

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION**

HOPE CHRISTIAN FELLOWSHIP;
JULIUS P. HEIL, TRUSTEE;
THOMAS HANSON;
DALE H. HENCEROTH;
MELINDA J. HENCEROTH;
RUTH BURCHFIELD, TRUSTEE;
JAMES M. BURCHFIELD, TRUSTEE;
TONI I. BURCHFIELD, TRUSTEE;
MARILYN S. WENDT, TRUSTEE;
JANET K. COOPER;
WILFORD L. COPELAND;
DOROTHY COPELAND;
LANCE R. HULL;
NICOLE R. HULL;
JOHN L. WILLIAMS;
RUTH V. WILLIAMS;
ZEB LOCHLEAR;
JUDITH A. LOCKLEAR;
LEROY H. BAKER, JR.;
CHRISTINE A. BAKER;
THOMAS P. SHERWOOD;
NANCY S. SHERWOOD;
THOMAS KEATING;
NANCY KEATING;
CHARLES W. CRUMBLY;
BRUCE C. MEADOWS;
IRMA L. MEADOWS;
SAMANTHA MEISTER;
DEBRA MEISTER; and
HOLLY MEISTER,
on Behalf of Themselves and Others
Similarly Situated,

Plaintiffs,

vs.

CHESAPEAKE ENERGY CORPORATION
and CHESAPEAKE OPERATING, L.L.C.,

Registered Agent: CT Corporation System
1300 East Ninth Street
Cleveland, OH 44114

Defendants.

Case No. _____

**CLASS ACTION COMPLAINT
AND DEMAND FOR JURY TRIAL**

Electronically Filed

The Plaintiffs, on behalf of themselves and others similarly situated, sue Chesapeake Energy Corporation and Chesapeake Operating, L.L.C. for violations of the Ohio Corrupt Practices Act, R.C. § 2923.31, *et seq.* (“the Ohio RICO Act”).

SUMMARY OF CLAIMS

1. Plaintiffs and the other Class Members are lessors under oil and gas leases with Chesapeake Exploration, L.L.C. (“Chesapeake Exploration”). These leases provide for the payment of oil and gas royalties, including royalties on natural gas (methane), natural gas liquids (ethane, propane, butane, isobutene and pentane) and oil.

2. The oil and gas royalties paid to Plaintiffs and the other Class Members were calculated and paid by Defendants Chesapeake Energy Corporation (“Chesapeake Energy”), the corporate parent of Chesapeake Exploration, and Defendant Chesapeake Operating, L.L.C. (“Chesapeake Operating”), an affiliate of Chesapeake Exploration.

3. Defendants conspired to defraud, and did defraud, Plaintiffs and the other Class Members of the full amount of oil and gas royalties due them by means of multiple fraudulent and illegal acts, including acts of accounting fraud, wire fraud, mail fraud, theft and theft by deception, all in violation of the Ohio RICO Act.

4. Defendants’ fraud encompassed all three variables in the royalty calculation: (1) the amount of the product produced, (2) the price paid by the buyer, and (3) the costs deducted.

5. Defendants often deducted fraudulent costs in amounts so large that the deductions completely cancelled out the royalty, allowing them to take the products at no cost. This practice was particularly prevalent with natural gas liquids (“NGLs”). Defendants falsely reported to the royalty owners that they were selling the NGLs at a steep loss, yielding a negative royalty on the NGLs. After the NGL royalties were cancelled out by the costs, Defendants

applied the balance of the NLG costs to any positive royalties on other products, which were already diminished by separate acts of fraud.

6. Defendants also took large cost deductions for the alleged purchase of “fuel gas” even though the gas they used for fuel was leasehold gas. They took approximately 17% of the leasehold gas when the industry norm is to use only 3% as fuel. On top of that, they levied a fuel charge of \$0.51 per thousand cubic feet (mcf) of gas while reporting to their investors that they had held fuel costs down to \$0.10 per mcf.

7. The fraud in this case, of which these are just examples, was deliberate, extensive and calculated. It is precisely the type of commercial fraud that the Ohio RICO statute was enacted to deter. Under the statute, citizens serve the important societal role of private attorneys general to prevent the very type of graft seen in this case.

8. The fraud claims in this Complaint are actionable by all of Chesapeake Exploration’s Ohio royalty owners, regardless of the form of lease. All were defrauded in the same ways, irrespective of variations in the language of their leases.

9. For relief, Plaintiffs seek compensatory damages in an amount to be determined at trial, statutory trebling of the compensatory damages, pre-judgment and post-judgment interest, the costs of this action, attorneys’ fees, and entry of an injunction preventing Defendants from resuming their fraudulent acts in the future.

THE PARTIES

A. The Plaintiffs

10. Plaintiff Hope Christian Fellowship, f/k/a/ New Hope Community Church, is a non-profit corporation incorporated under the laws of Ohio with its principal place of business in Columbiana County at 43152 State Route 39, Wellsville, Ohio 43968. On June 18, 2008, New Hope Community Church entered into an oil and gas lease with Patriot Energy Partners L.L.C.

(“Patriot”) pursuant to which it leased it oil and gas rights to real property in Columbiana County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

11. Plaintiff Julius P. Heil is a citizen of Ohio and resides in Portage County at 1177 State Route 43, Suffield, Ohio 44260. On November 1, 2010, Mr. Heil, as Trustee to the Julius P. Heil Trust (“the Trust”), entered into an oil and gas lease with Chesapeake Exploration, L.L.C. pursuant to which the Trust leased it oil and gas rights to real property in Carroll County, Ohio. In addition, on November 12, 2008, Mr. Heil, as Trustee to the Julius P. Heil Revocable Trust dated September 5, 2006 (“the Trust”), entered into an oil and gas lease with Anschutz Exploration Corporation (“Anschutz”) pursuant to which the Trust leased it oil and gas rights to real property in Carroll County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

12. Plaintiff Thomas Hanson is a citizen of Ohio and resides in Carroll County at 8501 Bay Road S.E., Carrollton, OH 44615. On November 17, 2010, Mr. Hanson entered into an oil and gas lease with Chesapeake Exploration, L.L.C. pursuant to which he leased it oil and gas rights to real property in Carroll County, Ohio.

13. Plaintiffs Dale H. Henceroth and Melinda J. Henceroth, husband and wife, are citizens of Ohio and reside in Columbiana County at 10437 Trinity Church Road, Lisbon, Ohio 44432. On September 14, 2010, Mr. and Mrs. Henceroth entered into an oil and gas lease with Dale Property Services Penn, L.P. pursuant to which they leased it oil and gas rights to real property in Columbiana County, Ohio. Dale Property Services Penn, L.P. subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee. In addition, on July 6, 2009, Mr. and Mrs. Henceroth entered into an oil and gas lease with Anschutz Exploration Corporation

(“Anschutz”) pursuant to which they leased it oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

14. Plaintiff Ruth Burchfield is a citizen of Ohio and resides in Columbiana County at 10472 Mardis Road, Kensington, Ohio 44427. On October 1, 2008, Ms. Burchfield, as Trustee to the Ruth Burchfield Revocable Living Trust dated August 27, 2007 (“the Trust”), entered into an oil and gas lease with Anschutz Exploration Corporation (“Anschutz”) pursuant to which the Trust leased it oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

15. Plaintiffs James M. Burchfield and Toni L. Burchfield, husband and wife, are citizens of Ohio and reside in Columbiana County at 10251 Mardis Road, Kensington, Ohio 44427. On October 1, 2008, Mr. and Mrs. Burchfield, as Trustees to the Burchfield Revocable Living Trust dated August 27, 2007 (“the Trust”), entered into an oil and gas lease with Anschutz Exploration Corporation (“Anschutz”) pursuant to which the Trust leased it oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

16. Plaintiff Marilyn S. Wendt is a citizen of Texas and resides at 4818 Forestwood Boulevard, Tyler, Texas 75703. On January 2, 2009, Mrs. Wendt and her deceased husband, as Trustees to the A. David and Marilyn S. Wendt Living Trust dated April 27, 2000 (“the Trust”), entered into an oil and gas lease with Anschutz Exploration Corporation (“Anschutz”) pursuant to which the Trust leased it oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee. By division order dated March 12, 2015, the lessor on this lease is now Mrs. Wendt, as Trustee

for MSW Trust A and the ADW Trust B. In addition, on February 1, 2009, Mrs. Wendt and her deceased husband, as Trustees to the Wendt Living Trust dated April 27, 2000 (“the Trust”), entered into an oil and gas lease jointly with other lessors with Anschutz Exploration Corporation (“Anschutz”) pursuant to which the Trust leased its oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

17. Plaintiff Janet K. Cooper is a citizen of Ohio and resides in Columbiana County at 12471 Bethesda Road, Hanoverton, Ohio 44423. On February 1, 2009, Ms. Cooper entered into an oil and gas lease jointly with other lessors with Anschutz Exploration Corporation (“Anschutz”) pursuant to which the Trust leased its oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

18. Plaintiff Wilford L. Copeland is a citizen of Ohio and resides in Columbiana County at 12471 Bethesda Road, Hanoverton, Ohio 44423. On February 1, 2009, Ms. Cooper entered into an oil and gas lease jointly with other lessors with Anschutz Exploration Corporation (“Anschutz”) pursuant to which the Trust leased its oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

19. Plaintiffs Lance R. Hull and Nicole R. Hull, husband and wife, are citizens of Ohio and reside in Columbiana County at 13020 State Route 644, Hanoverton, OH 44423. On February 6, 2009, Everett L. Wellendorf and Toni J. Wellendorf, prior owners of the Hull property, entered into an oil and gas lease with Anschutz Exploration Corporation (“Anschutz”) for oil and gas rights to real property in Columbiana County, Ohio. The lessors’ interest passed

to Mr. and Mrs. Hull upon their purchase of the property in June 2010. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

20. Plaintiffs John L. Williams and Ruth V. Williams, husband and wife, are citizens of Ohio and reside in Columbiana County at 11954 State Route 644, Hanoverton, Ohio 44423. On February 11, 2009, Mr. and Mrs. Williams entered into an oil and gas lease with Anschutz Exploration Corporation (“Anschutz”) pursuant to which they leased it oil and gas rights to real property in Columbiana County, Ohio. Anschutz subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

21. Plaintiffs Zeb Locklear and Judith A. Locklear, husband and wife, are citizens of Ohio and reside in Columbiana County at Route 1, Box 24, Salineville, Ohio 43945. On May 28, 2008, Mr. and Mrs. Locklear entered into two oil and gas leases with Patriot Energy Partners L.L.C. (“Patriot”) pursuant to which they leased Patriot oil and gas rights to real property in Columbiana County, Ohio. Patriot subsequently assigned the leases to Chesapeake Exploration, L.L.C., the current lessee.

22. Plaintiffs Leroy H. Baker and Christine A. Baker, brother and sister, are citizens of Ohio and reside in Columbiana County at 92144 State Route 172, East Rochester, Ohio 44625. On June 21, 2008, Mr. and Ms. Baker entered into an oil and gas lease with Patriot Energy Partners L.L.C. (“Patriot”) pursuant to which they leased it oil and gas rights to real property in Carroll County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

23. Plaintiffs Thomas P. Sherwood and Nancy S. Sherwood, husband and wife, are citizens of Ohio and reside in Columbiana County with an address of P.O. Box 45, Wellsville, Ohio 43968. On June 23, 2008, Mr. and Mrs. Sherwood entered into an oil and gas lease with

Patriot Energy Partners L.L.C. (“Patriot”) pursuant to which they leased it oil and gas rights to real property in Carroll County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

24. Plaintiffs Thomas Keating, and Nancy Keating, husband and wife, and Charles W. Crumbley, are citizens of Ohio and reside in Columbiana County at 1635 Merle Road, Salem, Ohio 44460. On July 8, 2008, Mr. and Mrs. Keating and Mr. Crumbley entered into an oil and gas lease with Patriot Energy Partners L.L.C. (“Patriot”) pursuant to which they leased it oil and gas rights to real property in Columbiana County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

25. Plaintiffs Bruce C. Meadows and Irma L. Meadows, husband and wife, are citizens of Ohio and reside in Warren County at 1274 Kay Drive, Mason, Ohio 45040. On August 22, 2008, Mr. and Mrs. Meadows entered into an oil and gas lease with Patriot Energy Partners L.L.C. (“Patriot”) pursuant to which they leased it oil and gas rights to real property in Carroll County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

26. Plaintiffs Samantha Meister, Debra Meister and Holly Meister are citizens of Ohio and reside in Columbiana County at 10075 Salinesville Road, N.E., Salinesville, Ohio 43945. They are royalty owners on leases originally entered into by LaVern Grossman on August 1, 2008 with Patriot Energy Partners, L.L.C. (“Patriot”) that leased oil and gas rights to real property in Columbiana County, Ohio. Patriot subsequently assigned the lease to Chesapeake Exploration, L.L.C., the current lessee.

B. The Defendants

27. Defendant Chesapeake Energy Corporation (“Chesapeake Energy”) is a publicly held corporation incorporated under the laws of Oklahoma with its principal place of business at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118.

