

Natural Gas Case Law Brief

Puza v. Elexco Land Servs., Inc.

3:09-cv-589; 2010 U.S. Dist. LEXIS 43346 (M.D. Pa. May 3, 2010)

Summary prepared by Michael Magee on June 2, 2010

Charles Puza and Frances Clements (Puza) were fee simple tenants in common of nearly 140 acres in Susquehanna County, PA. In November, 2007, Puza entered into a lease agreement with Elexco Land Services, Inc. (Elexco), the validity of which Puza challenged in this case. Puza alleged that he signed the lease based on fraudulent misrepresentations made by Elexco's representatives. Specifically, Puza claimed that he was told that he would never receive a signing bonus worth more than \$100.00/acre, and he relied on that statement only to find out later that it was not true. Puza also claimed that he entered into the agreement because of Elexco's representative's reference to the rule of capture, which would potentially allow Elexco to access the gas below Puza's land by leasing a neighboring parcel. Finally, Puza alleged that the lease agreement violated Pennsylvania's Guaranteed Minimum Royalty Act, 58 PA. STAT § 33. Puza's suit was removed to the District Court for the Middle District of Pennsylvania from the Court of Common Pleas of Susquehanna County, PA, and Elexco filed a motion to dismiss.

The issues were as follows: (1) *did Puza plead all of the necessary elements of fraudulent inducement so as to survive Elexco's motion to dismiss under Federal Rule of Civil Procedure 12(b)(6)?*, and (2) *should Puza's argument that the lease agreement violated the Guaranteed Minimum Royalty Act survive Elexco's motion to dismiss?*

The Court held in favor of Elexco on both motions to dismiss, but the Court also granted Puza a 21-day stay to amend his complaint for fraudulent inducement. In Pennsylvania, the plaintiff must plead five elements in order to sustain a claim for fraud: (1) a false representation, (2) materiality, (3) scienter, (4) justifiable reliance on that false representation, and (5) damage as

a proximate result. The Court found that Puza failed to plead scienter; he did not claim that Elexco's representatives made statements which they knew were false or made false statements with reckless disregard for their validity.

Puza's claim under the Guaranteed Minimum Royalty Act failed due to the Pennsylvania Supreme Court's decision in *Kilmer v. Elexco Land Servs., Inc.*, 990 A.2d 1147 (2010). Puza alleged that the lease agreement was void for the deduction of post-production costs, but *Kilmer* established the legality of such deductions.



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