2015 Houston Offshore Financial Assurance Forum

Questions and Answers from the Houston Forum

The question is, if a waiver is currently in place, will I need to now get a bond, or can I continue using the waiver indefinitely? You want to jump in?

Two things. The waivers, once we implement this, the waivers will go away, but that doesn't mean that there's a demand letter coming out right away. The waivers are going away, but that doesn't mean you're falling off a cliff.

That's why we're giving you lots of time to go through, and even at that point we want you to put a tailored plan together, you'll know what your self-insurance is going to be and then what the difference between your obligations and what that amount of self-insurance is.

You'll have that gap and a processing plan to be able to meet that gap. And that's going to be either through a bond if you want to do that, or if you went through a tailored plan where you have other sets of self-insurance that you want to provide to us.

And again, as we said, there is a phase-in period of about 360 days, 120 days for the first third, and 120 for the next third, and then the last third is 120. It's a long period of time.

Yes, the answer is, the waivers are going away, but it also means you are not going to get hit with a demand letter the next day. Your operations are not going to be halted right away. There is a process through which you'll be going.

In addition to accepting a tailored plan submission, will you also meet with the E&P company?

Absolutely. My suggestion and some of the discussions that we had just before we came up here is to come in and talk to us now, as soon as possible.

Again, we do have a small staff, but we have a highly qualified staff. I think that the more detailed discussions we have and the earlier on we have those discussions that more effective tailored plans will come out of that for both sides.

Why is financial why is financial risk management "THE" top priority of BOEM when BOEM/MMS taxpayers have never (in capitals) lost money in P&A, and have provided billions of dollars in revenues? Are you solving for a problem that does not exist?

I am sorry if you interpreted my statements to say that it was "THE" top priority for BOEM. It is certainly a top priority. Obviously the five-year plan, continued operations around the country and several other things remain our priorities.

This is one of several, of five, actually. I'm happy to chat with you about all five, but I think the answer is two-fold. One is that we do set the example of, when we put revenue that we would have otherwise received into an escrow account to pay for a decommissioning liability, that is the taxpayer foregoing revenue that they would otherwise be entitled to.

But more importantly I think it is really taking a careful look at the structure that exists today and ensuring that we don't get into a problem where companies are going bankrupt and that taxpayers left on the hook.

I think as operations change, as the character of the companies on the shelf change, as operations get deeper and decommissioning costs more, it is certainly appropriate to modernize our regulations to reflect that reality of the marketplace.

Will you publish the attendance list with contact information for today's session, or should we file a FOIA request?

Yeah. The answer is yes, but with a caveat that got to make sure there isn't any personally identifiable information on there, because that will get us in trouble with our folks back in, that pay attention to that stuff. It absolutely makes sense to do that, and we will try to do that to the extent that we're allowed to do that.

My company has over 300 leases. How do I obtain the total, 100 percent decommission liability for all leases combined?

Come into the office. We've actually done that recently for a company in our negotiations with them.

What I would ask when we provide you that information, of course you want to verify it and work with us to make sure it's 100 percent accurate, but, yeah, we can get you that if you ask for that. It may take a little bit of time, but we've done it already.

You are asking for bonds, but you are actually going to file a bond claim or go after the other co-lessees. What is your order of priority?

When it comes to order of priority of claim, the bureau doesn't want to be tied down on establishing an exact order of priority because then it winds up with the delay of getting decommissioning done during a bankruptcy.

If we say we're going to go to company A first and then after that fails, to company B then to company C, the structure could be left out in the water for years while we go through litigation.

That's why under joint several liability during a bankruptcy situation, the bondman letters or the performance letters that come out of BSEE are sent to all liable parties. The object is to get the structure removed and to return the environment, the site back to where it needs to be from the benefit of all users of the OCS.

We won't exactly go down that path of trying to tie down exactly who is first, who is the second, who is the third. When it comes to pots of money, however, there is potential fruitful possibility of looking at pots of money that will be gone to first versus second, and that could be accomplished in contracts that are set up in the course of doing your tailored financial plans.

It would be beneficial that when companies have hurricane damage that the insurance proceeds will go to cleaning up those properties first rather than using the money for other business uses rather than cleaning up the hurricane damaged structures. There is some fruitful area there that

could potentially be utilized. It would be an individual contract. It's not going to be as a result of this NTL. The NTL cannot establish in practices.

A bureau can't be tied down to say, "I'm going to go company A first, then company B, then company C because it could take years in litigation to actually get the structure out of the water. What we're trying to do is to get the environment returned to its natural state and get the structure out for safety reasons. We can't be tied down under joint several liabilities and say, "The order of priority of who is responsible."

We can't get tied to that because it doesn't meet the national needs of getting it out of the water as quickly as possible when we're in a bankruptcy situation. The bondman letters under bankruptcy will still go to all liable parties and the letters out of BSEE for compliance will go to all liable parties.

I said there is the opportunity for some fruitful discussion in the area of identifying potential pockets of money to use or buckets of money to use in the way of insurance proceeds after hurricane damage has occurred. In some of these contracts that we might set up under a tailored plan, on an individual basis, the company may want to say that in the event of a hurricane, that the insurance proceeds have to be used first before the bond proceeds.

This is an area that might be fruitful if we're dealing with the case of a dual obligee bond, where a major is sold to a mid-sized company. In the process of setting up that mirror bond or the duplicate bond or a co-obligee bond, that in that bonding, since that's going to be a specialized bond anyway, that it identifies something like that. Which will protect the government if it's a co-obligee bond and it would protect the predecessor in the event of the structure being damaged at the same time that the company goes bankrupt. Thank you.

Would you please go through a hypothetical involving a block with multiple leases. How would the new policy be implemented?

There's a couple of things that I want to mention here. One is and you've heard us say this a couple of times, I want it clarified.

We are going to be on that, assuming there are three lessees, I should say on that lease and we would say that each of them has 100 percent of the decommissioning liability of that lease.

That doesn't mean we're going to be going back and asking each one for 100 percent. What we do want to do is have them get together and we really don't want to get into your business, but you have working relationships, and you have working interest relationships, and you have all sorts of other business arrangements.

We'd like you to come back with a plan that's sort of provides us with 100 percent coverage for that lease. Whether you choose to put it 30, 40, 30 or whatever you want to do, that's how we'd like to have it come back to us.

Now for each one of the folks in there, you could have a certain portion of that met with self-insurance to the extent that you qualify for that. The rest of that could come from other instruments, where there's a surety bond directly. If you already provided an obligee to a previous

owner that you wanted then put us on that bond as a dual obligee or multiple obligee bond, we'll look at all of those as a part of your tailored plan into our process.

