

# BOEM Financial Security Workshop

OCS Advisory Board  
White Board Session  
August 10, 2016

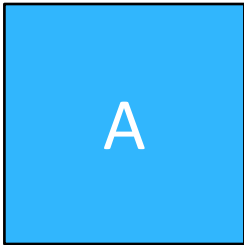
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# Agenda

- Purpose of White Board Session
- Examples of Lease Decommissioning Liability
  - Sole Liability Properties (Lease, ROW or RUE)
    - No activity / Activity / Accrued Liability
  - Jointly Owned Properties (Lease, ROW or RUE)
    - No activity / Activity / Accrued Liability
- Offshore Joint Operating Agreement Challenges
- Lessee periodic interaction with BOEM and BSEE
  - Annual Cumulative Liability Assessment
  - Individual Lease, ROW and RUE Proportionate Liability Allocations
  - Periodic Reassessment of Liability
- Failure to provide supplemental security
  - BOEM Actions
  - Joint Interest Owner's Actions
- Open Discussion

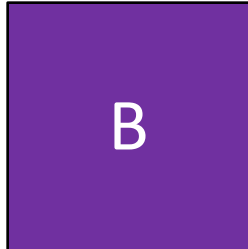
# Decommissioning Liability (Offshore Lease Example)

**Non-Producing  
Undrilled**



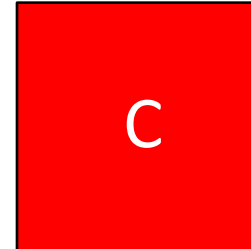
**Start-up – 100%  
(Sole Liability)**

**Shelf Non-Producing  
Drilled – Well P&A**



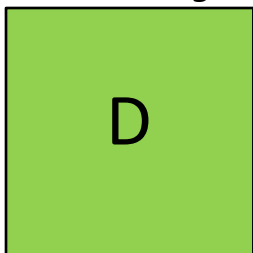
**Start-up – 50%  
Old Faithful – 50%**

**Deepwater Non-Producing  
Drilled – 4 Wells T/A**



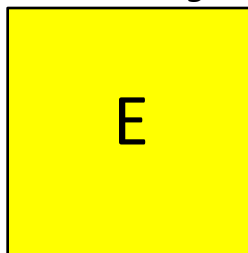
**Warhorse – 50%  
Big E&P – 50%**

**Old Shelf  
Producing**



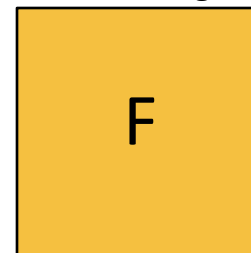
**Start-up – 50%  
Old Faithful – 50%**

**Old Deepwater  
Producing**



**Warhorse – 50%  
Old Faithful – 50%**

**New Deepwater  
Producing**



**Warhorse – 25%  
Big E&P – 25%  
Old Faithful - 25%  
Start-up – 25%**

# Decommissioning Liability

	A	B	C	D	E	F
Decommissioning Liability Estimate	0	0	\$160MM	\$50MM	\$300MM	\$500MM

# Decommissioning Liability (100% for Each Lessee)

	A	B	C	D	E	F
Decommissioning Liability Estimate	0	0	\$160MM	\$50MM	\$300MM	\$500MM

	A	B	C	D	E	F	Total
Start-up	0	0		\$50MM		\$500MM	\$550MM
Old Faithful		0		\$50MM	\$300MM	\$500MM	\$850MM
Warhorse			\$160MM		\$300MM	\$500MM	\$960MM
Big E&P			\$160MM			\$500MM	\$660MM

# Proportionate Decommissioning Liability

	A	B	C	D	E	F
Decommissioning Liability Estimate	0	0	\$160MM	\$50MM	\$300MM	\$500MM

	A	B	C	D	E	F	Total
Start-up	0	0		\$25MM		\$125MM	\$150MM
Old Faithful		0		\$25MM	\$150MM	\$125MM	\$300MM
Warhorse			\$80MM		\$150MM	\$125MM	\$355MM
Big E&P			\$80MM			\$125MM	\$205MM

# Additional Security Determination Criteria - 30CFR556.901(d)

*The Regional Director may determine that additional security (i.e., security above the amounts prescribed in §§ 556.901 (d) is necessary to ensure compliance with the obligations under your lease, ROW or RUE:*

The Regional Director's determination will be based on his/her evaluation of your ability to carry out present and future financial obligations demonstrated by:

- (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);
- (ii) **Projected 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;
- (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;
- (iv) **Reliability** in meeting obligations based on:
  - (A) Credit rating(s); or
  - (B) Trade references, including names and addresses of other lessees, drilling contractors, and suppliers with whom you have dealt; and
- (v) **Record of compliance** with laws, regulations, and lease terms.

