Proposed New Lease Form Provisions

1. Deep Rights
2. Assignments and Transfers

DEEP RIGHTS

ISSUE:
- Leases are not being fully developed at all depths.

PRESENT LEASE FORM:
- Production from any depth maintains all depths of a lease.

NEW LEASE FORM:
- At the end of the primary term or the deferred development period, if applicable, the Lessee must release all depths 100 feet below the deepest productive horizon.

PROPOSAL FOR PROVISION:

Staff recommends that the language in the current lease form not be revised at this time. This recommendation is based upon the Staff's review of the numerous comments provided by industry and the geological and technological complexities involved.

==

TRANSFERS AND ASSIGNMENTS
OF LEASE INTERESTS

ISSUE:
- The state needs to ensure that lease obligations are fulfilled when a lease is transferred to another party.

PRESENT LEASE FORM:
- Language does not state what Lessor may consider when deciding whether to approve an assignment.

NEW LEASE FORM:
- Assignor's and Assignee's responsibilities are more clearly defined.
- Assignors and Assignees are required to submit an Acknowledgment and Estoppel Certification with requests for Board approval of assignment, sublease, or other transfer.
- Lessor can consider transferee's financial capacity and ability to continue reasonable development.

PROPOSED WORDING FOR PROVISION:

ARTICLE 7—ASSIGNMENTS AND TRANSFERS

The parties hereto understand and agree to the following:

(a) In accordance with La. R.S. 30:128 (or successor statute), no assignment, sub-lease or other transfer (herein collectively "assignment"), in whole or in part, of any rights or interest granted to Lessee, its successors or assigns, under this Lease shall be valid unless approved by the Board.

(b) Prior or subsequent to any such assignment, but in no event later than sixty (60) days from the date of execution of the assignment, the assignor shall present to OMR a request for approval of the assignment by the Board. Failure to do so shall subject the assignor to the civil penalty required by La. R.S. 30:128 (or successor statute) beginning on the sixty-first (61st) day following the date of execution of the assignment.

(c) An assignment by Lessee, its successors or assigns, notwithstanding approval by the Board and regardless of any understanding, agreement, language or reference set forth in the assignment instrument, does not release nor relieve the original Lessee, or any of its successors or assigns, of any obligations, duties, responsibilities or liabilities incurred under the terms of the Lease. To acknowledge this continuing obligation, which shall be unaffected by any subsequent assignment of the Lease, the assignor shall submit to OMR, contemporaneously with the request for Board approval, the Acknowledgment and Estoppel Certification required by the Board, duly executed by both the assignor and assignee.

(d) Lessee understands and agrees that the Board may refuse to consent to such assignment if, in the Board's reasonable opinion, the proposed assignee lacks the necessary financial capacity to meet the obligations under the terms of the Lease or technical capacity to sustain reasonable development of the Leased Premises. Should the Board not approve the assignment, regardless of whether the assignment instrument is duly recorded, the assignor and its ancestors in title shall remain obligated and responsible for satisfying the terms, conditions and requirements of the Lease.

(e) Upon compliance with the requirements of La. R.S. 30:128 (or successor statute) and approval of the assignment by the Board, all terms, provisions, conditions and obligations of the Lease additionally shall be binding upon and inure to the benefit of Lesseee's successors, assigns, sub-lessees and transferees.

(f) Assignees, sub-lessees and other transferees are responsible for researching the records maintained by OMR and the Clerk of Court in and for the parish(es) wherein the Leased Premises is located to determine whether the Lease proposed for assignment remains valid and is subject to assignment by the assignor.