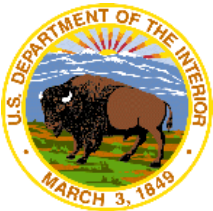




Third-Party Guarantee Workshop



- Communication
- Implementation Prioritization
- Implementation Timeline
- Third-Party Guarantee Evaluation



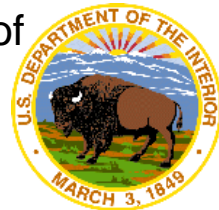
- Please check the BOEM Risk Management Website for updates at: <https://www.boem.gov/Risk-Management/>
- Currently posted:
 - Documentation for evaluation of self-insurance
 - Documentation for evaluation of third-party guarantees
 - NTL Implementation Timeline
 - NTS on Prioritization



- NTS Issued Jan 6th, 2017
 - “BOEM will extend the implementation timeline for NTL 2016-01 by an additional six months as to leases, rights-of-way and rights of use and easement for which there are co-lessees and/or predecessors in interest.”
 - In circumstances in which BOEM determines there is a substantial risk of nonperformance of the interest holder’s decommissioning liabilities, BOEM may send an order letter prior to this date.
- Demands for sole liability properties must still be met within 60 days.



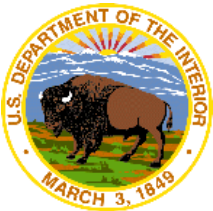
- NTL Issue Date – July 14, 2016
 - **General Notification Letter**, July 14, 2016 - General notification letter to all active Record Title Owners, Operating Rights Holders, and Designated Operators, Pipeline Right- a-Way (ROW) Holders, and Rights-of-Use and Easement (RUE) Holders.
- NTL Effective Date – September 12, 2016
 - **Self-Insurance Letter**, September-November, 2016 – Self-insurance qualification letter
 - **Proposal Letter**, October 20, 2016 – Letters outlining the proposed amounts of additional security that will be required.
 - **Sole Liability Order Letter**, December 30, 2016 - Within 60 calendar days of receipt of the order, additional security must be provided for Sole Liability Properties.
 - **Non-Sole Liability Order Letter**, Approximately June 30, 2017, exact date TBD – BOEM will begin sending out order letters to all Designated Operators, ROW Holders and RUE Holders for non-sole liability properties.
 - In circumstances in which BOEM determines there is a substantial risk of nonperformance of the interest holder’s decommissioning liabilities, BOEM may send an order letter prior to this date.





Third-Party Guarantee Evaluation

Codified in § 556.905



- If BOEM determines that a lessee must provide additional security for its decommissioning liabilities, BOEM will send a demand letter to the lessee
- If a third-party submits a guarantee to satisfy the demand, then the third-party guarantee can be limited to the decommissioning liability described in the demand letter
- Model Third Party Indemnity Agreement currently being updated



- All existing third-party guarantee agreements obtained from guarantors with financial waivers under the 2008 NTL, including any area-wide or property-specific guarantees, will remain in effect and will be enforced as necessary, pending a determination of the guarantor's third-party guarantee capacity under the revised third-party guarantee criteria
- If the existing guarantor does not submit the information requested or BOEM determines that the guarantor does not qualify to provide guarantees at the existing amount, the guaranteed lessee or holder may be subject to an order demanding additional security based on the criteria in § 556.905
- The existing guarantee instrument will then be cancelled upon the receipt and approval by the Regional Director of appropriate replacement financial security



$$3PG \% = \boxed{\text{Continuous Operations}} + \boxed{\text{Bond Rating}} + \boxed{\text{Net Worth}} + \boxed{\text{Current Ratio}} + \boxed{\text{Fixed Assets in the US}}$$

- 30 CFR § 556.905(c) states that a proposed third-party guarantee will be evaluated on the guarantor's:
 - A. Continuous Operations
 - B. Bond rating
 - C. Net worth
 - D. Current Ratio
 - E. Fixed Assets in the US
- Allowable maximum = 25% of unencumbered net worth in United States
- Independent of self-insurance



Summary of Criteria

	Possible 3PG % Increase	Possible 3PG % decrease
Continuous Operations	+0	-5
Bond Rating*	+15*	-15
Net Worth	+0	Lower 25% Ceiling
Current Ratio	+5	0
Unencumbered Assets	+5	0
Maximum allowable %	+25	

* - Guarantors without credit rating for recent bond issuance reduced maximum to +5%.



