



Offshore Financial Security Workshop

August 10, 2016

Hyatt Regency Houston Downtown



7:30 – 8:00 Participant Registration

8:00 – 8:15 Welcome

Michael Celata, BOEM Regional Director,
Gulf of Mexico Region

8:15 – 8:30 Policy NTL Updates

Walter Cruickshank, BOEM Deputy Director

8:30 – 8:45 BOEM Implementation of NTL 2016-N01

George Tropiano, Program Manager
Risk Management Operations Group

8:45 – 9:15 General Bonding Requirements

Jaron Ming, Regional Supervisor, Office of Leasing & Plans

9:15 – 9:30 Break

9:30 – 11:30 White Board Session by Members of the OCS Advisory Board

11:30 Closing Remarks

Michael Celata

Why are we here today?



Over the past 2 years BOEM has reached out to industry regarding the Bureau's financial assurance and loss prevention program.



In February, 2015 BOEM discussed its intent to update its financial assurance criteria. In October, 2015 BOEM shared its proposed financial criteria with industry.



Financial Security NTL 2016-N01 published in July 2016. BOEM will instruct lessees on its process and details associated with the phased implementation of this NTL.

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

- **The Outer Continental Shelf Lands Act provides the Secretary with the authority to require bonds or other forms of financial assurance.**
- **30 CFR § 556 is the primary regulatory source regarding BOEM's financial assurance requirements.**
- **Notice to Lessees (NTL) clarifies the procedures and criteria used to apply the CFR to BOEM's financial assurance program.**





Walter Cruickshank
BOEM Deputy Director



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

- Develop fair, equitable, and transparent policies
- Monitor BOEM's risk exposure by Region and company
- Implement practices that mitigate exposure to liabilities
- Align evaluation criteria with industry and banking standards
- Balance economic growth with the responsibility to protect our natural resources



Self-Insurance

- Lessees may be eligible for self-insurance to meet some or all of their supplemental bond obligations.
- Self-insurance is effectively an unsecured line of credit that transfers the risk of non-performance from the lessee to BOEM.
- If a lessee is eligible for self-insurance, the total will not exceed 10% of their tangible net worth.
- BOEM's evaluation no longer has a minimum Net Worth requirement.



Combined Financial Strength

- BOEM will no longer consider the combined financial strength and reliability of co-lessees or operating rights holders.
- A lessee that is eligible for self-insurance may make arrangements to cover the additional security requirements of its co-lessees.
- An agreement to guarantee the liabilities of co-lessees cannot exceed the self-insurance capacity of the lessee.



Phased-In Compliance

- You may request to phase-in your financial assurance obligations.
 - Note that additional security for sole liability properties cannot be phased-in.
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- An example phase-in request was provided in the NTL that extended the compliance timeframe up to 360 days.
 - A request to phase-in would be considered a “tailored financial plan”.
 - Sole liabilities are categorized as the highest risk to BOEM, therefore financial assurance on sole liabilities cannot be phased-in.
 - Covering sole liability with self-insurance will require a credit rating greater than or equal to A3 (Moody’s) or A- (S&P).



- Developments over the past 20+ years required changes to BOEM policies.
- To continue protecting the U.S. taxpayer from exposure to financial obligations and liabilities associated with OCS exploration and development, BOEM has updated its policies in these three areas:
 - Self-insurance limits
 - Additional security requirements and the instruments available to fulfill those requirements
 - Phasing-in compliance and sole liabilities.