What BOEM is interested is to make sure that that lease has 100 percent coverage, and we're not going to go dictate and say, "Who's doing what?" That's really your business. That's how you should do your process, but we are going to ask each one 100 percent for that, and then it's up to you to do that.

There's another similar question, so I'm going to just address it here. If one of the participants decides to take their guarantee or indemnify the others on that lease, we're perfectly happy to take that. That can also happen. That's really up to you folks.

Has consideration been given regarding the bonding requirements for wells being proposed and exploration plans being deferred until an application for permit to drill is submitted, since often some wells proposed in plans are not drilled, or deferred for several years?

Yeah, there absolutely has been consideration. The decision has been made not to change our current practice. We have talked about this at the previous forum as well as it does continue to come up. The current regulations do allow for a deferral to a later period. It's not encouraged. The TIMS system is not set up, for one, so it would be a case-by-case situation for that reason.

It's also not deemed that it would be beneficial to industry across the board from the standpoint that if you have problems with your bond, it coming in at the last minute while you're waiting for your APD, and you already have a rig under contract, if you've got a comma, a period, anything that's not correct on that bond when it comes in, and it gets sent back to you, now you have a rig sitting out there idle. We encourage industry to make those considerations when looking at this as an option.

The general policy is that we're not in favor of that, however, I think you should come in on an individual basis and discuss that with us. Again, we have tailored plans, and on an individual case, maybe we would consider some alternative to that choice. Again, we are willing to discuss that moving forward on a case-by-case basis.

Will existing surety bonds and other forms of security, escrow, or lines of credit issued to third parties as obligees be counted towards satisfying the BOEM requirements for financial security, if add BOEM as a beneficiary of bond?

Yes. That's key, is that BOEM has got to be able to tap into those funds if in the, hopefully unlikely event that we ever have to pay to decommission the facility or contract to have the facility decommissioned.

Can an entity that qualifies for an amount of self-insurance allocate that self-insurance across its properties decommissioning liabilities as it sees fit?

Yes, that's part of the tailored plan process in working with the other co-lessees. You can spread it out amongst all of your properties, and others can as well, as long as each individual lease has 100 percent coverage.

The likelihood that a company's actual, as opposed to theoretical decommissioning liability would be triggered at any point in time is disproportional to the number of leases in which the company holds interest, yet the availability of self-insurance is diminished because the theoretical liability is rolled up to 100 percent lease level. Without application of proportional responsibility based on percentage of ownership in leases, BOEM has eliminated self-insurance as a real option.

My comment is that joint and several liability requires us to put responsibility at 100 percent for each company that is a lessee for a property, and that the plan is to have the operators work together to decide how they want to cover that liability.

I think that from that perspective, I don't think we are eliminating self-insurance as an option, but apparently this person doesn't believe that. I really think what it's coming down to here, we're getting to a point where we need to discuss specific issues with individual companies, even if they're hypothetical, because this is a complex issue.

Again, I would encourage you to come in and talk to us about this. I don't think that I can address the level of detail and concern in this comment at this meeting, but I think on a one-on-one basis, we can definitely address those things.

Parent company guarantee of subsidiaries or affiliates. Will a parent company guarantee be accepted as a third-party guarantee?

The answer is it depends upon what's proposed to us, but it is allowable.

If so, are there minimum financial criteria that apply to the guarantor?

That was my hedging on the first question, is that yes, there needs to be a financial backup to a third-party indemnity agreement. I suggest that anybody that's interested in looking into parent guarantees look at Section 556.57. It talks quite a bit of detail there about the use of a third-party guarantee and a third-party indemnity agreement that should be filed in conjunction with it.

Many companies believe that the joint and several liability scheme is a problem. Is there any chance of discussing a change?

Frankly, no. Joint and several is going to continue, because ultimately, we have to make sure that facility is decommissioned appropriately. The taxpayers should never have to pay to decommission a facility. We'll go back to whoever we need to go back to to make sure that that doesn't happen.

Will there be a rule from the ANPR, or will this new NTL be the only change? Please explain the regulatory guidance implementation.

We are working on rulemaking. It's definitely further down the line. We did take a look at the comments that we got from the ANPR and considered those as we developed the criteria that we have now, but, there is, we are looking at longer-term regulatory changes that will help us to address some of the issues that we can't under the current regulations.

That's going to be a ways down the road. You probably won't see anything from us on that until next year, at a minimum, and likely we may have some additional conversations with you all before you would see anything officially, anyway.

Discuss the regulations, regulatory and guidance implementation.

As we said in February, and we said it again today, what we're doing with this revised criteria is within the bounds of the current regulations. The guidance, what we've put out with a note to stakeholders and that provides financial criteria is guidance, how we are implementing the current regulations.

Any new requirements and changes that we're going to make will go through the regulatory development process, but that will be further on down the road.

What is the process for determining decommissioning liability for a company, and what parties are involved in this?

The way that this construct works now, BSEE is in charge of determining the decommissioning liability, and they're in charge of the record keeping of what companies have decommissioned to date.

We look to them to provide us with those numbers and those estimates, and that is what we use to establish a decommissioning liability. The third question on here, roughly what does BOEM think it costs to decommission a deep water well. I would say we look to our sister agency for that, I don't think anyone on this, I would advise us not to offer our opinions about what we think it costs. That's how the process has been established.

A new private company has no Moody's, S&P, D&B rating, is that an automatic exclusion?

I believe the answer to that is at this point, it is.

Under our current regulations, you must be rated by one of the credit rating agencies. Either S&P, Moody's, or we've sort of extended that to D&B. If you don't have that, that will severely impact the ability to probably do some self-insurance. We could still run it through the process, but it would probably be a very low self-insurance, probably close to zero.

The reason for having “a rating” is so that we can monitor a company that has a line of credit in between their annual reports, but a brand new company also has a strike against it on getting any kind of exemption even under the current one. Because if you look in their criteria under 556.53, there is a period of operations, a minimum period of operations that's supposed to be considered for consideration. That period of operations and production is five years. That should be plenty enough time for a company to get rated.

What companies will be reviewed under the new metrics? For example, if title is owned by a company, is that the company to be reviewed, or its parent? Who will determine whether it's integrated or not?

Basically, and this is under the current NTL and it will probably continue under the future NTL as well, it's up to you as a company to say who you want to try to qualify and who you want to try to be the company that's being reviewed for its financial strength and reliability.

If you've got a multi-tiered organizational structure, you can come in at the high level if you want, because you've got audited financials up there, or you can come in at the low level and just look at this small group.

If you're looking at the smaller subsidiary, it has to be a qualified company which normally is not a problem for the smaller companies, but it has to have its own separate audited financials, that just look at itself, not with the strength of its parent. Coming in at the parent level, it's normally not a problem of having that audited financial, but it can be a problem on that company being qualified. That's what we've seen in the past, we expect to see that same situation in the future.

