HAPL 2014 Offshore Sponsors

PLATINUM

Noble Energy, Inc.

Slattery, Marino & Roberts

GOLD

Adams and Reese LLP

Arena Energy

Eni US Operating Co. Inc.

EnVen Energy Ventures, LLC

Petrobras America Inc.

SILVER

Anadarko Petroleum Corp.

Chevron U.S.A. Inc.

ConocoPhillips Company

Deep Gulf Energy, L.P.

Energy XXI GOM, LLC

Freeport-McMoRan Oil & Gas

Murphy Exploration & Production Co.

Statoil USA E&P Inc.

BRONZE

Apache Corporation

Bracewell & Giuliani

Castex Offshore Inc.

Century Exploration New Orleans, Inc.

Cobalt International Energy, L.P.

Fieldwood Exploration

Knight Resources, LLC

LLOG Exploration Offshore, Inc.

Mike Grove, Law Office

Northstar Offshore Group, LLC

Peregrine Oil & Gas Cos.

PetroQuest Energy, L.L.C.

Pingora Exploration Company LLC

Repsol E&P USA Inc.

The OCS-BBS/Energy Data Solutions

HAPL OFFSHORE SEMINAR

Federal Reserve, Houston, Texas

Thursday, November 13, 2014

AGENDA

1:00 – 1:10	Bank Speaker Provide Welcome Presentation, Description, Purposes and Functions of the Federal Reserve
1:10 – 1:45	Changing Energy Policy: East Coast, West Coast and Florida Keith Couvillion
1:45 – 2:20	Negotiating Tips/Tactics Craig McKnight
2:20 – 3:00	Wood Mackenzie Update – US GOM Exploration – what does the future hold? Jackson Sandeen
	3:00 – 3:15 Coffee/Snack Break
3:15 – 4:00	BOEM Financial Responsibility Rule Making Poe Leggette & Carey Gagnon
4:00 – 4:45	BOEM Advanced Notice Proposed Rulemaking for Risk Management Joshua Joyce
4:45 – 5:00	Questions/Over Time
5:00 – 7:00	Reception

Bank Speaker

Provide Welcome Presentation, Description, Purposes and Functions of the Federal Reserve

J. KEITH COUVILLION

Deepwater Land Manager
Deepwater Exploration & Projects Business Unit – Gulf of Mexico
Chevron U. S. A. Inc.

J. Keith Couvillion is the Deepwater Land Manager supporting Chevron's Deepwater Gulf of Mexico Exploration and Projects Business Unit located in Houston, Texas. Mr. Couvillion originally joined Texaco after graduating from college and has worked either onshore or offshore for approximately 35 years in many capacities supporting Texaco's, and now Chevron's, exploration and production operations onshore and offshore in the Gulf of Mexico region.

Mr. Couvillion is active in many industry trade and professional associations supporting Outer Continental Shelf (OCS) activities throughout the United States. He is a past Chairman of the OCS Advisory Board. Mr. Couvillion is a frequent presenter in industry and academic forums both domestically and internationally addressing various offshore issues. He also has published numerous articles on topics of interest to the offshore industry.

Mr. Couvillion graduated from Lamar University in 1978 and 1979 where he obtained both a Bachelors and Masters Degree in Business.

