



COMMONWEALTH OF PENNSYLVANIA  
OFFICE OF THE GOVERNOR  
HARRISBURG

THE GOVERNOR

February 14, 2014

Doug McLinko, Chairman  
Bradford County Board of Commissioners  
301 Main Street  
Towanda, Pennsylvania 18848

Commissioner McLinko:

As you know, I have grown increasingly concerned about the treatment of Pennsylvania leaseholders with respect to the deduction of post-production costs from their royalty statements.

Many landowners believe they are not being treated fairly and in accordance with the lease agreements they negotiated. Our efforts to receive straightforward answers have led to even more confusion, and unnecessarily sown the seeds of distrust of an industry that has helped to rejuvenate countless communities across the Commonwealth.

I have repeatedly expressed my frustrations directly with senior leadership at Chesapeake Energy. However, the concerns of my constituents persist. Yesterday, I sent the enclosed letter to Doug Lawler, CEO of Chesapeake Energy, to apprise him again of the current state of affairs in Pennsylvania. I have also reached out to Attorney General Kane and urged her office to utilize its consumer protection authority to ensure that Pennsylvania leaseholders are being treated fairly.

I also look forward to working with members of the General Assembly to advance legislation which protects the royalty rights of leaseholders. As elected officials, it is our responsibility to make sure our laws protect Pennsylvanians. I am committed to doing so.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Corbett".

TOM CORBETT  
Governor

Enclosure

SENATOR  
GENE YAW  
23RD SENATORIAL DISTRICT

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## Senate of Pennsylvania

February 13, 2014

COMMITTEES  
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MAJORITY POLICY COMMITTEE  
THE CENTER FOR RURAL PENNSYLVANIA, CHAIRMAN

The Honorable Kathleen Kane  
Pennsylvania Attorney General  
16<sup>th</sup> Floor, Strawberry Square  
Harrisburg, PA 17120

Dear General Kane:

My Senate District encompasses some of the most productive Marcellus Shale areas in the state. As you know, this industry came to Pennsylvania less than a decade ago.

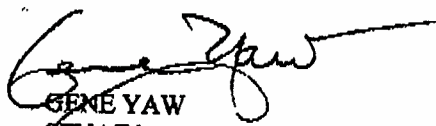
Literally, thousands of contracts were executed between gas companies and landowners. With no background in the oil and gas industry, local Pennsylvanians became consumers relying on the representations of landmen working for the gas companies. Unfortunately, over the past year, a serious issue has arisen between the contract language regarding post production costs, or the lack thereof, the representations made by the landmen and the Guaranteed Minimum Royalty Act.

Recently, my office has been inundated with complaints from farmers, accountants and other landowners regarding the business practices of Chesapeake Energy. The primary complaint involves the deduction of post-production costs. In some cases, the deductions exceed the amount of the royalty checks. The words commonly used by landowners to describe what is happening are "cheating", "stealing" and "fraud". One landowner related that the deductions were greater than the royalty payment so it is actually costing the landowner money to have gas extracted from the property.

The situation presented seems to be isolated to Chesapeake. It does, however, present a significant consumer protection issue for hundreds of constituents in my district.

Respectfully, I seek your assistance in this matter and ask that an official inquiry be undertaken immediately relating to the post-production cost deduction practices of Chesapeake Energy occurring in the Commonwealth. If I can provide any assistance in this matter, please contact me at your convenience.

Sincerely,

  
GENE YAW  
SENATOR

Cc: Senator Joe Scarnati  
Senator Dominic Pileggi  
Adrian R. King, Jr., First Deputy Attorney General



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THE GOVERNOR

February 13, 2014

Robert D. "Doug" Lawler  
President & CEO  
Chesapeake Energy  
P.O. Box 18496  
Oklahoma City, Oklahoma 73154-0496

Dear Mr. Lawler:

As you know, for some time I have received complaints from my constituents and your leaseholders regarding practices of Chesapeake Energy which strike many as unfair and perhaps illegal. Deductions of post-production costs, in a manner which seemingly few if any other operators in Pennsylvania utilize, has caused a significant erosion of the trust and goodwill the natural gas industry has established with Pennsylvania leaseholders and local communities.

Despite communicating these concerns several times, I remain disappointed that the complaints of my constituents continue to go unheeded. It defies logic that, in some cases, leaseholders are being advised that they may actually *owe* money, rather than receive the fair and just royalty to which they are entitled.

Development of natural gas has been a tremendous economic boon to the Commonwealth, particularly at a time when our nation continues to emerge from the economic recession. We have worked hard, and collaboratively, in Pennsylvania that we develop this resource in a manner that protects our environment and natural resources, respects the rights of our citizens and communities, and allows us to maximize the economic and energy security potential of this great resource.

The Pennsylvania General Assembly is currently considering several pieces of legislation aimed at better protecting the rights of our landowners, particularly with respect to fair treatment of royalty payments. I am supporting these legislative efforts, and will work in a bipartisan manner to restore the level of equity and fair play we expect in Pennsylvania.

As a former Attorney General, I worked to protect consumer rights and raise landowner awareness of lease and contract issues. By copy of this letter, I am urging Attorney General Kane to examine this issue, and pledging the full cooperation of agencies under my jurisdiction.

As these efforts move forward, I believe it is incumbent upon Chesapeake Energy to take immediate action to restore the fair treatment of my constituents. Pennsylvania landowners deserve nothing less.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Corbett".

TOM CORBETT  
Governor

cc: Attorney General Kathleen Kane