If I'm one of the big majors, I can come in and I can qualify up here at the USA or the international level, as long as that international level is qualified in the United States. We can look at that entity there, and that entity can then use its discount over the amount of decommissioning liability, wherever it sees fit to do.

Likewise if we have the subsidiary do it, the subsidiary can qualify for its amount of discount, and it can apply it where it wants to, it doesn't have to apply it only within its own company, it could apply it to one of its affiliates or higher in the chain if it so chose to do so. That's all part of how they utilize their discount within their tailored plan.

Currently it takes months to secure the release of a supplemental bond following the abandonment or sale of the property. How can this process be streamlined versus being made worse under the new NTL?

I don't know if I know the answer, but actually the releasing of the bond is not in the risk management operation group's purview, that is still the purview of our leasing and plans group. The funding and additional personnel that are being applied to the risk management operations group will not impact the process.

We are working on, we have just hired a new leasing and plans regional supervisor. We are reevaluating all those processes as we speak, in conjunction with the rollout of the risk management operations group, because those two groups will be critically linked moving forward in terms of understanding your financial strength and then actually issuing any demands that comes out of our leasing and plans group.

We are under review of those processes now. We are under review of staffing, and we are looking at implementing potential changes to make that process more efficient.

How will property transfers be handled that will close around December 31, 2015? i.e., will the new rules apply?

As we mentioned earlier today, we're going to phase this in. If we have published the final NTL then it will be in effect, but we're not going to actually send out the bond demand letter or look to you to provide that tailored financial plan for some period after that.

It really depends on whether we have issued the final NTL by December 31st, if any activities on those properties going forward would have to be included in the tailored plan going forward.

Right. The properties would be included in what would have to be covered in their tailored plan, it's just whether we will actually be up and implemented by December 31st, which I guess is what I was responding.

If there's a specific concern by an individual company regarding that issue, please contact me, Terry Scholten, and Donna Dixon and I will work with you on your specific situation. But in general, it's not going to effect the operations in adjudication. If you have something that's in the cusp or being worked on, your question is whether it's in your plan or somebody else's plan, bring that up while we're working on your plan.

Don't let it fall into the cracks as we assume it's going to happen. Anything that you know that's in the works when we're working on your tailored plan. If its plans that are in the works, or divestitures, or purchases, bring that up so that they're included.

When assessing a company's financial strength, will you look for the company to meet only or at least one of the financial criteria ratios, or more than one? Then the next question is, is what respective weight will be given to financial capacity, strength, business stability, reliability, and record of compliance? For instance, for newer companies, is in development stage, but no production yet?

We have not determined at this point in time what weight will be given to each one of these.

That's a discussion that is currently ongoing, and as a matter of fact we'll be meeting next week as a group to have that discussion. If you have input or some information that you want to provide us, I would suggest that you contact me, or Terry, or someone else of the panel, and we can include it in that discussion. But I do not believe that one of these, that they will all be required in our analysis, it's just what weight has not been determined.

One of the primary tools within the regulations is regional director discretion. That is part of the discussion as well, how much discretion the regional director will have in making these determinations.

Will the third-party guarantee be up to the amount of decommissioning liability that is deemed to be the responsibility of each lessee? Should the third-party guarantee reflect any, and I'm sorry, I can't read that next word, in the decommissioning liability assessment if there is a change? Dealing with third-party guarantees is like dealing with a bond or dealing with any other form of financial assurance.

It's going to be up to the amount that's agreed upon between the government and the individual putting that forward. It can be the full amount of the decommissioning liability for that particular property. It could be used in conjunction with other forms of financial liability to come up to the total amount needed for the property.

It can be posted by one party; it can be posted by multiple parties, as long as we have 100 percent at the end of the day, that's what's needed. You can answer this lots of different ways, depending upon the individual situation that's being addressed.

How does BOEM expect operators in financial crisis to post the bonds they are required to post, and are all asset owners required to post a bond, or can the majority owner post the bond?

Sort of the premise of the question reveals why we think this is critically important to act.

If operators are in financial crisis, we need to ensure that they can live up to their financial obligations, that's just the nature of the business, and it's the nature of our role as the regulator.

Your second question about are all asset owners required to post the bond, or can the majority owner post the bond? That is the crux of this tailored plan approach. We're not being prescriptive about who has to post the bond, if there are multiple co-lessees of that bond, our direction to you is figure it out amongst your business partners. If company A wants to post a bond for 100 percent, and that's agreed to between the three parties, that's agreeable to us.

If you all want to post a third, a third of the value, that's fine. If one wants to use their self-insurance to cover the liability, that's fine too. We perceive this as a flexible way of companies determining what really works best for them.

Will the BOEM use a discount rate when calculating decommissioning liabilities in the future, let's say 10 years from now?

Currently the answer to that question is no, we will not apply discount rate. Actually, had some discussions about this before we came up here. I think it's worth continued discussion, but at this point that is not the process that we use.

If double bonding is not BOEM's intent, will operators in the chain of custody be released from P&A liabilities in the case of bankruptcy?

No. We're ultimately going to go back through the chain of title to make sure that the facility is decommissioned appropriately.

You keep mention naming BOEM as a beneficiary, under what exact instruments are you talking about, and does this apply to self-insurance?

Starters, no it does not apply to self-insurance.

What's being referred to there is the notion of going from the double bonding that's occurring with industry right now, associated with divestitures, and the willingness of BOEM to enter in an agreement with the buyer and the seller in any given situation to meet the requirements of 556.54, and thereby try to eliminate the need for bonding with the seller, plus bonding with BOEM.

If all three parties can come to an agreement, BOEM would be a beneficiary of that bond, because that's required under 556.54. If anybody has specific questions about that, they're welcome to contact us. But we are currently working very hard with the Solicitor's Office to come up with some language that can be potentially used or reused in the process of negotiating these multi-party bonds, or multi-party LOCs.

Do you plan to track overriding royalty interest or production payments?

Actually, there is a way that we have for tracking overriding royalty interest now. It's called, unfortunately, "unrequired filings," I believe, so it's a misfortunate term. The issue for that is that we do not provide a timeline in the regulations for those to be sent in, so we do not always have that information in a timely fashion.

The second question is, please discuss flexible options for security, i.e., BOEM bonds with riders, credit for private escrow agreements, etc. Will these be forms?

We will not have forms. What we are doing now, especially starting with the multi-party bonds, is working with our solicitor's office to have language that is pre-approved by our solicitors that we can then put into tailored plans as we move forward. But we do not plan to have forms at this point in time.

What assurances does industry have that BSEE will have the best liability for P&A for each list?

Again, that is BSEE's responsibility, and I know they take it very, very seriously. They are putting additional resources toward making sure that they are getting those up to date and accurate.

