**DELIVERED VIA EMAIL**

March 6, 2019

Louisiana State Mineral and Energy Board

Department of Natural Resources

617 N. Third Street

Baton Rouge, LA 70802

Re: Proposed Changes to Oil and Gas Lease Form

To Whom It May Concern:

In response to the Board’s request for industry comments on its proposed changes to the State Lease form, Hilcorp Energy Company submits this letter in support of the comments previously submitted by Gordon, Arata, Montgomery, Barnett, McCollam, Duplantis & Eagan, LLC, and Onebane Law Firm, and the Louisiana Mid-Continent Oil and Gas Association.

In general, however, we do not believe the timing is appropriate for the State to propose its amendments to the Lease Form, most of which can be considered more onerous to lessees and operators. Strategies to entice more industry activity should be the focus of efforts at this time when activity in the State is already low.

In consideration of the Board’s request for comments to its proposals for Articles 1, 2, 3, 5, 7 and 17, please find attached to this letter comments specifically addressing some of the proposed changes.

We appreciate the opportunity to review and provide feedback.

Sincerely,

Hilcorp Energy Company

Attached to that letter to the State Mineral and Energy Board dated March 6, 2019 regarding the proposed new State Lease form

Definitions:

-The definition of “Good Faith” needs work. Actually reaching the target depth should not be a qualifier for acting in good faith. There may be legitimate mechanical reasons (“Gulf Coast” conditions) for discontinuing the drilling of a well. What if pay is found in a shallow sand and TD cannot be reached? Lessee should not be expected to forfeit what has been drilled.

Article 3:

-We recommend depth termination not be included in this lease form. This will become extremely burdensome to maintain and administer. As with the current status of portion descriptions for State Leases, years from now it will be difficult, and in some cases impossible, to determine who owns what rights to what sliver of land at what depth. This should continue to be handled as it always has, through industry farmout and participation agreements.

-The proposed depth termination language allows the State to demand a partial release any time after 2 years beyond the primary term. The Lessee may have recently invested in new data or invested in personnel and time to evaluate deeper objectives. The State should not be able to make a demand with less than some significant notice to the Lessee to allow the option to drill what it may have already invested in.

-The proposed depth termination language provides for a release of all depths deeper than 100’ below the deepest producing perforation on a TVD basis. First, if there is to be a release it should be based on the deepest depth drilled, not TVD. Wells are not always completed from the bottom up; it is not uncommon at all for wells to be plugged down. The proposed language will force companies to consider completions strictly for purposes of holding depths instead of for good economic, technical or competitive reasons which would benefit both the State and the Lessee. Second, stratigraphic equivalent language should be used to protect from competitive wells being drilled in steeply sloping reservoirs from adjacent deep rights that have been forcibly released. The intention is to perforate reservoirs high on structure. It’s not reasonable to demand a release based on the depth of the perforations. Unit geologists can provide endless examples of situations where this would be an issue. The OMR should be aligned with the OOC which recognizes stratigraphic equivalence with unitization definitions.

Article 7:

-What does it mean that the assumption of drainage is subject to Lessee’s rebuttal? If Lessee provides evidence that there is no drainage will the State waive the obligation to offset and waive the Offset Royalties?

1

-To assume drainage based on an arbitrary distance ignores science and historical precedence, at least in south Louisiana. To force a company to spend millions of dollars to determine if drainage is actually occurring if there is no science to affirm it is not a reasonable demand. The State would not consider reimbursing lessees if their required offsets are not deemed economic to complete and produce; it should not force a Lessee to drill a well it deems to be unreasonable. The duty to protect from drainage must be based on economics. A lessee would no less want its leased property drained than the lessor - they are aligned in this matter. There needs to be alternatives to just drilling a well. The lessee should initially have the option to present evidence to the State indicating acreage is not being drained or that a well would not be economic, and gain the State's concurrence. If the State does not concur, within a reasonable time lessee should be able to consider other options: 1) propose a unit for the Adjacent Well that includes all or a portion of the lease; or 2) initiate steps to drill an offset well; or 3) release a portion of the lease.

- There should be no obligation to offset or pay Offset Royalties if the OOC has approved a unit for the Adjacent Well and the unit does not include any of the Leased Premises. If the lessee and OMR were not able to convince the OOC to include any of the Leased Premises in the unit, it should be assumed there is no drainage.

- 120 days to commence operations after "completion date" is unrealistic when wetlands permits are required.

- There should be no obligation to offset or pay Offset Royalties if lessee already has a well producing from the same sand as the Adjacent Well within a distance that no reasonable operator would drill a third well between the two.

- The Offset Royalties should not apply if a lease is acquired after an Adjacent Well commenced production.

2