28. Defendant Chesapeake Operating, L.L.C. (f/k/a Chesapeake Operating, Inc.) (“Chesapeake Operating”) is a limited liability company formed under the laws of Oklahoma with its principal place of business at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118.

JURISDICTION AND VENUE

29. This Court has subject matter jurisdiction over this action under 28 U.S.C. § 1332(d) because the named Plaintiffs are residents of Ohio, at least one Class Member is a citizen of a different state than the Defendants, the damages of the Class Members exceed \$5,000,000 in the aggregate, and there are more than 100 Class Members. Venue is proper because most of the Plaintiffs reside in this judicial district and many of the leases subject to this action convey gas rights to real property in this judicial district.

FACTS

I. BACKGROUND

A. Oil and Gas Leasing

30. Oil and gas producers enter into oil and gas leases with the owners of oil and gas rights.

31. Under such leases, the owner of the oil and gas rights (the lessor) conveys those rights to the producer (the lessee) in exchange for a royalty on the oil and gas produced and sold from the leasehold each month.

32. The royalties on oil and gas traditionally have been one-eighth of the proceeds of the sale of the oil and gas.

33. If a lease so provides, the producer may deduct “post production costs” when calculating the royalties.

34. “Post production costs” are costs incurred between the well and the point at which the producer/lessee transfers title to the oil and gas to the buyer.

35. Costs incurred after the producer has transferred title are not deductible from oil and gas royalties.

B. Chesapeake Energy’s Production of Oil and Gas in Ohio

36. Defendant Chesapeake Energy is the leading producer of oil and gas in Ohio. Its production of natural gas, NGLs and oil has grown robustly since the end of 2012, as shown by the company chart below.



37. Defendant Chesapeake Energy produces its oil and gas in Ohio through a production subsidiary, Chesapeake Exploration, L.L.C (“Chesapeake Exploration”).

38. Chesapeake Exploration produces oil and gas in Ohio both under leases in which it is named as the lessee and under leases assigned to it by other lessees, including leases assigned by Anschutz Exploration Corporation (“Anschutz”), Patriot Energy Partners L.L.C. (“Patriot”) and Dale Property Services Penn, L.P. (“Dale Property Services”).

39. Chesapeake Exploration sells the oil and gas it produces to Chesapeake Energy Marketing, L.L.C. (“CEMI”), a gas marketing subsidiary of Chesapeake Energy and thus an affiliate of Chesapeake Exploration.

40. CEMI takes title to the gas at the well.

41. The oil is separated from the gas in tanks near the wells, transported by truck to market and sold by CEMI to unaffiliated third-party buyers by the barrel.

42. The raw gas is transported through gathering lines to a processing plant where CEMI processes the commingled gas it buys from many Chesapeake Exploration wells. This processing includes (1) dehydration (if the gas has excessive water vapor); (2) sweetening (if the gas has excessive sulfur and carbon dioxide); and (3) the removal of ethane, propane, butane, isobutene and pentane and other marketable natural gas liquids (“NGLs”).

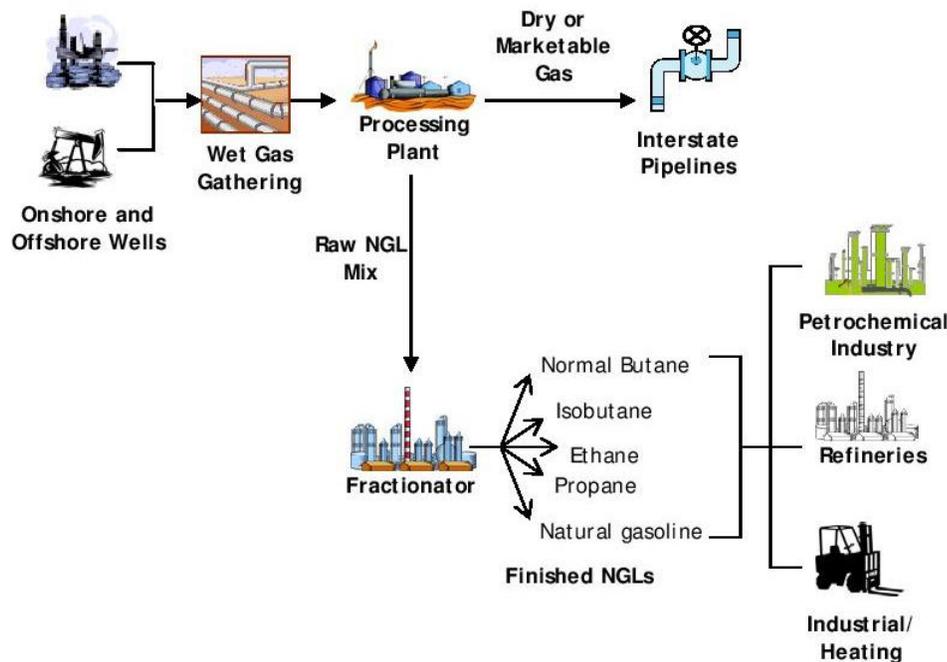
43. The NGLs are transported through NGL lines to a fractionation plant where the NGLs are processed into separate products. The NGLs are then transported to market and sold by CEMI to unaffiliated third-party buyers by the gallon.

44. CEMI transports the processed natural gas (methane) through pipes to the interstate pipeline system and sells it to unaffiliated third-party buyers in units of a thousand

cubic feet (“mcf”) either at the entrance to the interstate system (“the pipeline pool”) or at points on the interstate system.

45. The “midstream” services described above are shown in the illustration below prepared by Tudor, Pickering, Holt Co., an energy investment and merchant banking firm.

Midstream Overview



C. Defendants’ Calculation of the Royalties

46. Defendants Chesapeake Energy and Chesapeake Operating jointly calculate the royalties and jointly issue the royalty checks.

47. Defendant Chesapeake Energy’s Revenue Department organizes the data used to calculate the royalties on spreadsheets with eighteen columns.

48. Defendant Chesapeake Energy mailed one of these spreadsheets to Ronald Hale after he inquired about his royalties. The spreadsheet provided to Mr. Hale is reproduced below.

Excerpts of this data are presented in a more readable format throughout this Complaint.



Well Number	Well Name	Production Date	Pay Group	Product Code	Purchaser	Gross Volume	BTU Factor (Heating Value)	MMBtu Volume	Gross Value Prior to Deductions	3RD Party Deductions	Fuel	Affiliate Gathering/Competitor/Treating Deductions	Percentage	Gross Value After Deductions	Sales Price	Owner Payment (Net)	Owner Gross Payment
837175	BUCK 24-15-5 1H	02-2014	02	1	CEMH (OIL)	943	0.000	0	\$8,632.56	2,251.47	\$	\$	2.540%	\$6,381.09	\$1.60	0.00071947	\$
837175	BUCK 24-15-5 1H	02-2014	03	1	CEMH (OIL)	79	0.000	0	2,217.76	\$	\$	\$	0.000%	2,217.76	77.00	0.00071947	\$
837175	BUCK 24-15-5 1H	02-2014	03	1	CEMH (OIL)	10	0.000	0	886.15	\$	\$	\$	0.000%	886.15	76.92	0.00071947	\$
837175	BUCK 24-15-5 1H	02-2014	02	2	CEMH (GAS)	30,808	0.970	10,563	\$7,809.44	3,344.10	\$	9,064.60	7.245%	\$2,595.95	5.34	0.00080346	\$
837175	BUCK 24-15-5 1H	02-2014	04	2	TOTAL E&P USA INC (LITICA)	2,795	1.131	3,162	\$8,316.74	1,410.99	\$	816.18	2.292%	\$7,123.77	4.24	0.00080346	\$
837175	BUCK 24-15-5 1H	02-2014	02	4	TOTAL E&P USA INC (LITICA)	6,487	0.000	0	\$1,847.68	1,671.10	\$	\$	21.61%	\$14,818.01	61.12	0.00080346	\$
837175	BUCK 24-15-5 1H	02-2014	04	4	TOTAL E&P USA INC (LITICA)	1,070	0.000	0	\$10,024.15	3,651.24	\$	\$	45.05%	\$5,917.86	0.91	0.00080346	\$
837175	BUCK 24-15-5 1H	02-2014	02	1	CEMH (OIL)	1,070	0.000	0	\$100,796.69	\$	\$	\$	2.83%	\$97,967.87	91.57	0.00071947	\$
837175	BUCK 24-15-5 1H	03-2014	03	1	CEMH (OIL)	22	0.000	0	1,709.59	\$	\$	\$	0.000%	1,709.59	77.71	0.00071947	\$
837175	BUCK 24-15-5 1H	03-2014	03	1	CEMH (OIL)	13	0.000	0	866.84	\$	\$	\$	0.000%	866.84	72.10	0.00071947	\$
837175	BUCK 24-15-5 1H	03-2014	01	2	CEMH (GAS)	10,364	0.943	9,491	\$6,960.61	2,665.09	\$	7,092.95	5.760%	\$3,867.66	3.12	0.00080346	\$
837175	BUCK 24-15-5 1H	03-2014	04	2	TOTAL E&P USA INC (LITICA)	2,623	1.087	2,851	\$12,305.74	1,135.71	\$	108.17	2.018%	\$11,170.03	3.66	0.00080346	\$
837175	BUCK 24-15-5 1H	03-2014	01	4	CEMH (GAS)	52,466	0.000	0	9,782.69	14,204.65	\$	\$	3.038%	176,161.94	61.43	0.00080346	\$
837175	BUCK 24-15-5 1H	03-2014	04	2	TOTAL E&P USA INC (LITICA)	6,847	0.000	0	7,417.75	3,754.17	\$	\$	5.04%	\$3,733.58	3.87	0.00071947	\$
837175	BUCK 24-15-5 1H	04-2014	02	1	CEMH (OIL)	1,342	0.000	0	118,383.18	\$	\$	\$	3.058%	\$115,342.48	92.89	0.00071947	\$
837175	BUCK 24-15-5 1H	04-2014	03	1	CEMH (OIL)	21	0.000	0	1,681.79	\$	\$	\$	0.000%	1,681.79	75.07	0.00071947	\$
837175	BUCK 24-15-5 1H	04-2014	03	1	CEMH (OIL)	6	0.000	0	458.67	\$	\$	\$	0.000%	458.67	77.48	0.00071947	\$
837175	BUCK 24-15-5 1H	04-2014	01	2	TOTAL E&P USA INC (LITICA)	16,407	0.946	15,513	\$6,415.00	6,330.30	\$	10,785.20	9.578%	\$38,749.25	2.64	0.00080346	\$
837175	BUCK 24-15-5 1H	04-2014	10	2	TOTAL E&P USA INC (LITICA)	4,315	1.122	4,841	\$1,347.57	1,902.90	\$	950.88	3.287%	\$1,356.29	3.50	0.00080346	\$
837175	BUCK 24-15-5 1H	04-2014	01	4	CEMH (GAS)	30,679	0.000	0	18,608.92	24,587.21	\$	\$	3.056%	184,790.91	61.64	0.00080346	\$
837175	BUCK 24-15-5 1H	04-2014	10	4	CEMH (GAS)	13,692	0.000	0	14,332.53	6,212.86	\$	\$	8.88%	49,715.51	7.11	0.00080346	\$
837175	BUCK 24-15-5 1H	05-2014	02	1	CEMH (OIL)	1,031	0.000	0	381,000.91	\$	\$	\$	8.406%	\$372,594.51	90.14	0.00071947	\$
837175	BUCK 24-15-5 1H	05-2014	03	1	CEMH (OIL)	46	0.000	0	3,099.87	\$	\$	\$	0.000%	3,099.87	78.79	0.00071947	\$
837175	BUCK 24-15-5 1H	05-2014	03	1	CEMH (OIL)	28	0.000	0	2,182.16	\$	\$	\$	0.000%	2,182.16	78.61	0.00071947	\$
837175	BUCK 24-15-5 1H	05-2014	01	2	CEMH (GAS)	40,146	0.959	38,500	\$17,276.96	16,214.90	\$	17,869.65	24.265%	\$34,074.94	2.81	0.00080346	\$
837175	BUCK 24-15-5 1H	05-2014	10	2	TOTAL E&P USA INC (LITICA)	10,768	1.166	12,076	\$2,729.44	4,288.30	\$	1,744.88	8.005%	\$18,520.61	3.05	0.00080346	\$
837175	BUCK 24-15-5 1H	05-2014	01	4	CEMH (GAS)	79,306	0.000	0	50,603.54	56,206.01	\$	\$	11.812%	\$1,312.50	0.22	0.00080346	\$
837175	BUCK 24-15-5 1H	05-2014	10	4	TOTAL E&P USA INC (LITICA)	28,443	0.000	0	27,499.17	13,907.03	\$	\$	3.918%	\$13,592.15	0.60	0.00080346	\$
837175	BUCK 24-15-5 1H	06-2014	02	1	CEMH (OIL)	589	0.000	0	55,319.19	1,504.46	\$	\$	2.719%	\$53,814.73	91.88	0.00071947	\$
837175	BUCK 24-15-5 1H	06-2014	02	1	CEMH (OIL)	158	0.000	0	14,190.15	\$	\$	\$	0.606%	14,190.15	89.95	0.00071947	\$
837175	BUCK 24-15-5 1H	06-2014	02	1	CEMH (OIL)	1,448	0.000	0	136,048.28	\$	\$	\$	3.630%	\$134,418.66	91.43	0.00071947	\$
837175	BUCK 24-15-5 1H	06-2014	03	1	CEMH (OIL)	9	0.000	0	760.51	\$	\$	\$	0.000%	760.51	81.12	0.00071947	\$
837175	BUCK 24-15-5 1H	06-2014	03	1	CEMH (OIL)	17	0.000	0	1,403.81	\$	\$	\$	0.000%	1,403.81	81.24	0.00071947	\$
837175	BUCK 24-15-5 1H	06-2014	01	2	CEMH (GAS)	53,334	0.970	54,256	\$23,504.89	21,980.55	\$	\$	33.445%	\$31,491.18	2.58	0.00080346	\$
837175	BUCK 24-15-5 1H	06-2014	10	2	TOTAL E&P USA INC (LITICA)	14,076	1.210	17,031	\$69,850.36	5,642.06	\$	24,298.30	33.445%	\$28,012.76	3.57	0.00080346	\$
837175	BUCK 24-15-5 1H	06-2014	01	4	CEMH (GAS)	127,460	0.000	0	89,494.79	80,031.17	\$	\$	14.966%	\$1,361.84	0.04	0.00080346	\$

