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Federal judge lets fraud claim stand in suit against gas driller Cabot

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In a ruling with potentially far-reaching consequences in Pennsylvania's lucrative and burgeoning natural gas industry, a federal judge in Scranton on Wednesday ruled a Susquehanna County landowner can sue Cabot Oil & Gas Corp. on the grounds it fraudulently misled him into signing a lease at a lowball rate.

The suit, filed by John Kropa, is one of several cases across the state filed by landowners who claim natural gas drilling companies fraudulently induced them to sign leases that locked them into \$25-an-acre rates. In a modern-day version of the California gold rush, companies have been rushing to make

deals with landowners across Pennsylvania so they can tap into natural gas from the Marcellus Shale, a geological formation that runs under most of the state.

U.S. District Court Judge James M. Munley, in an eight-page memorandum and order, noted Cabot's agents told Mr. Kropa that the company "would never pay more than \$25 per acre for the lease," yet his "neighbors were apparently paid more than \$25 an acre for leases on their property."

"They relied on this statement and signed the lease, only to discover later that these statements were false and that others had signed far more lucrative deals" with Cabot, Judge Munley said.

Cabot's representatives also warned that if Mr. Kropa did not sign a lease, then Cabot would take it anyway by negotiating leases with neighbors and "capture the gas," leaving Mr. Kropa "without a lease or gas on their land," the memorandum stated.

Mr. Kropa signed an oil and gas lease with the West Virginia company in 2006 and received a \$1,275 payment for allowing the company to explore his 51-acre spread in Brooklyn Twp.

Mr. Kropa's claims are not unique, especially for many of the leases signed before 2008, said attorney Stephen Saunders, a Scranton energy attorney.

"I think the fraud type claims will most likely be significant in cases where individual plaintiffs own larger tracts of land, say more than 100 acres, or situations where small contiguous landowners control significant areas in the aggregate hundreds of acres or more and are litigating as a group," Mr. Saunders said.

If Mr. Kropa is successful in proving he was the victim of fraud, he could theoretically renegotiate a new lease, assuming the company still wants the gas under his land.

Judge Munley's court order also dealt with another volatile issue in the gas drilling business: royalty payments. Mr. Kropa along with other landowners had claimed they were shortchanged by the drilling companies because they were deducting expenses from the royalties.

Judge Munley said that issue had been dealt with by the Pennsylvania Supreme Court, which ruled the royalty agreement was valid under Pennsylvania law.

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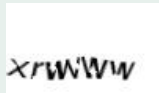
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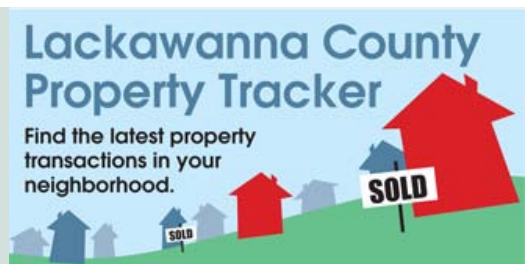
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