# Self-Insurance

- What is Self-Insurance
  - Self-insurance is the amount of your obligations for which the Regional Director has determined you have the financial ability to assure performance
- How is it different from Waivers?
  - Waivers were applied to all liability for a qualifying company
  - Self-insurance is applied/allocated by the Lessee or Grant Holder at the Lease, ROW, or RUE in which you have an interest
- How is it obtained?
  - Self-Insurance is determined by BOEM using the five criteria based on a company's financial ability.



# Acceptable Forms of Additional Security

If the Regional Director requires you to provide additional security, you may meet this requirement by using one or more of the methods listed below (see 30 CFR § 556.900 et. seq):

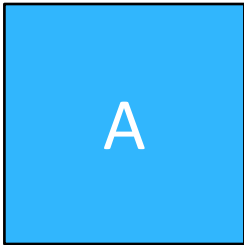
- **Surety bond(s)** (See 30 CFR § 556.902(b));
- **U.S. Treasury Security (ies)** (See 30 CFR § 556.900(f));
- **Tailored Plans:**
  - **Abandonment Account(s)** (See 30 CFR § 556.904);
  - **Third-Party Guarantee(s)**, in which the guarantor agrees to perform the activities required to bring the lease, ROW, or RUE into compliance, or in which the guarantor's funds, which are securing the performance of those required activities, are to be paid to BOEM prior to such performance, to allow BOEM to hire a person to perform those activities (See 30 CFR § 556.905); or
  - **Alternative forms of security**, if approved by the Regional Director (See 30 CFR § 556.902(e)(3)). (*e.g. Letters of Credit?*)
  - **A combination of the security methods in this Section IV** (See 30 CFR 556.902(e)(4)).

# Sole Liability Properties

- Defined – *“Sole liability properties are leases, ROWs, or RUEs for which you are the only liable party, i.e. there are no co-lessees and/or other grant holders, and no prior interest holders who would be liable to BOEM to meet the obligations arising from such properties.”*
- Decommissioning Liability must be addressed by lessee or grant holder within 60 days of the Demand Order.
- The minimum credit rating that a party must have to be allowed to apply its self-insurance to sole liability properties will be A3 (Moody’s) or A- (Standard and Poor’s).

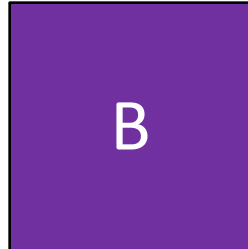
# Start-up's Leases

**Non-Producing  
Undrilled**



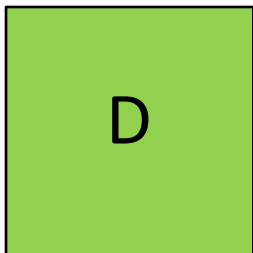
**Start-up – 100%**

**Shelf Non-Producing  
Drilled – Well P&A**



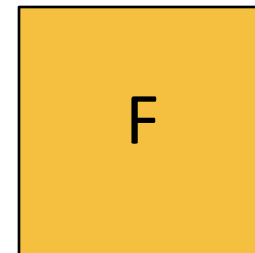
**Start-up – 50%**  
**Old Faithful – 50%**

**Old Shelf  
Producing**



**Start-up – 50%**  
**Old Faithful – 50%**

**New Deepwater  
Producing**



**Warhorse – 25%**  
**Big E&P – 25%**  
**Old Faithful - 25%**  
**Start-up – 25%**

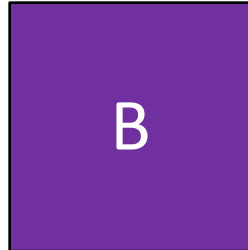
# Start-Up (Private Entity – 1 year in Business)

	A	B	C	D	E	F	Total
Start-up	0	0		\$25MM		\$125MM	\$150MM

- Cumulative Liability – \$550 MM
- Proportionate Liability – \$150 MM
- Evaluation Criteria:
  - financial capacity - No audited financial statements
  - projected financial strength – Unknown
  - business stability – No history
  - reliability – No credit rating
  - record of compliance – Limited offshore operating history
- Tangible Net Worth – N/A
- Self Insurance Available - \$0
- Supplemental Security Required - \$150 MM

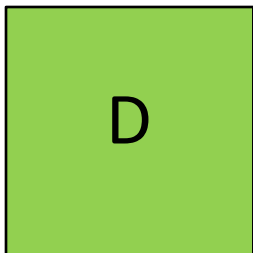
# Old Faithful's Leases

**Shelf Non-Producing  
Drilled – Well P&A**



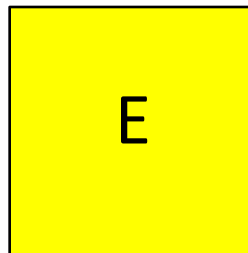
**Start-up – 50%**  
**Old Faithful – 50%**

