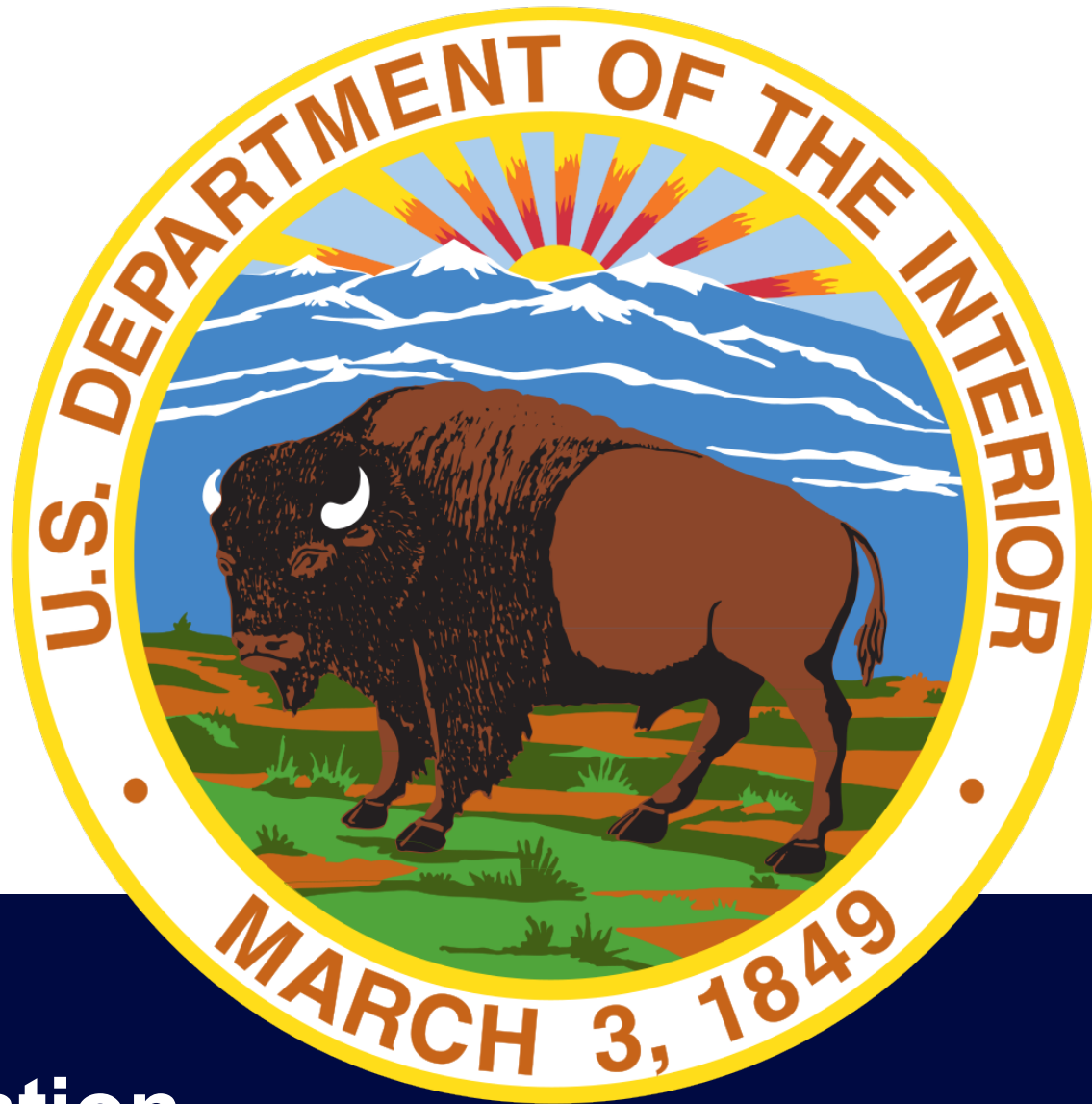




OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR



Investigation

Investigation of Improper Royalty Estimates Leads to Recovery of Federal Mineral Revenues

This is a revised version of the report prepared for public release.



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REPORT OF INVESTIGATION

I. RESULTS OF INVESTIGATION

We investigated allegations that Hilcorp San Juan, LP (Hilcorp), provided false, misleading, or inaccurate information when it reported its mineral production and royalties associated with Indian mineral leases in the San Juan Basin to the Office of Natural Resources Revenue (ONRR) and the Southern Ute Indian Tribe. During our investigation, we learned that the alleged activity also affected more than 1,200 Federal leases and leases belonging to multiple Indian entities. We substantiated the allegations.

We found that between August 2017 and December 2018, Hilcorp paid Federal royalties on oil, natural gas, and natural gas liquids based on estimated volumes and prices instead of on actual volumes and prices. Further, Hilcorp did so without indicating that the payments were based on estimates and without subsequently making payments in the following month based on actual volumes and values.¹ As a result, Hilcorp knowingly and improperly avoided its obligation to pay ONRR full royalty payments on its Federal leases.

We also found that between August 2017 and June 2020, Hilcorp intermittently reported estimated volumes and prices instead of actual volumes and prices for its Indian properties, resulting in an underpayment of royalties. Hilcorp stated its Indian royalty reporting was amended in April 2020 and June 2020 to report actual volumes and values.

We referred this matter to the U.S. Department of Justice (DOJ), Commercial Litigation Branch, and the U.S. Attorney's Office for the Southern District of Texas. On January 18, 2024, Hilcorp and the DOJ finalized a settlement agreement wherein Hilcorp agreed to pay the United States \$34,640,957 to resolve its improper Federal mineral reporting and for releases from any civil or administrative monetary claims the United States has under the False Claims Act (31 U.S.C. §§ 3729-3733), the Program Fraud Civil Remedies Act (31 U.S.C. §§ 3801-3812), and the common law theories of breach of contract, payment by mistake, unjust enrichment, and fraud for the covered conduct as specified by the settlement agreement.

DOJ declined to pursue the additional alleged conduct associated with minerals produced from Indian properties, and we referred our findings to ONRR for potential administrative action. For example, ONRR has the authority to review or audit Hilcorp's amended reporting and determine if the company properly reported and paid mineral royalties owed to the Southern Ute Indian Tribe. On February 6, 2024, Hilcorp and ONRR finalized a settlement agreement related to Hilcorp's improper use of estimates in its Federal mineral reporting to ONRR for the period August 2017 through February 2024. Hilcorp agreed to pay ONRR an additional \$10,000,000 to resolve unpaid Federal royalties and for releases from all claims ONRR has from any civil, criminal, or administrative actions under the Federal Oil and Gas Royalty Management Act (30 U.S.C. §§ 1701-1759) arising out of, or related directly or indirectly to, the covered conduct as specified in the settlement agreement.

We are referring the matter to the Director of ONRR for any action deemed appropriate.

¹ Under 30 U.S.C. § 1721(h), when an estimated payment is made to ONRR, actual royalties are payable at the end of the month following the month in which the estimated payment is made.

II. SUBJECT

Hilcorp San Juan, LP



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REPORT FRAUD, WASTE, ABUSE, AND MISMANAGEMENT

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