



Introduction

- History of OAG Case against Chesapeake Energy
- Overview of OAG Settlement with Chesapeake Energy
- Explanation of Royalty Payment Options
- Election Process for Selecting Royalty Payment Options
- Background on Ombudsman



Case History

- **December 2015** - The PA Office of Attorney General (OAG) filed a complaint against Chesapeake Energy, the country's second-largest national gas producer.
 - The complaint alleged Chesapeake engaged in unfair and deceptive business practices in securing natural gas leases and in its improper payment of royalties to Pennsylvania landowners in violation of the Unfair Trade Practices and Consumer Protection Law (UTPCPL).
- **2016** - The OAG amended its complaint to add Anadarko Petroleum (Anadarko) as a defendant and allegations that Chesapeake and Anadarko allocated markets to secure leases and deprived landowners of the benefit of competition for securing leases.



Case History

- **December 2017** - The Bradford County Court of Common Pleas denied Chesapeake's and Anadarko's preliminary objections to the complaint finding that the defendants and their oil and gas leasing practices are subject to the Unfair Trade Practices and Consumer Protection Law (UTPCPL) and that the lawsuit was in the public interest. The companies appealed the decision.
- **March 2019** - The Commonwealth Court of Pennsylvania again found defendants and their oil and gas leasing practices were subject to the UTPCPL. The defendants again appealed the decision, this time to the Pennsylvania Supreme Court.



Case History

- **June 28, 2020** - Chesapeake filed for bankruptcy in the U.S. Bankruptcy Court for the Southern District of Texas.
 - The bankruptcy court stayed the Pennsylvania Supreme Court appeal against Chesapeake so it could not go forward.
 - The bankruptcy court put an injunction in place to prevent the OAG from moving forward on its claims against Chesapeake.
- **February 9, 2021** – OAG and Chesapeake entered into a Settlement Agreement to resolve OAG’s lawsuit.



Case History

- **March 24, 2021** – PA Supreme Court issued its decision reversing lower court decisions finding the UTPCPL does not apply to the OAG's claims against Chesapeake because it holds landowners are sellers of natural gas mineral interests and the UTPCPL only protects buyers.
 - OAG cannot address complaints against natural gas companies under the UTPCPL, unless the legislature changes the law so that it applies to all trade and commerce regardless of whether victims are buyers or sellers.
 - Landowners can still, however, bring private contract claims
- **March 31, 2021** – Bankruptcy Court approved OAG Settlement with Chesapeake.



Chesapeake Settlement Overview

- Chesapeake agrees to not use the “market enhancement” clause or “ready for sale or use” clause in any new leases in Pennsylvania;
- Chesapeake provides opportunity for Pennsylvania landowners with Chesapeake leases to select how they want their royalties paid going forward.
- Improved protections for landowners through appointment of an Ombudsman to assist in resolution of landowner complaints and to assist OAG in ensuring Chesapeake complies with the terms of the settlement.
- OAG compliance and inspection rights, and annual reporting by Chesapeake.
- And, \$5.3 million in restitution for Pennsylvania landowners with Chesapeake leases.



Chesapeake Settlement – Royalty Options

- Market Enhancement Clause (MEC) and Ready for Sale or Use Leases (RFSU)
- Opportunity to get paid the higher of the In-Basin Price without Post-Production Deductions or the Netback Price with Post-Production Deductions.
 - In-Basin Price is a local index price based on 50% Leidy Hub Index and 50% TGP Zone 4-300 Leg Index. Both of these indexes are published by Platts in Inside FERC's Gas Market Report.
 - Net Back Price is the weighted average sale price a Chesapeake receives for its production month sales minus a proportionate share of the Post-Production Costs Chesapeake incurred and any applicable severance taxes. This amount will never be less than 0 for any given month.



Chesapeake Settlement – Royalty Options

- Non-MEC Leases

- Opportunity for one-time election concerning how they want future royalties paid.
- Can select In-Basin Price without Post-Production Deductions or the Net Back Price with Post-Production Deductions.
 - In-Basin Price is a local index price based on 50% Leidy Hub Index and 50% TGP Zone 4-300 Leg Index. Both of these indexes are published by Platts in Inside FERC's Gas Market Report.
 - Net Back Price is the weighted average sale price a Chesapeake receives for its production month sales minus a proportionate share of the Post-Production Costs Chesapeake incurred and any applicable severance taxes. This amount will never be less than 0 for any given month.



