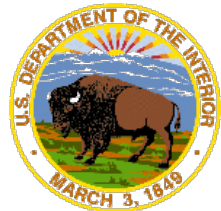




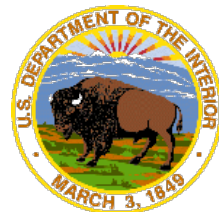
Mike Celata
Bureau of Ocean Energy Management
U.S. Department of the Interior



Protect the United States from financial loss or environmental damage when a leaseholder or operator is unable to pay rents and royalties or perform required decommissioning.

Protect the U.S. Taxpayer from exposure to financial obligations and liabilities associated with OCS exploration and development.

- Incorporate front end risk management tools that provide a fair, equitable and transparent approach to financial assurance and loss prevention
- Monitoring company financial data and developing criteria to detect declining financial performance
- Develop and implement comprehensive financial assurance practices that mitigate exposure to liabilities
- Consider additional forms of financial assurance



Additional Bonds (30 CFR §556.901)

30 CFR §556.901 (d) (1) (i) Financial Capacity

- Substantially in excess of existing and anticipated lease and other obligations, as evidenced by **audited** financial statements (including auditor's certificate, balance sheet, and profit and loss sheet);

30 CFR §556.901 (d) (1) (ii) Financial Strength

- Significantly in excess of existing and future lease obligations based on the estimated value of your existing OCS lease production and proven reserves of future production;

30 CFR §556.901 (d) (1) (iii) Business Stability

- Based on 5 years of continuous operation and production of oil and gas or Sulphur in the OCS or in the onshore oil and gas industry;

30 CFR §556.901 (d) (1) (iv) Reliability

- (A) Credit Rating(s); or
- (B) Trade References

30 CFR §556.901 (d) (1) (v) Record of Compliance

- **Record of Compliance** with laws, regulations, and lease terms



NTL Issue Date

- General Notification Letter July 14, 2016

NTL Effective Date

- September 12, 2016

Self-Insurance Letter

- September November 2016

Proposal Letter

- October 2016

Sole Liability Order Letter

- December 2016



NTL Pause Status

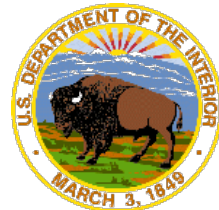
- January 6, 2017 BOEM announced 6-month extension of NTL implementation timeline for non-sole liability properties
- February 2017 Rescission of Sole Order Demand Letters

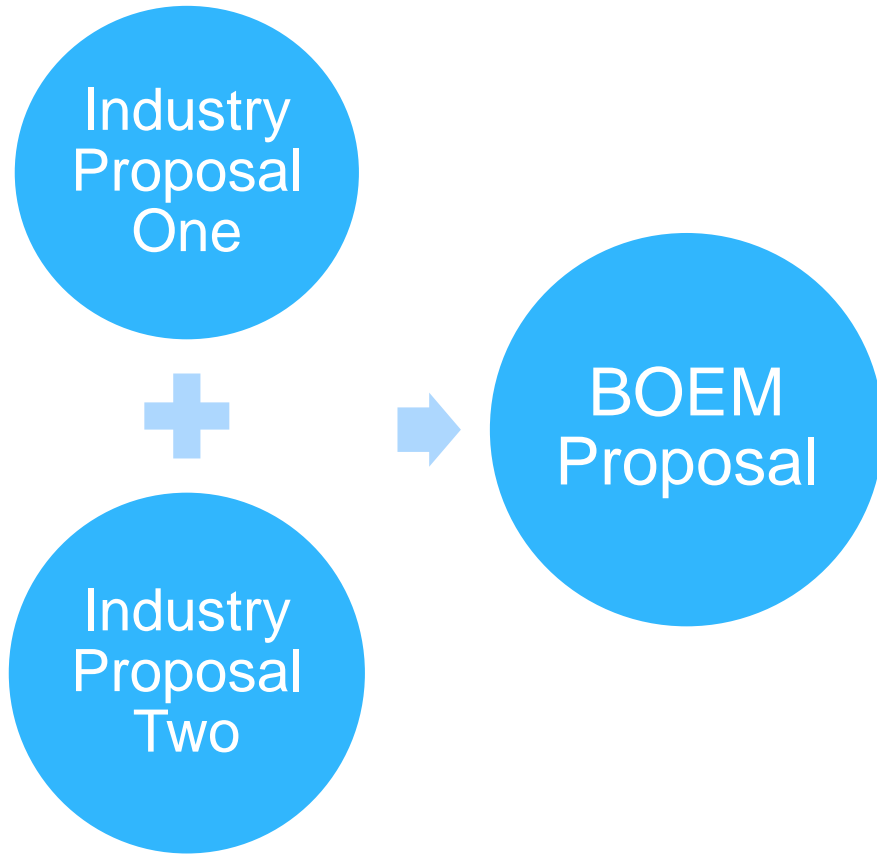
High Risk Lessees Bond Demands

- BOEM determines substantial risk of nonperformance of the interest holder's decommissioning liabilities

Industry Engagement

- BOEM has engaged industry on the path forward
- BOEM has received two industry proposals from the Offshore Operators Committee and the Gulf Energy Alliance

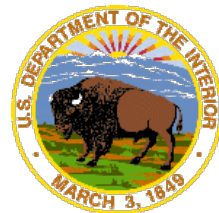




Both proposals address:

- Lessee Evaluation
- Property Evaluation
- Co-Lessees
- Predecessors

BOEM has taken these into consideration and will be holding workshops to discuss the BOEM proposal.



