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# Natural Gas Case Law Brief

## *Kropa v. Cabot Oil & Gas Corp.*

No. 3:08-cv-551; 609 F. Supp. 2d 372 (W.D. Pa. Apr. 17, 2009)

Summary prepared by Michael Magee on June 8, 2010

Plaintiff John Kropa (Kropa) owned 51 acres in Susquehanna County, PA, and he entered into a preprinted form oil and gas lease with the defendant, Cabot Oil & Gas Corporation (Cabot). Kropa alleged that he entered into the lease because of two fraudulent statements made by Cabot's representatives: (1) Kropa was instructed that he would never get more than $25.00/acre in bonus payments, so he should accept the offer, and (2) Kropa was told that the lease conformed with Pennsylvania law. Kropa claimed that both of these statements were false. Kropa also sought declaratory relief from the lease agreement on the grounds that it violated Pennsylvania's Guaranteed Minimum Royalty Act (GMRA). 58 PA. STAT. § 33. Cabot filed a motion to dismiss both claims. The issue before the court was two-fold: (1) *should Cabot's motion to dismiss be granted for Kropa's claim of fraudulent inducement on the grounds that the lease agreement was fully integrated and closed to parol evidence on fraud?*, and (2) *should Cabot's motion to dismiss be granted based on Kropa's claim that the lease violated the GMRA?*

*Cabot's motion to dismiss Kropa's fraudulent inducement claim was granted in part and denied in part.* To make out a claim for fraud in Pennsylvania, the plaintiff must establish the following elements: "(1) A representation; (2) which is material to the transaction at hand; (3) made falsely, with knowledge of its falsity or recklessness as to whether it is true or false; (4) with the intent of misleading another into relying on it; (5) justifiable reliance on the misrepresentation; and (6) the resulting injury was proximately caused by the reliance." *Gibbs v. Ernst*, 647 A.2d 882, 889 (Pa. 1994). Cabot argued that Kropa's claim for fraud was prevented by the lease agreement's integration clause. "With regard to fraud in the inducement,

representations made prior to contract formation are considered superseded and disclaimed by a fully integrated written agreement." *Toy v. Metro. Life Ins. Co.*, 928 A.2d 186, 206-07 (Pa. 2007). Kropa did not challenge this assertion, but instead argued that there were two separate contracts between the parties: the main lease agreement, which had an integration clause, and a separately signed letter that detailed the bonus consideration payment but did not have an integration clause. Kropa's argument for fraudulent inducement was based on the bonus, and while it was established in Pennsylvania that separate agreements may be construed together despite the presence of an integration clause, *Kroblin Refrigerated Xpress, Inc. v. Pitterich*, 805 F.2d 96, 107-09, it was unclear whether the integration clause of one contract applied to the second, related contract. The Court declined to answer this question in proceedings for a motion to dismiss. The Court dismissed the second basis for the fraud claim, however, because Kropa's assertion that he was falsely convinced that the lease agreement complied with Pennsylvania law fell completely within the integration clause.

*Cabot's motion to dismiss Kropa's GMRA claim was denied*. The precise meaning of "royalty" as used in the GMRA was undetermined at the time of this decision. Neither party conclusively pleaded whether "royalty" included post-production discounts. Consequently, dismissal was inappropriate.