It's actually a question for BSEE, but just to get it on the record. For pipeline lessees, the individual companies generally do not produce financial statements, but produce FERC Form 2 Financial Reports, which are audited as required by FERC. Any possibility that these can be used? Do you have an answer?

There's a reasonably good chance. I'm not familiar with the FERC Form 2, but our requirements in the regulation are that they have to be annual, audited reports. And as long as they have the necessary information on that report to run the metrics for our models, it should be acceptable as long as it meets GARP standards. I would suspect that that's necessary under FERC's reporting as well.

Will this NTL be sent to OIRA for scoring?

No, it will not be sent to OIRA for scoring. We believe with our solicitors that this is within our regulatory framework, and so it's just a guidance on our interpretation. No, it does not need to go to OIRA.

Can the BOEM request letters provide all proper information to execute the bond, in order to avoid discrepancies?

This is how I interpret it. Can we ensure that we have all the accurate information on the decommissioning status of the leases?

I know there has been some challenges in the past, with the information that BSEE is providing to us not being completely up-to-date. It goes back to the statement that Renee just raised. We're in close coordination with them.

They understand how critically important those accurate estimates are, both in terms of the decommissioning costs, and then keeping the records up-to-date about what you have already decommissioned. They are looking at reallocating some resources to ensure that they provide us with the most accurate information.

If that's not what you meant by your question, feel free to ask us again.

Please explain whether record title owners will be responsible for financial assurance for operating rights interests, in which such record title owners do not own an interest.

This is near to dear to the hearts of some of you out there, and it gets to the crux of what John Rodi said, that we were going to work very hard toward being able to do, which was to try to tackle the operating rights. We are making some significant strides.

One that I don't think we'll be able to implement that 100 percent across the field by the time this NTL comes out, but if you have any particular properties that are of particular concern, please come and contact us. We are actively working right now on one such property. I briefed Mike on that yesterday. We hope to have that particular property resolved in the not too distant future.

But basically, what you're looking at here is record title owners are responsible, joint and separately, for whatever is on that particular property. When you deal with operating rights, you're talking about a carve-out that's been allowed under that record title interest.

The rules are different for the operating rights, and you are pretty well familiar with that, that now we're dealing with proportional liability for that particular aliquot that's been set apart. Technically, the owner of that aliquot is 100 percent liable for what's in that aliquot.

We go into this question and ask it, but I've seen other questions already that have asked about, what about working interest?

By our regulations, we do not deal with the working interest. We're going to go to the record title holder, and if the record title holder comes to us and says that they can't take care of their operating

rights on a particular property, then we can dive into a particular property. But it is very difficult for us at this time.

We have two IT initiatives that are in the works right now that should help us. One at the half, but our biggest hurdle right now really is a lack of communication between BOEM and BSEE on trying to get the decommissioning estimates down to that fine level of detail.

We can do it for really problem properties, but we're going to have to do it on paper, by hand. It'll be slow, so we really can't do it 100 percent across the board right now, but we're working toward that goal.

I want to add, if there is an issue like that, to bring that to Terry's attention, and we will find a way to resolve that issue internally, within the region, as we have done in this specific case that Terry brought up to me yesterday.

Why is tangible net worth based on balance sheet equity, when this is such a poor measure of EMP company's value? It merely reflects lower cost or value of the oil and gas asset. It appears that your valuation is totally ignoring the true measure of a company's value, which is peak and other reserves.

The tangible net worth is being used as a liquidity process. We are, obviously, looking at other metrics to see your credit-worthiness and ability to meet your obligations. But at the end of the day, we're also taking a look at your decommissioning liabilities and saying, "If bad things happen tomorrow, what is the process of, what is the liquidation value?" That is one proxy for the liquidation value that we've got.

Certainly, this forum is a venue for you guys to talk about other measures, and we'll certainly take that into consideration. But right now, we're looking at tangible net worth.

How is the fact that a company's tangible net worth is being materially altered due solely to price environment, not cash withdrawals, impairments not being thought about? This is disproportionately hurting small sized independents.

As I said before, we're looking at liquidity. Again, the value of their reserves is directly impacted by their liquidity today. If something happens to them, we want to understand that liquidity. That's why we're looking at that as the amount.

Remember, what we're saying is, that's the amount of self-insurance that you have, is your liquidity. So it is directly proportional to the health of the company, and the reserves, and the ability to meet those financial obligations through self-insurance.

Is there a change in determining or calculating the amount of decommissioning liability?

No. Not in terms of the decommissioning. As I've said a couple of times, that's a BSEE function and responsibility, and they're not changing that at the moment. I'm reading this only to say that we are hearing you.

Another commenter is talking about the process for releasing bonds. That is now taking 8 to 12 months, and I agree with them that that is an unreasonable amount of time. How are we going to

improve the process for releasing? I think Mike talked about that. We have a new Regional Supervisor there, who's been charged with that. Terry, I think you spoke about this, but I'm just going to raise it again.

Will BOEM look to the financial strength of a lessee's parent corporation or entity when determining the 10 percent tangible net worth calculation? It goes on to talk about how many entities are created to hold leases solely for that purpose.

Do you want to just cover that one more time?

Once again, it's really at the company's discretion whether they want to try to do that evaluation up at the parent level, or if they want to do it down at a subsidiary level. There can be pros and cons to either level. We're not going to dictate which level you want to do it at, but whoever, whatever level you're doing it at, you have to provide the necessary information for us to be able to implement it.

I want to make it clear that they can't do it at both. You can't use the finances of the subsidiary, combined in the parent and do it separate, and have it here, plus count it up here. We won't double count.

If you do use your parent, then there has to be an obligation backed by the parent somehow to cover that. If you're going to be going for self-insurance, it's not going to be a ring fence entity or a limited...

The whole point is if you’re relying on the parent, there's got to be an obligation. The parent's going to be able to provide that self-insurance, or has the ability to provide that to the sub. That has to be part and parcel with that process.

Some companies active in the deep-water Gulf are subsidiaries of state-owned oil companies, which presents challenges to meeting the financial assurances. In this particular case, any obligation of the state-owned oil companies, such as a parent guarantee, becomes an obligation of our home country as a government. That's affecting our entire government's credit rating. Consequently, our government prohibits its state-owned oil company from making parent company guarantees. Talked about the millions of dollars of investment that are being made in the Gulf, so how are we thinking about handling that? That's the general question. How are we thinking about handling the state-owned oil companies?

I guess I'd come back and say, if the government doesn't want to take the obligations, if their sovereign government doesn't want to do it, why should the US tax payers at the end of the day?

Part of what we're trying to do to make sure -- not in PV operations -- but to make sure that there is some security, whether it is in that company in the balance sheet, or is a bond or a letter of credit, or something else that they have. We just want to make sure we're not shifting risk from one set of tax payers to another set of tax payers.