Chesapeake Settlement – Royalty Options

- Leases that Prohibit Deductions
 - Chesapeake has certain leases that expressly prohibit Post-Production Deductions (which are not contained in MEC or RFSU lease categories). If Chesapeake learns it is taking prohibited Post-Production Deductions from such lease, it will discontinue doing so.
 - If you have a lease you believe prohibits deductions, contact OAG and provide a copy of your lease. OAG will contact Chesapeake to determine if the lease prohibits deductions.
 - Some leases have been misclassified as MEC or Non-MEC leases in the lookup table. If yours has been, please let us know.



Participating in the Settlement

- Under the OAG's settlement with Chesapeake Energy, Pennsylvania Royalty Owners with Chesapeake Leases currently have until **January 28, 2022**, to make their election about how royalties will be paid in the future.
- Royalty owners who do not make a choice will be deemed to have made the default election under the settlement.
 - MEC and Ready for Sale or Use Leases default to the higher of the In-Basin price with no deductions or the Netback Price with deductions.
 - Non-MEC leases default to the Netback Price with deductions.



Settlement Website

- The website is <http://www.PAroyaltysettlements.com>
- The Settlement website identifies options and allows royalty owners to make their elections about how royalties are to be paid in the future. Deadline to make elections is currently **January 28, 2022.**
- It also identifies how royalties will be paid under royalty owner leases should they fail to make an election.



Overview of Election Process

- Election Section of Settlement Website
- Registration as New User
- Logging in
- Validating Owner ID
- Filling out Royalty Owner information
- Making your election



Making an Election

Election for Future Royalty Payment

Options for royalty payments going forward under your lease.

ROYALTY ELECTION DEADLINE EXTENDED: The deadline under the Pennsylvania Attorney General's settlement and the Class Action settlements with Chesapeake Energy has been extended until **January 28, 2022**, for Pennsylvania Royalty Owners with Chesapeake Leases to make their royalty elections under the settlements. This means that Pennsylvania Royalty Owners with Chesapeake Leases, who have not yet made an election, have until January 28, 2022, to make their election (or change their election if they so choose) about how their royalties will be paid in the future.

- a. Market Enhancement Clause (MEC) and Ready for Sale or Use (RFSU) Leases – If you have a lease with a MEC or RFSU clause, you may select one of the following three options: (1) the In-Basin Index Price with no deductions taken for post-production costs*; or (2) Chesapeake's Netback Price**; or (3) a price that is, each production month, the higher of (a) the In-Basin Index with no deductions, and (b) Chesapeake's Netback Price.

MEC Class Counsel recommend that you select Option 3 (the "higher of" price).

If you fail to timely make an election, you will be deemed to have elected Option 3 (the "higher of" price).

- b. Non-MEC Leases – If you have a lease that does not contain a MEC or RFSU clause, you may select one of the following two options: (1) the In-Basin Index Price with no deductions taken for post-production costs*; or (2) Chesapeake's Netback Price**.

If you do not timely make an election, you will be deemed to have elected Option 2 (the Netback Price).

- c. Prohibit Deductions Leases – If you have a lease with Chesapeake that expressly prohibits deductions, please notify the OAG and Chesapeake. If it is determined your lease prohibits deductions, Chesapeake will stop taking deductions from the royalty payments Chesapeake makes to you under that lease.

*In-Basin Index Price means a per MMBTu price that is the weighted average price of (a) 50% of the Leidy Hub monthly (first of the month) index price (\$/MMBTu) as reported in Inside FERC's Gas Market Report (published by Platts), and (b) 50% of the TGP Zone 4-300 Leg monthly (first of the month) index price (\$/MMBTu) as reported in Inside FERC's Gas Market Report (published by Platts).

**Net-Back Price means a price that is calculated under the methodology Chesapeake has historically used to calculate its royalty payments. The Net-Back Price is based on the weighted average sales price Chesapeake receives for its production month sales to third parties minus a proportionate share of all the post-production costs Chesapeake incurs, including costs for gathering, compression and transportation.

[Submit A Royalty Payment Election](#)




Making an Election

- To begin, you would click on the blue link titled: [Submit a Royalty Payment Election](#) and you will be asked to register.

