



# United States Department of the Interior

## BUREAU OF OCEAN ENERGY MANAGEMENT

Gulf of Mexico OCS Region  
1201 Elmwood Park Boulevard  
New Orleans, LA 70123-2394

Date

In Reply Refer To: GM 365-D

FEDEX Tracking Number: #####

Self-Insurance Approval Letter

Company Representative

Position

Company Name (Company Qualification #)

Street Address

Suite #

City, State Zip

Dear Company Representative:

The Bureau of Ocean Energy Management (“BOEM”) issued NTL 2016-N01 (Requiring Additional Security) on July 14, 2016, effective September 12, 2016, which supersedes and replaces NTL No. 2008-N07. Under the new NTL, Lessees may have the ability to self-insure some portion, or all, of their additional security obligations without demonstrating net worth in excess of \$65 million. A self-insuring Lessee may arrange to make its self-insurance available to cover the liabilities of co-lessees. Self-insurance is limited to a maximum of 10 percent of a Lessee’s Tangible Net Worth. (The word “Lessee” herein includes parties with ownership interests in leases, rights-of-way (ROW), and/or rights-of-use and easement (RUE), as appropriate.)

BOEM is sending this letter to inform you that you are eligible to self-insure some portion, or all, of your additional security obligations. BOEM has evaluated your company’s financial ability to carry out obligations based on information you submitted (e.g. audited financial statements) and/or other information in BOEM’s possession demonstrating your financial capacity, financial strength, stability, reliability, and record of compliance. As a result of this evaluation, BOEM has determined that you are eligible to self-insure the additional security obligations required for your leases, ROWs, and/or RUEs in an amount up to #% of your Tangible Net Worth, or \$###,###,### (See Enclosure 1).

You must notify BOEM in writing of the amount of self-insurance you wish to allocate to each lease, ROW, or RUE in which you have an interest and whether it is your intent for such self-insurance to cover the interests of other Lessees holding interests in those leases, ROWs, or RUEs. To assist you in preparing this notification, BOEM has enclosed a customized property list including all the properties in which you have an ownership interest (See Enclosure 2). Please use this list to allocate your self-insurance and return the list within 30 calendar days of receipt of this letter, annotated with your self-insurance allocations, to:

Bureau of Ocean Energy Management  
Risk Management Operations Group  
1201 Elmwood Park Boulevard (GM 365-D),  
New Orleans, Louisiana, 70123.

Without this notification, or if the total allocated self-insurance amounts are not sufficient to meet all of your additional security obligations, BOEM will send you an order requiring you to provide additional security on all properties where your existing financial assurance and self-insurance is not sufficient to cover your obligations.

This self-insurance determination is valid for one year from the date of this letter. However, under certain circumstances, it may be determined that an updated financial ability evaluation and self-insurance determination is necessary. Such an evaluation and determination may be performed at any time, including when BOEM becomes aware of:

- New or additional relevant information (i.e. annual audited financial statements); or
- Material or adverse changes in financial strength or OCS obligations; or
- Performance deficiencies, such as Incidents of Noncompliance, Civil Penalties or failure to adhere to any term or condition of, or obligation imposed by, a lease;
- Submission of an Exploration or Development and Production Plans, Development Operations Coordination Documents, or Permits; or
- Change in operator or ownership of a lease, ROW or RUE; or
- Violation of Department of the Interior or other applicable regulations.

The full text of NTL 2016-N01 can be found at <http://www.boem.gov/Notices-to-Lessees-and-Operators/>.

Full Company Property Lists can be found on our website at <http://www.boem.gov/Property-Lists/> and is updated regularly.

If you believe you are adversely affected by this Decision, you may appeal it to the Interior Board of Land Appeals (IBLA). The appeals procedures are found in 30 C.F.R. Part 590, Subpart A. Your notice of appeal must be filed with the appropriate BOEM Regional Director within 60 calendar days of receiving this Letter. A processing fee of \$150 is required and must be paid electronically using [www.pay.gov](http://www.pay.gov). You must also provide a statement of reasons for your appeal. You may include this statement with your notice of appeal, or you may file it with the IBLA within 30 calendar days after you file your notice of appeal (see 43 C.F.R. § 4.412). BOEM requests that you also submit your statement of reasons to the appropriate BOEM Regional Director within that 30-day period. During the appeals process, you must comply with this Decision (see 30 C.F.R. § 590.7), unless you petition the IBLA to grant a stay of the Decision on the grounds set forth in 43 C.F.R. § 4.21 (b), and the IBLA grants your requested stay.

If you have any questions regarding your self-insurance evaluation or this letter, you may contact the Risk Management Operations Group at [boermog@boem.gov](mailto:boermog@boem.gov) or at 504-736-7541.

