SUPREME COURT OF OHIO

Lutz v. Chesapeake Appalachia, L.L.C.

148 Ohio St. 3d 524, 2016-Ohio-7549 (2016) · No. 2015-0545 · Decided November 2, 2016

SUMMARY

The Supreme Court of Ohio declined to answer a certified question concerning whether Ohio follows the at-the-well rule or the marketable-product rule for deducting postproduction costs from oil and gas royalties. The court held that oil and gas leases are contracts governed by their specific language and dismissed the cause; two justices dissented.

CASE DETAILS

COURT	Supreme Court of Ohio
WRITING FOR THE COURT	Kennedy, J.; O'Connor, C.J.; O'Donnell, J.; Lanzinger, J.; French, J.; Pfeifer, J.; O'Neill, J.
JURISDICTION	Ohio
DECIDED	November 2, 2016
DOCKET	2015-0545
DISPOSITION	dismissed
PROCEDURAL POSTURE	The United States District Court for the Northern District of Ohio, Eastern Division, certified a question of Ohio law concerning whether Ohio follows the at-the-well rule or the marketable-product rule for deducting postproduction costs from oil and gas royalties.
STANDARD OF REVIEW	De novo interpretation of the certified question and governing principles of contract construction; the court did not interpret the individual leases.
PRECEDENTIAL VALUE	Published opinion of the Supreme Court of Ohio; precedential as to the stated contract-construction principle and the disposition of the certified question.
PARTIES	Chesapeake Appalachia, L.L.C. v. Regis and Marion Lutz, Leonard Yochman, Joseph Yochman, C.Y.Y., L.L.C.

TOPICS

oil and gas · contract interpretation · contracts · appellate procedure

PRACTICE AREAS

oil and gas law · contract law · appellate procedure

QUESTIONS PRESENTED

1. Whether Ohio follows the at-the-well rule or the marketable-product rule for calculating oil and gas royalties and deducting postproduction costs.
2. Whether the Supreme Court of Ohio should answer the certified question without interpreting the specific lease language and without an evidentiary record concerning extrinsic evidence.

HOLDINGS

1. The court declined to adopt either categorical rule and dismissed the certified cause because an oil and gas lease is a contract governed by traditional contract-construction principles, and the parties' rights and remedies are controlled by the specific language of their lease.
2. The court decertified or declined to answer the certified question and dismissed the cause.

KEY QUOTATIONS

> *"Under Ohio law, an oil and gas lease is a contract that is subject to the traditional rules of contract construction."* (¶ 2; 148 Ohio St. 3d at 525)

> *"Because the rights and remedies of the parties are controlled by the specific language of their lease agreement, we decline to answer the certified question, and dismiss this cause."* (¶ 11; 148 Ohio St. 3d at 527)

FACTUAL BACKGROUND

The underlying putative class action concerns leases signed in 1970 and 1971 for oil and gas production. The landowner-lessors alleged that Chesapeake underpaid royalties, particularly by deducting postproduction costs incurred after gas reached the wellhead. The leases contained different royalty provisions referring to market value at the well, field market price, or delivery free of cost in the connected pipeline.

PROCEDURAL HISTORY

The underlying federal action was a putative class action by landowner-lessors alleging that Chesapeake underpaid gas royalties under their leases. The federal district court certified a state-law question to the Supreme Court of Ohio. The Ohio Supreme Court declined to answer the question because the parties' rights depended on the specific language of the leases and dismissed the cause.

DISPOSITION

dismissed

CASES CITED

- Harris v. Ohio Oil Co., 57 Ohio St. 118, 129, 48 N.E. 502 (1897)

- Chesapeake Exploration, L.L.C. v. Buell, 144 Ohio St. 3d 490, 2015-Ohio-4551, 45 N.E.3d 185, ¶ 53
- Skivolocki v. E. Ohio Gas Co., 38 Ohio St. 2d 244, 313 N.E.2d 374 (1974)
- Graham v. Drydock Coal Co., 76 Ohio St. 3d 311, 313-314, 667 N.E.2d 949 (1996)
- Martin Marietta Magnesia Specialties, L.L.C. v. Pub. Util. Comm., 129 Ohio St. 3d 485, 2011-Ohio-4189, 954 N.E.2d 104, ¶ 29
- United States Fid. & Guar. Co. v. St. Elizabeth Med. Ctr., 129 Ohio App. 3d 45, 56, 716 N.E.2d 1201 (2d Dist. 1998)
- State ex rel. Claugus Family Farm, L.P. v. Seventh Dist. Court of Appeals, 145 Ohio St. 3d 180, 2016-Ohio-178, 47 N.E.3d 836, ¶¶ 31-33
- Kachelmacher v. Laird, 92 Ohio St. 324, 110 N.E. 933 (1915)
- Pipeline Serviced Obligations and Revisions to Regulations Governing Self-Implementing Transportation under Part 284 of the Commission's Regulations, 57 Fed. Reg. 13,267-02 (1992)
- Piney Woods Country Life School v. Shell Oil Co., 726 F.2d 225 (5th Cir. 1984)
- Schroeder v. Terra Energy, Ltd., 223 Mich. App. 176, 565 N.W.2d 887 (1997)
- Poplar Creek Dev. Co. v. Chesapeake Appalachia, L.L.C., 636 F.3d 235 (6th Cir. 2011)
- Sternberger v. Marathon Oil Co., 257 Kan. 315, 322, 894 P.2d 788 (1995)
- Wellman v. Energy Res., Inc., 210 W. Va. 200, 210, 557 S.E.2d 254 (2001)