(A) Continuous Operations

- Use the same evaluation as the NTL – five years of operation.
 - No positive benefit
 - Reduction of benefit if < 5 years

Years	3PG %
≥ 5 yrs	0
1-5 yrs	1% Per Year
0-1 yrs	- 5



(B) Bond Rating

Moody's	S&P	Category	Rated	Unrated
Aaa	AAA	Prime	+ 15%	+ 5%
Aa1	AA+	High Grade	+ 12%	+ 4%
Aa2	AA			
Aa3	AA-			
A1	A+	Upper Medium Grade	+ 9%	+ 3%
A2	A			
A3	A-			
Baa1	BBB+	Lower Medium Grade	+ 6%	+ 2%
Baa2	BBB			
Baa3	BBB-			
BELOW INVESTMENT GRADE				
Ba1	BB+	Non-investment Grade Speculative	- 3%	- 3%
Ba2	BB			
Ba3	BB-			
B1	B+	Highly speculative	- 12%	- 12%
B2	B			
B3	B-			
Caa1 and below	CCC+	Substantial risks	- 15%	- 15%

- Third-party guarantees for sole liability properties, same restriction as the NTL (A3 / A- or higher).



- Potential for Guarantor with no credit rating for recent bond issuance.
- BOEM will need to conduct own analysis into guarantor's financial metrics and any other publicly available information.
- Due to limited amount of insight possible, guarantee adjustment range of -15% to +5%, subject to analyst discretion.



- A guarantor could structure its global operations such that 25% of its modified net worth is lower than 25% of its unencumbered net worth in the United States.
 - Modified Net Worth = Assets – Liabilities – Proposed Guarantee for this Property – Other Guarantees
- Guarantor’s modified net worth will be compared against unencumbered net worth in the United States. BOEM will use the lesser of these two amounts as the basis for determining allowable maximum.



(D) Current Ratio

- Current ratio indicates a company's ability to pay its debts over the next 12 months.
- Two thresholds: low (1Q) and high (3Q) based on 5-year average.
 - Qualify for low threshold based on passing 5 of 9 financial ratios (same as ratios in NTL).
 - Above threshold: +5% Below threshold: +0%

	2011	2012	2013	2014	2015	5-year Average
<i>Best</i>						
3rd Quartile	1.41	1.49	1.37	1.61	1.83	1.54
Median	1.05	1.02	0.96	1.11	1.23	1.07
1st Quartile	0.73	0.70	0.62	0.71	0.75	0.70
<i>Worst</i>						



- Helps ensure BOEM will not have to rely on sales of foreign assets in the event of a default.
- A fixed asset includes real estate (land), buildings, motor vehicles, machinery, and any other asset that is used over more than one reporting period and cannot be readily converted to cash.
- An unencumbered asset is free from debt and other liens so that it can be sold without competing claims from creditors. Unencumbered fixed assets are, therefore, the fixed assets that are not subject to any debt, title liens, or other encumbrances.



- Based on ratio of a guarantor’s unencumbered fixed assets in the United States to its other and proposed guarantees.
- Proposed ratio of 1:1 – \$1 of unencumbered fixed assets for every \$1 of other and proposed guarantees.
 - Positive benefit of 5% if greater than one
 - No negative adjustment if less than 1

Ratio	3PG%
≥ 1	+ 5
< 1	0