New User Registration

First Name	Last Name
<input type="text"/>	<input type="text"/>
Email	Confirm Email
<input type="text"/>	<input type="text"/>
Password	Confirm Password
<input type="text"/>	<input type="text"/>

3K5UE 

Captcha

☐ I accept the [User Agreement](#)

[Register](#) [Returning users, click here](#)



Making an Election

- After logging in, you would validate through your Owner ID
- Owner ID can be located on your royalty check stub

Chesapeake Energy Corporation - Royalty Payment Election

[Back to Dashboard](#)

You must register to submit an election. If you previously registered to file a claim, click on the "Returning users" link.

Election for Future Royalty Payment

Please enter your Unique CHK Royalty ID below and click Validate.

CHK Royalty ID

Validate

The code you have entered has been accepted. Click Next to continue.

If you do not know your CHK Royalty ID, you can email chesapeakeinfo@epiqglobal.com. Epiq will require at least one valid lease number to confirm your identity before releasing any information.

NEXT >



Making an Election – Owner ID

Chesapeake Operating, LLC
Revenue Distribution Account
P.O. Box 18496
Oklahoma City, OK 73154
(877) 245-1427

PAGE: 1
DATE: April 29, 2018
CHECK NUMBER: 100067557
AMOUNT PAID: \$104.82

For more information about your check stub or electronic deposit enrollment, visit www.CHK.com/owners.

ROBERT SMITH
366 MISSILE RD
ANYWHERE, LA 71078

1 OWNER: 13230567

Gross Value refers to the sales price received by the operator/lessee or in some instances its affiliate purchaser before deduction of taxes. Deductions from Gross Value are generally limited to taxes or deductions made by the operator/lessee, but may include deductions made by the purchaser (affiliated or non-affiliated) in computing the gross price before payment is made to the operator/lessee. 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. Retain this statement for tax purposes. No duplicates furnished. State taxes have been deducted and paid where required. When writing, refer to property number and owner number.

TRANSACTION INFORMATION				OWNER INFORMATION		VOLUME AND VALUATION INFORMATION					
PROD DATE	PROD	DOI	INT TYPE	INTEREST	DESCRIPTION	UOM / PB	BTU / PRICE	VOLUME / VALUE	PAYMENT DECIMAL	OWNER VOLUME / VALUE	OWNER NET AMOUNT
PROPERTY: 123456.01-123456				SMITH 3-1		COUNTY: DE SOTO		STATE: LA		WELL API: 1234567890	
08/2017	GAS	00001-01	RI	0.01779535	VOLUME	MCF	1017.693	3,198.93	0.01779177	56.92	
GROSS VALUE						15.025	\$ 2.65	\$ 8,461.22	\$	150.54	
COMPRESSION								\$(298.64)	\$	\$(5.31)	



Making an Election

- After validation, begin filling out the form by clicking on [Start](#).

Forms

Form ↕	Actions
Election for Future Royalty Payment	Start



Making an Election

- Here, you fill in your information and then click **Next**:

Chesapeake Energy Corporation - Royalty Payment Election

[Back to Dashboard](#)

You must register to submit an election. If you previously registered to file a claim, click on the "Returning users" link.

Election for Future Royalty Payment

Royalty Owner Information

Name:

John Citizen

Address line 1:(*)

10 Main Street

Address line 2:

City:(*)

Towanda

State:

PA

ZIP Code:

18848

Country (if International):

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[Next >](#)



Making an Election

- This screen presents your options, make your election and then click **Next** to finish.

Chesapeake Energy Corporation - Royalty Payment Election

[Back to Dashboard](#)

You must register to submit an election. If you previously registered to file a claim, click on the "Returning users" link.

Election for Future Royalty Payment

Election Options

Election Options Non-MEC			
#	Lease Number		Election Option Non-MEC (*)
1	1-2	4-000	<input type="radio"/> (1) In-Basin Index Price with no deductions taken for post-production costs <input type="radio"/> (2) Chesapeake's Netback Price

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[Next >](#)



Tools to Complete Form

- Lookup Tool
- MEC Language
- Going Forward Options
- MMBTU Conversion Tool



Confirming MEC or Non-MEC

- The settlement website includes a lookup tool to determine if you have a MEC or a non-MEC lease.