Sincerely,

Michael A. Celata  
Regional Director,  
Gulf of Mexico Region

Enclosures

**Self-Insurance Evaluation**

FINAL SELF-INSURANCE AMOUNT– You have qualified for **\$\$** of self-insurance, equal to **#%** of your calculated tangible net worth, as stated in (ii) below, to be allocated as you determine and inform BOEM, pursuant to the letter to which this enclosure is attached and NTL 2016-N01.

- (i) **Financial Capacity** – Based on your audited financial statements, your tangible net worth is **###,###,###**. To be eligible for self-insurance of 5% of your tangible net worth, you must exceed the threshold for a minimum of five of the following nine ratios.

Quick Ratio – threshold needed to pass: At or above the 2011-2015 Industry AVG of **0.97**

Your score: **### (Indicated whether Pass or Fail)**

Current Ratio - threshold needed to pass: At or above the 2011-2015 Industry AVG of **1.07**

Your score: **### (Indicated whether Pass or Fail)**

Total Debt/Equity – threshold needed to pass: At or below the 2011-2015 Industry AVG of **1.25**

Your score: **### (Indicated whether Pass or Fail)**

Total Debt/Capital – threshold needed to pass: At or below the 2011-2015 Industry AVG of **0.57**

Your score: **### (Indicated whether Pass or Fail)**

Total Debt/Earnings Before Interest, Taxes, Depreciation and Amortization – threshold needed to pass: At or below the 2011-2015 Industry AVG of **4.35**

Your score: **### (Indicated whether Pass or Fail)**

Cash Flow from Operations/Total Debt - threshold needed to pass: At or above the 2011-2015 Industry AVG of **0.20**

Your score: **### (Indicated whether Pass or Fail)**

Earnings Before Interest and Taxes/Interest Expense – threshold needed to pass: At or above the 2011-2015 Industry AVG of **4.78**

Your score: **### (Indicated whether Pass or Fail)**

Return on Assets – threshold needed to pass: At or above the 2011-2015 Industry AVG of **-2.56%**

Your score: **### (Indicated whether Pass or Fail)**

Return on Equity – threshold needed to pass: At or above the 2011-2015 Industry AVG of **0.18%**

Your score: **### (Indicated whether Pass or Fail)**

You have exceeded the threshold in **##** of the 9 ratios based on your **Audited** financials and **are/are not** eligible for an initial self-insurance capacity equal to 5% of your calculated tangible net worth as stated in (ii), below.

- (ii) **Projected Financial Strength** - BOEM will add 25% of the PV10 value of your proven reserves to your tangible net worth.

BOEM **has / has not** added 25% of the PV10-value of your proven reserves to your tangible net worth (if “has not” included) “because your company did not provide the required **information**”, bringing the latter to **###,###,###** (referred to as “calculated tangible net worth”).

- (iii) **Business Stability** – BOEM may reduce your self-insurance amount by a maximum of 5% of your calculated tangible net worth if you have no experience in the oil and gas industry. If you have five or more years of such experience, BOEM will not reduce your self-insurance amount.

Your company **has / has not** been in the oil and gas business for > 5 years; therefore BOEM has subtracted **#%** from your total self-insurance percentage.

- (iv) **Reliability** – BOEM may increase your self-insurance amount by up to 5% of your calculated tangible net worth if your credit rating, as measured by Moody’s, Standard & Poor’s, or another nationally recognized independent third party rating agency, is above A2/A. BOEM may increase your self-insurance amount by up to 2% of your calculated tangible net worth if your credit rating is equal or above Baa3/BBB-. A credit rating equal to Ba1/BB+ may result in no increase in self-insurance amount, while a credit rating below Ba1/BB+ may result in a negative adjustment to the amount of self-insurance. Negative adjustments are lowered a single percentage point for each lower rating, starting at a negative 1% adjustment for Ba2/BB- to a negative 5% adjustment for B3/B-.

If you do not have a credit rating from a nationally recognized independent third party rating agency, and you provide BOEM with trade references, BOEM may increase, or decrease, your self-insurance by up to 2% of your calculated tangible net worth.

You have a credit rating of **Rating** therefore BOEM **added / subtracted #%** of your calculated tangible net worth to your total self-insurance percentage.

- (v) **Record of Compliance** –BOEM may reduce your self-insurance amount based on an assessment of your record of compliance with laws, regulations, and lease terms. This reduction is based on your compliance record of the previous 12 months, as follows: low compliance -3%; medium compliance -1% and high compliance 0%. Analyst review may further adjust this percent. This determination takes into account your record of, if any, shut-ins, civil penalties, non-payment of rents and royalties, suspension of operations, debarment, cancelation of leases and any compliance issues not resolved satisfactorily in the designated time period.

BOEM has determined that your record of compliance merits the subtraction of **#%** of your calculated tangible net worth from your total self-insurance percentage (added the following if subtracted percentage “based on the review of compliance information provided by BSEE and ONNR”).