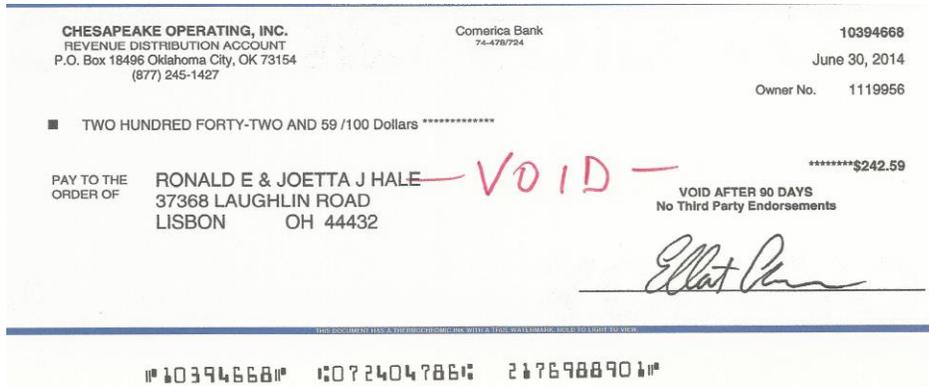
49. The spreadsheet provides the calculations of the royalties on gas, NGLs and oil produced from the Utica shale well “Buck 24-15-5 1H” (“the Buck Well”) during the five month period of February 2014 through June 2014 (“the Buck Well Spreadsheet”). The product codes in the fourth column for the three products at issue are 1 (Oil), 2 (Gas) and 4 (NGLs).

D. Defendants’ Payment of the Royalties

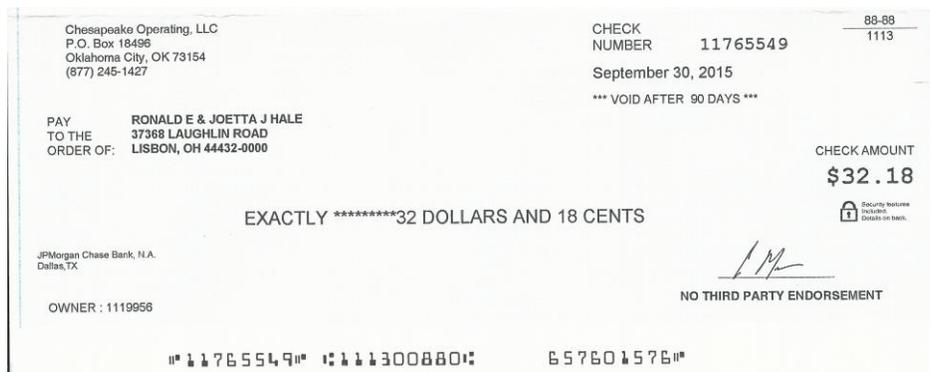
50. Defendants pay the royalties from a bank account in the name Defendant Chesapeake Operating with checks signed by the Vice President and Treasurer of Defendant Chesapeake Energy.

51. Until approximately May of 2015, the royalty checks were issued from the Revenue Distribution Account of Chesapeake Operating, Inc. (the prior name of Chesapeake Operating, L.L.C.) with Comerica Bank. These checks were signed by Chesapeake Energy’s

then Vice President and Treasurer, Elliot Chambers. An example of a royalty check issued from this bank account to Mr. and Mrs. Hale is reproduced below.



52. Beginning in approximately June of 2015, Chesapeake Operating began issuing the royalty checks from its Revenue Distribution Account at JPMorgan Chase Bank, N.A. These checks were signed by Chesapeake Energy’s current Vice President and Treasurer, Caleb Morgret. An example of a royalty check issued from this bank account to Ronald and Joetta Hale is reproduced below.



53. The royalty checks include a check stub containing a royalty statement. An example of these check stubs is the one issued to Mr. and Mrs. Hale on July 31, 2014, covering

production for February - May of 2014 on the Buck Well. A copy of this check stub, which uses the same product codes as the Buck Well Spreadsheet, is reproduced below.

Chesapeake Operating Inc
 P.O. Box 18496
 Oklahoma City, OK 73154
 (877) 245-1427

PAGE: 1

Retain this statement for tax purposes. No duplicates furnished. State taxes have been deducted and paid where required. When writing, refer to lease number and owner number.

PROD DATE	P C	PRICE	I T	PY GP	LEASE				PAYMENT DECIMAL	OWNER					
					VOLUME	TAX	DEDUCT	NET VALUE		VOLUME	GRS VALUE	TAX	DEDUCT	NET	BTU
Gross Value refers to the sales price received by the operator/lessee before deduction of taxes. It may reflect the price received from an affiliated purchaser. Deduct refers to the deductions identified in the Deduct Code below and are generally limited to taxes or deductions made by the operator/lessee. Deductions made by the purchaser (affiliated or non-affiliated) may or may not be shown. Volume of gas is the volume (mcf) of gas produced which may or may not be equal to the volume of gas sold depending on fuel use.															
837175-BUCK 24-15-5 1H STATE: OH COUNTY: CARROLL LEGAL: SECTION 14-15N-5W; AUGUSTA TOW															
214 1		91.60	2 62			943.06	236.29	.00	86146.75	.00071947	.68	62.15	.17	.00	61.98
214 1		77.48	2 63			29.06	13.90	.00	2237.76	.00071947	.02	1.62	.01	.00	1.61
214 1		76.92	2 63			10.48	.00	.00	806.15	.00071947	.01	.58	.00	.00	.58
314 1		91.58	2 62			1069.73	264.08	.00	97696.92	.00071947	.77	70.48	.19	.00	70.29
314 1		77.57	2 63			22.22	13.90	.00	1709.59	.00071947	.01	1.24	.01	.00	1.23
314 1		77.10	2 63			12.80	.00	.00	986.84	.00071947	.01	.71	.00	.00	.71
414 1		92.87	2 02			1241.54	319.68	.00	114987.42	.00071947	.89	82.96	.23	.00	82.73
414 1		79.07	2 03			21.27	.00	.00	1681.79	.00071947	.02	1.21	.00	.00	1.21
414 1		79.83	2 03			5.92	13.90	.00	458.67	.00071947	.01	.34	.01	.00	.33
514 1		90.14	2 02			3030.57	764.45	.00	272422.76	.00071947	2.18	196.55	.55	.00	196.00
514 1		78.79	2 03			45.69	.00	.00	3599.87	.00071947	.03	2.59	.00	.00	2.59
514 1		78.91	2 03			27.83	13.90	.00	2182.16	.00071947	.02	1.58	.01	.00	1.57
214 2		5.34	2 61			10887.53	434.08	.00	57704.27	.00069111	7.53	40.18	.30	.00	39.88 970
214 2		4.94	2 64			2795.47	109.69	.00	13687.44	.00082046	2.29	11.32	.09	.00	11.23 1131
314 2		3.13	2 61			10064.20	405.15	.00	31094.91	.00069111	6.95	21.77	.28	.00	21.49 943
314 2		3.67	2 64			2622.83	109.69	.00	9519.05	.00082046	2.15	7.90	.09	.00	7.81 1087
414 2		2.54	2 01			16406.70	651.13	.00	41078.84	.00069111	11.34	28.84	.45	.00	28.39 946
414 2		3.51	2 TB			4314.83	170.64	.00	14955.03	.00082046	3.54	12.41	.14	.00	12.27 1122
514 2		2.81	2 01			40145.94	1606.11	.00	111313.68	.00069111	27.74	78.04	1.11	.00	76.93 959
514 2		3.50	2 TB			10785.50	426.59	.00	37369.28	.00082046	8.85	31.01	.35	.00	30.66 1166
214 4		.12	2 61			39925.46	231.51	.00	-5064.32	.00069111	27.59	-3.34	.16	.00	-3.50
214 4		.91	2 64			6486.66	36.56	.00	5874.75	.00082046	5.32	4.85	.03	.00	4.82
314 4		.14	2 61			52605.99	289.39	.00	-7741.17	.00069111	36.36	-5.15	.20	.00	-5.35
314 4		.46	2 64			6847.12	36.56	.00	3132.39	.00082046	5.62	2.60	.03	.00	2.57
414 4		.38	2 01			30679.37	173.63	.00	-11778.15	.00069111	21.21	-8.02	.12	.00	-8.14
414 4		.52	2 TB			13692.43	73.13	.00	7057.02	.00082046	11.23	5.85	.06	.00	5.79
514 4		.22	2 01			76306.18	448.55	.00	-17348.90	.00069111	52.74	-11.68	.31	.00	-11.99
Total for check													\$643.07		
OWNER NUMBER		1119956			CHECK NUMBER		10539236			CHECK DATE		07/31/2014			



Chesapeake Operating Inc
 P.O. Box 18496
 Oklahoma City, OK 73154
 (877) 245-1427

PAGE: 2

Retain this statement for tax purposes. No duplicates furnished. State taxes have been deducted and paid where required. When writing, refer to lease number and owner number.

PROD DATE	P C	PRICE	I T	PY GP	LEASE				PAYMENT DECIMAL	OWNER									
					VOLUME	TAX	DEDUCT	NET VALUE		VOLUME	GRS VALUE	TAX	DEDUCT	NET	BTU				
514 4		.41	2 TB			28641.61	158.45	.00	11432.61	.00082046	23.50	9.51	.13	.00	9.38				
										LEASE TOTAL		648.10		5.03		.00		643.07	
										OWNER TOTAL		648.10		5.03		.00		643.07	
CHECK TOTAL																			

II. DEFENDANTS' FRAUDULENT UNDERPAYMENT OF GAS ROYALTIES

54. Defendants fraudulently underpaid the gas royalties by (1) fraudulently calculating the royalties on less than the amount of gas sold, (2) fraudulently deducting NGL costs from the gas royalties, (3) fraudulently deducting costs incurred after Chesapeake Exploration no longer held title, (4) deducting costs that were fraudulent in their dollar amounts, (5) fraudulently using a price that was less than the price paid by the buyer, and (6) fraudulently failing to pay a royalty on the proceeds of derivative contracts.

A. Defendants' Fraudulent Calculation of the Gas Royalties Using Less Than the Amount of Gas Sold

55. Chesapeake Exploration's leases require that the gas royalties be paid on the full amount of the gas it sells.

56. Chesapeake Exploration sells the gas it produces to CEMI at the well and CEMI takes title to the gas at the well.

57. Defendants deliberately and fraudulently failed to pay a royalty on the amount of gas sold by Chesapeake Exploration to CEMI.

58. Chesapeake Exploration files quarterly and annual reports with the Ohio Department of Natural Resources ("ODNR") stating the volumes of gas produced by each well.

59. The volumes reported as "gross volumes" on the spreadsheets and as "volumes" on the check stubs are not the volumes produced. They are each well's pro rata share of the gas that CEMI sold downstream which, on average, is 17% less than the produced volumes reported to the ODNR.

60. The Table on the next page compares the volumes of gas produced by the Buck Well, as reported to the ODNR, with the volumes reported on the check stubs.

Gas Volumes (Buck Well)		
Quarter	ODNR Volumes	Defendants' Check Stubs
2Q 2014	157,643	141,662.75
3Q 2014	174,625	148,479.79
4Q 2014	115,572	92,550.56
1Q 2015	76,985	52,432.18
2Q 2015	95,162	81,728.27
TOTAL	619,987	516,853.55

61. Defendants' practice of fraudulently understating the amount of gas produced and sold is deliberate. On October 20, 2015, SeekingAlpha.com, a website providing market research and financial analysis, published the following report.