Changing Energy Policy in the Outer Continental Shelf

J. Keith Couvillion
Chevron U.S.A. Inc.

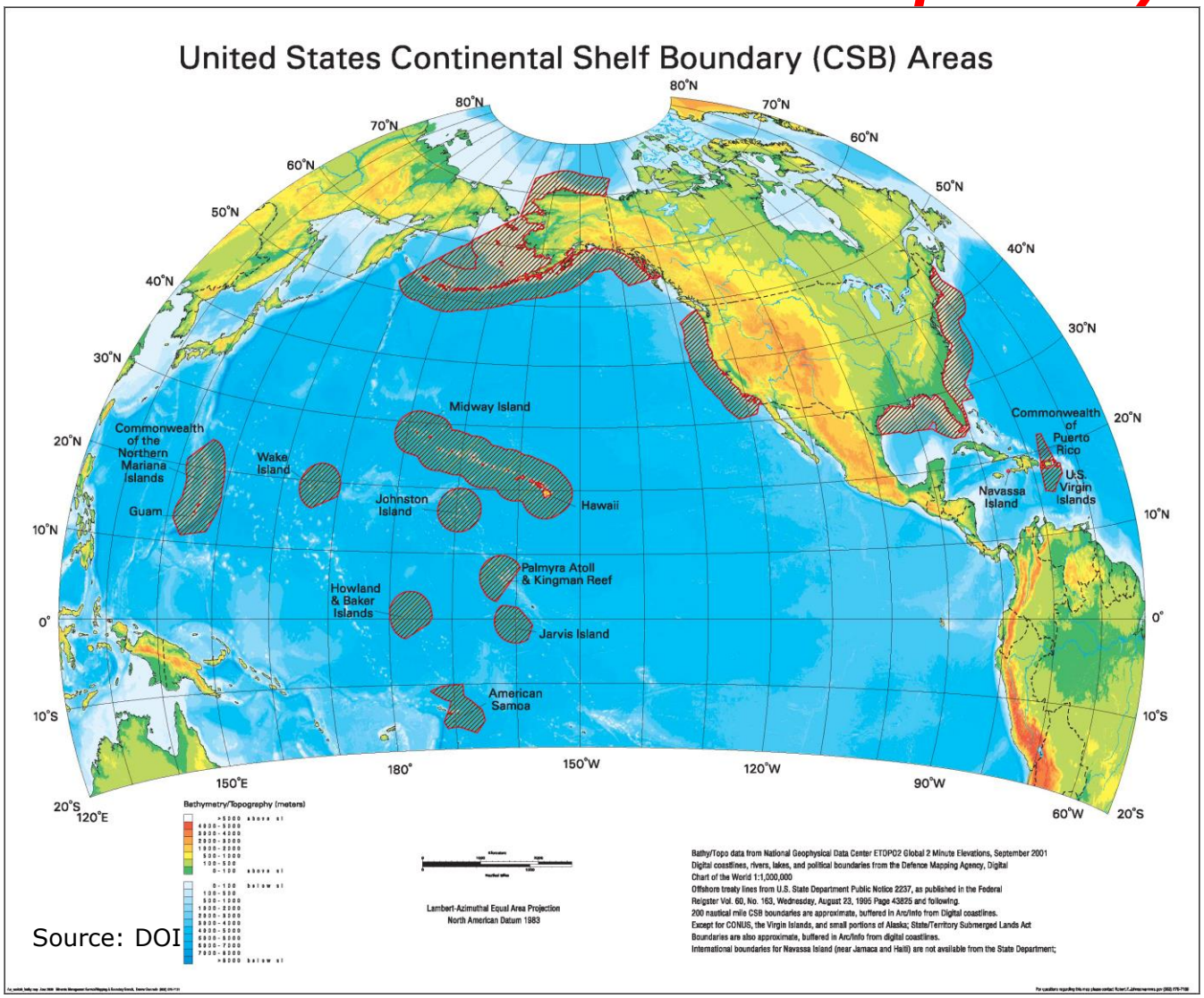
November 13, 2014

Outline

- Offshore Jurisdiction
- 5 Year Leasing Program
- OCS Regions
- Non-Energy Mineral Resources
- Offshore Renewable Energy
- Marine Protected Areas
- Other Offshore Stakeholders
- National Ocean Policy
- Marine Cadaster Mapping
- Questions

Offshore Jurisdiction

Government Controlled Offshore Lands
United States - Exclusive Economic Zone
(3 Billion Acres – 4.1 Million Sq. Miles)