Can a tailor plan include self-insurance from some lessees and bonds from others?

Yes.

Who will be tracking the self-insurance used by the lessees?

Both lessees should be tracking it, but we will be tracking it, too.

If you trip over and exceed, you're going to be getting a phone call from Mike or Dave say, "You've got a problem here." You'll have an opportunity to try to fix that problem. If you don't fix it rapidly, you might be getting a letter from Carroll Williams.

But basically, you should be staying on top of where you've applied your self-insurance, and we'll be tracking it as well.

With companies tangible net worth change quarterly, how often will their net worth be reassessed for self-insurance qualifications?

By the regulations, for applying for consideration for self-insurance or waivers or whatever you want to do, and a determination of what kind of discount you can be given off of the amount of liability that's out there. That's at the discretion of the regional director.

But the regulations require that it be based off an annual financial report. The regulations also give the RD discretion to do things. We can't take an unaudited quarterly report to grant you financial assurance, but we can certainly use that unaudited quarterly report to brief the RD, and he may downgrade what you have on your insurance at that point.

But without a new audited, he could not raise it. Does that make sense?

Can BOEM post a sample financial statement in calculation of metrics based on these financials?

I think that's a very good point.

I think as we move forward, we would like to provide more detailed examples, not only potentially of financial statements, but of situations where we might have multiple co-lessees and operating rights owners, and working interest owners, and how that would work maybe in a tailored plan.

What I would hope is that we would possibly get an example of a financial statement that we can clean up. Maybe an operator would help us in that regard. If you come in and talk to us, provide us some generic examples that we can utilize to provide more specifics as we move forward.

I agree a hundred percent that it's very critical that we have more specific information on how these decisions are going to be made, moving forward.

Considering 'quartiles' move dependent upon the market, what are the definitive criteria for independent/integrated? The other one is, if a company falls outside the top and bottom quartile for any given financial metric, what impact does that have with respect to that company's financial assurance requirements?

The reason we provided you with the quartiles is kind of a guideline to have you understand where your situation might be without giving you how we're going to weight them and how we're going to look at those.

These quartiles were set up, as we said, based on your peers, and based on the work we've done with Deloitte. We have looked at those and said, "How, what's the sort of score based on the peer group out there?"

Just to give you a guidance, we've looked at the top and bottom quartiles of that. If they happen to fall above or below...Just because they may fall below the quartile, that doesn't necessarily knock you out. On that particular metric, you may have a slightly lower score. When you look at the weighted average, you might still be qualified for some level of self-insurance.

The second part of the question or the early part of the question was these things change with market, and we understand that. Our plan to go forward is to look at the market every year and re-calibrate our model to make sure that if things change, are you with your peers and how are things moving along with the rest of the market?

You mentioned hearing from industry about how does BOEM expect to incorporate feedback into the current timeline. Is 90 to 120 days enough time?

The process going forward, when we finish hearing [laughs] from the public, those 45 days run, the feedback we get from those comments, that we get from this event and other outreach that happens, we will incorporate that.

That's not a set 90 to 120 days. That's just however long it takes us to figure it out. We are targeting the end of this year, early next year. Once the NTL is published, that's when the 90 to 120 days goes into effect for implementation. Then during that period, we will conduct workshops. The incorporation of feedback happens now, before that 120 days.

How are you planning on calculating average daily production value, proven reserve value, and asset retirement obligations?

ARO is on your financial report. Proved reserves should be reported by you if you want it considered. It should be reported in the format that SCC requires. We can validate it against our own information in-house if necessary, but it should be reported by the SCC procedures.

Average daily production. We have the OGRE reports. We look back over the previous full year's worth of OGRE reports.

I'd encourage you to read the definitions as well on our website, what those are. They're often looking at proven reserved values. To the extent that you calculate those, Terry's right. We expect you to provide us with that data that we'll review. But all the information has to be there for us to be able to take a look and verify that data.

If a lease expires, how does a BOEM base require bonding to an operator of the expired lease, if there were no liabilities at the time the lease expired?

This digs down into some record keeping items here that could come into play. If there were truly no liabilities, there would still be no liabilities. If the liability however was not assessed by BSEE and a liability truly existed out there, it would still be liable to the record title owner.

A little bit of muddy water here associated with the operator. If the operator were the record titleholder then, yeah, that would be correct. If the operator was not the record titleholder for the particular property, then I don't know the correlation that's being implied for the operator in that case.

But basically, I can see this being an issue, potentially with right-aways in particular. It used to be BSEE's procedure not to assign a decommissioning liability for a right-away that did not have a structure associated with it.

But clearly there's a decommissioning liability associated with that. They just didn't put a value to it in TIMS. They've now gone through and they have assigned decommissioning liabilities to almost all of those right-aways at this point in time. Not all of them, but close to all of them.

People who thought that they had zero are now finding out that they have liabilities on these old right-aways that where the site clearances have not been approved. If that affects your company, I would encourage you to dig up your letters that you got back from BSEE on their site clearances, and reassert those and get that data cleaned up.

Why did BOEM reduce from 50% to 10%? How did BOEM arrive at 10% of Tangible Net Worth for self-insurance? Why just 10% of the company if …

The reason for going from net worth to tangible net worth, we talked about is sort of liquidity. It is also the industry practice. We've done a number of, not only have we engaged light, but we've looked at industry practice.

If you look at the international energy credit agency, they run surveys. They've run a 2012 and '14 survey. In that, tangible net worth is the most common measure or one of the most common measures. Why we went from 50 to 10 percent? We've looked at a number of other places. We've looked at what other industries have done.

Some of us are from industry, and if you look at parallel industries, whether it's the ISES, and the power industry, they have tangible net worth of about seven percent.

We've got 10 percent, which is probably the maximum we've found anywhere. I think if you ask your own credit departments, I think you'll find, as they try and provide that, there aren't very many people that are providing credit more than 10 percent. This is industry practice. This is, I think, common for most folks in the energy industry, and that's what we have adopted.

On the regulations it says that the BOEM reserves the right to vary from the procedures or criteria in the NTL on a case by case basis within the framework established in the governing regulations. Will this sentence remain, and can you elaborate on what this means, and why?

The first answer is will this sentence remain which is dealing with things on a case by case basis, when we're talking about the discretion of the regional director. That will remain because it's in the regulations, and the NTL cannot change what is in the regulations. It can only interpret or elaborate upon what is there.

A case by case determination by the regional director is in the regulations, so it's not changing until the regulations itself change, and I doubt that it would be taken out.

Can you elaborate on what this means and why? I have a similar question over here which also deals with that, asking about if you don't agree with what the regional director decides, is there the opportunity for appeal, and how do we deal with that?