Chesapeake Energy Fined \$2.1M for Underreporting Gas on Tribal Lands

Oct 20 2015, 16:58 ET | About: [Chesapeake Energy Corporation \(CHK\)](#) | By: [Carl Surran](#), SA News Editor 

Chesapeake Energy (NYSE:[CHK](#)) is [fined \\$2.1M](#) by the U.S. Department of the Interior for failing to comply with a 2011 order that found "repeated, systematic errors" in the company's reporting of the amount of natural gas it produced and sold from more than 100 leases on American Indian tribal land.

In May 2012, CHK said it had submitted all the corrections required by the 2011 order, but the government's follow-up testing found additional underreported volumes; CHK corrected those items in 2013, but further reviews still found uncorrected data.

B. Defendants' Fraudulent Deduction of NGL Costs from The Gas Royalties

62. The only costs that can be deducted from natural gas royalties are costs incurred with respect to the natural gas. This is because royalty owners have a separate property interest in each product and can assign or bequeath those interests separately.

63. Defendants deliberately and fraudulently deducted NGL costs from the gas royalties, as detailed on pages 38-41 of this Complaint.

C. Defendants' Fraudulent Deduction of Costs Incurred After Chesapeake Exploration Transferred Title to the Gas to CEMI

64. Chesapeake Exploration transfers title to the gas to CEMI at the well, as explained in a form letter that Defendant Chesapeake Energy sends to royalty owners inquiring about their royalties. The letter states, in pertinent part:

By way of background, gas produced from the Lease is in marketable form at the wellhead and is sold by Chesapeake to Chesapeake Energy Marketing, Inc. ("CEMI") at this point. CEMI is a marketing company which takes title to and possession of gas at the wellhead and sells that gas at down-stream value-added points of sale, typically on an interstate system. CEMI pays Chesapeake 97 percent of the sales price CEMI receives (CEMI retains a 3 percent marketing fee which is borne solely by Chesapeake and is not passed on to you), less the costs CEMI incurs between the wellhead point of sale and the value added downstream points of sale. The costs incurred by CEMI include a compression fee, a gathering fee, and a transportation fee, as indicated in your royalty statements.

65. The royalty statements on the check stubs make no mention of CEMI and do not "indicate" that compression, gathering and transportation fees were deducted from the royalties. Instead, the check stubs report zero deductions.

66. Defendants did not disclose these deductions on the check stubs because the costs were incurred by the purchaser, CEMI, not by the lessee, Chesapeake Exploration.

67. As Defendants explain on the check stub:

Deduct refers to the deductions identified in the Deduct Code below and are generally limited to taxes or deductions made by the operator/lessee. Deductions made by the purchaser (affiliated or unaffiliated) may or may not be shown.

68. All of the costs deducted from the gas royalties were fraudulent because they were incurred by CEMI after Chesapeake Exploration no longer held title to the gas.

D. Defendants' Deduction of Costs That Were So Excessive As to Be Fraudulent

69. Defendants' deductions from the gas royalties are reported on the spreadsheets prepared by Defendant Chesapeake Energy, including the Buck Well Spreadsheet.

70. The deductions from the gas royalties on these spreadsheets include not only costs incurred by CEMI, but also costs incurred by Total E&P USA, Inc., which purchased a lesser amount of the gas produced by Chesapeake Exploration each month.

71. The Buck Well Spreadsheet shows three categories of cost deductions: "3rd Party Deductions," "Fuel," and "Affiliate Gathering/Compression/Treating Deductions."

72. The Table on the next page shows the deductions from the gas royalties reported on the Buck Well Spreadsheet, with two columns added to show the total amount of the deductions and the amount deducted per mcf.

Cost Deductions from Gas Royalties on Buck Well Spreadsheet								
	Buyer	Volume	3rd Party Deducts	Fuel	Affiliate Gathering Compress. Treating	Percent	Total Deducts	Deducts Per mcf
02-14	CEMI	10,888	3,344.10	9,064.69	7,245.03	25.259	19,653.82	1.8051
	Other	2,795	1,410.99	816.18	2,292.37	24.674	4,519.54	1.6170
03-14	CEMI	10,064	2,665.09	7,092.95	5,760.68	33.046	15,518.72	1.5420
	Other	2,623	1,135.71	509.17	2,018.61	27.608	3,663.49	1.3967
04-14	CEMI	16,407	6,539.30	10,285.20	9,578.64	38.740	26,403.14	1.6093
	Other	4,315	1,902.90	950.88	3,387.50	29.236	6,241.28	1.4464
05-14	CEMI	40,146	16,214.90	17,869.65	24,265.81	34.074	58,350.46	1.4535
	Other	10,786	4,288.30	1,744.38	8,900.14	28.320	14,932.82	1.3845
06-14	CEMI	55,934	21,580.55	24,298.30	33,445.68	35.491	79,324.53	0.2263
	Other	14,076	5,642.06	2,402.58	11,522.05	28.012	19,566.69	1.3901
TOTAL CEMI		133,439	50,343.94	68,610.79	80,295.84	33.322	199,250.57	1.4932
TOTAL OTHER		34,595	14,379.96	6,423.19	28,120.67	27.570	48,923.82	1.4142
TOTAL BOTH		168,034	64,723.90	75,033.98	108,416.51	N/A	248,174.39	1.4769

73. Even if Defendants had the right to deduct costs incurred after Chesapeake Exploration transferred title (and they had no right), the deductions were still fraudulent because they were the result of collusion and self dealing with Access Midstream Partners, L.P. (“Access Midstream”).

E. The Chesapeake-Access Midstream Royalty Deduction Scheme

74. Until the end of 2010, the gas purchased by CEMI from Chesapeake Exploration was gathered, compressed and treated by Chesapeake Midstream Partners, L.P. (“Chesapeake Midstream”), a subsidiary of Defendant Chesapeake Energy that owned and operated midstream systems in many states, including Ohio.

75. In 2010, Defendant Chesapeake Energy was in dire financial condition due to profligate spending and falling energy prices.

76. To continue operating and service its debt, it needed to raise almost \$5 billion in cash.

77. To obtain this liquidity, Defendants devised a scheme to obtain an upfront payment of \$4.76 billion from private equity investors and repay those investors over time through inflated royalty deductions.

78. With the financial backing of these investors, Defendants structured the creation of an unaffiliated midstream services company, Access Midstream Partners, L.P. (“Access Midstream”) and placed its own officers into key management positions.

79. Defendant Chesapeake Energy then sold its midstream pipeline assets in various states to Access Midstream for \$4.76 billion in cash, thereby solving its urgent need for cash.

80. It then simultaneously entered into non-public side agreements with Access Midstream in which it agreed that almost all gas produced by its oil and gas production affiliates, including Chesapeake Exploration, would be serviced by Access Midstream for exorbitant gathering fees that would guarantee Access Midstream recoupment of its \$4.76 billion investment over ten years with a 15% return.

81. To pay Access Midstream these fees, Defendants conspired to deduct, and did deduct, grossly inflated and fraudulent gathering fees from the oil and gas royalties of Plaintiffs and the other Class Members.

82. Defendants' scheme to raise \$4.76 billion through royalty deductions was reported in an investigative report by Pro Publica, a public interest group, on March 13, 2014 in an article titled "Chesapeake Energy's \$5 Billion Shuffle." The report, available online at www.propublica.org, reads in part as follows:

Federal rules limit the tolls that can be charged on inter-state pipelines to prevent gouging. But drilling companies like Chesapeake can levy any fees they want for moving gas through local pipelines, known in the industry as gathering lines, that link backwoods wells to the nation's interstate pipelines. Property owners have no alternative but to pay up. There's no other practical way to transport natural gas to market.

Chesapeake took full advantage of this. In a series of deals, it sold off the network of local pipelines it had built in Pennsylvania, Ohio, Louisiana, Texas and the Midwest to a newly formed company that had evolved out of Chesapeake itself, raising \$4.76 billion in cash.

In exchange, Chesapeake promised the new company, Access Midstream, that it would send much of the gas it discovered for at least the next decade through those pipes. Chesapeake pledged to pay Access enough in fees to repay the \$5 billion plus a 15% return on its pipelines.

That much profit was possible only if Access charged Chesapeake significantly more for its services. And that's exactly what appears to have happened: While the precise details of Access's pricing remain private, immediately after the transactions Access said that gathering fees are its predominant source of income, and that Chesapeake accounts for 84 percent of the company's business.

* * * * *

On the same day as the last of the major sales, Chesapeake signed long-term contracts pledging to pay Access a minimum fee for transporting its gas. In some cases, the fee held no matter what happened to the price of gas, or even how little of it flowed out of Chesapeake's wells.

Chesapeake also promised to connect every new well it drilled to Access's lines for the next 15 years in Ohio's Utica Shale, a potentially lucrative emerging drilling field, and made similar agreements elsewhere.

According to ProPublica projections based on figures disclosed by the companies in late 2013, Chesapeake commitments would have it paying Access a whopping \$800 million each year. Over ten years, the contracts would generate nearly twice as much money as Access paid Chesapeake for its business in the first place.

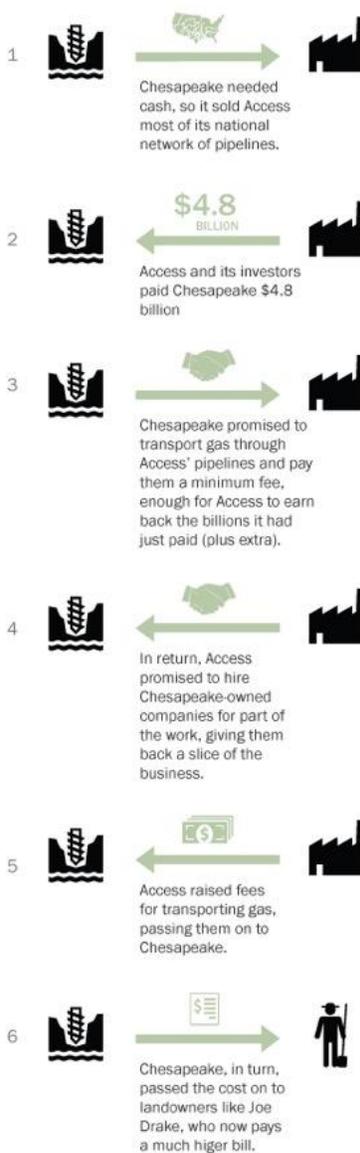
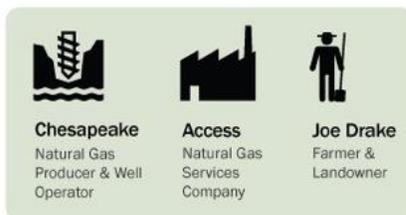
In plain words, Chesapeake and a company made up of its old subsidiaries were passing money back-and-forth between each other in a deal that added little productive capacity but allowed both sides of the transaction to rake in billions of dollars.

83. The findings in the Pro Publica investigation were summarized on the Oil and Gas Lawyers Blog by John B. McFarland on October 27, 2014, as follows:

A recent investigative report by *Pro Publica* describes how Chesapeake spun off its subsidiary, Chesapeake Midstream Partners (which became Access Midstream), in the process raising \$4.76 billion. According to the report, Chesapeake sold its network of gathering lines in Pennsylvania, Ohio, Louisiana, Texas and the Midwest to Access, and entered into an agreement with Access for Access to gather and transport Chesapeake's gas. Over a ten-year period, Chesapeake pledged by this contract to pay Access enough in fees to repay Access's purchase price plus a 15 percent return on the investment. The agreement also provides for Access to pay Chesapeake for use of certain Chesapeake equipment. According to the report, the result of these transactions was to greatly increase Chesapeake's cost of gathering its gas, to an average of 85 cents per mcf. That gathering cost greatly increased the deductions on Chesapeake's royalty owners' checks. In effect, it could be argued that Chesapeake has monetized some of its gas reserves by locking itself into a long-term gathering agreement with Access, in exchange for a \$4.76 billion payment from Access, and in the process created an inflated gathering charge which can be passed on to its royalty owners.

84. The Pro Publica report included the graphic on the next page to illustrate how Chesapeake and Access Midstream conspired to enrich themselves at the expense of the royalty owners.