**Old Shelf  
Producing**



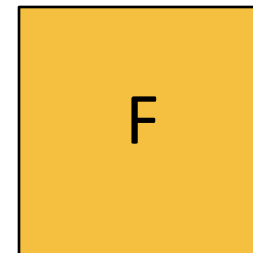
**Start-up – 50%**  
**Old Faithful – 50%**

**Old Deepwater  
Producing**



**Warhorse – 50%**  
**Old Faithful – 50%**

**New Deepwater  
Producing**



**Warhorse – 25%**  
**Big E&P – 25%**  
**Old Faithful - 25%**  
**Start-up – 25%**

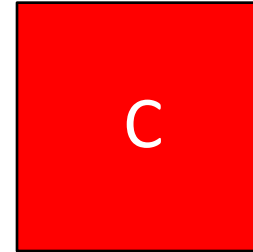
# Old Faithful (Publically Traded Corporation – 75 Years in Business in U.S. Only)

	A	B	C	D	E	F	Total
Old Faithful		0		\$25MM	\$150MM	\$125MM	<b>\$300MM</b>

- Cumulative Liability – \$850 MM
- Proportionate Liability – \$300 MM
- Evaluation Criteria:
  - financial capacity – Audited financial statements available
  - projected financial strength – PV10 or FMV
  - business stability – OCS Operator for 75 years
  - Reliability – Credit rating - Aa2 (Moody's)
  - record of compliance – Excellent (3 INCs over last 10 years)
- Tangible Net Worth – \$600 MM (10% = \$60 MM)
- Self Insurance - \$0 to \$60 MM
- Supplemental Security Required – **Low \$240 MM - High \$300 MM**

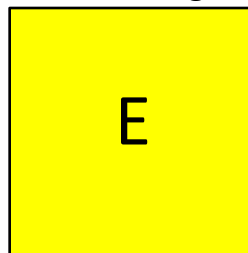
# Warhorse's Leases

*Deepwater Non-Producing  
Drilled – 4 Wells T/A*



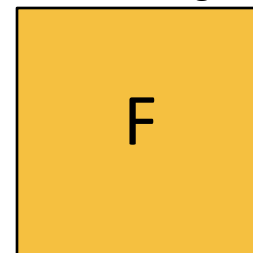
Warhorse – 50%  
Big E&P – 50%

*Old Deepwater  
Producing*



Warhorse – 50%  
Old Faithful – 50%

*New Deepwater  
Producing*



Warhorse – 25%  
Big E&P – 25%  
Old Faithful - 25%  
Start-up – 25%

# Warhorse (Publically Traded International Exploration and Production Company – 50 Years in Business)

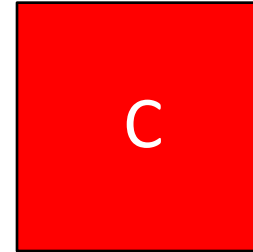
	A	B	C	D	E	F	Total
Warhorse			\$80MM		\$150MM	\$125MM	<b>\$355MM</b>

- Cumulative Liability – \$960 MM
- Proportionate Liability – \$355 MM
- Evaluation Criteria:
  - financial capacity - Audited financial statements available
  - projected financial strength – PV10 or FMV
  - business stability – Worldwide offshore operator for 50 years
  - Reliability – Credit rating Baa1 (Moody's)
  - record of compliance – Average (20 INCs over last 10 years)
- Tangible Net Worth - \$3Billion (10% = \$300 MM)
- Self Insurance - \$0 to \$300 MM
- Supplemental Security Required – **Low \$55 MM – High \$355 MM**



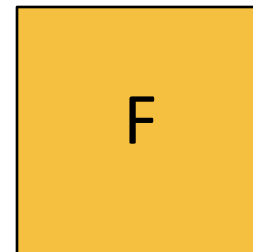
# Big E&P's Leases

*Deepwater Non-Producing  
Drilled – 4 Wells T/A*



**Warhorse – 50%**  
**Big E&P – 50%**

*New Deepwater  
Producing*



**Warhorse – 25%**  
**Big E&P – 25%**  
**Old Faithful - 25%**  
**Start-up – 25%**

# Big E&P (International Fully Integrated Energy Company – 125 Years in Business)

	A	B	C	D	E	F	Total
Big E&P			\$80MM			\$125MM	\$205MM

- Cumulative Liability – \$660 MM
- Proportionate Liability – \$205 MM
- Evaluation Criteria:
  - financial capacity -Audited financial statements available
  - projected financial strength – PV10 or FMV
  - business stability – Worldwide offshore operator for 75 years
  - Reliability – Credit rating Aa1 (Moody's)
  - record of compliance – Good (8 INCs over the last 10 years)
- Tangible Net Worth – \$50 Billion (10% = \$5 Billion)
- Self Insurance - \$0 to \$5 Billion
- Supplemental Security Required – **Low \$0 – High \$205 MM**