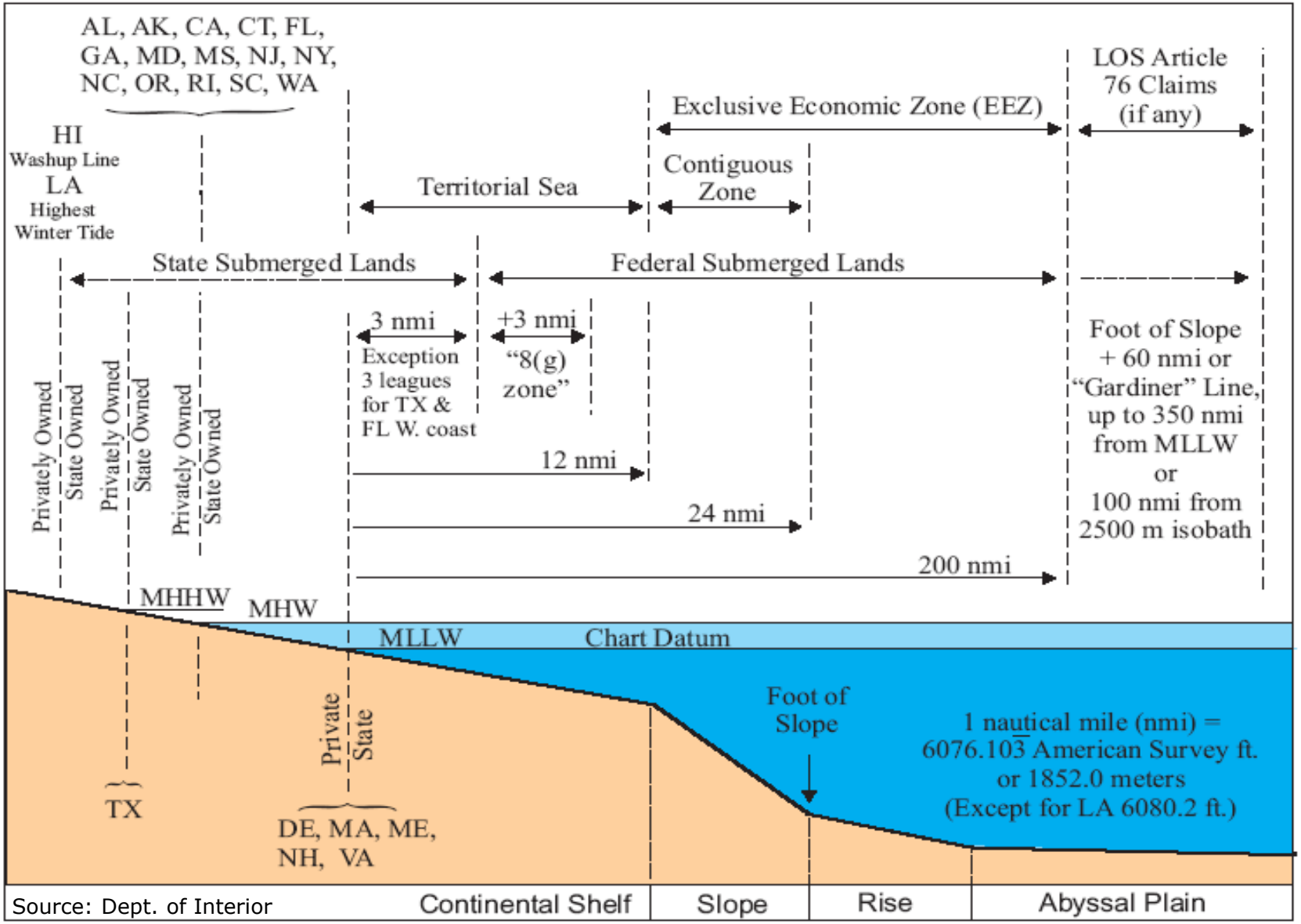
Source: DOI

State/Federal Offshore Jurisdiction

- **State jurisdiction** is defined as those submerged lands seaward of the coastline to a distance of approximately 3 geographical miles (4.83 km). The offshore jurisdiction of the Gulf coast of Florida and the State of Texas is 3 marine leagues (approximately 10 miles) seaward.

- **Federal jurisdiction** is defined under accepted principles of international law. The seaward limit is defined as the farthest of 200 nautical miles (370 km) seaward of the baseline from which the breadth of the territorial sea is measured or, if the continental shelf can be shown to exceed 200 nautical miles, a distance not greater than a line 100 nautical miles from the 2,500-meter isobath or a line 350 nautical miles from the baseline.