What you're looking at here is that, basically, to help the regional director, because there's a lot of companies out there, and you can easily book up all of his time, so that's why our staff is working with companies individually.

We're going to try to work with you to produce that plan. Because if you're going to submit something in your plan that we don't think that he's going to approve, and he's going to work off of recommendations from throughout the staff, not just the ARMOC staff, the risk staff, but also from the leasing and plans staff. We're going to be sitting here and if we say, "That's probably not going to work."

We could try to negotiate it prior to it going to him, and if you guys think that, "No, no, no, I think the regional director will do it." We can still put it forward to him. If he decides no, you have the opportunity to renegotiate at that point. If you don't want to renegotiate, then the appeal processes do exist that are under regulation. Those aren't changing.

What will be different under this situation is that normally when a company comes to us, they've got a bond demand or a loss of waiver demand or something like that in their hand, which is an order. Orders can be appealed to the IBLA.

When the NTL comes out, we're not issuing the bond demands unless a company doesn't comply with the NTL. One obviously path is, you could say, "No, I don't want to do this." If you do that, then we'll say, "Carol, go ahead and issue your bond demands."

Then you would have a 60-day period from there in which to file an IBLA appeal. None of your rights are being taken away from you, ultimately, is the bottom line on this, but what it's giving you is the opportunity to negotiate, to try to resolve the differences so that we can come to an agreement.

Question, will the indemnity option still be available?

Yes, but it will be required with a third-party guarantee moving forward. That's some of the language that we are currently working with our solicitors on.

Why is the basis for financial assurance reliant upon the EP, proposed well locations, and not the APD, actual well locations?

Historically it's been a timing issue in terms of making sure that we have the appropriate time to conduct the environmental reviews without impeding a drilling.

Again, if that is an issue under financial plans, we can have further discussions with that regard.

This says, "What is BEOM doing on their end to effectively monitor the financial status of all lessees and interest owners to insure that another ATP does not happen?" Monitoring net interest ownership.

I will be honest. We would love to be able to monitor all interest involved, but right now we don't have access to that information. We don't have access because there's a lot of working interest that slides around that's done by contractual agreements between companies, and we don't have that in our hands to monitor.

We would love to do that, but it's currently not in our regulations, and we can't resolve that. We can't make a burden on industry without the regulations, so that would be years down the road before we could tackle that issue.

Please walk through an example, if someone who has $100 million supplemental bonding obligation and $100 million tangible net worth, does BOEM expect the company to bond $90 million? Or will the company be required to bond, if the region or directors determined based on your five criteria that the company cannot meet its obligations?

Let's take that, for the moment, and let's go under our current system. If you happen to have a tangible net worth, or a net worth. By the way, we've done some quick analysis, and tangible net worth, net worth, are off probably by 10, 12 percent difference, tangible being slightly less than that. For the sake of argument, let's talk about this being tangible net worth, being net worth today $100 million.

In today's world, if you also have a $100 million decommissioning liability, you're over the 50 percent and therefore you don't get a waiver today. Under the current system that we're proposing, you would then take a look at your financials. You look at the financial criteria, the five criteria, including the financials that we talked about today. That was what we committed to providing you, last February.

Based on those, if you come up, and I'm not going to give a 10 percent example, because I want to make sure that people don't think it's an automatic 10. There's a range from 0 through 10, and if you're eligible that range is really from 1 through 10.

For this example, I'm going to change that 10 percent to 7 percent and say, let's say you've got 7 percent self-insurance out of the $100 million liability. That would mean you have $93 million to

go, but it also means that you are not the primary, not the first owner of this. You bought this for someone else, and you had indemnified or put a bond to them, a surety bond as you took over this property.

Let's say, for yucks, call that $43 million. You've now got $50 million. If you provide us, as we've talked about, the multiple bonding, we're also on that. That's another $50 million. Now you've got $50 million left. Let's make that 33, because you want to make this an example.

Let's say it was 7 and 33. That's $40 million, that means you still have $60 million left. We would then ask you to provide this, and I'm making the assumption you're the sole lessee on this, there's no co-lessees, that you're going to come up with it. You can still come up with a tailored financial plan that sorta says, "I'm going to meet this in the following manner," whatever those are.

They don't necessarily have to be a pure surety bond, they could be other things that we'll consider. As we said, once we have that plan with you, and we sat down with you, and we said, "Yes, we agree to this plan. It makes sense. It makes sense for you, it makes sense for us."

We will then also say that you've got 360 days to put that together, and after the first 120 days, you owe us $20 million, in the next 120 days, the next $20 million, and then the last $20 million. There's a period of time to go through. Under the current situation, you'd be on the hook for the whole $100 million.

Today, as we're going forward, we would say you may qualify for some form of self-insurance. We certainly want to understand the double bonding issue, because we don't want to go out there and have you bond for something you already done. We have to consider that, and then consider the rest of your obligations.

In the event that co-lessees can't determine an agreeable way to fulfill the requirement for 100 percent assurance, what are the consequences to the parties? A, will party's bear the burden of adverse consequences? B, will all parties bear consequences? C, what if one party negotiates in bad faith, resulting in a failure of 100 percent assurance?

Basically, you're talking here about squabbling amongst companies, one way or the other. Because individual companies have different desires, and different plans, and different goals, this is a reality that does need to be looked at. We are the government, and from that standpoint, we need the 100 percent assurance.

If you stop and think about today's policies, if you don't have 100 percent assurance on your lease, what happens? You generally get something coming out of Carol Williams' office that tells you that you're not in compliance; you get a bond demand letter.

That's what would happen here. If the bond demand is then ignored by all parties, and it's not resolved, then the next step is that they issue an INC. What follows after that? You could go down the path of either a shut-in, or a civil penalty, or both. Who would it affect? It would affect anybody. If you've got a shut-in, it affects everybody who was drawing any kind of paycheck from any royalties coming out of that lease.

If it's a new lease that hasn't been developed yet, and you're looking to get a plan through, the plan's not going to be approved. The policies at OLP are not changing, and so the existing policies that were there will then pick up and do what they currently do.

When will decommissioning liabilities be determined, thus triggering the financial capacity test?

That is done at many points in this process, so if there's a transfer of properties so the receiving company would look at the decommissioning liabilities, there.

At the planning stage we would always look at the potentially decommissioning liabilities. If BSEE changes the cost of decommissioning in the database, we look at that. There are multiple stages in the process where we assess that.

These questions are again, about the metrics, how will they be weighted, and that's something that we're still working on and will be determined in the near future.

I read the regulatory structure/proposed guidance to mean there is a situation where no supplemental bonding is due because a company has the financial ability to carry out some or all of your obligations. Only if a company does not meet criteria is supplemental bonding/self-insurance an issue? This is how we read the proposed guidance. This seems like an exemption or waiver.

