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THE NEBRASKA OIL AND GAS LIEN

Richard E. Young*

Since September 20, 1957, the Nebraska oil and gas lien statute1 has been in effect. Prior to its passage, Nebraska had only a general mechanic's lien statute.2 With a growing oil and gas drilling industry it soon became apparent that due to the complexities and uniqueness of the oil and gas drilling business, the general mechanic's lien statute had many shortcomings when it was stretched to include this industry. In some of these states the oil and gas drilling industry was brought within the terms of the more general mechanic's lien statutes either by judicial construction or by slight amendment of their already existing mechanic's lien statutes.3 In other jurisdictions, particularly those with a significant oil and gas drilling industry, special oil and gas lien statutes were enacted.4 Even though Nebraska's general mechanic's lien statute can and often does cover many wide and varied contingencies, the complexities of the oil and gas drilling industry convinced many that a special statute, addressed specifically to this growing industry, was needed. As the oil and gas drilling industry in Nebraska grows in significance, Nebraska's oil and gas lien statute will likewise grow in significance. It should become a necessary and familiar tool to those attorneys who do oil and gas work in Nebraska. While Nebraska's statute is similar to other oil and gas lien statutes, there are many questions concerning this statute which are at present unanswered.

I. MECHANIC'S LIENS IN GENERAL

Propaedeutic to understanding the oil and gas lien statute is a basic understanding of mechanic's liens in general, for not only

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¹ Neb. Rev. Stat. §§ 57-801 to -820 (Reissue 1960).

Neb. Rev. Stat. §§ 52-101 to -118.01 (Reissue 1960). However, there was also a statutory lien provided for transporters of oil field equipment. Neb. Rev. Stat. §§ 57-301 to -304 (Reissue 1960).

³ See, e.g., Standard Pipe & Supply Co. v. Red Rock Co., 57 Cal. App. 2d 897, 135 P.2d 659 (1943); 4 SUMMERS, OIL AND GAS § 701 n.2 (2d ed. 1951).

^{4 4} SUMMERS, OIL AND GAS § 701 n.2 (2d ed. 1951).

is the oil and gas lien a derivative of the general mechanic's lien, but the oil and gas lien statute specifically provides that such a lien shall have the same force and effect as a mechanic's lien on real estate.⁵ Also, as there is still no reported Nebraska case concerning the new statute, one must look to Nebraska mechanic's lien case law for guidance.

The lien is a creature of statute, brought into existence to provide some protection to the person who amalgamates his labor, services or material into improving the property of another.⁶ Because the amalgamation is of the person's labor, services or material with another's property, that person is normally unable to protect his interest adequately or to repossess his contribution if the purchaser fails to complete the contract. The statute provides the person with a lien against the property that was improved to the extent of the value of his labor, services or material. The lien usually arises at the time he first performs labor or provides services or material, but in order to perfect that lien, the lien claimant must file or record a lien statement in certain public records within a specified time. When filed, the lien attaches to the property in question, and relates back to the time when the first labor was performed, or services or material was provided.⁷

II. WHO CAN ACQUIRE AN OIL AND GAS LIEN

The statute specifically provides that any "person" who shall, under "contract" with the owner of either any oil or any gas leasehold interest or any pipeline, perform any labor or furnish any material or services "used, employed or furnished to be used or employed" either: (1) in the drilling or operating of any oil or gas well upon such leasehold interest, (2) in the construction of any pipeline, or (3) in the construction of any material so used, employed or furnished to be used or employed, "shall be entitled to an oil and gas lien."

"Contract" is defined in the statute to mean "a contract, written or oral, express or implied, or partly express and partly im-

⁵ Neb. Rev. Stat. § 57-812 (Reissue 1960).

⁶ See 4 American Law of Property § 16.106F (Casner ed. 1952). See also discussion in Piedmont & George's Creek Coal Co. v. Seaboard Fisheries Co., 254 U.S. 1, 9-10 (1920).

⁷ See 4 SUMMERS, OIL AND GAS § 709 (2d ed. 1951).

⁸ Neb. Rev. Stat. § 57-801(1) (Reissue 1960).