Financial Evaluation of Companies

- Lessees financial evaluation will be based on 30 CFR §556.901
- Proposed Tier evaluation system
- Reflects market valuation of default risk

Evaluation of Properties

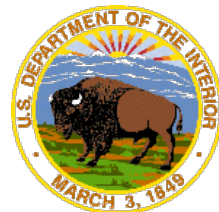
- Proposed valuation system for individual offshore properties designed to predict whether properties have realizable market value

Co-Lessee and Predecessor Liability

- Current co-lessees are responsible for decommissioning
- Based on proposed co-lessees Tier evaluation, property may be subject additional financial assurance

Decommissioning Estimates

- BSEE Decommissioning Cost
- Asset Retirement Obligations
- 3rd party estimates



Chain Of Title

- Potential process of requiring financial assurance/performance of decommissioning in chronological order

Redundant Bonding

- BOEM will work with lessees on solutions to reduce “Redundant Bonding” through mechanisms such as “Multi Party” bonds.

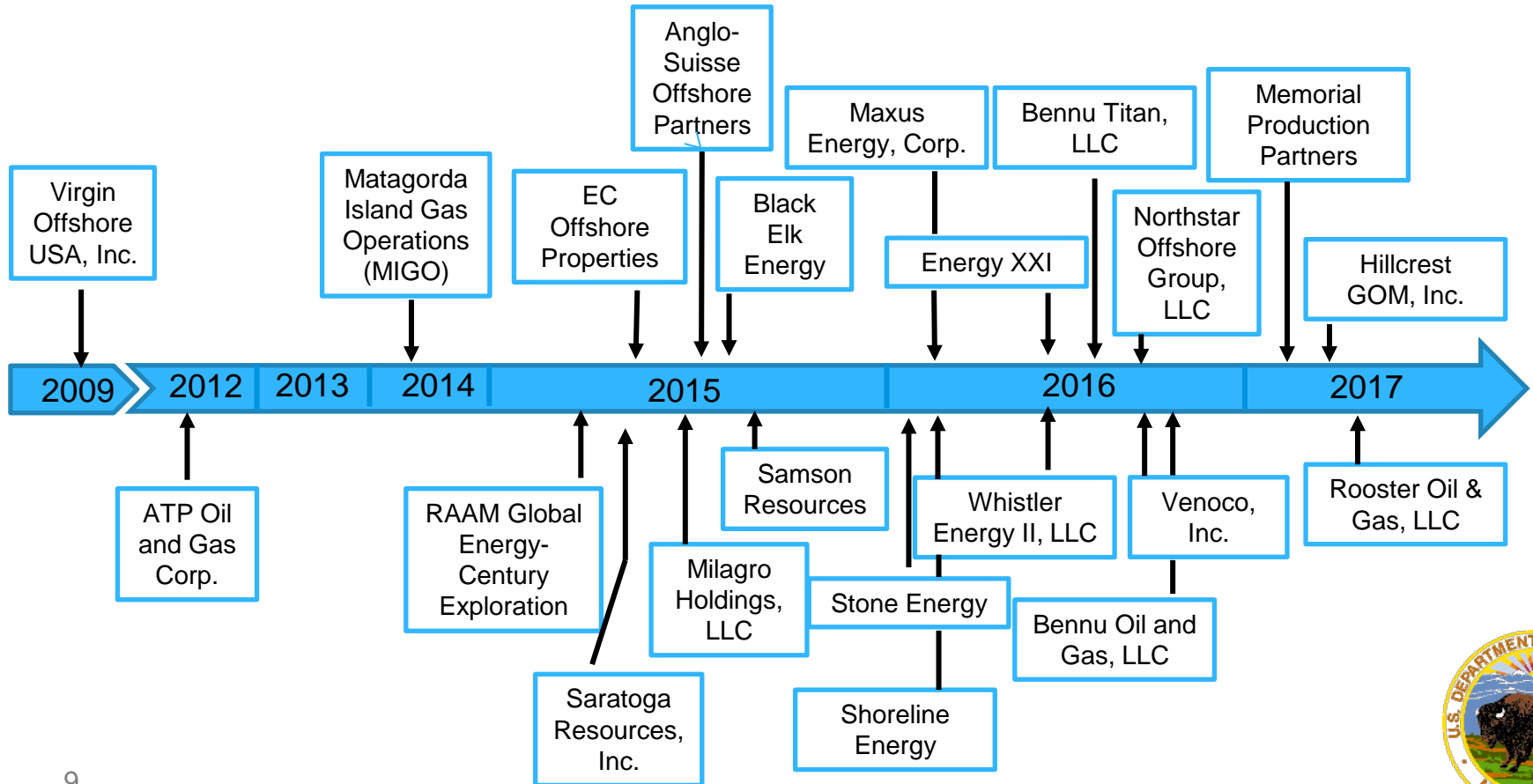
Implementation Phased-in Approach

- There will be a phase-in approach will be based on lessees and property evaluations.