Pennsylvania Gas Royalty Settlements

Judge Chief Judge Lee H. Rosenthal | **Jurisdiction** Texas - Southern District*

SUBSCRIBE TO DOCKET ALERTS

⊕ GENERAL INFORMATION

👤 Class Member Lookup

To check if you are a Class Member of the Pennsylvania Gas Royalty Settlements, please enter your CHK Royalty ID number. Only one CHK Royalty ID number can be searched at a time.

SEARCH



Confirming MEC or Non-MEC

- This tool requires entry of your owner ID which can be found at any of the following:
 - Royalty stub,
 - Division order, or
 - CHK online OilDex Login:
<https://secure.oildexdx.com/chesapeake/login.asp>
- The choices you have to make an election depend on what type of lease you have.



MEC Language Example

- Market Enhancement Clause. It is agreed between the lessor and lessee that, notwithstanding any language contained in the lease to the contrary, all royalties or other proceeds accruing to the lessor under this lease or by state law shall be without deduction, directly or indirectly, for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and marketing the oil, gas and other products produced hereunder, to transform the product into marketable form; however, any such cost which would result in enhancing the value of the marketable oil, gas or other products to receive a better price may be proportionately deducted from lessor's share of production so long as they are based on lessee's actual cost of such enhancements. However, in no event shall lessor receive a price per unit that is less than the price per unit received by lessee.



MEC: Going Forward Options

- Market Enhancement Clause (MEC) and Ready for Sale or Use (RFSU) Leases – If you have a lease with a MEC or RFSU clause, you may select one of the following three options:
 - (1) the In-Basin Index Price with no deductions taken for post-production costs; or
 - (2) Chesapeake's Netback Price with deductions; or
 - (3) a price that is, each production month, the higher of (a) the In-Basin Index with no deductions, and (b) Chesapeake's Netback Price with deductions.
- If you fail to make a timely election, you will be deemed to have elected Option 3 – the “higher of” price.



Non-MEC: Going Forward Options

- Non-MEC Leases – If you have a lease that does not contain a MEC or RFSU clause, you may select one of the following two options:
 - (1) the In-Basin Index Price with no deductions taken for post-production costs; or
 - (2) Chesapeake's Netback Price with deductions.
- If you do not timely make an election, you will be deemed to have elected Option 2 - the Netback Price with deductions.



Disclaimer on Non-MEC Elections

- The OAG cannot recommend what option you should elect.
- The OAG can only explain the OAG settlement and the options available under the OAG Settlement.



Overview of Tools for Non-MEC Election

- Historical In-Basin Pricing for 2017-2020.

In-Basin Price - Historical Pricing Data

Month	In-Basin Price
Jan-17	\$3.27
Feb-17	\$2.86
Mar-17	\$2.02
Apr-17	\$2.57
May-17	\$2.55
Jun-17	\$2.67
Jul-17	\$1.78
Aug-17	\$1.70
Sep-17	\$1.63
Oct-17	\$1.01
Nov-17	\$1.53
Dec-17	\$2.48
Jan-18	\$2.30
Feb-18	\$2.88
Mar-18	\$2.03
Apr-18	\$2.19
May-18	\$2.11
Jun-18	\$1.49
Jul-18	\$2.15
Aug-18	\$2.31
Sep-18	\$2.43
Oct-18	\$2.40
Nov-18	\$2.93
Dec-18	\$4.42

- Chesapeake PA royalty owners website has pricing for Feb 2021-Sept 2021. <http://www.chk.com/owners/pennsylvania-owners>
- Online conversion calculator for converting MCF to MMBTU.



Tools for Non-MEC Election

- Historical In-Basin Pricing for 2017-2020 shows the calculated “In-Basin Index Price,” as defined in the Settlements, on a historical basis.
- The Historical In-Basin Pricing for 2017-2020 is found at <http://www.PAroyaltysettlements.com>.
- Supplemental In-Basin Pricing for 2021 is found at <http://www.chk.com/owners/pennsylvania-owners>
- Specifically, these show what the In-Basin Index Price would have been for each month between January 2017 and December 2020 and for the months reported for 2021 if it had been in effect.
- Reminder that Historical In-Basin Pricing is not a predictor of future performance for In-Basin Pricing.



Tools for Non-MEC Election

- The In-Basin Prices are listed in MMBTUs and the prices listed on your check stubs are in MCFs.
- In order to compare the historical In-Basin prices with your check stub prices:
 - Calculate your net check stub price in MCFs. Take the total amount you were paid for the well on your check stub and divide it by your volume of gas for the well on your check stub.
 - Convert this net check stub price in MCFs to MMBTUs using the online conversion calculator to compare it to the historical In-Basin Prices which are listed in MMBTUs.
- The online conversion calculator is found at <https://www.attorneygeneral.gov/landowners>.