⁹ Neb. Rev. Stat. § 57-802 (Reissue 1960). "Owner" is defined in § 57-802(2) as any person(s) holding any interest, legal or equitable, in a leasehold interest held for oil or gas purposes, or any pipe line.

plied, or executory or executed, or partly executory and partly implied."¹⁰ The burden is upon the lien claimant to prove that the labor was performed or the services or material were furnished under "contract" as defined in the statute.¹¹ Such broad language should require no great effort on the part of lien claimants to establish such a contract in most cases.

Whereas most oil and gas lien statutes are generally construed to mean that for a lien to arise the labor performed or the services or materials furnished must actually be used in the development and operation of the leasehold for oil and gas and become a part thereof, 12 thereby increasing the leasehold's value, the Nebraska statute appears to cover much more. Any labor, material or services which are used, employed or furnished to be used in the construction of any "material" will also entitle that person to a lien. 14 Furthermore, the statute specifically provides that this lien shall arise "whether or not a producing well is obtained and whether or not such material is incorporated therein." The amount of the lien may also include transportation and mileage charges connected therewith.

By statute Nebraska has attempted to answer some of the questions raised in other states by their more limited lien statutes. In each instance Nebraska's answer has been on the side of liberalizing the coverage and protection to the lien claimant.

The statute also has specific provisions covering subcontractor's liens. Here again, the statute specifically provides that any "person" who shall under contract perform any labor or furnish any material or services "as a subcontractor under an original contractor," or "for or to an original contractor or a subcontractor under an original contractor," shall be entitled to a lien. Such a lien is upon all the property to which the lien of an original con-

¹⁰ Neb. Rev. Stat. § 57-801(3) (Reissue 1960).

¹¹ McInnes v. Robinson, 341 P.2d 577 (Okla. 1959). See Henry & Coatsworth Co. v. McCurdy, 36 Neb. 863, 55 N.W. 261 (1893); 4 Summers, Oil and Gas § 702 (2d ed. 1951).

¹² See Given v. Campbell, 127 Kan. 378, 380, 273 Pac. 442, 443 (1929); 4 SUMMERS, OIL AND GAS § 706 (2d ed. 1951).

¹³ NEB. REV. STAT. § 57-801(4) (Reissue 1960).

¹⁴ Neb. Rev. Stat. § 57-802 (Reissue 1960). See discussion of this problem in Grand Island Banking Co. v. Koehler, 57 Neb. 649, 78 N.W. 265 (1899).

¹⁵ Neb. Rev. Stat. § 57-802 (Reissue 1960).

¹⁶ Neb. Rev. Stat. § 57-804 (Reissue 1960). Nebraska's Mechanic's Lien Statute has similar provisions for subcontractors. Neb. Rev. Stat. § 52-102 (Reissue 1960).

tractor may attach and to the same extent as the lien of an original contractor. The subcontractor is further protected in that his lien will extend as well to:

... all materials and fixtures owned by such original contractor or subcontractor to or for whom the labor is performed or material or services furnished and used or employed, or furnished to be used or employed in the drilling or operating of such oil and gas wells, or in the construction of such pipeline.¹⁷

The statute also specifically provides, however, that nothing in the statute "shall be deemed to fix a greater liability upon an owner in favor of any claimant under an original contractor than the amount for which the owner would be liable to the original contractor." Any owner should be warned of making payments directly to the original contractor once the owner has received notice that a subcontractor's lien is claimed and has been filed. 19

III. HOW CAN A LIEN BE ACQUIRED

The lien arises on the date of the furnishing of the first item of material or services, or the date of the performance of the first labor.²⁰ The burden, of course, of proving this time of commencement is upon the lien claimant.²¹ This date is quite important in that it may decide the question of priority between the lien claimant and other persons claiming an interest in the property. In order to definitely establish such a date the lien claimant should have performed work of such a substantial and conspicuous character as to make it reasonably apparent to any third party that work has actually commenced.²² But if that work must be such

¹⁷ NEB. REV. STAT. § 57-804 (Reissue 1960).

¹⁸ NEB. REV. STAT. § 57-807 (Reissue 1960).

¹⁹ Neb. Rev. Stat. § 57-807 (Reissue 1960). But should the lien claimant have actual knowledge of any unrecorded mortgage prior to first performing labor or furnishing materials or services, his lien, even if he properly recorded, would probably be subordinated to the mortgagee's lien. See Bradford v. Anderson, 60 Neb. 368, 83 N.W. 173 (1900).