The regulations require bonding, but they allow under 556.53 for the regional director to adjust that based upon criterias of financial strength, financial reliability, the operational record, the compliance record, and what's being said in trade references and credit references. So that's not really changing, and in the past that has been called a waiver when you've had a reduction of what's been required for that supplemental bonding.

In the future we're referring to that reduction, discount, whatever, in the current things that are on the Web as being a self-insurance. The self-insurance, waiver, exemption, are all kind of synonymous for the same process, but with the waiver it was 100 percent, it was an all or nothing. Either you were waived or you were not waived. We've tried to get away from that term and are inserting the term self-insurance because it's not necessarily a 100 percent all or nothing.

It's a percentage of tangible net worth that could be applied as you want it, but it is the same item that we're talking about there. Now as far as the regulations implying that if you meet these criteria you don't have to do anything and if you fail to meet the criteria then you have to bond. It's actually the other way around. You're required to bond, but if you qualify, we can reduce it.

Staffing, can you put tangible numbers to BOEM resources, how many now, how many to be hired, and when?

Right now we have, I think we have 13 people on board right now. We have five up in headquarters, and we have eight in the region either onboard or vacancies that are out advertised to be filled. We also recognize this is a significant workload, and we're looking at what are the internal resources we have, so we can bring them to bear on this.

The bulk of the work or a significant jump in the work is going to be when we sit down with companies to work through these tailored plans. I would encourage you all to now go back and

digest this a bit, make appointments, come in, schedule meetings with the folks in the New Orleans office to talk through your specific situation, and really get ahead of the curve on this.

We have the folks that want to sit down and talk with you about this, the sooner we do that, the sooner we can start to work through your specific issues. I guess if there's any takeaway from this I would really, really encourage you to find the time to sit down and meet with our folks, walk through how this is going to affect you, and give you that plan going forward to get to who you need to talk to on what properties to get to full coverage.

This question here is focused around business stability. It's regarding the five years of continuous offshore operations, offshore/onshore operations. This is a question that goes back to 556.53, and you can read it in there but I'll hit the sub-questions here as well. Does offshore international count?

The answer to that is no. If you go back to 556.53, you'll see that it's clear that it's about the United States, and it says, "If a new company is at five years of experience from the individuals involved" Once again, it's five years of experience of the company. If you have a specific compelling case that you want to talk to us about, give us a phone call.

Will each record title owner, generating, operating rights owner of a lease be required to post a hundred percent of the total financial responsibility?

No.

Could financial security be provided on a lease by lease basis?

As part of the financial plan, absolutely.

A new private company is backed by a large private equity company, the P&E company wants to guarantee the financial assurance of the new private company, can this be done?

Yes.

A company has a future P&A liability of a hundred million to be incurred starting in 2020 and ending in 2026 the PV of this liability is 65 million, and the PV7 is 75, I think that's 7, I'm not sure. What are the company's financial assurance for testing?

As we sort of said, we're looking at not 2020 or 2026, but we're looking at immediate, today, if something bad happens.

We're really looking at your decommissioning liability today, and as we said, we're basing on the criteria that we have in the amount of self-insurance is going to be based on your current ability to meet that, which is the net tangible asset or net tangible worth test that we're doing today.

Will BSEE/BOEM continue to assess plugging and abandonment amounts for undrilled wells?

Yes, they will. There is a consideration here though that might be of interest, is that when a plan comes in and it goes through and gets reviewed, they will be assessed for all of the wells.

As a plan starts getting drilled, and wells are being drilled, and you've completed what you want to drill, it's to your benefit to come in and withdraw those additional wells from the plan, and it will be removed from your total.

Another aspect of this is, is that since Deepwater Horizon there has been a push to include in the original plan, the relief well. BSEE does realize that since Deepwater Horizon that all wells that are included in a plan typically are not drilled, and in some cases where they're doing a by-hand assessment they take that into consideration and they don't assess all of the wells. But that's not done across the board, that's a by-hand assessment.

Will a tailored plan allow for the buildup of an abandonment account over the life of the wells?

I think the answer, and others can correct me, is if we start this at the beginning of the process and build the tailored plan to create maybe a trust account that will build up over time, that is something that we would consider.

Yes, that is currently in the regulations. Finding a decommissioning account is totally acceptable. The aspect here is defining the life of the well. If you've got a facility out there that's going to be out there for 30 years, we'll probably want it funded up before 30 years are done.

The length of time is negotiable. The example that was used in the previous NTL, I believe was a four-year time period, obviously, over time, is acceptable to have it funded by an overriding royalty, if that's desired, as well.

When, or will notices go out to companies if they need to modify their current bonding?

As we said, say for example the NTL goes out January 1st, 2016 with an implementation date of April 1st, 2016. We will use that intervening period to get companies their information about what their liability is. When were they going to send us their plan so that we can say what percentage of self-insurance they can do?

The plans themselves would be due within 60 days, after it becomes effective. Companies that think they are going to go down the path of self-insurance should be encouraged to work with Dave Denson, early, and we also plan to provide to companies our estimate based off of the old information that we have.

If you don't currently have a waiver, you would need to submit stuff to us, so that we could make that determination. For companies that currently hold a waiver, we have the existing financials in house. If we can run the model based off of the financials that we have in-house, anybody with a 10K, we could run those.

We could provide an estimate, to those probably to what we're expecting to be able to give you that information at the workshops which will be held very shortly after the NTL is published. For companies that we don't have sufficient information, you're more than welcome to work with Dave, and he can help you with that.

I'd encourage those companies that believe that they have up-to-date, or additional information because obviously there are a number of metrics out there that we've talked about. If you believe you have those metrics, that would provide a better analysis.

How will the financial criteria for independence and integrated companies be used to determine if a company can be self-insured?

I want to make it clear that the five criteria that we've talked about are going to be the same. The financial capacity, liability, projected strength, business stability and record of compliance. The only thing that we're saying is, in the financial capacity, because we heard you, we want to make sure, what you said to us was, "Don't make this company size take the bias out of that."

We have two sets of metrics, one for integrated, one for independent. That's the only difference. Each of those will be going through a process, and we will come out based on those five criteria that lead to a score. That score will lead to a percentage from 0 to 10 of the tangible net worth that you would be eligible for self-insurance. Hopefully we said that a couple different times, and hopefully that should bring some clarity.

CFR 556.52 clearly states, "you or another record title owner for the lease must…" How does BOEM reconcile their new position?

I'll be honest, I'm not sure what this question is about, unless it's about operating rights, but the regulations to address the operating rights, as well, just not under 556.52.

The focus, easily is the record title. It's the simplest way, and right now, if we're dealing with operating rights, it's a case-by-case.