Making a Comparison

TRANSACTION INFORMATION			OWNER INFORMATION		VOLUME AND VALUATION INFORMATION						
PROD DATE	PROD	DOI	INT TYPE	INTEREST	DESCRIPTION	UOM PB	BTU PRICE	VOLUME VALUE	PAYMENT DECIMAL	OWNER VOLUME	OWNER VALUE
01/2019	GAS	00001-02	RI	0.01032004	VOLUME	MCF	1028.78	3,698.87	0.01127225	41.70	
					GROSS VALUE	14.730	\$ 5.00	\$ 18,503.85		\$ 208.58	
					FUEL GATH/COMP			\$ 460.32		\$ 5.19	
					FUEL MAINLINE			\$ (320.71)			
					GATHERING			\$ (2,125.58)		\$ (23.96)	
					MARKETING			\$ (559.31)			
					TRANSPORTATION			\$ (12,170.39)		\$ (137.18)	
					SUBTOTAL			\$ 3,788.18		\$ 52.63	
					PROPERTY TOTAL					\$ 55.70	

Calculate your Net Price per MCF

Take the total amount you were paid on the well as shown in the green box and then divide by your volume of gas for that well as shown in the blue box.

$$\$52.63 / 41.70 \text{ MCF} = \$1.26 \text{ per MCF}$$

Green: Owner Amount Paid | Blue: Owner Gas Volume | Orange: BTU



Making a Comparison

Gas to MMBTUs Calculator

Net Check Stub Price

1.26

Check Stub BTU

1028.78

Conversion

1.02878

**Converted Net Check Stub Price to
Compare to Corresponding
Historical Monthly In-Basin Price**

\$1.22

To convert the net price from MCFs to MMBTUs, use our calculator:

Enter the 1.26 you calculated into the first field.

Enter the Check Stub BTU as shown in the orange box on the sample check stub into the second field.

The Calculator generates the price in MMBTUs. In this example, it is \$1.22 per MMBTU.



Making a Comparison

In-Basin Price - Historical Pricing Data

Month	In-Basin Price
Jan-17	\$3.27
Feb-17	\$2.86
Nov-18	\$2.93
Dec-18	\$4.42
Jan-19	\$3.39
Feb-19	\$2.84
Mar-19	\$2.70

The In-Basin Price as shown in the red box for the same production month is \$3.39 per MMBTU which can now be compared with the \$1.22 per MMBTU as calculated on the previous slide.



Making a Comparison

- The preceding is just an example. The netback price may be less or more than the local index price from month to month.
- It is important to analyze as many months as possible to make an informed decision.
- Also, if you cannot do this on your own, then you may consider consulting a tax professional or financial advisor.



Questions

- You can contact us at (717) 787-4530 or at antitrust@attorneygeneral.gov if you have any questions.



Ombudsman

- The OAG has selected an Ombudsman, Martindale Consultants, Inc., to assist in the resolution of any issues, questions or complaints by Pennsylvania Royalty Owners with Chesapeake Leases related to the calculation of royalties and any deductions.
- Royalty Owners should continue to contact the Office of Attorney General for resolution of their concerns and the Office will forward any complaints that cannot be resolved to the Ombudsman.
- The Ombudsman will also assist the Office in ensuring Chesapeake Energy's compliance with the terms of the Settlement.



Ombudsman

- Martindale Consultants, Inc. has more than forty-five employees with a combined 240+ years of experience focused on contract compliance, revenue and royalty matters, accounting and litigation support.
- Martindale has performed thousands of audits of oil and gas company.
- Their clients include governmental entities, royalty owners and individuals.
- Martindale is involved in NARO, Council of Petroleum Accountants Societies (COPAS), Association of Certified Fraud Examiners and the Institute of Internal Auditors.



Settlement Contact Information & Website

- Epiq - 855-907-2082 or chesapeakeinfo@epiqglobal.com.
- Attorney General's Office - 717-787-4530 or Antitrust@attorneygeneral.gov.
- The settlement website is <http://www.PAroyaltysettlements.com>.
- The OAG website is <https://www.attorneygeneral.gov/landowners>.