



OCS ADVISORY BOARD

**SUMMER SEMINAR
JUNE 9, 2016**

**BOEM Financial Assurance NTL
AND
“Tailored” Compliance Plans**

Agenda

I. Discussion of Pending NTL

- A. Update on the Timing of Release and Effectiveness of New NTL (and related process)
- B. NTL 2008 –N007 and The “Need” for New Financial Assurance Criteria
- C. Overview of Anticipated Changes
 1. Recalculation of Decommissioning Exposure
 2. No more “exempt” status
 3. Underwriting of “Self Insurance” Allowance

II. “Tailored” Compliance Plans

- A. What is a “Tailored Plan”
- B. Phased Approach to Compliance
- C. Thoughts on The Content of Tailored Plans

III. Q&A

I. DISCUSSION OF PENDING NTL

A. Timing of Release of New NTL by BOEM

1. NTL Expected to be Released around June 20 (but date could be delayed)
2. BOEM anticipates a 60-120 day lag in implementation (Note: BSEE data base log)
3. BOEM will conduct workshops to instruct lessees on the content and implementation (Possible OCSAB July workshop)
4. Timing of supplemental bonding demands issued under new NTL unclear

I. DISCUSSION OF PENDING NTL cont.

B. NTL 2008-007 Deemed Insufficient by BOEM

1. Per BOEM Report, Decommissioning Liabilities in GOM are estimated at about \$40 billion (but only \$2.2 billion in supplemental bonds are in place, with over \$24.1 billion in “exemptions” under NTL 2008-007)
2. Existing infrastructure is aging
3. Operating companies have changed in character (and financial strength)
4. Bankruptcy Risks have increased (ATP, Virgin & others)

I. DISCUSSION OF PENDING NTL cont.

C. Overview of Anticipated Changes

1. Recalculation of Decommissioning cost estimated by BSEE to be completed by Fall (BSEE to use both actual reported P&A cost and contractor estimates)
2. No more “exemptions” (or exempt co-owners); updated decommissioning estimates must be (100%) secured by :
 - a) Supplemental bonds,
 - b) Lease specific escrow,
 - c) TPIA, or
 - d) “Self-Insurance” security determined by new financial guidelines and applied as directed to specific leases
3. Self-Insurance Calculation based upon 1% to 10% of “tangible net worth”:
TANGIBLE NET WORTH = total Assets – total liabilities – Intangible Assets
 - a) Intangible assets include: goodwill, patents / trademarks / IP, others
 - b) Total decommissioning liability based upon 100% (8/8ths / joint, several and solidary liability for every lease, operating rights, well, facility, RUE/ROW) must be less than ten (10) of the “Tangible” Net Worth
 - c) OA considerations on allocations of financial security? Are bond premiums a joint expense? Bond collateral requirements?

II. “Tailored” Compliance Plans

- A. What is a “Tailored Plan”** – *Not likely to be defined in NTL but “custom tailored” Financial assurance compliance plan, subject to approval by Regional Director, which allows for a phrased – in period for compliance and considers “alternative” forms of security (Letters of Credit, Third party security, trust agreements, insurance).*
- B. Phrased Approach to Compliance**
1. 1/3 of Required Security within 120 days
 2. 2/3 of Required Security within 240 days
 3. Full amount of security within 360 days
 4. More time available in discretion of BOEM?

II. “Tailored” Compliance Plans cont.

C. Thoughts on The Content of Tailored Plans

1. Must first identify, address and provide security for “uncovered” or Sole liability lease exposure (terminated or expired lease must be addressed);
2. Second, address properties with no active co-lessees but “solvent” predecessors;
3. Third, address properties with active (solvent) co-lessees
4. “Harmonize” BOEM title data base and BSEE estimates;
5. Consider availability of “third party security and alternatives; and
6. Manage co-lessee “contribution”

Conclusion/Q&A

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