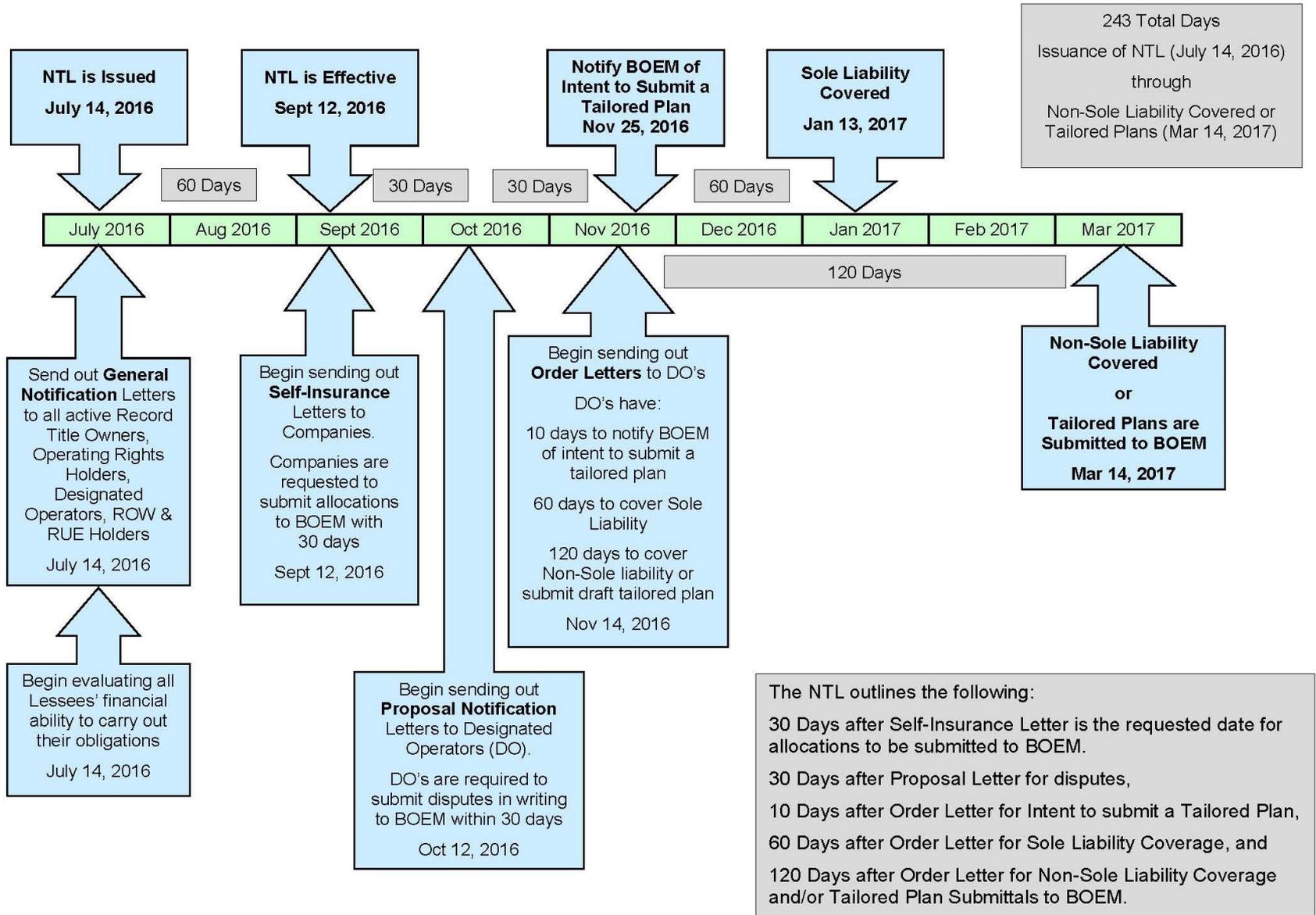
George Tropiano, Program Manager
Risk Management Operations Group



- NTL Implementation Timeline
- Property Risk Category - “Bucket” Methodology
- Perform Financial Assurance Evaluations
- Risk Management Operations Group Overview



NTL Implementation Timeline



Sole Liability Property Categories

Bucket 1 - Inactive Properties with no Predecessors or Co-lessees

Bucket 2 - Active Properties with no Predecessors or Co-lessees

Property Categories Eligible for Tailored Plans

Bucket 3 - Inactive Properties with Predecessors Only

Bucket 4 - Active Properties with Predecessors Only

Bucket 5 - Inactive Properties with Active Co-lessees

Bucket 6 - Active Properties with Active Co-lessees

Inactive Properties (Relinquished, Terminated or Expired)

Active Properties (Not Relinquished, Terminated or Expired)



- Tailored plans must be submitted to BOEM for review and approval
- Companies are encouraged to collaborate with BOEM while developing their plan
- Tailored plans will be prioritized by greatest risk to the federal government and the U.S. taxpayer



- The following represents a phased-in compliance timeline from the date of the approved tailored plan:
 - Within 120 calendar days from the date of approval, provide at least one-third (1/3) of the required additional security;
 - Within 240 calendar days from the date of approval, provide at least two-thirds (2/3) of the required additional security, and;
 - Within 360 calendar days from the date of approval, provide the full amount of the required additional security.
- The Regional Director may allow you to vary the above phasing-in schedule.