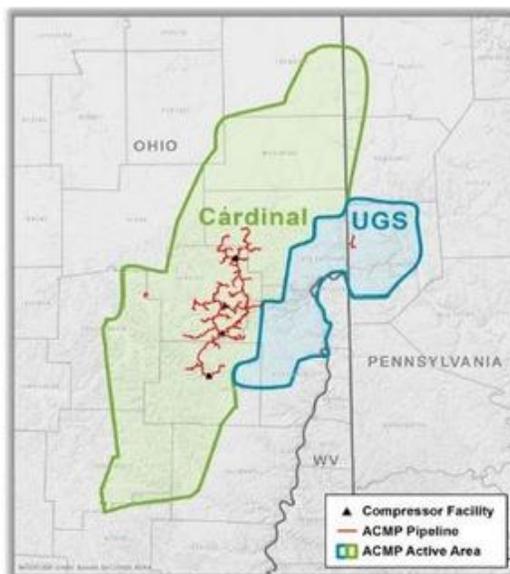
The Chesapeake- Access Deal



85. Among the midstream pipeline assets sold by Defendant Chesapeake Energy to Access Midstream was Chesapeake Midstream’s gas gathering and processing system in the Utica shale region of eastern Ohio, depicted in the ACMP (Access Midstream Partners) graphic below:

ACMP's Utica Gathering System Overview

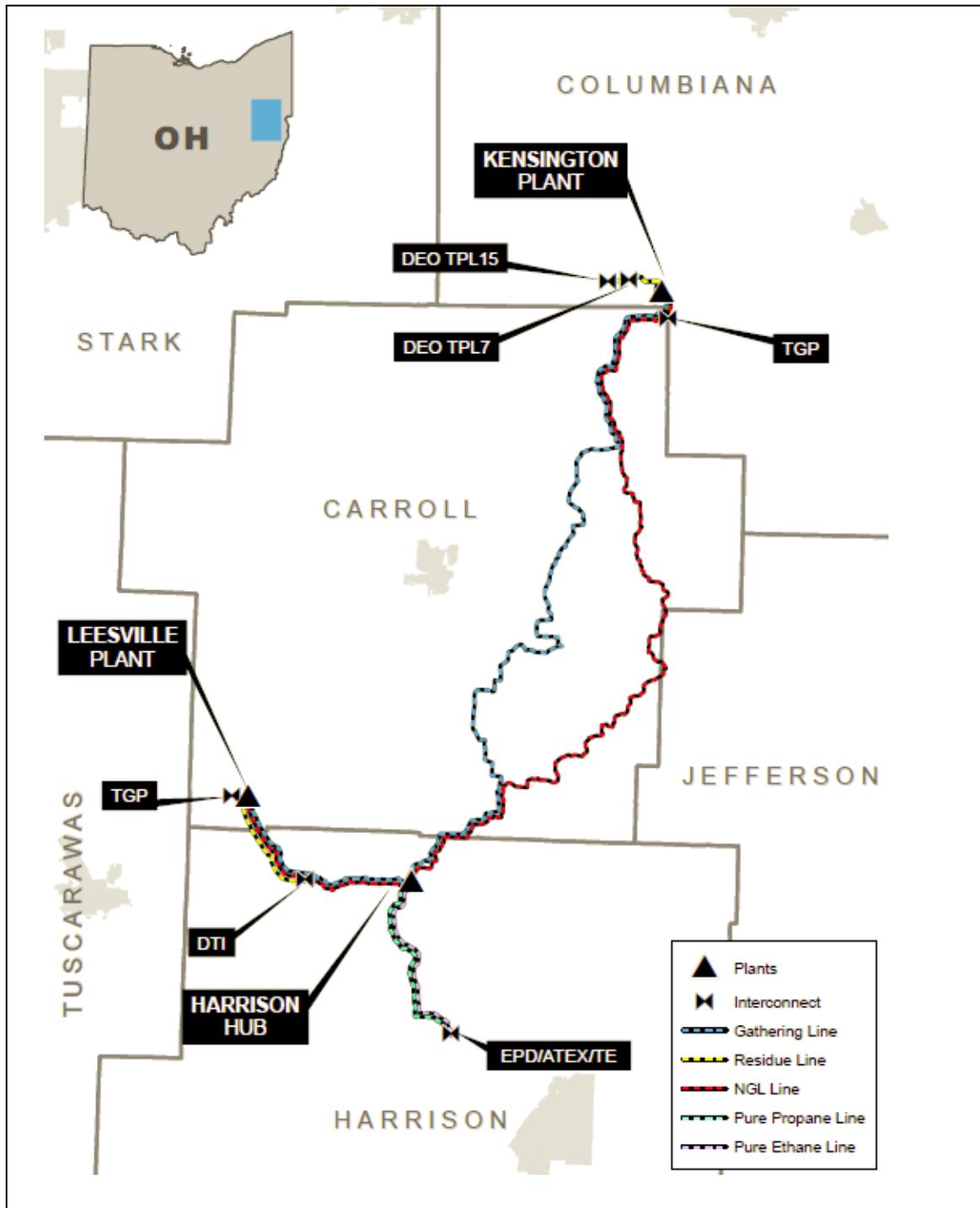
Asset Summary		
Asset	Cardinal Gas Services ("CGS")	Utica Gas Services ("UGS")
Resource	Associated Gas (Oil), Wet Gas	Dry Gas
Services	Gathering, Compression, Dehydration	Gathering, Compression, Dehydration
Gas Gathering Systems	1	1
Miles of Pipeline	226	N/A
Gas Gathered (net)	233 mmcf/d	N/A
Gas Compression (horsepower)	86,580	0
Dedicated Area	1,500,000 acres	140,000 acres
Contract Structure	Cost of Service	Cost of Service
Contract Term	20 years (2032)	15 Years (2027)
Ownership	ACMP - 66%, Operator TOTAL - 25% EVEP - 9%	100% ACMP owned and operated
Accounting Treatment	Consolidated	Consolidated



Market Realist[®]

Source: Company Presentation

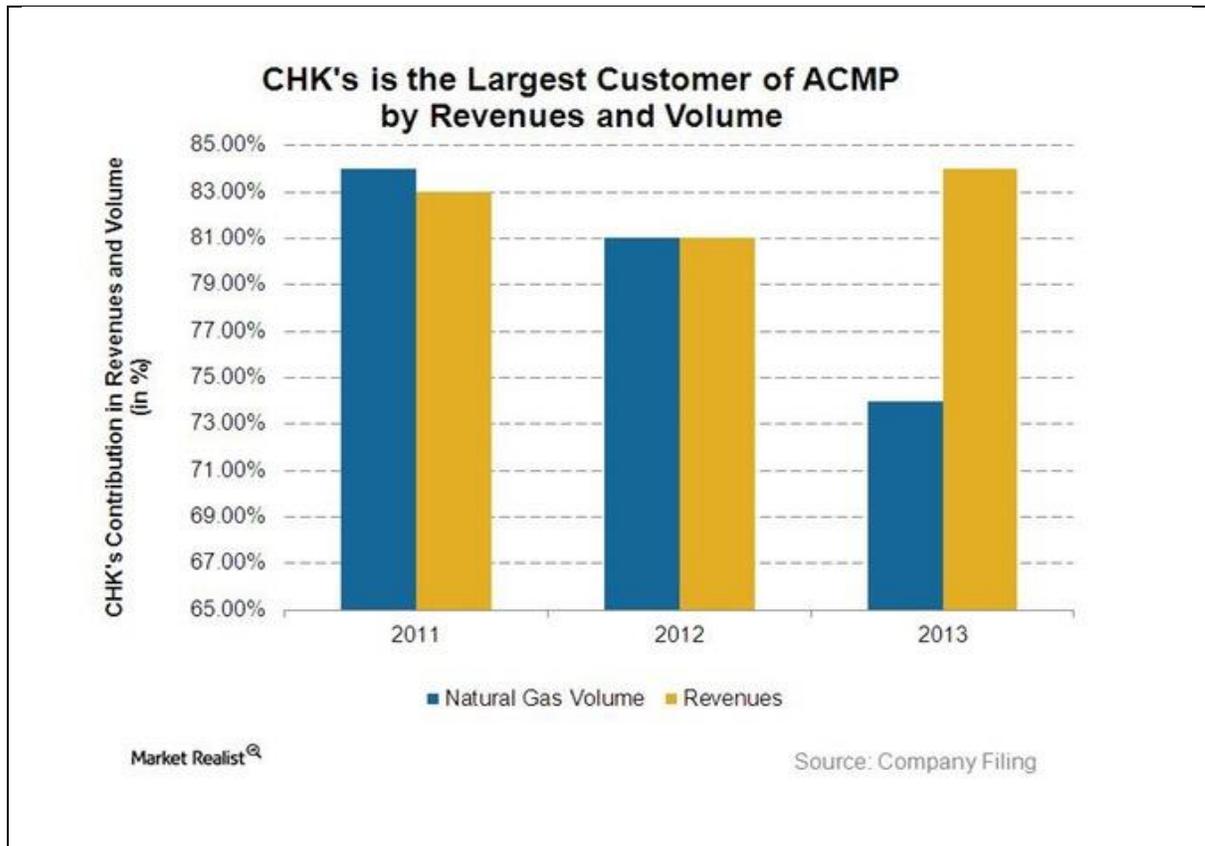
86. This system includes gas gathering lines, processing plants, NGL lines and various interconnect points into interstate pipeline systems, as shown in the graphic on the next page.



87. Defendant Chesapeake Energy made no disclosure to the S.E.C. or its shareholders of its massive obligations to Access Energy until its Annual Report for 2013, in which it noted that it had \$36 billion worth of what it euphemistically called “off-balance-sheet arrangements,” including \$17 billion of long-term commitments to buy gathering services.

88. Through the Chesapeake-Access “arrangement,” Defendant Chesapeake Energy obtained a \$4.76 billion loan from the equity investors of Access Midstream to be repaid through out-sized and fraudulent deductions from the royalties.

89. The bloated nature of the gathering fees deducted from the royalties and paid to Access Midstream is seen in the Access Midstream chart below, posted online by the financial research firm, Market Realist.



90. The preceding chart shows the percentage of Access Midstream's overall business that comes from Defendants in terms of gas volumes and revenue.

91. Defendants' percentage of the revenues steadily increases over its percentage of volumes. In 2011, the percentage of volumes exceeded the percentage of revenues. In 2012, the percentages drew even. Then, in 2013, the percentage of revenues greatly exceeded the percentage of volumes.

92. If the fees paid by Defendants were comparable to the fees paid by Access Midstream's new customers delivering gas into the Access Midstream system, the two bars in the Table above would have maintained the same relation to one another, dropping in like measure as other Access Midstream customers added gas to the system.

93. Instead, the bar showing the revenues gains on, and eventually exceeds, the volumes bar.

94. This means that the gathering fees paid by Defendants were greatly in excess of the gathering fees paid by Access Midstream's other customers.

95. Further proof that the gathering fees deducted from the royalties were grossly inflated is found by comparing those fees to the industry norm.

96. The deductions taken by Defendants for "Third Party Deductions," "Fuel" and "Affiliate Gathering/Compression/Treating Deductions" in columns on the Buck Well Spreadsheet averaged \$1.57 per mcf over the five month period reported on that spreadsheet.

97. This is greatly in excess of the market norm, as shown by a study published by the Pennsylvania Independent Oil and Gas Association ("PIOGA") in 2015.

98. The stated purpose of the study was to persuade the executive and legislative branches of the state government not to increase oil and gas severance taxes. To make this case,

the report researched and reported the gas prices paid to producers and the costs incurred by them.

99. The results of the study are published as the “PIOGA Gas Pricing and Economics Sheet” (“PIOGA Gas Economics Sheet”) and can be accessed on the website of Huntley and Huntley, Inc. at www.huntleyinc.com under “Natural Gas Pricing and Economics Must Drive Policy Making in Pennsylvania.”

100. The PIOGA Gas Economics Sheet reports that gas producers in Pennsylvania pay the following rates for “gathering and transportation:”

Gathering and Transportation (PIOGA, 2015)	
Shallow Well	Marcellus Well
\$0.60/mcf	\$1.05/mcf

101. Gathering and transportation costs in the Utica play may be greater or less than those in the Marcellus play, but the difference, if any, is negligible.

102. Further, given the purpose and source of the PIOGA study, it is unlikely that the gathering and transportation costs are understated. Any error is more likely to be one of overstatement.

103. The Buck Well is a horizontal Utica shale well comparable to a Marcellus Shale horizontal well. Thus, the gathering and transportation costs, per the PIOGA study, should be in the neighborhood of \$1.05.

104. The cost deductions taken by Defendants of \$1.57 per mcf are so far in excess of the \$1.05 industry norm as to be fraudulent per se.

F. Defendants' Fraudulent Cost Deductions for "Fuel"

105. Defendants' dollar deductions for "Fuel" were fraudulent because the gas used for compression, dehydration and processing was leasehold gas, not gas purchased from suppliers.

106. The royalty check stubs, including the one for the Buck Well, include a definition for "volume of gas" that reads: "Volume of gas is the volume (mcf) of gas produced which may or may not be equal to the volume of gas sold *depending on fuel use.*" (emphasis added).

107. By Defendants' admission, therefore, the *only* reason for a variance between the volumes of gas produced and the volumes sold is "fuel use."

108. Chesapeake Exploration reports the volumes of gas produced by each well in quarterly and annual production reports filed with the Ohio Department of Natural Resources ("ODNR").

109. The volumes reported as "gross volumes" on the spreadsheets and as "volumes" on the check stubs are not the volumes produced. They are, on average, 17% less than the produced volumes reported to the ODNR.

