further proceedings consistent with the opinion.

CASES CITED

- Heritage Resources, Inc. v. NationsBank, 939 S.W.2d 118, 122 (Tex. 1996)
- Amoco Production Co. v. Alexander, 622 S.W.2d 563, 567-68 (Tex. 1981)
- Yzaguirre v. KCS Resources, Inc., 53 S.W.3d 368, 370, 372-74 (Tex. 2001)
- Southwestern Refining Co. v. Bernal, 22 S.W.3d 425, 435 (Tex. 2000)
- General Telephone Co. of the Southwest v. Falcon, 457 U.S. 147, 160 (1982)
- Union Pacific Resources Group, Inc. v. Hankins, 41 S.W.3d 286 (Tex. App.—El Paso 2001, no pet.)
- In re Alford Chevrolet-Geo, 997 S.W.2d 173, 182 (Tex. 1999)
- Castano v. American Tobacco Co., 84 F.3d 734, 744 (5th Cir. 1996)
- Phillips Petroleum Co. v. Bowden, 108 S.W.3d 385 (Tex. App.—Houston [14th Dist.] 2003, no pet. h.)
- Jenkins v. Raymark Industries, Inc., 782 F.2d 468, 472 (5th Cir. 1986)
- Graebel/Houston Movers, Inc. v. Chastain, 26 S.W.3d 24, 33 (Tex. App.—Houston [1st Dist.] 2000, pet. dism'd w.o.j.)
- Nichols v. Mobile Board of Realtors, Inc., 675 F.2d 671, 676 (5th Cir. 1982)
- Tex. Oil & Gas Corp. v. Vela, 429 S.W.2d 866, 871 (Tex. 1968)
- Amoco Production Co. v. First Baptist Church, 611 S.W.2d 610, 610 (Tex. 1980) (per curiam)