- Types of financial assurance permitted through the discretion vested in the Regional Director
 - Surety bonds
 - U.S. Treasury securities
 - Lease-specific abandonment accounts
 - Third-party indemnity & guarantees
 - Trust agreements
 - Multi-party bonds
 - Letters of Credit
 - Parent guarantee
 - Certificates of deposit
 - Escrow accounts
 - Insurance
 - Other instrument(s) suggested by industry



Financial Ability will continue to be determined using the following criteria:

Financial Capacity

- Based on the most recent (not more than 12 months old) independently audited financials

Projected Strength

- Estimated value of existing OCS lease production and proven reserves of future production

Business Stability

- Five years of continuous operation and production on the OCS or onshore

Reliability

- Ratings by Moody's, Standard and Poor's; Trade references

Record of Compliance

- Based on record of compliance with laws, regulation and lease terms including but not limited to:
 - Civil penalties
 - Revocation of Ownership
 - Debarment
 - Idle Iron
 - Cancellation of Leases
 - Non-payment/under-payment
 - INCs

The criteria cited above are established in 30 CFR § 556.901(d)(1)

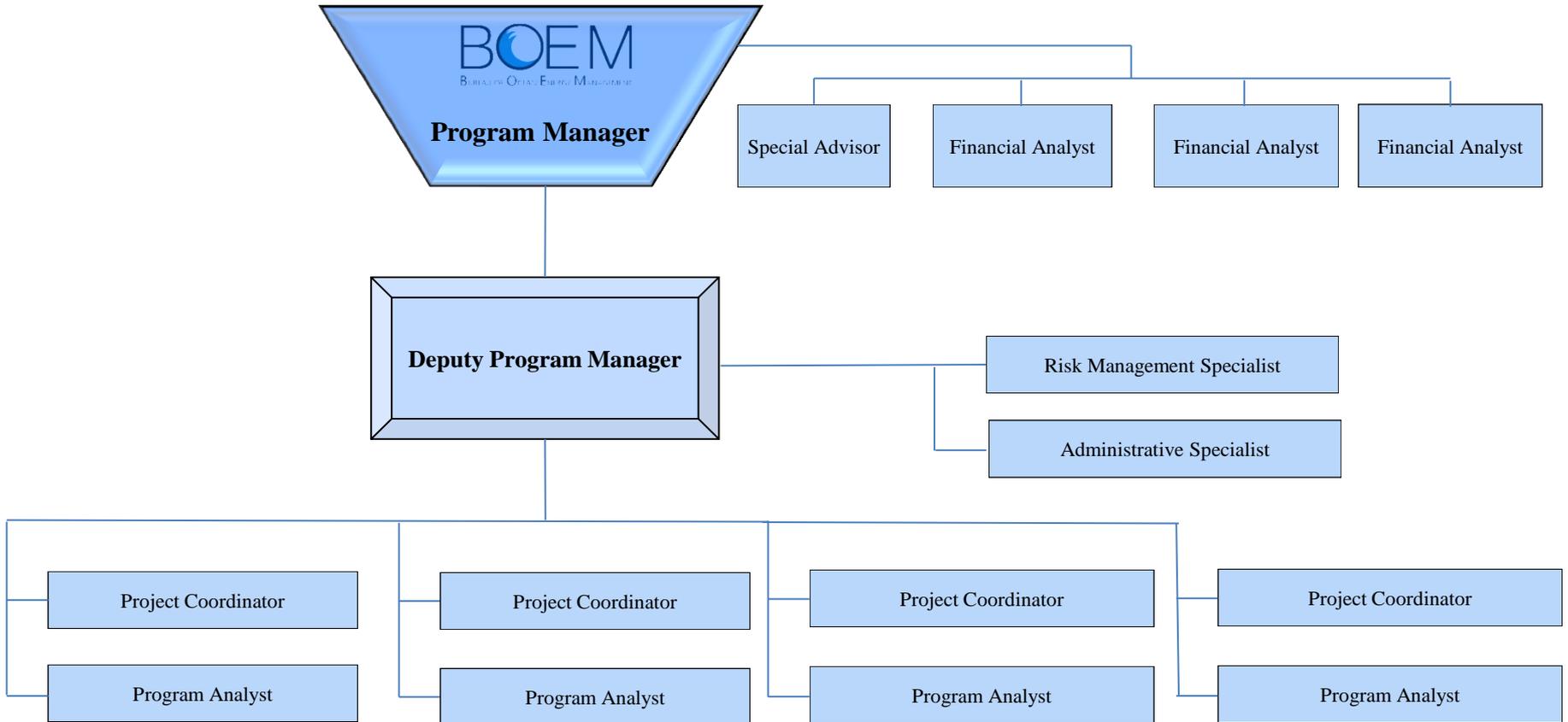


Financial capacity will be evaluated based on select financial criteria. This will assist in determining if a company is allowed self insurance not to exceed 10% of their tangible net worth.