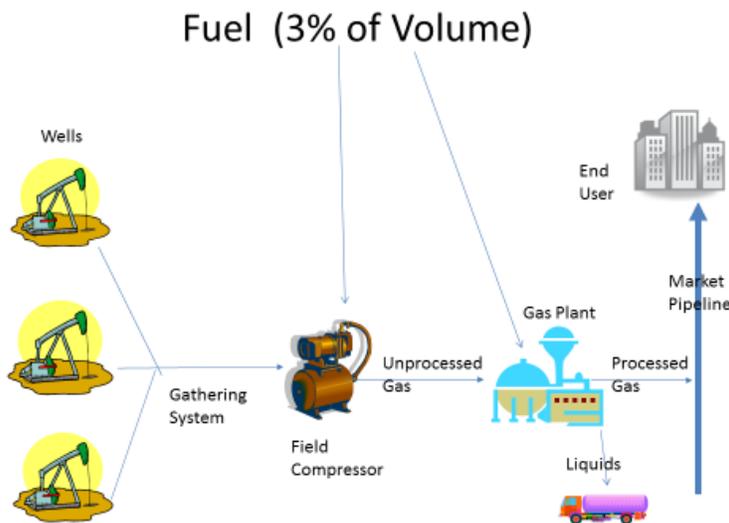
110. The volumes on the spreadsheets and check stubs are each well's pro rata share of the gas sold downstream, calculated by Defendants using an allocation formula.

111. Under the allocation formula, each well is allocated gas in proportion to the well's share of the aggregate production. Thus, a well producing 6% of the gas produced from 100 wells is allocated 6% of the volumes sold downstream.

112. The Table below shows the volumes of gas on the ODNR report for the Buck well and the volumes on the royalty check stubs.

Percentage of Gas from Buck Well Used as Fuel				
Quarter	ODNR Vol.	Defendants' Check Stubs	Difference (Fuel Gas)	Percent ODNR Volumes Used For Fuel
2Q 2014	157,643	141,662.75	15,980.25	10.1369
3Q 2014	174,625	148,479.79	26,145.21	14.9722
4Q 2014	115,572	92,550.56	23,021.44	19.9195
1Q 2015	76,985	52,432.18	24,552.82	31.8929
2Q 2015	95,162	81,728.27	13,443.73	14.1227
TOTAL	619,987	516,853.55	103,133.45	16.6347

113. Defendants' purported use of 17% of the gas for fuel is fraudulent because, typically, only 3% of a well's gas is needed for fuel, as shown by the graphic below.



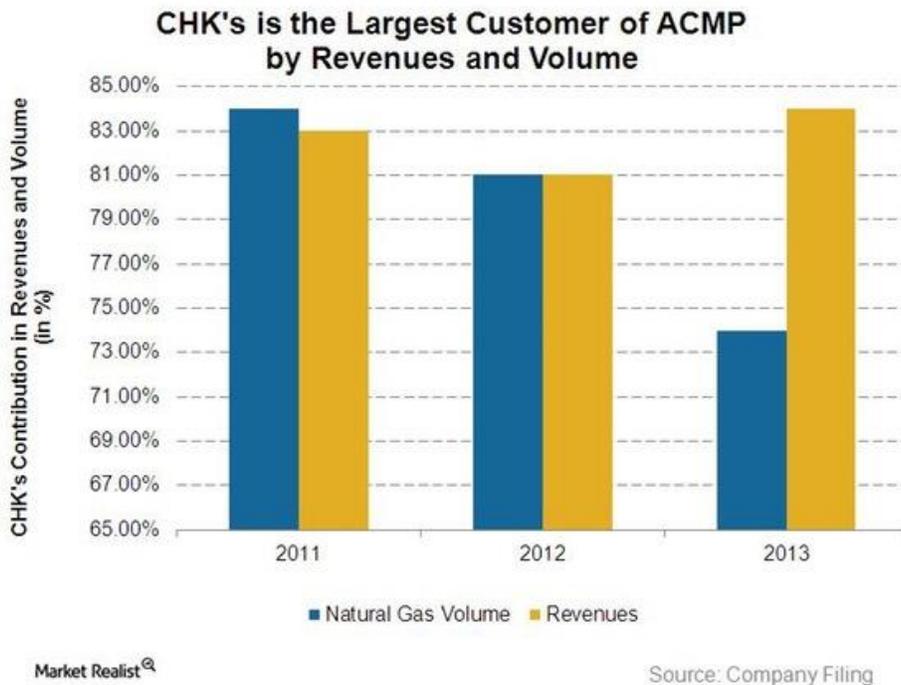
114. Further, the dollar amount of the fuel deduction is also fraudulent.

115. The average dollar amount deducted by Defendants for fuel on gas sold by CEMI during the five months reported on the Buck Well spreadsheet is \$0.51, as shown in the Table below.

FUEL COSTS ON BUCK WELL SPREADSHEET				
Month	Buyer	Volume	Fuel Deduction	Fuel Deduction per mcf
02-2014	CEMI	10,888	\$ 9,064.69	\$ 0.8325
	Other	2,795	\$ 816.18	\$ 0.2920
03-2014	CEMI	10,064	\$ 7,092.95	\$ 0.7048
	Other	2,623	\$ 509.17	\$ 0.1941
04-2014	CEMI	16,407	\$ 10,285.20	\$ 0.6269
	Other	4,315	\$ 950.88	\$ 0.2204
05-2014	CEMI	40,146	\$ 17,869.65	\$ 0.4451
	Other	10,786	\$ 1,744.38	\$ 0.1617
06-2014	CEMI	55,934	\$ 24,298.30	\$ 0.4344
	Other Buyer	14,076	\$ 2,402.58	\$ 0.1707
TOTAL CEMI		133,439	\$ 68,610.79	\$ 0.5142
TOTAL OTHER		34,595	\$ 6,423.19	\$ 0.1857

116. Although Defendants deducted \$0.51 per mcf for fuel on the gas sold by CEMI, the actual cost of fuel (were any purchased) would have been only \$0.10 per mcf.

117. On August 5, 2015, Defendant Chesapeake Energy reported its gas costs to its investors in a Microsoft PowerPoint chart titled “CHK Gas Differentials By Component” (“CHK Differentials Chart”), reproduced below.



118. The CHK Differentials Chart shows actual costs for 2014, actual costs for the first two quarters of 2015 and projected costs for the last two quarters of 2015. The fuel costs are set forth in the Table below.

Fuel Costs On CHK Differentials Chart									
Quarter	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	Q15E	4Q15E	Average
Cost	\$ 0.02	\$0.08	\$0.15	\$0.15	\$0.11	\$0.08	\$0.09	\$ 0.10	\$ 0.0975

119. Defendants' deduction of \$0.51 per mcf was fraudulent because their actual payments for fuel (if any) was only \$ 0.10 per mcf.

G. Defendants' Fraudulent Deduction of Marketing Fees

120. Defendants also fraudulently deducted a 3% marketing fee from the price paid by the third-party buyer.

121. Yet Chesapeake Exploration incurred no marketing fees because it sold all of its gas to CEMI at the well.

122. The marketing costs were incurred by CEMI after Chesapeake Exploration no longer held title to the gas.

123. Since Chesapeake Exploration incurred no marketing fees, Defendants' deduction of the 3% marketing fee from the sale proceeds before calculating the gas royalties was fraudulent.

H. Defendants' Fraudulent Use of Sales Proceeds That Were Less than the Proceeds Received for the Sale of the Gas

124. Chesapeake Exploration has a 100% contingent interest in the gas resold by CEMI (less a 3% agent's commission to CEMI). Given Chesapeake Exploration's continuing financial interest in the gas after title transfer, CEMI functions as Chesapeake Exploration's agent in reselling the gas to third party buyers.

125. The proceeds on which the gas royalties must be paid are (1) the proceeds paid by the third-party buyers calculated using the weighted average sales price ("WASP") for the month and (2) the proceeds received from the sale of the gas under derivative contracts.

126. Defendants fraudulently underpaid the gas royalties by deliberately (1) not paying the royalties on the price paid by the third party buyers and (2) making no upward adjustment in the royalties from the proceeds subsequently received under derivative contracts.

127. Chesapeake Exploration's use of the incorrect price of gas is shown in the sample data from the Buck Well Spreadsheet reproduced below.

Sample Calculation of Sales Price for Gas From Buck Well Spreadsheet					
Month	Buyer	Gross Volume	Gross Value Before Deductions	Gross Value After Deductions	Sales Price
04-2014	CEMI	16,407	\$68,155.50	\$41,752.36	\$2.54

128. The "Gross Volume" of 16,407 multiplied by the \$2.54 sale price yields \$68,155.50, the "Gross Value of the Gas Before Deductions."

129. The sale price before deductions is therefore \$2.54.

130. Defendants fraudulently calculated the royalties using the "Gross Value After Deductions" instead of the "Gross Value Before Deductions."

131. In this case, however, even the "Gross Value Before Deductions" is fraudulent because it is less than the price actually paid by the third-party buyers.

132. The Gas Differential Chart shows that some, if not all, of the gas incurs charges for firm transportation, meaning that some, if not all, of the gas is sold at the city gate.

133. The sale prices used by Defendants are substantially below published city gate prices.

134. The U.S. Energy Information Administration ("EIA"), a federal agency, publishes average monthly city gate prices both for the country and by state at www.eia.gov.

135. The Table below shows the average city gate prices and prices of the check stubs for the Buck Well for the period of February 2014 through July 2015.

Month	U.S. City	Ohio City	Buck Well Check Stubs	
02/14	6.41	5.55	CEMI	5.34
			Other	4.94
03/14	6.57	5.64	CEMI	3.13
			Other	3.67
04/14	5.64	5.28	CEMI	2.54
			Other	3.51
05/14	5.90	5.01	CEMI	2.81
			Other	3.50
06/14	6.05	4.83	CEMI	2.58
			Other	3.57
07/14	5.99	4.03	CEMI	2.53
			Other	2.70
08/14	5.49	4.51	CEMI	2.69
			Other	2.54
09/14	5.51	4.08	CEMI	2.55
			Other	2.57
10/14	5.16	4.89	CEMI	2.37
			Other	2.45
11/14	4.91	4.89	CEMI	3.36
			Other	2.66
12/14	5.15	4.96	CEMI	2.29
			Other	2.95
01/15	4.47	4.83	CEMI	2.03
			Other	2.02
02/15	4.55	4.78	CEMI	2.21
			Other	1.92
03/15	4.33	4.79	CEMI	1.88
			Other	1.73
04/15	3.91	4.51	CEMI	1.22
			Other	1.45
05/15	4.20	4.51	CEMI	1.15
			Other	1.66
06/15	4.40	3.98	CEMI	1.35
			Other	1.45
07/15	4.57	N/A	CEMI	1.39
			Other	1.67

136. The gas prices used by Defendants to calculate the gas royalties are so far below the city gate prices as to be fraudulent per se.

I. Defendants' Fraud in Paying No Royalty on the Proceeds of Derivatives

137. In addition to using a fraudulent sale price that was less than the price paid by the third-party buyer, Defendants also fraudulently failed to make upward adjustments to the gas royalties on the proceeds of derivative contracts.

138. The proceeds of derivative contracts are as much a part of the proceeds of the sale of the gas as the payments from the third parties because they are proceeds created by the sale of the gas.

139. Defendant Chesapeake Energy admits in its annual and quarterly reports filed with the U.S. Securities Exchange Commission ("S.E.C.") that the proceeds of derivative contracts are a component of the "amount realized" from the "sale" of the gas.

140. The filings with the S.E.C. state the aggregate gas sales of all of Defendant Chesapeake Energy's gas production subsidiaries, including Chesapeake Exploration, as below.

Natural Gas Sales (\$ in millions)											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	1 Q15	2Q15
Gas Sales	3,343	4,117	6,003	2,635	3,169	3,133	2,004	2,430	2,777	425	206
Gas Derivatives - Realized Gains /Losses	1,269	1,214	267	2,313	1,982	1,656	328	9	(191)	200	71
Gas Derivatives – Unrealized Gains/Losses	467	(139)	521	(492)	425	(669)	(331)	(52)	535	(164)	(67)
Total Gas Sales	5,079	5,192	6,791	4,456	5,576	4,120	2,001	2,387	3,121	461	210

141. Proceeds from derivatives increased the total proceeds in all but two of the nine and a half years shown in the Table on the prior page. Only in 2012 and 2013 did the derivatives reduce the amount realized and those decreases were, in a relative sense, negligible.

142. The dollar amounts paid by the third-party buyers during the nine and a half years total approximately \$30.2 billion, yet the “Total Natural Gas Sales” were approximately \$39.4 billion. Therefore the “Total Gas Sales” over the nine and a half years period included \$9.2 billion from the derivatives, but Defendants fraudulently paid no royalty on that \$9.2 billion portion of the “Total Natural Gas Sales.”

143. If all Chesapeake leases provided for a one-eighth royalty on gas (and many provide for a greater royalty), the amount of gas royalties that Defendant Chesapeake Energy underpaid nationwide due to the non-payment of royalties on the proceeds of derivative contracts is approximately \$1.5 billion over the nine and a half year period. Discovery will establish what portion of this \$1.5 billion is owed to royalty owners under Ohio leases.

III. DEFENDANTS’ FRAUDULENT UNDERPAYMENT OF ROYALTIES ON NGLs

144. Defendants underpaid the royalties on NGLs by (1) fraudulently paying a royalty on less than the full amount of NGLs sold; (2) fraudulently deducting processing costs that exceeded the NGL royalties, thereby paying no NGL royalties; and (3) fraudulently calculating the royalties using a price per gallon than was less than the price paid by the buyer.

