



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

Refer reply to: GM 365-D

July 14, 2016

Courtesy Notification of new NTL No. 2016-N01

Company Representative
Position
Company Name (Company Qualification #)
Street Address
Suite #
City, State ZIP

Dear Company Representative:

The Bureau of Ocean Energy Management (BOEM) issued Notice to Lessees (NTL) No. 2016-N01 (Requiring Additional Security) on July 14, 2016, effective September 12, 2016. The full text of the NTL can be found at <http://www.boem.gov/Notices-to-Lessees-and-Operators/>. This NTL supersedes and replaces NTL No. 2008-N07. In an effort to increase awareness of this new NTL, BOEM is contacting all active Record Title Owners, Operating Rights Holders, Designated Operators, Pipeline Rights-of-Way (ROW) Holders, and Rights-of-Use and Easement (RUE) Holders via this written notification letter. (The word “Lessee” may be used herein to apply to all of these parties.)

The BOEM Regional Directors have the authority under 30 CFR 556.901 (d)-(f), to require additional security for Outer Continental Shelf (OCS) leases, ROWs, and RUEs, based upon a calculation and an evaluation of the Lessee’s ability to carry out all present and future financial obligations including decommissioning and other liability costs. On August 28, 2008, BOEM issued NTL No. 2008-N07 which set forth the procedures and criteria used to calculate decommissioning liability, determine risk regarding the Lessee’s ability to carry out present and future financial obligations, and specify the types and terms of supplemental bonds or other additional security that BOEM may require or accept. Since the release of the NTL No. 2008-N07, the financial dynamics of the oil and gas industry have changed substantially. Thus, BOEM has determined that the previously utilized formulas for determining financial strength and reliability implemented under the previous NTL are outdated, and no longer provide protection for liabilities incurred as a result of OCS operations.

The new NTL institutes several changes, but the major ones are outlined below:

- Lessees will no longer be granted “waivers” for their additional or supplemental security obligations, but may have the ability to self-insure some portion of, or all of, those 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-owners of its leases. Self-insurance is limited to a maximum of 10 percent of a Lessee’s Tangible Net Worth.
- BOEM will be using new methodologies to interpret and implement the five criteria set forth in 30 CFR 556.901(d). For example, to assess a Lessee’s Financial Capacity, BOEM will analyze a number of specific financial performance metrics.
- BOEM is encouraging the use of a wider range of security instruments than those used in the past, which can be provided through tailored financial plans. The new NTL will also allow a phasing-in provision of additional security through tailored financial plans, except for leases or grants for which there is no other current or prior owner who is liable (Sole Liability Properties).

In order to implement the change from the supplemental waiver process to a self-insurance process, BOEM is asking Lessees to immediately submit any relevant information needed for the Regional Directors to consider in their overall financial review. BOEM will use this information, and other information available to it, to evaluate a Lessee’s ability to carry out its obligations and determine whether, and/or how much self-insurance a Lessee can use. After BOEM determines that a Lessee has the ability to apply self-insurance toward its financial obligations, the determined amount will be communicated with a written notification to the Lessee. The Lessee must then notify BOEM how it intends to allocate its self-insurance among its leases, ROWs, and/or RUEs. BOEM will demand additional security for those leases, ROWs, and RUEs for which it does not receive notification of full coverage with self-insurance.

After the above evaluations are completed, BOEM may send a proposal to Lessees, through their Designated Operators, outlining the proposed amounts of additional security to be required. Within 30 calendar days of receiving a proposal, a Lessee should notify BOEM in writing of any disputes.

After the effective date of the NTL (September 12, 2016), BOEM will begin to issue orders (1) to Lessees, through the Designated Operators, to provide, within 60 calendar days of the order, additional security for Sole Liability properties, and, (2) to Lessees, through the Designated Operators, to provide within 120 calendar days of the order, additional security for the remaining properties and/or a tailored financial plan. If a Lessee wishes to submit a tailored financial plan for BOEM’s consideration, then the Lessee or its Designated Operator must

provide BOEM written notification of the intent to submit a tailored financial plan within 10 calendar days of receipt of the order, as well as, identify any other parties with whom it intends to jointly provide a plan (i.e. subsidiaries, etc.).

While a current copy of the full Company Property List and Collateral List Report for each Designated Operator will be included with the orders, a weekly updated copy can be found at <http://www.boem.gov/Property-Lists/>. BOEM requests that you review the full Company Property List and Collateral List Report and bring any questions, disparities, or disputes to BOEM's attention as soon as possible. To request a property list breakdown, including Sole Liability Properties not eligible for phased-in compliance, and all other properties that may be eligible for phased-in compliance, please e-mail BOEMRMPropertyLists@boem.gov.

BOEM will conduct two workshops associated with the new NTL, which will cover topics such as NTL Updates, NTL Implementation, Bonding, BSEE Decommissioning, as well as a White Board Session, on August 10th in Houston, Texas, and August 25th in New Orleans, Louisiana. Agenda, locations and registration can be found at <http://www.boem.gov/Workshops/>.

If you have any questions regarding this notification, please contact Risk Management Operations Group at boermog@boem.gov or at 504-736-7541.

Sincerely,



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Michael Celata
Regional Director,
Gulf of Mexico Region



Digitally signed by Joan Barminski
DN: cn=Joan Barminski, o=Pacific
Region, ou=BOEM,
email=joan.barminski@boem.gov, cn=US
Date: 2016.07.12 10:26:00 -0700

Joan Barminski
Regional Director,
Pacific Region



Digitally signed by JAMES KENDALL
DN: cn=US, o=U.S. Government,
ou=Department of the Interior, ou=Bureau of
Ocean Energy Management, cn=JAMES
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Dr. James (Jim) Kendall
Regional Director
Alaska Region