- The criteria will evaluate
 - Performance (Return on Equity, Return on Assets)
 - Liquidity (Current Ratio, Quick Ratio, Cash flow from Operations/Total Debt)
 - Leverage (Total Debt/Equity, Total Debt/Capital, Total Debt/EBITDA, Earnings before Interest and Taxes (EBIT)/Interest Expense)

* EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization





Risk Management Website - <http://www.boem.gov/Risk-Management/>

- Full Text of the NTL
- Implementation Timeline
- Archived News
- Property Lists
- Communications

General Questions or Inquiries - BOEMRMOG@boem.gov

Property List Requests - BOEMRMPropertyLists@boem.gov



General Bonding Requirements



Jaron Ming, Regional Supervisor
Office of Leasing & Plans



- General Bond Requirements
- Supplemental Bond Requirements



- Codified in the Code of Federal Regulations (CFR)
 - ✓ 30 CFR 556 - Subpart I – Bonding
 - ✓ <http://www.ecfr.gov/cgi-bin/text-idx?SID=12ea2da61cf693656dbc0b7b86ecd0dc&mc=true&node=pt30.2.556&rgn=div5#sp30.2.556.i>
- GOMR, NTL No. 2015-N04, August 17, 2015
 - ✓ <http://www.boem.gov/NTL-No-2015-N04/>



- Financial Assurance Review

Determining additional security will be conducted prior to the request for any changes to a lease assignment or an operational activity such as a EP, DPP or DOCD. This includes any changes to the Record Title holder, Designated Operator or holder on a lease, RUE or ROW.



- General Lease Surety Bonds
 - ✓ Lease Specific (Level of Activity of the Lease)
 - ✓ Areawide (Largest Level of Activity of the leases you cover)
- General Bond Payment
 - ✓ Surety Bonds from a surety listed on the U.S. Department of Treasury Circular 570.
 - Verified for Corporate and Surety Seal
 - ✓ U.S. Treasury Securities



Q. How much general bond do I need to provide?

- Determine the level of activity per Designated Operator
 - ✓ No Operations (NOP), No Activity
 - ✓ Exploration Plan (EP), Wells
 - ✓ Development (DEV), Wells and Facilities



- Lease specific bond - \$50,000
 - Company areawide bond - \$300,000
- ✓ NOTE: Co-Principals are not acceptable on any required bond.



Exploration Plan (EP)

- Lease Specific Bond - \$200,000
 - Company Area wide Bond - \$1,000,000
- ✓ NOTE: Bond should be submitted with the EP. The EP will not be approved until all bonding has been reviewed and deemed acceptable.



Development and Production Plan (DPP) and
Development Operations Coordination Document (DOCD)

- Lease Specific Bond - \$500,000
 - Company Areawide Bond - \$3,000,000
- ✓ NOTE: Bond should be submitted with the DOCD or DPP. The DOCD or DPP will not be approved until all bonding has been reviewed and deemed acceptable.



- Supplemental Bonding Procedures
- ✓ 30 C.F.R. 556.901 (d); NTL No. 2016-N01,
September 12, 2016
<http://www.boem.gov/BOEM-NTL-2016-N01/>



Internet Location

1. Log on to WWW.BOEM.GOV
2. Click on Oil and Gas Energy Programs
3. Click on Leasing
4. Click on Bonding
5. Click on Plugging and Abandonment (P&A) Liability

Or go directly to the site:

http://www.data.boem.gov/homepg/data_center/leasing/LeaseLiab/master.asp



Bonding Forms BOEM-2028A and Third-Party Indemnity
Sample Agreements are available on the Internet at:

<http://www.boem.gov/Bonding/>

Leasing & Financial Responsibility Section

BOEM – LFRS

GM 274A

1201 Elmwood Park Blvd.

New Orleans, LA 70123-2394





CLOSING REMARKS



Next Steps – NTL Implementation



**NTL Issued July 14, 2016
NTL Effective Sept 12, 2016**

**Sole Liability covered by Jan 2017
Non-Sole Liability or
Tailored Financial Plans submitted
by Mar 2017**

**BOEM invites lessees who
have questions to contact its
Risk Management Operation
Group**



- Next Workshop August 25, 2016 in New Orleans, LA <http://www.boem.gov/Workshops/>
- Company Property List and Collateral List Report <http://www.boem.gov/Property-Lists/>
- Request a property list breakdown email BOEMRMPROPERTYLISTS@BOEM.GOV
- Presentations will be posted online: <http://www.boem.gov/Risk-Management/>



This afternoon BSEE will present on the update of GOM Decommissioning Estimates

- General Overview/Potential Impacts
- Well/Platform/Pipeline Cost Changes
- Assessing Costs at Permit Stage vs Plan Stage