A. Defendants’ Fraud in Paying a Royalty on Less Gallons of NGLs Than Were Produced and Sold

145. The Brookings Natural Gas Task Force published a study in 2013 in which it stated that gas produced in the Utica shale play produces 4 to 9 gallons of NGLs from each mcf of gas, as shown in the Table below reproduced from the study.

Table 1: Gallons of NGL per (Mcf) of Gas, Selected Shale Plays

Bakken (shale oil) 6 to 12
 Barnett 2.5 to 3.5
 Eagle Ford (oil and gas) 4 to 9
 Green River (shale oil) 4 to 6
 Niobrara (shale oil) 4 to 9
 Marcellus/Utica (oil and gas) 4 to 9

Source: Veresen, EPRINC

146. Defendants paid a royalty on only 3.25 gallons of NGLs per mcf, as shown in the Table below that stating the NGLs produced from the Buck well.

NGLs Per Mcf (Buck Well)			
Quarter	Gas (mcf)	NGLs (gallons)	NLGs / mcf
2Q 2014	157,643	341,552.58	2.1666
3Q 2014	174,625	671,139.97	3.8433
4Q 2014	115,572	413,683.55	3.5794
1Q 2015	76,985	254,461.14	3.3053
2Q 2015	95,162	333,283.75	3.5023
TOTAL	619,987	2,041,120.99	3.2487

B. Defendants' Fraudulent Deduction of NGL Costs that Exceeded the Amount of the Royalties

147. The costs deducted from the NGL royalties on the Buck Well appear on the Buck Well Spreadsheet as “third-party deductions” and “affiliate gathering, compression and treating,” as shown in the Table below.

COST DEDUCTIONS FROM NGL ROYALTIES (BUCK WELL)								
Month	Buyer	Gross Vol.	Gross Value Prior to Deducts	Third Party Deductions	Affiliate Gath. Comp. Treating	Percent	Gross Value After Deducts	Sale Price
02-2014	CEMI	39,925	11,447.68	13,671.10	2,612.25	142.241	(4,835.67)	(0.12)
	Other	6,487	10,024.15	3,651.24	455.05	40.964	5,917.86	0.91
03-2014	CEMI	52,606	9,782.69	14,204.65	3,028.68	176.161	(7,450.64)	(0.14)
	Other	6,847	7,417.75	3,754.17	504.61	57.413	3,158.97	0.46
04-2014	CEMI	30,679	18,049.92	24,587.21	5,066.92	164.290	(11,604.21)	(0.38)
	Other	13,692	14,182.53	6,212.86	838.03	49.715	7,131.64	0.52
05-2014	CEMI	76,306	50,601.54	56,206.01	1,312.50	133.432	(16,916.97)	(0.22)
	Other	28,642	27,409.17	13,907.03	1,915.83	57.728	11,586.31	0.40
06-2014	CEMI	127,360	89,494.79	80,051.27	14,986.71	106.194	(5,543.19)	(0.04)
	Other	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL CEMI		326,876	179,376.62	188,720.24	37,007.06	144.464	(46,350.68)	(0.18)

148. The affiliate charges are fractionation charges incurred in separating the NGLs into marketable liquids.

149. Plaintiffs do not presently what services are reflected in the third-party deductions, although they likely include some form of transportation costs.

150. Regardless of how they are these charges are classified, they are fraudulent because they consume a grossly inordinate percentage of the value of the gas before the deductions.

151. During the five month reported on the Buck Well Spreadsheet, the costs deducted were 142%, 176%, 164%, 133% and 106% of the value of the NGLs before the deductions.

152. These percentages cannot possibly be the actual percentages. If they were, Defendants would stop producing NGLs to prevent further bleeding. Instead, Chesapeake Energy increased its production of NGLs in 3Q 2015 by 31%.

153. The effect of the out-sized cost deductions from the NGLs is that Defendants paid no royalty on the \$179,376.62 of NGLs sold by CEMI over five months reported on the Buck Well Spreadsheet and, worse, applied the \$46,350.68 balance of costs not used to cancel the NGL royalties against the positive royalties on gas and oil, as well as any positive royalties earned on NGLs sold by the other seller, Total E&P USA, Inc.

C. Defendants' Fraudulent Payment of the Royalties Using a Price That Was Below Market and Below the Price Paid by the Buyer

154. The U.S. Energy Information Agency publishes a composite price for NGLs per million Btu, as shown in the Table on the next page from the E.I.A. website.

U.S. Natural Gas Liquid Composite Price (Dollars per Million Btu)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009	7.31	6.90	6.70	6.94	7.72	9.35	8.36	9.51	9.67	10.52	11.76	12.45
2010	13.46	13.23	11.89	11.62	11.29	10.93	10.18	10.48	11.02	12.15	12.71	13.07
2011	13.03	13.65	14.38	15.45	15.62	15.23	15.80	15.24	15.88	15.71	15.70	15.31
2012	13.82	12.47	13.13	12.72	10.83	8.70	9.66	10.18	10.04	10.35	10.16	9.73
2013	9.84	9.91	9.57	9.64	9.48	9.06	9.56	10.21	10.26	10.41	10.42	10.76
2014	11.61	11.94	10.03	10.26	10.02	10.17	9.94	9.69	9.86	8.75	7.84	5.63
2015	5.08	5.70	5.52	5.58	5.25	4.78	4.73	4.42				

155. The Buck Well Spreadsheet price provides both the gross volume of NGLs in gallons sold during the five month period of February 2014 through June 2014, as well as the gross value of the NGLs prior to cost deductions. These data are shown in the Table below, along with the computation of the value of the NGLs per gallon before cost deductions.

NGLs (Buck Well)				
Month	Buyer	Gross Gallons	Gross Value (No Deducts)	Gross Value Per Gallon
02-2014	CEMI	39,925	11,447.68	0.2867
03-2014	CEMI	52,606	9,782.69	0.1860
04-2014	CEMI	39,679	18,049.92	0.5883
05-2014	CEMI	76,306	50,601.54	0.6631
06-2014	CEMI	127,360	89,494.79	0.7027
Total	CEMI	326,876	179,376.62	0.5488

156. Plaintiffs cannot presently convert the prices in the E.I.A. Table (\$ per million btu) to the prices on the Buck Well Spreadsheet (\$ per gallon) without knowing the chemical composition of the NGLs.

157. The composition of the NGLs is determined by Defendants using a chromatograph.

158. Plaintiffs will obtain the chromatograph results for the gas in discovery and will then make the necessary price conversion to determine how the NGL prices published by E.I.A. compare with the NGL prices on the Chesapeake Energy's spreadsheets.

IV. DEFENDANTS' FRAUDULENT UNDERPAYMENT OF OIL ROYALTIES

159. Defendants underpaid the royalties on oil by (1) failing to pay a royalty on the full amount of oil sold; (2) fraudulently deducting costs incurred after Chesapeake Exploration no longer held title to the oil; (3) deducting costs that were fraudulent in their dollar amounts; and (4) calculating the royalties on a price of oil that was below market and less than the price paid by the buyer.

A. Defendants' Fraudulent Payment of Royalties on Less than the Full Amount of Oil Sold

160. Defendants were required to pay a royalty on the full amount of oil sold to CEMI at the well.

161. Defendants fraudulently paid a royalty on less oil than was sold to CEMI at the well.

162. Chesapeake Exploration reports the barrels of oil it produces in quarterly and annual filings with the ODNR.

163. The Table on the next page shows the difference between the barrels of oil produced from the Buck Well (as reported to the ODNR) and the amount of oil on which Defendants paid a royalty.

Month	Barrels (ODNR)	Barrels (Check Stub)	Spread	Percentage No Royalty
04-2014		1,268.73		
05-2014		3,104.09		
06-2014		2,221.55		
2Q 2014	7,056	6,594.37	(461.63)	6.5423 %
07-2014		1,576.81		
08-2014		1,063.82		
09-2014		956.39		
3Q 2014	3,672	3,587.02	(84.98)	2.3143 %
10-2014		1,019.23		
11-2014		949.43		
12-2014		952.67		
4Q 2014	2,880	2,922.05	42.05	(1.4601%)
01-2015		305.74		
02-2015		261.60		
03-2015		177.71		
1Q 2015	1,313	745.05	(567.95)	(43.2558%)
04-2015		176.74		
05-2015		694.57		
06-2015		701.88		
2Q 2015	2,094	1,573.19	(520.81)	24.8715 %
Totals	17,015	15,421.68	(1,593.32)	9.3642 %

164. As this Table shows, Defendants fraudulently failed to pay a royalty on 9.36% of the oil sold to CEMI at the well.

B. Defendants' Fraudulent Deduction of Costs Incurred After Chesapeake Exploration Transferred Title to the Oil to CEMI

165. As with gas, Chesapeake Exploration sold the oil to CEMI at the well.

166. Defendants' cost deductions from the oil royalties are not disclosed on the check stubs, but do appear on Defendant Chesapeake Energy's spreadsheets. The Table below shows the cost deductions on the Buck Well Spreadsheet.

Cost Deductions From Oil Royalties (Buck Well)								
Month	Buyer	Gross Vol.	Gross Value Prior to Deducts	Third Party Deducts	Affiliate Gath./ Comp./ Treating	Percent	Gross Value After Deducts	Sale Price
02-2014	CEMI	943	88,632.56	2,251.47	0.00	2.540	86,381.09	91.60
	CEMI	29	2,237.76	0.00	0.00	0.000	2,237.76	77.00
	CEMI	10	806.15	0.00		0.000	806.15	76.92
03-2014	CEMI	1,070	100,796.69	0.00	2,839.31	2.810	97,957.38	91.57
	CEMI	22	1,709.59	0.00	0.00	0.000	1,709.59	77.71
	CEMI	13	986.84	0.00	0.00	0.000	986.84	77.10
04-2014	CEMI	1,242	118,383.18	0.00	3,058.35	2.583	115,324.83	92.89
	CEMI	21	1,681.79	0.00	0.00	0.000	1,681.79	79.07
	CEMI	6	458.67	0.00	0.00	0.000	458.67	77.48
05-2014	CEMI	3,031	281,592.91	0.00	8,406.50	2.985	273,186.41	90.14
	CEMI	46	3,599.87	0.00	0.00	0.000	3,599.87	78.79

	CEMI	28	2,182.16	0.00	0.00	0.000	2,182.16	78.41
06-2014	CEMI	589	55,335.19	1,504.46	0.00	2.719	53,830.73	91.38
	CEMI	158	14,190.15	0.00	0.00	0.000	14,190.15	89.95
	CEMI	1,448	136,048.28	0.00	3,630.62	2.669	132,417.66	91.43
	CEMI	9	750.55	0.00	0.00	0.0000	750.55	82.12
	CEMI	17	1,403.81	0.00	0.00	0.0000	1,403.81	81.24

167. All of the deductions under “Third-Party Deductions and “Affiliate Gathering/Compression/Treating Deductions” were fraudulent, and known by Defendants to be fraudulent, because these costs were all incurred after Chesapeake Exploration no longer held title to the oil.

168. Even if Defendants had the right to deduct costs incurred after Chesapeake Exploration transferred title (and they had no right), the deductions were still fraudulent because they were so excessive in their dollar amounts as to be fraudulent per se.

C. Defendants’ Deduction of Costs That Were So Excessive as to Be Fraudulent

169. The costs deducted from the oil royalties were fraudulent because they included NGL costs.

170. The debiting of costs incurred (or allegedly incurred) with respect to one product cannot be charged against the royalties due on another product.

171. This is because the royalty owners’ have a separate property interest in each product and can assign or bequeath their rights in the products separately.

172. Even if the NGL costs could be applied against the royalties on oil the NGL costs were so excessive as to be fraudulent.

173. The processing and transportation costs on the oil itself, while in theory deductible, were not deductible in this case because they too were so excessive as to be fraudulent.

D. Defendants' Fraudulent Payment of the Royalties Using a Price That Was Below Market and Below the Price Paid by the Buyer

174. Defendants' deductions from the oil royalties show that they incurred costs in processing and transporting the gas to market, meaning that the price they received was a downstream market price.

175. The prices used by Defendants in calculating the oil royalties were always below fair market value and varied arbitrarily even within the same month on the check stubs.

176. The Table below shows the price per barrel reported on Buck Well Spreadsheet compared with the average Cushing spot price reported U.S. Energy Information Agency.

Month	Revenue Spreadsheet (Dollars)	Cushing Spot Price
02-2014	91.60	100.82
02-2014	77.00	100.82
02-2014	76.92	102.82
03-2014	91.57	100.80
03-2014	77.71	100.80
03-2014	77.10	100.80
04-2014	92.89	102.07
04-2014	79.07	102.07
04-2014	77.48	102.07

05-2014	90.14	102.18
05-2014	78.79	102.18
05-2014	78.41	102.18
06-2014	91.38	105.79
06-2014	89.95	105.79
06-2014	91.43	105.79
06-2014	82.12	105.79
06-2014	81.24	105.79

CLASS ACTION ALLEGATIONS

177. The Plaintiffs restate and incorporate by reference the allegations contained in paragraphs 1-176 of this Complaint.