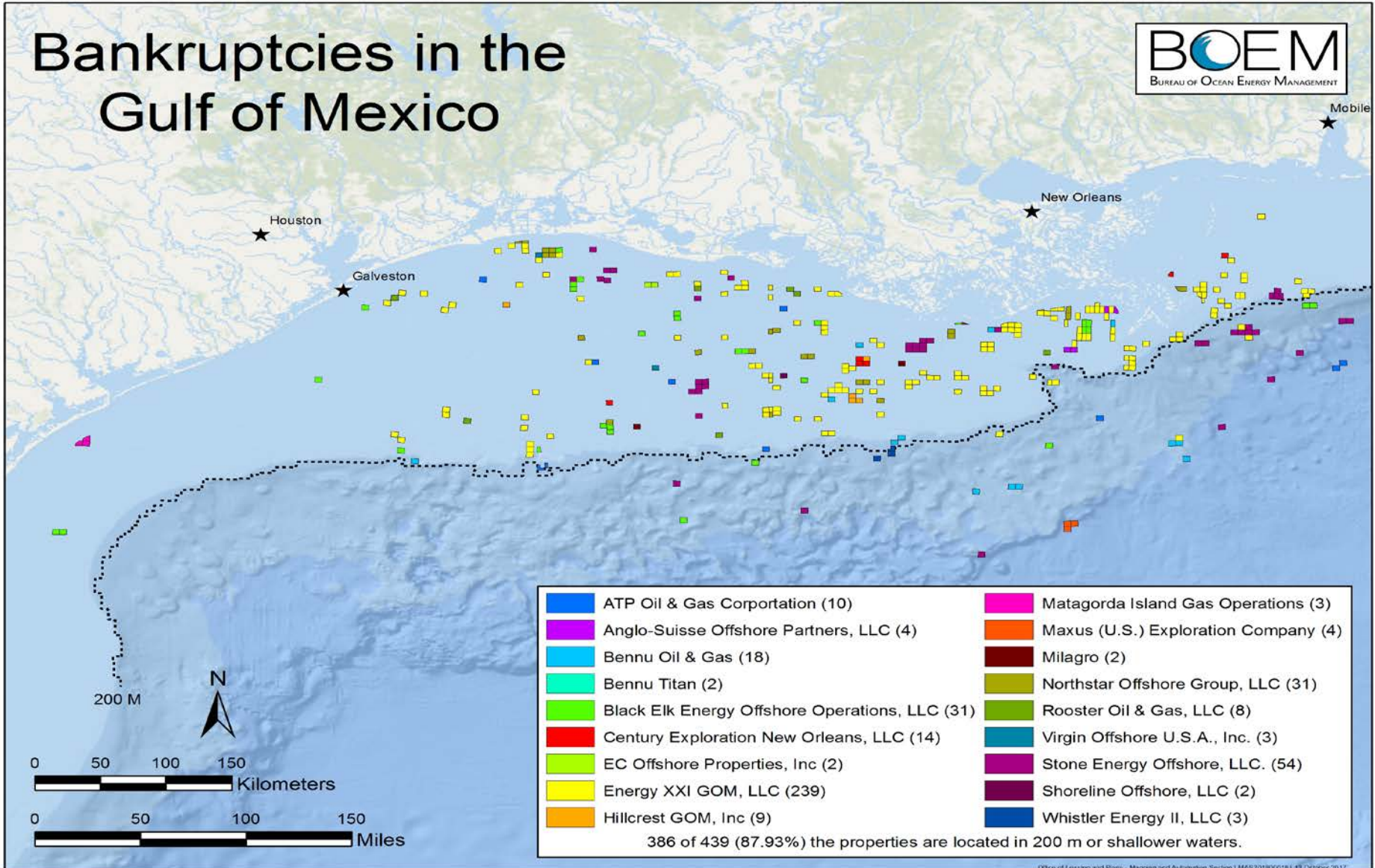


Bankruptcy Trends

Significant increase in companies operating in the OCS experiencing financial distress/bankruptcy, which is expected to continue.



Bankruptcies in the Gulf of Mexico



Questions/Comments?

Visit BOEM Website @ www.boem.gov

BOEM manages the responsible exploration and development of offshore energy and marine mineral resources on the OCS. The bureau promotes energy independence, environmental protection and economic development through responsible management of these offshore resources based on the best available science.