NEB. REV. STAT. § 57-808 (Reissue 1960). See general discussion in Note, Mechanic's Liens—A Summary of Priority, 6 Drake L. Rev. 51 (1956); Note, Priority of Mechanic's Liens in Iowa, 45 Iowa L. Rev. 813 (1960).

²¹ See Henry & Coatsworth Co. v. McCurdy, 36 Neb. 863, 55 N.W. 261 (1893); Rosebud Lumber & Coal Co. v. Holms, 155 Neb. 459, 52 N.W.2d 313 (1952).

²² See H. F. Cady Lumber Co. v. Miles, 96 Neb. 107, 147 N.W. 210 (1914); Grand Island Banking Co. v. Koehler, 57 Neb. 649, 78 N.W. 265 (1899); Security Stove & Mfg. Co. v. Sellards, 133 Kan. 747, 3 P.2d 481 (1931); Sawyer v. Sawyer, 79 Wyo. 489, 335 P.2d 794 (1959).

as to place third parties on notice that work has actually commenced, it would appear then that the lien claimant, who is claiming on the basis of work done "in the constructing of any materials" to be used in the drilling or operating of any oil or gas well or in the construction of any pipeline, will need to have performed his work on the site. Otherwise, it would be impossible for a prospective mortagee who had visited the leasehold interest to ever be sure his interest would not and could not be subordinated to a lien claimant who had already performed his work some miles from the leasehold interest in question on material which later was brought to and used on the leasehold interest. Yet, the statute specifically states that a person who meets the requirements discussed above shall be entitled to a lien "whether or not such material is incorporated in or becomes a part of the completed oil well, gas well, or pipeline."23 Thus, it appears that such a lien would arise even though there would be no way in which third parties could ascertain the existence of such work.

The lien, of course, cannot arise unless such materials, services or labor were performed under contract with the owner of any leasehold interest or pipeline.²⁴ The statute specifically provides, however, that all labor performed or materials or services furnished by any person entitled to such a lien upon the same leasehold interest for oil and gas purposes or the same pipeline shall for the purposes of the statute "be considered as having been performed or furnished under a single contract regardless of whether or not the same was performed or furnished at different times or on separate orders," if not more than four months elapse between the dates of performing labor or furnishing materials or services.²⁵

While this provision was apparently enacted to avoid the necessity of lien claimants filing multitudinous lien statements and to avoid litigating the question of whether there was one or several contracts entered into, it also has raised other problems which will sooner or later need to be resolved.

One of these problems arises in the very common situation of a mortgagee, prior to lending money to the owner of a leasehold interest, requiring that all existing lien claimants be paid in full.

NEB. REV. STAT. § 57-802 (Reissue 1960). "The notice to subsequent lienors is derived from the condition of the premises . . . and it would seem too much to require of a mortgagee that he should not only take notice of what was actually going on upon the premises. . . ." Grand Island Banking Co. v. Koehler, 57 Neb. 649, 653, 78 N.W. 265, 266 (1899).

²⁴ See note 11 supra.

²⁵ NEB. REV. STAT. § 57-810 (Reissue 1960).

The mortgagee then loans the money and records his mortgage. believing that he is now prior to any lien claimant who, subsequent to the recording of the mortgage, performs labor or furnishes materials and services. Would section 57-810 of the Nebraska Revised Statutes come into play if the lien claimants, who were paid off in full prior to the time of recording the mortgage, commence performing labor or furnishing materials or services subsequent to the recording of the mortgage but yet within four months after they last performed labor or furnished materials or services to the same leasehold interest. If section 57-810 of the Nebraska Revised Statutes is applicable, then the date the lien arose would be prior to recording of the mortgage, and the lien claimant by properly filing his lien statement would acquire a lien prior to the recorded mortgagee's lien.26 This problem is certainly not unique to Nebraska. Various methods, such as lien waivers, releases and indemnification bonds have been introduced as protective devices by lenders and other persons faced with this problem.

Another problem, partially raised in the previous question, concerns partial payments on a continuing open account by the owner to a potential lien claimant. Can the lien claimant, assuming that he has performed labor or furnished materials or services at least once every four months, base the priority of his lien on the time he performed his first labor or furnished the first materials or services, even though payment for this work was made some time ago? Or can his priority date back only to the time he performed labor or furnished materials or services for which he has not been paid?