178. The Plaintiffs bring this action on behalf of themselves and the following Class:

Every person except governmental entities who is, or has been, a royalty owner under an oil and gas lease in which Chesapeake Exploration, L.L.C., is the present lessee, either because it is named as the lessee or because the lease has been assigned to it, and (i) the lease conveys rights to oil, natural gas and natural gas liquids in Ohio and (ii) one or more of these products was produced under the lease or may be produced under the lease.

179. The Class Members exceed 2,000 in number, making joinder impracticable. Plaintiffs do not presently know the exact number and identities of the Class Members, but they are known to Defendants and can be ascertained through their business records.

180. The claims set forth in this Complaint are common to all Class Members because Defendants underpaid the gas royalties of all Class Members in the same ways.

181. Plaintiffs are adequate representatives of all Class Members because the claims they assert are typical of the claims of all Class Members, the named Plaintiffs are not subject to

any unique defenses, the interests of Plaintiffs do not conflict with those of the Class Members and Plaintiffs will fairly and adequately protect the interests of all Class Members.

182. Counsel to the Plaintiffs have extensive experience in complex litigation. This experience includes litigating cases in all state and federal courts in Ohio, in the U.S. Courts of Appeals for the Third, Fourth, Sixth and D.C. Circuits, and in the United States Supreme Court. One of the attorneys for Plaintiffs is lead trial counsel in four natural gas royalty class actions pending in the Appalachian Basin, three of which have been certified as class actions and one of which resulted in a jury verdict for the plaintiff class earlier this year.

183. The claims set forth in this Complaint are proper for certification as a class action under Rules 23(a) and 23(b)(3) of the Federal Rules of Civil Procedure because questions of law and fact common to the class predominate over any issues affecting individual class members.

184. No other class action in Ohio asserts the claims asserted here. A class action for breach of contract and an accounting for the underpayment of oil and gas royalties was filed on October 26, 2015 by three plaintiffs in the Court of Common Pleas for Columbiana County captioned *Zehentbauer Family Land L.P. v. Chesapeake Exploration, L.L.C.*, et al., Case No. 2015-CV-557. The instant action is different from *Zehentbauer* because (1) this action is a statutory fraud action for treble damages whereas *Zehentbauer* is a contract action for single damages; (2) this action seeks recovery under all Ohio leases entered into by, or assigned to, Chesapeake Exploration whereas *Zehentbauer* seeks recovery under only a subset of those leases; (3) this action seeks recovery from Chesapeake Energy whereas *Zehentbauer* does not; and (4) this action seeks recovery for claims that *Zehentbauer* does not, including claims that the royalties were calculated on the incorrect amount of the product, that the costs deducted were

not deductible because the lessee did not own the product when the costs were incurred and that no royalties were paid on the proceeds of derivative contracts

185. A class action is superior to other available methods for the fair and efficient adjudication of the claims asserted because there are thousands of Class Members and individual discovery and litigation of the common issues by each lessor would be a needless waste of judicial resources. The interest of Class Members in individually controlling the prosecution of separate actions does not outweigh the benefits of a class action. It is desirable to concentrate the litigation of these claims in one forum. Any difficulties in managing this case as a class action are outweighed by the benefits a class action in disposing of common issues of law and fact.

186. The prosecution of separate actions by each lessor would create a risk of inconsistent or varying adjudications that would establish incompatible standards of conduct for the Defendants, could be dispositive of interests of persons not parties to the individual actions, and could substantially impair or impede the ability of those persons to protect their interests. Further, Defendants acted, or refused to act, on grounds generally applicable to all Class Members.

187. A class action is superior to all other methods for the fair and efficient adjudication of the claims in this case. The class is readily definable and the prosecution of a class action would eliminate the possibility of repetitious litigation and provide redress for persons unable to bring their claims individually. Maintenance of separate actions would place a substantial and unnecessary burden on the courts and could result in inconsistent adjudications. In contrast, a class action would determine the rights of all Class Members with judicial economy.

COUNT I

VIOLATIONS OF THE OHIO CORRUPT PRACTICES ACT

188. Plaintiffs re-allege and incorporate by reference paragraphs 1-187 of this Complaint.

189. Section 2923.34(E) of the Corrupt Practices Act, R.C. § 2923.31, et seq. (the “Act”), provides that “any person directly or indirectly injured by conduct in violation of section 2923.32” of the Act shall have “a cause of action for triple the actual damages the person sustained,” and that recoverable damages “may include, but are not limited to, competitive injury and injury distinct from the injury inflicted by corrupt activity.”

190. Section 2923.32 of the Act provides that “[n]o person employed by, or associated with, any enterprise shall conduct or participate in, directly or indirectly, the affairs of the enterprise through a pattern of corrupt activity....”

191. Section 2923.31(C) of the Act defines “[e]nterprise” as “any individual, sole proprietorship, partnership, limited partnership, corporation, trust, union, governmental agency, or other legal entity, or any organization, association, or group of persons associated in fact, although not a legal entity.” Section 2923.31(C) provides further that “[e]nterprise’ includes illicit as well as licit enterprises.”

192. Section 2923.31(E) of the Act provides that “[p]attern of corrupt activity” as “two or more incidents of corrupt activity, whether or not there has been a prior conviction, that are related to the affairs of the same enterprise, are not isolated, and are not so closely related to each other in time and place that they constitute a single event.”

193. Section 2923.31(I) defines “[c]orrupt activity” as “engaging in, attempting to engage in, conspiring to engage in, or soliciting, coercing, or intimidating another person to engage in” certain acts specified in Section 2923.31(I) of the Act. Under Section 2923.31(I)(1)

of the Act, acts constituting “corrupt activity” include “[c]onduct defined as ‘racketeering activity’ under the ‘Organized Crime Control Act of 1970,’ 84 Stat. 941, 18 U.S.C. 1961(1)(B), (1)(C), 1(D), and 1(E), as amended.”

194. Conduct defined as “racketeering activity” under 18 § U.S.C. 1961(1)(B) includes acts that are indictable under 18 U.S.C. § 1341 (mail fraud), which prohibits the use of the U.S. mail or any interstate carrier to execute, or attempt to execute, “any scheme or artifice to defraud, or for obtaining money by means of false or fraudulent pretenses, representations, or promises,” and acts that are indictable under 18 U.S.C. § 1343 (wire fraud), which prohibits the use of interstate wire communications to execute, or attempt to execute, “any scheme or artifice to defraud, or for obtaining money by means of false or fraudulent pretenses, representations, or promises.”

195. Under Section 2923.31(I)(2)(a) of the Act, acts constituting “corrupt activity” include violations of R.C. § 2913.05, “Telecommunications Fraud,” which provides, in pertinent part, that “[n]o person, having devised a scheme to defraud, shall knowingly disseminate, transmit, or cause to be disseminated or transmitted by means of a wire, radio, satellite, telecommunication, telecommunications device, or telecommunications service any writing, data, sign, signal, picture, sound, or image with the purpose to execute or otherwise further the scheme to defraud.”

196. Under Section 2923.31(I)(2)(c) of the Act, acts constituting “corrupt activity” include a violation of R.C. § 2913.02, “Theft,” which provides that “[n]o person, with the purpose to deprive the owner of property or services, shall knowingly obtain or exert control over either the property or services...without the consent of the owner or person authorized to

give consent ... [or] ...[b]y deception;.....” and provides further that the theft of property having a value in excess of \$1,000 is a felony.

197. Section 2923.34 of the Act provides that a plaintiff who prevails in a civil action under the Act “shall recover reasonable attorney fees in the trial and appellate courts.”

198. Section 2923.34 (J) of the Act provides that “a civil proceeding or action under this section may be commenced at any time within five years after the unlawful conduct terminates or the cause of action accrues.”

199. Plaintiffs and the Class Members have standing to bring a civil action against Defendants under Section 2923.34(E) of the Act because Plaintiffs and the other Class members are persons who were “directly or indirectly injured” by Defendants’ violations of Section 2923.32 of the Act.

200. Both Defendants is a “person” within the meaning of Section 2923.32 of the Act.

201. Each Defendant is an “enterprise” within the meaning of 2923.31(C) of the Act.

202. Defendants collectively are an “enterprise” within the meaning of 2923.31(C) of the Act.

203. Each Defendant was “employed by” or “associated with” the “enterprise” and each Defendant “conduct[ed] or participate[d] in, directly or indirectly, the affairs of the enterprise through a pattern of corrupt activity” in violation of Section 2923.32 of the Act.

204. Defendants’ “pattern of corrupt activity” consisted of multiple predicate acts perpetrated by them singly and in concert from August of 2010 to the present. These acts included conspiracy, wire fraud, mail fraud, theft and theft by deception, as more fully set forth in this Count I.

205. In devising and implementing this fraudulent scheme, Defendants defrauded Plaintiffs and the other Class Members of royalties due them on natural gas, NGLs and oil in the ways detailed in this Complaint and, in so doing, repeatedly and continuously violated the Ohio RICO statute.

206. Defendants' violations of the Ohio RICO statute were deliberate, willful, knowing, and premeditated.

207. In devising and implementing their scheme to defraud the Plaintiffs and other Class members of the royalties due them, Defendants communicated with one another and with other affiliated companies using the telephone wires, the United States mail, electronic email, shared electronic communications and databases.

208. Defendants conspired to mail, and did mail, royalty checks to the Plaintiffs using the United States mail, with full knowledge that the dollar amounts on the checks were fraudulent and that the accounting on the check stub was fraudulent.

209. Defendants' violations of the Act proximately caused damages to the Plaintiffs and the Class Members because those acts caused Plaintiffs and the other Class members to receive less oil and gas royalties than the oil and gas royalties due them.

WHEREFORE the Plaintiffs and the Class Members, demand a trial by jury, judgment of joint and several liability against the Defendants, compensatory damages in an amount to be proven at trial, trebling of the compensatory damages, pre-judgment and post-judgment interest, attorneys fees, and any further relief deemed appropriate by the Court.

COUNT II

INJUNCTIVE RELIEF

210. Plaintiffs re-allege and incorporate by reference paragraphs 1-209 of this Complaint.

211. Absent appropriate orders of this Court, Defendants will continue the fraudulent acts alleged in this Complaint, causing continuing harm to Plaintiffs and the other Class Members.

212. Plaintiffs and the other Class Members have been damaged and are threatened with further damage by the fraudulent acts alleged in this Complaint.

213. Defendants have acted, and will continue to act, on grounds applicable to all Class Members, thereby making appropriate preliminary and permanent injunctive relief enjoining the Defendants from engaging in the fraudulent acts alleged in this Complaint.

214. Irreparable harm will be done to all Class Members if the injunctive relief requested is not ordered by the Court.

215. The balance of equities favors granting the injunction because Plaintiffs and the other Class Members have been damaged by Defendants' fraudulent acts and will continue to be damaged absent injunctive relief.

WHEREFORE Plaintiffs and the other Class Members request a preliminary and permanent injunction enjoining Defendants from engaging in the fraudulent conduct alleged in this Complaint.

PRAYER FOR RELIEF

WHEREFORE Plaintiffs, on behalf of themselves and all other Class Members, respectfully request that the Court:

1. Enter an Order pursuant to Fed.R.Civ.P. 23 certifying the Plaintiff Class, appointing Plaintiffs as Class Representatives, and appointing undersigned counsel as Class Counsel;
2. Enter judgment in favor of Plaintiffs and the other Class Members against all Defendants for violations of the Corrupt Practices Act, compensatory damages, trebling of the compensatory damages, the costs of this action, pre-judgment interest, post-judgment interest and any other relief deemed appropriate by this Court; and
3. Enter a preliminary and permanent injunction enjoining Defendants from resuming their fraudulent acts in the future.

DEMAND FOR TRIAL BY JURY

Pursuant to Rule 38(b) of the Federal Rules of Civil Procedure, Plaintiffs, on behalf of themselves and the other Class Members, demand a trial by jury as to all issues and claims triable to a jury.

Respectfully submitted,

/s/ James A. Lowe

James A. Lowe (0002495)

**LOWE EKLUND & WAKEFIELD CO.,
LPA**

1660 West Second Street
610 Skylight Office Tower
Cleveland, OH 44113-1454

Tel: (216) 781-2600

Fax: (216) 781-2610

jlowe@lewlaw.com

Robert L. Guehl (0005491)
GUEHL LAW OFFICES
2312 Far Hills Avenue, Suite 350
Dayton, OH 45419
Tel: (937) 479-5598
Fax: (888) 547-2528
RGuehlEsq@gmail.com

Mark A. Hutson (0012537)
MARK A. HUTSON LAW OFFICE
33 Pittsburgh Street
Columbiana, OH 44408
Tel: (330) 482-4040
Fax: (330) 482-1953
mhutson@markhutsonlaw.com

Counsel for the Plaintiffs

Robert C. Sanders
(*pro hac vice* motion to follow)
**LAW OFFICE OF ROBERT C.
SANDERS**
12051 Old Marlboro Pike
Upper Marlboro, MD 20772
Tel: (410) 371-2132
rcsanders@rcsanderslaw.com

Of Counsel