

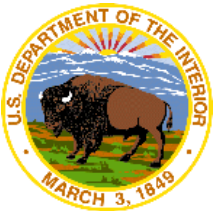
Financial Ability to Carry Out Obligations on the Outer Continental Shelf & the Potential Need for Additional Security



Renee Orr
Bureau of Ocean Energy Management
U.S. Department of the Interior

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- I. Financial Assurance Program**
- II. Improvements in the Financial Assurance Program within the scope of current Regulations**
- III. Improvements in Financial Assurance Program that require changes in the Regulations.**



- ❑ BOEM manages ~1.7 billion acres with ~6,000 active conventional energy leases and ~3,500 existing structures and an expanding renewable energy program
- ❑ Existing infrastructure is aging
- ❑ Demand for decommissioning is high (BSEE records indicate approximately 300 platforms currently fit idle iron criteria in the GOMR)
- ❑ Decommissioning exposure of \$37 billion, according to Decom World estimates (March 15, 2015)
- ❑ Arctic infrastructure is in its infancy (operational and decommissioning costs are high, rivaling deepwater (>400 Ft.) costs)
- ❑ Large companies transfer sunset properties to smaller, less experienced companies
- ❑ Technological advances are outpacing regulations, policies, and programs
- ❑ Increasingly complex business and operational issues
- ❑ Low oil prices and upcoming debt maturities
- ❑ Bonding regulations are outdated (last published in 1993 and 1997)



BOEM intends to create comprehensive procedures designed to decrease cost risks to taxpayers while providing industry the flexibility to negotiate adaptive solutions and utilize tailored financial plans to meet their financial assurance needs.

A robust Financial Assurance Program requires:

- Updating Determination of Need for Additional Security
- Updating Criteria for Determination of Financial Ability to Carry Out Obligations
- Use of Industry Standards
- Use of Best Practices

A flexible Financial Assurance Program will include:

- Tailored Plans
- Phased-in Timetable for Compliance



The following guidelines are being considered in the determination of Additional Financial Security:

- Evaluate each company independently and no longer automatically rely on co-lessee Financial Strength and Reliability

- Estimate Financial Strength to carry out present and future lease obligations using financial industry criteria



The NTL will clarify existing regulations by providing clear guidelines (and in most cases metrics)

§ 556.53(d) (1) mentions **Financial Capacity to carry out present and future obligations**

An updated NTL will clarify what is meant by Financial Capacity by providing metrics



An updated can also provide clarity on how each of the following terms will be interpreted (measured):

- Financial Capacity
- Projected Financial Strength
- Business Stability
- Reliability
- Record of Compliance

These clarifications are all based on existing regulations and use industry standards.



In order to provide flexibility to the new Financial Assurance Program (and mitigate any large financial impact), we are contemplating two approaches:

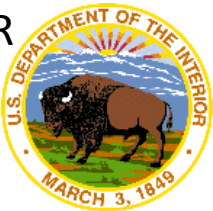
- Tailored Plans

- Phased-in Timetable for Compliance



Entities will be able to develop a plan to use multiple types of financial assurance (tailored plan) to meet their total additional security requirement using:

- Surety bond(s) (See 30 CFR § 556.54(b));
- U.S. Treasury Security(ies) (See 30 CFR § 556.52(f));
- Abandonment Account(s) (See 30 CFR § 556.56);
- 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, 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 § 556.57); or
- Alternative forms of security, if approved by the Regional Director (See 30 CFR § 556.54(e)).



Existing regulations state that the Regional Director at his discretion can review the financial ability of a company operating on the OCS to determine the appropriate levels of required additional security at any time.

However, the NTL will clarify that this review will likely be done when BOEM becomes aware of any:

- Material or adverse change in your financial strength, reliability or OCS obligations;
- Downgrading of your credit rating or negative trade references
- Performance deficiencies, such as incidents of noncompliance, civil penalties or failure to adhere to any lease obligations;
- Changes in operators or ownership; or
- Violation of Department of the Interior or other applicable regulations.



If you are required to post additional security to cover your existing liabilities, you may comply by:

- Submitting a tailored plan, that may include the use of multiple types of financial assurances
- Phased-in compliance over time to meet your additional security requirement.



We plan to make Regulatory Changes in two separate rulemakings:

- The first rulemaking will address the urgent changes required
- The second rulemaking will be a general update to the regulations and will consider lessons learned from implementation of new NTL

NOTE: The issues mentioned in the following pages of this presentation do not represent policy decisions, but rather ideas that are under study



The following items in the regulations are being considered for specific attention:

- Greater transparency in the regulations
- Reconsidering amounts and coverage of General Bonding
- Examining best methods to cover decommissioning of RUEs, ROWs and all pipelines
- What should be a Required Filing and how best to do the filing

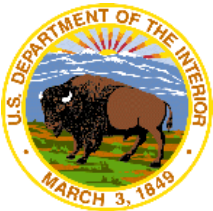


The second-phase rulemaking will be a general review of the Regulations to ensure that BOEM has:

- A logical step-by-step set of Rules
- Clarity and transparency in all concepts
- Updated concepts to reflect industry standards and best practices
- Incorporate lessons learned from implementation of revised financial assurance NTL.



- BOEM will share the specifics of the revised supplemental bonding NTL with you in the near-future and also offer the opportunity to comment and ask questions regarding the draft NTL.
- If there is interest, then BOEM will hold another forum to discuss the draft supplemental bonding NTL.
- BOEM intends to publish the final revised NTL by the end of 2015.



An improved BOEM Financial Assurance Program is intended to achieve the following objectives:

- Protect the Environment
- Promote Growth of the Industry
- Minimize Risk Exposure for the Federal Government

Balancing these three objectives is not an easy task, but it is possible if all parties work together to find the best solution, the one that maximizes value creation and minimizes risks at a national level.