There is case authority for the rule that payments made on an open account, or similar arrangement, would be applied against the earliest existing indebtedness.²⁷ If so, and if the lien claimant

²⁶ For a case in which the question arises as to whether lien claimants should be subordinated to the claim of a subsequent mortgage due to actual knowlege of the upcoming loan and possible deceit of lien claimants, see Bohn Sash & Door Co. v. Case, 42 Neb. 281, 60 N.W. 576 (1894). See also Rosebud Lumber & Coal Co. v. Holms, 155 Neb. 459, 52 N.W.2d 313 (1952). McGaffick v. Leieland, 130 Mont. 332, 303 P.2d 247 (1956), discusses the question concerning whether active participation by a contractor in procuring a construction mortgage loan will prevent him from claiming that his mechanic's lien is prior to the mortgage lien, even though the mortgage was recorded subsequent to the commencement of the contractor's work. See Munson v. Risinger, 114 So. 2d 56 (La. 1959) for a discussion of the priority problem where the lender relied to his detriment on a receipt for payment in full for all labor and material supplied by a lien claimant.

²⁷ Ady & Crowe Merchantile Co. v. Howard, 65 Colo. 272, 172 Pac. 328 (1918).

has been partially paid for his labor, materials or services which were provided at various times, it could be argued that he would have a lien which arose at the date on which the last unpaid labor, material or services were provided.²⁸

IV. ON WHAT DOES THE LIEN ATTACH

The statute sets forth four specific property interests to which the lien will extend.²⁹ First, the lien will extend to "the leasehold interest held for oil or gas purposes to which the materials or services were furnished or for which the labor was performed, and the appurtenances thereunto belonging."³⁰ The language indicates that the interest to which the lien extends may be more extensive than the interest of the owner (who contracted with the lien claimant) in the leasehold interst. This position is further substantiated by the language in the remainder of section 57-803 of the Nebraska Revised Statutes. Questions may be raised, however, as to whether this was the intent of the legislature.³¹

Second, the lien extends to all materials and fixtures owned, or furnished to be used or employed by the owner(s) of such leasehold interest and used or employed in the drilling or operating of any oil or gas well located thereon.³²

Third, the lien extends to "all oil or gas wells located on such leasehold interest, and the oil or gas produced therefrom, and the proceeds thereof." Exempted from this is "the interest therein owned by the owner of the underlying royalty or fee title." Extending the lien to these interests is further than many of the oil and gas lien statutes go. This extension to oil and gas produced

²⁸ Cf. Emmert v. Thompson, 49 Minn. 386, 52 N.W. 31 (1892).

²⁹ Neb. Rev. Stat. § 57-803 (Reissue 1960). See 4 Summers, Oil and Gas § 706 (2d ed. 1951) for discussion of property interests generally subject to oil and gas liens in other states.

³⁰ Neb. Rev. Stat. § 57-803 (Reissue 1960). The leasehold interest held for oil or gas purposes is not defined in the statute.

³¹ See discussion in Cross v. Eyerley, 85 Neb. 516, 125 N.W. 1985 (1910), dealing with question of whether lien for material supplied to tenant attaches to tenant's interest only. Compare Sargent v. Freeman, 204 La. 997, 16 So. 2d 737 (1944) with Cheadle v. Bradwell, 95 Mont. 299, 26 P.2d 336 (1935). Query: does the lien attach to the overriding royalty interest?

³² Neb. Rev. Stat. § 57-803(2) (Reissue 1960).

³³ NEB. REV. STAT. § 57-803(3) (Reissue 1960).

³⁴ NEB. REV. STAT. § 57-803(3) (Reissue 1960).