# Lease “F” - \$500 MM Decommissioning Liability (Scenario 1)

Record Title Owners	Interest	Share of Liability	Self Insurance	Supplemental Security Type	Supplemental Security Amount
Start-up	25%	\$125 MM		Surety Bond	\$125 MM
Old Faithful	25%	\$125 MM	\$60 MM	Treasury Securities	\$65 MM
Warhorse	25%	\$125 MM		Letter of Credit	\$125 MM
Big E&P	25%	\$125 MM	\$125 MM		
Total	100%	\$500 MM	\$185 MM		\$315 MM

## Self Insurance Available:

Start-up - \$0

Old Faithful – Max. \$60 MM

Warhorse – Max. \$300 MM

Big E&P – Max. \$5 Billion

# Lease “F” - \$500 MM Decommissioning Liability (Scenario 2)

Record Title Owners	Interest	Share of Liability	Self Insurance	Supplemental Security Type	Supplemental Security Amount
Start-up	25%	\$125 MM			
Old Faithful	25%	\$125 MM			
Warhorse	25%	\$125 MM			
Big E&P	25%	\$125 MM	\$500 MM		
Total	100%	\$500 MM	\$500 MM		

## Self Insurance Available:

Start-up - \$0

Old Faithful – Max. \$60 MM

Warhorse – Max. \$300 MM

Big E&P – Max. \$5 Billion

# Lease “F” - \$500 MM Decommissioning Liability (Scenario 3)

Record Title Owners	Interest	Share of Liability	Self Insurance	Supplemental Security Type	Supplemental Security Amount
Start-up	25%	\$125 MM*	None	None	None
Old Faithful	25%	\$125 MM	\$60 MM	Treasury Securities	\$65 MM
Warhorse	25%	\$125 MM		Letter of Credit	\$125 MM
Big E&P	25%	\$125 MM	\$125 MM		
<b>Total</b>	<b>75%</b>	<b>\$375 MM</b>	<b>\$185 MM</b>		<b>\$190 MM</b>

\*Unable to fund liability (What happens?)

Self Insurance Available:

Start-up - \$0

Old Faithful – Max. \$60 MM

Warhorse – Max. \$300 MM

Big E&P – Max. \$5 Billion

# Lease “F” - \$500 MM Decommissioning Liability (Scenario 4)

Record Title Owners	Interest	Share of Liability	Self Insurance	Supplemental Security Type	Supplemental Security Amount
Start-up	25%	\$125 MM		DSTA*	
Old Faithful	25%	\$125 MM		DSTA*	
Warhorse	25%	\$125 MM		DSTA*	
Big E&P	25%	\$125 MM		DSTA*	
Total	100%	\$500 MM			

[\*Decommissioning Security Trust Agreement (DSTA)]

## Questions:

1. Can Trust be funded over time?
2. Can different owners fund Trust using different financial instruments?
3. When does the Trust need to be fully funded?
4. Can abandonment activity be funded from the Trust over time?

# Offshore Joint Operating Agreement (JOA)

- Each Working Interest (Participating Party) under a JOA has the obligation to pay their share of any liability incurred on a Lease, ROW or RUE in which they participated in an activity that created the liability.
- Current provisions in existing JOAs do not address proposed new BOEM Guidelines.
- New JOAs will have to include language addressing decommissioning liability in greater detail.
- Old JOAs will have to be amended to address new decommissioning liability guidelines.
- How long will it take to draft new language and amend existing agreements is unknown.

# Lessee periodic interaction with BOEM and BSEE

- Annual Cumulative Liability Assessment
- Individual Lease, ROW and RUE Proportionate Liability Allocations
- Security Provided
  - Surety Bonds or Treasury Securities
  - Tailored Financial Plans (other acceptable forms of security)
- Periodic Reassessment of Liability
  - Changes in financial capacity
  - Increased activity and/or changes in decommissioning liability
  - Annually



# Failure to provide supplemental security

- BOEM Actions
  - Demand Letter to Lessee
  - Demand Letter to Lease, ROW or RUE Operator
  - Assessment of 100% Decommissioning Liability coverage to each Lease, ROW and RUE non-defaulting owner until full coverage is provided
- Joint Interest Owner's Actions
  - Schedule and conduct co-owner meetings
  - Determine and agree on a course of action
  - Advise BOEM
- BOEM financial assurance coverage verification

