An Update on Requiring Additional Security

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BOEM’s Financial Assurance Goals

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
### 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 2016-N01 Activities

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<tr>
<th>Description</th>
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<tr>
<td>NTL Issue Date</td>
<td>General Notification Letter July 14, 2016</td>
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<td>NTL Effective Date</td>
<td>September 12, 2016</td>
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<tr>
<td>Self-Insurance Letter</td>
<td>September November 2016</td>
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<tr>
<td>Proposal Letter</td>
<td>October 2016</td>
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<td>Sole Liability Order Letter</td>
<td>December 2016</td>
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Financial Assurance Pause Status

**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
Path Forward: Key Industry Issues

**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

- ATP Oil & Gas Corporation (10)
- Anglo-Suisse Offshore Partners, LLC (4)
- Bennu Oil & Gas (18)
- Bennu Titan (2)
- Black Elk Energy Offshore Operations, LLC (31)
- Century Exploration New Orleans, LLC (14)
- EC Offshore Properties, Inc (2)
- Energy XXI GOM, LLC (239)
- Hillcrest GOM, Inc (9)
- Matagorda Island Gas Operations (3)
- Maxus (U.S.) Exploration Company (4)
- Milagro (2)
- Northstar Offshore Group, LLC (31)
- Rooster Oil & Gas, LLC (8)
- Virgin Offshore U.S.A., Inc. (3)
- Stone Energy Offshore, LLC. (54)
- Shoreline Offshore, LLC (2)
- Whistler Energy II, LLC (3)

386 of 439 (87.93%) of the properties are located in 200 m or shallower waters.
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.