³⁵ See, e.g., Tarhell Drilling & Equip. Co. v. Steel Prod Co., 231 Ark. 510, 330 S.W.2d 717 (1960); Briggs v. McAdams Pipe & Supply Co., 359 P.2d 572 (Okla. 1961).

or to the proceeds of the sale of oil or gas immediately poses serious questions in the minds of the oil and gas purchaser. Would this mean that such a purchaser would be buying the oil and gas subject to a lien? Section 57-806 of the Nebraska Revised Statutes attempts to settle some of these questions by providing that a lien extending to oil or gas, or the proceeds of such oil or gas "shall not be effective against any purchaser of such oil or gas until written notice of such claim has been delivered to such purchaser." And until such notice is delivered as provided for in the statute:

. . . no such purchaser shall be liable to the claimant for any oil or gas produced from the leasehold interest upon which the lien is claimed or the proceeds thereof except to the extent of such part of the purchase price of such oil or gas or the proceeds thereof as may be owing by such purchaser at the time of delivery of such written notice.³⁶

The purchaser, having received notice, is under an obligation to withhold payments for such oil or gas runs to the extent of the lien amount claimed until such delivery of notice in writing that the claim has been paid. Presumably this should be furnished by the lien claimant whose lien has been satisified.

These two provisions indicate that the lien will extend to all oil or gas produced, or to the proceeds thereof, from the time the lien first arises. Furthermore, the phrase "or the proceeds thereof" indicates that the lien can be traced through the sale of the original oil or gas produced. Quare: how far can this lien be traced?³⁷ Also implied is that the purchaser of the oil and gas will not be liable until he receives the prescribed notice, regardless of any actual notice he may have had at the time of his purchase. But if he had actual notice, should he not withhold payments?

Fourthly, the oil or gas lien extends to "the whole of the pipe line to which the materials or services were furnished, or which labor was performed." It also includes all buildings and appurtenances "thereunto belonging." These are further defined by statute and cover a multitude of things. 39

Once a lien has "attached" forfeiture of the leasehold interest shall not impair any lien "as to material, appurtenances and fixtures located thereon and to which such lien attached prior to for-

³⁶ Neb. Rev. Stat. § 57-806 (Reissue 1960).

³⁷ For an example of the tracing problem, see Ketchum v. Reidy, 312 P.2d 955 (Okla. 1957).

³⁸ NEB. REV. STAT. § 57-803(4) (Reissue 1960).

³⁹ NEB. REV. STAT. § 57-803(4) (Reissue 1960).

feiture."⁴⁰ By excluding oil or gas produced therefrom, or the proceeds therefor, an implication arises indicating that forfeiture of the leasehold interest *would* impair the lien on those items.

The statute also provides that if a lien has attached to an equitable interest or to a legal interest contingent upon the happening or a condition subsequent, failure of such interest to ripen into legal title or such condition subsequent to be fulfilled, shall not impair the lien "as to material, appurtenances and fixtures located thereon and to which such lien had attached prior to such failure.⁴¹ Here again there is the same implication as to the oil or gas produced, or the poceeds therefrom.

As was mentioned earlier, the lien attaches "whether or not a producing well is obtained, and whether or not such material is incorporated in or becomes a part of the completed oil well, gas well or pipe line." 42

Once a lien has attached to the property covered above, the statute provides that "it shall be unlawful for any person to remove such property or any part thereof, or cause the same to be removed from the premises where located at the time such lien attached or otherwise dispose of the same without the written consent of the holder of such lien."⁴³

V. WHAT MUST BE DONE TO PERFECT THE LIEN

Once a person has become entitled to a lien, there are certain steps he must follow in order to preserve the protection which the lien statute provides for him. He must file, within four months after the date on which he last performed labor or furnished materials or services upon the leasehold interest or pipeline in question, a lien statement "verified by an affidavit" in the office of the county clerk for the county in which the land identified with the leasehold interest or pipeline or some part thereof is situated.⁴⁴

⁴⁰ Neb. Rev. Stat. § 57-805 (Reissue 1960).

⁴¹ Neb. Rev. Stat. § 57-805 (Reissue 1960).

⁴² Grand Island Banking Co. v. Koehler, 57 Neb. 649, 78 N.W. 265 (1899).

⁴³ Neb. Rev. Stat. § 57-817 (Reissue 1960). The words "attach" or "attached" appear seven times in the statute but are nowhere defined. Neb. Rev. Stat. §§ 57-804, -805, -808, -817 (Reissue 1960). The probable intent is that once the lien statement has been filed, the lien "attaches" to the property concerned and relates back to the time when the first labor was performed or the materials or services were finished.