Would BOEM consider accepting an A-rated mutual or surety/bond, and if so, what other requirements would need to be included?

As far as requirements for satisfying financial assurance, they can be found in 556.54. One of the requirements there is to be on a Treasury circular, but if you have a specific request on an individual company, or an individual type of instrument that's not clear, come to us and we'll get you an answer.

What would BOEM do if the operator and financial assurance party both file bankruptcy? Can you go up the chain of title, and find someone who's going to step up and decommission the property? Will a financial assurance agreement be backed by a qualifying body?

I'm not sure what that means.

If a company, self-insured, files bankruptcy, how will BOEM get financial assurance? Ask others?

If there are others who have ownership rights on the lease, they're going to be ultimately joint, and severed liability is not going away. We're going to do what we need to do to make sure that facility gets decommissioned. What we're doing today doesn't change that, fundamentally.

Will BOEM consider giving temporary credit for outstanding BSEE site clearance approvals, inasmuch as some of these site clearance approvals have been outstanding for more than two years.

This falls under regional director discretion. I think if we come in, we can talk about this.

We understand that there are some issues where site clearance have actually been conducted, and may not be registering in the BSEE database. We have worked with some companies now to delay the requirements for financial assurance in those situations. Come in and talk to us about this.

Are there objective criteria for the consideration or compliance records, and how will they impact a financial assurance? Will compliance records be considered on a more subjective basis? If there are objective criterias to the consideration compliance records, what are they?

Basically, it is a subjective criteria. Basically if you're at the extreme ends of the compliance scale, it's fairly simple to figure out. If the bar is suspended, you're having leases canceled, your operatorship is being taken away from you, these are big negatives. If you had a line of credit, we would probably withdraw it at that point in time.

On the flip side, is an INC or a civil penalty going to cause you to lose it? It should not, and as far as if you've got a specific question that's somewhere in between, you're welcome to come and talk with us.

Really, what you're looking at there is the ability for the regional director to have the discretion to say, "No, we're not going to give you an allowance or discount based off of your record, because you're just way off the deep end here."

It's something that needs to be considered, but we obviously can't put a dollar amount to that, and be able to add it in and subtract it from the financial information. It's why there is discretion, it's to be able to take it into account and try to protect the government.

INCs for paint chips aren't going to be an issue.

How will BOEM handle assessments on units were record title ownership is uneven among blocks? For example, company X and Y own and lease one, companies W and Z own and leases two, three and four. The platform and majority of P&A liability is on lease three. However, if assessments are based on record title ownership companies, W&Z will hold a much higher liability. Will BOEM be assessing based on the unit ownership, where there is a unit, or on lease ownership?

On this particular item, it's particularly important, out in the Pacific region where they have units on just about, if not all of their properties out there. It's definitely different in the Pacific region, and if you're talking about property in the Pacific region, Joan Barminski, Joan, stick your hand up. Can you meet with her afterwards and give her your questions at that point in time?

In the Gulf of Mexico, it's not as big of an issue. It's not nearly 100 percent of their items, but once again, you're dealing with the record title ownership, and you're dealing with the unit. We're going to OOP's process as it looks at the record title for the individual leases. We understand that units do exist, we understand that there is joint liability among the different people there.

What you need to do is really try to work that out with yourselves, as a company, and then come to us. If you're really not getting anywhere, you're welcome to come to us, and we can see what we can do, but the agreements are already in place out in the Pacific region, and you can use those guys as a model, I would say, for any problems that are coming up here in the Gulf.

Where there are co-lessees, and each lessee is addressed individually, or the assessments go to the operator to handle lessees.

I think we've addressed that before, it goes to the lessees. How you want to handle that, whether it's the operator or whatever, I think that's up to you.

There's a second question, how are pipelines handled? BOEM also shows 100 percent operating, despite actual ownership.

I believe that's also on the lessee, but I'm going to defer to Terry on that. I believe that's also the right of way for that, on the lessee. How are pipelines handled when BOEM shows 100 percent operated, despite actual ownership?

That is a BSEE issue, actually. BSEE handles all of the pipelines, as far as the right of ways go, we know that there are more than one operator out there. Not more than one operator, there’s one operator but the ownership on some of these major right of ways are actually spread over several different companies.

I do know that in a bankruptcy situation, when it comes to those right of ways, they look first to that operator that they have in the system that's the go-to person, but they could reach back to all of the owners. They do have paper records on that, but they don't want to deal with multiple ones. That is a BSEE issue, it's really not ours.

BSEE, in the case of pipelines, handles both all the ownership records as well as the decommissioning records that we are working off of what they give us.

Please provide an example of how the following entities would post a bond? There's three different columns with A, B and C going in the rows. There's interest in liability, and there are three companies with interest of 10, 50 and 40 percent, adding up to 100, and the liability adding up to $20 million.

It says company A, 10 percent, is $2 million, and 10 million and 8 million adds up to the 40 and 50 percent. The question I think is, for what value does party A post a bond?

Again, if that's how you guys put together and said, "If we want to satisfy the $20 million bond," that's my interpretation, and party A is going to put $2 million, or that's what their obligation is, then that's what they would post the bond for.

As we said, it doesn't have to be that. It could be anything that you guys decide, if one of those parties could post the entire bond or other instrument that we've talked about.

As it relates to the compliance under the proposed criteria, when an operator merges or acquires another company, will BOEM separate and consider compliance issues based on the new operator, or history of acquired company?

I think it's specific, and I'm going to probably, again, defer to Terry on this, but I think we're going to have to understand who the management is in the new companies, whether they've had experience on the Gulf, have they left the existing management there?

Obviously, when credit agencies look at management, they're looking at past behaviors. We'll have to consider that on a case-by-case basis at that point.

Once again, operators aren't who we go out to. We go out to the record title owners.

The second part of this question is, will BOEM view compliance on an entity by entity basis, or will it review on a parent company and for all entities compliance as a total compliance history?

Again, I think this is based on a case by case basis. Obviously if you have a sub, it usually, it may be more than one sub that has the same issues. We'd have to understand that and address that on a case by case basis.

I had a couple of questions during the break that might piggyback on that concept. I was asked whether each...How many companies did we expect to get tailored plans from, and whether we expected it from every company, or how?

To date, we've worked pretty closely with two companies. Both companies that come in and worked with us on a tailored plan. We do have two tailored plans out there in the works right now. Both of those companies not only covered themselves, but they covered their affiliates and their subsidiaries within the plan that they negotiated.

We're not going to tell a company that's got subsidiaries and affiliates that they have to cover all of them in their single plan. But if it's easier on them to do it once than to come in three or four times to cover each one separately, we're more than willing to work with it as a group, or if it needs to be done as individuals, that's fine, too.

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