⁴⁴ NEB. REV. STAT. § 57-811 (Reissue 1960). As to the question of date of last performing labor or furnishing materials or services, see Muenchau v. Swarts, 170 Neb. 209, 102 N.W.2d 129 (1960); Walsh-Anderson

This statement must set forth the following information: (1) the amount claimed and the items thereof, (2) the dates on which labor was performed or material or services furnished, (3) the name of the owner or owners of the leasehold interest or pipeline, if known, (4) the name of the claimant and his mailing address, (5) a description of the leasehold interest or pipeline, and (6) if the claimant is filing as a subcontractor, the name of the person for whom the labor was immediately performed or for whom the material or services were immediately furnished.⁴⁵ As this document is entered on the public records⁴⁶ it should be acknowledged.⁴⁷

Immediately upon receipt the county clerk is directed to give such statement a file number and to file it. He is also directed to enter a record of the same in his Oil and Gas Lien Record Book.⁴⁸ Once this has been accomplished, the lien statement then has the "same force and effect as the timely filing of a mechanic's lien with reference to real estate and chattel mortgages as personal property is concerned."

The filing of the lien statement starts the two year statute of limitations running within which the lien may be enforced by civil action in the district court of the county in which the land identified with such leasehold interest, or pipeline, or some part thereof, is situated.⁵⁰

There are provisions by which the owner(s) of the property to which the lien has attached, or the contractor or subcontrator through whom such lien or liens are claimed, may file a bond, which when in the proper amount and properly recorded, shall

Co. v. Keller, 362 P.2d 533 (Mont. 1961); Star Lumber & Supply Co. v. Mills, 186 Kan. 204, 349 P.2d 892 (1960).

⁴⁵ Neb. Rev. Stat. § 57-811 (Reissue 1960). For some of the problems raised see Drexel v. Richards, 50 Neb. 509, 70 N.W. 23 (1897) (description of property); Way v. Cameron, 94 Neb. 708, 144 N.W. 172 (1913) (affidavit); Chappell v. Smith, 40 Neb. 579, 59 N.W. 110 (1894) (notary and dates); Curry v. Morgan, 321 P.2d 973 (Okla. 1958) (no county in acknowledgement). Statutory requirements as to form and content of the lien statement differ considerably. 4 Summers, Oil and Gas § 708 (2d ed. 1951).

⁴⁶ NEB. REV. STAT. § 57-812 (Reissue 1960).

⁴⁷ For excellent discussion on this point, see Chattanooga Lumber & Coal Corp. v. Phillips, 202 Tenn. 266, 304 S.W.2d 82 (1957).

⁴⁸ NEB. REV. STAT. § 57-812 (Reissue 1960).

⁴⁹ NEB. REV. STAT. § 57-812 (Reissue 1960).

⁵⁰ Neb. Rev. Stat. § 57-814 (Reissue 1960). See also Goodwin v. Cunningham, 54 Neb. 11, 74 N.W. 315 (1898).

take the place of the property against which any claim for lien referred to in such bond is asserted.⁵¹

As to the priority question among lien claimants claiming on the same leasehold interest or pipe line, the statute specifically provides that all such liens upon the same property shall be of equal standing, except that liens of persons for the performance of labor shall be preferred over the other oil and gas liens.⁵²

Sections 57-815 and 57-816 of the Nebraska Revised Statutes refer to trials concerning oil and gas liens. In cases where the judgment has been rendered in favor of the lien claimant, the leasehold interest, pipe line or other property is sold as in other cases of sales of real estate. 53

VI. CONCLUSION

The overall effect of this statute is to provide the person who performs labor or provides materials or services, as specified by the statute, with broad protection. It is obvious that the legislative intent was to protect the oil and gas lien claimant. While the legislature was probably correct in concluding that a specific piece of legislation was needed to protect these oil and gas workers properly, it is questionable whether that protection should have gone as far as it did.

Many of the provisions furnish statutory answers to questions which have caused litigation in other states. The language of the statute has opened the door to many legitimate questions concerning the intent and meaning of various provisions. Some of these questions could have been answered by more precise language. The substantive questions will probably have to be resolved by judicial interpretation.

It is suspected some of these answers will be forthcoming shortly in cases now before the Nebraska courts.

⁵¹ Neb. Rev. Stat. § 57-813 (Reissue 1960).

⁵² NEB. REV. STAT. § 57-809 (Reissue 1960).

⁵³ Neb. Rev. Stat. § 57-813 (Reissue 1960).