Offshore Jurisdiction



Source: Dept. of Interior

Federal Offshore Acreage
Currently Under Lease

- Available Acreage –

  1.76 Billion (*Lower 48 States and Alaska*)

- Acreage Leased –

  31+ Million

- Percent Leased - 1.9%

5 Year Leasing Program

U.S. Department of Interior

President Obama

Secretary of Interior
Sally Jewell

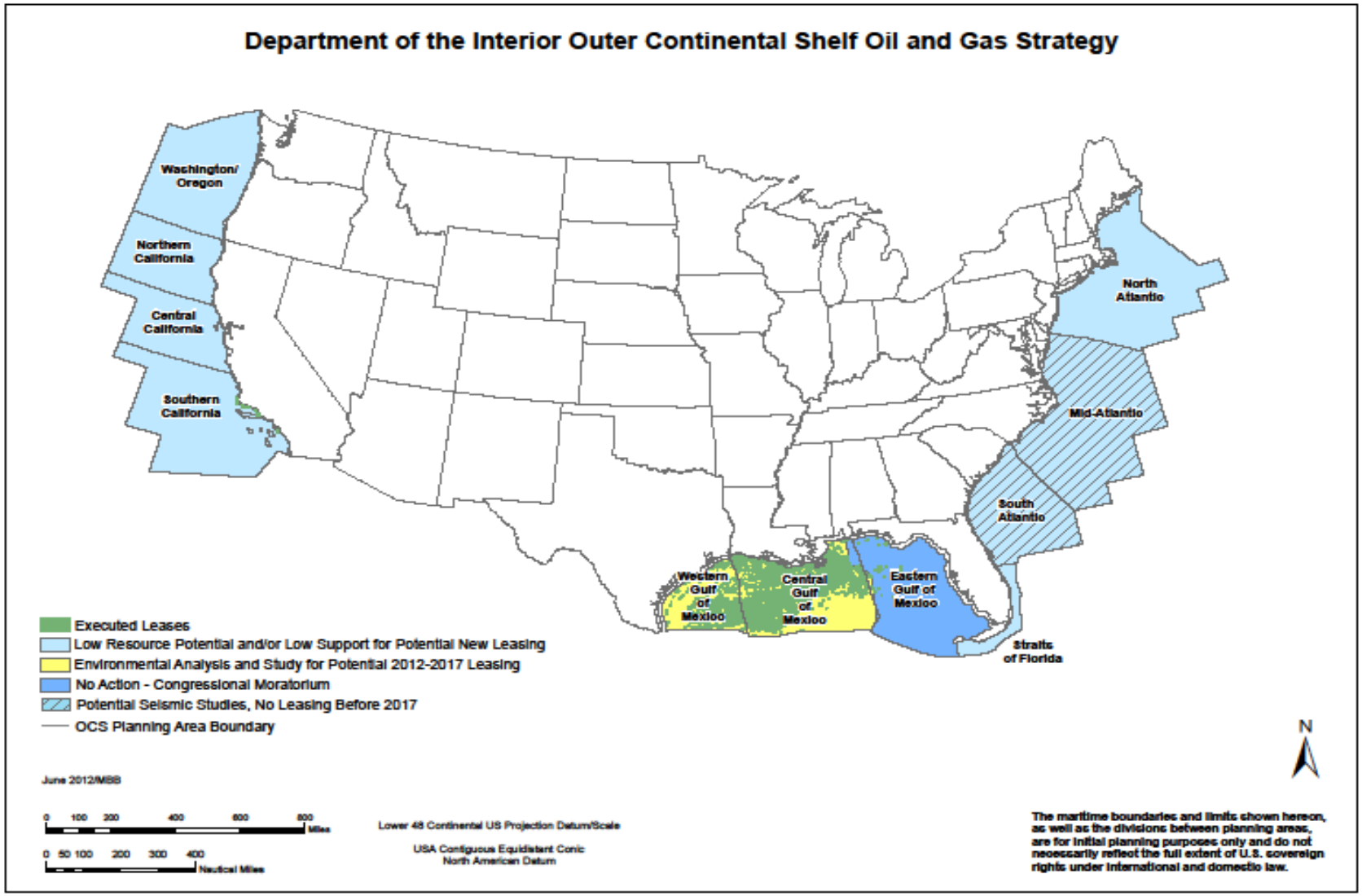
Walter Cruickshank
Acting BOEM Director

BOEM
BUREAU OF OCEAN ENERGY MANAGEMENT

OCS Lease Sales

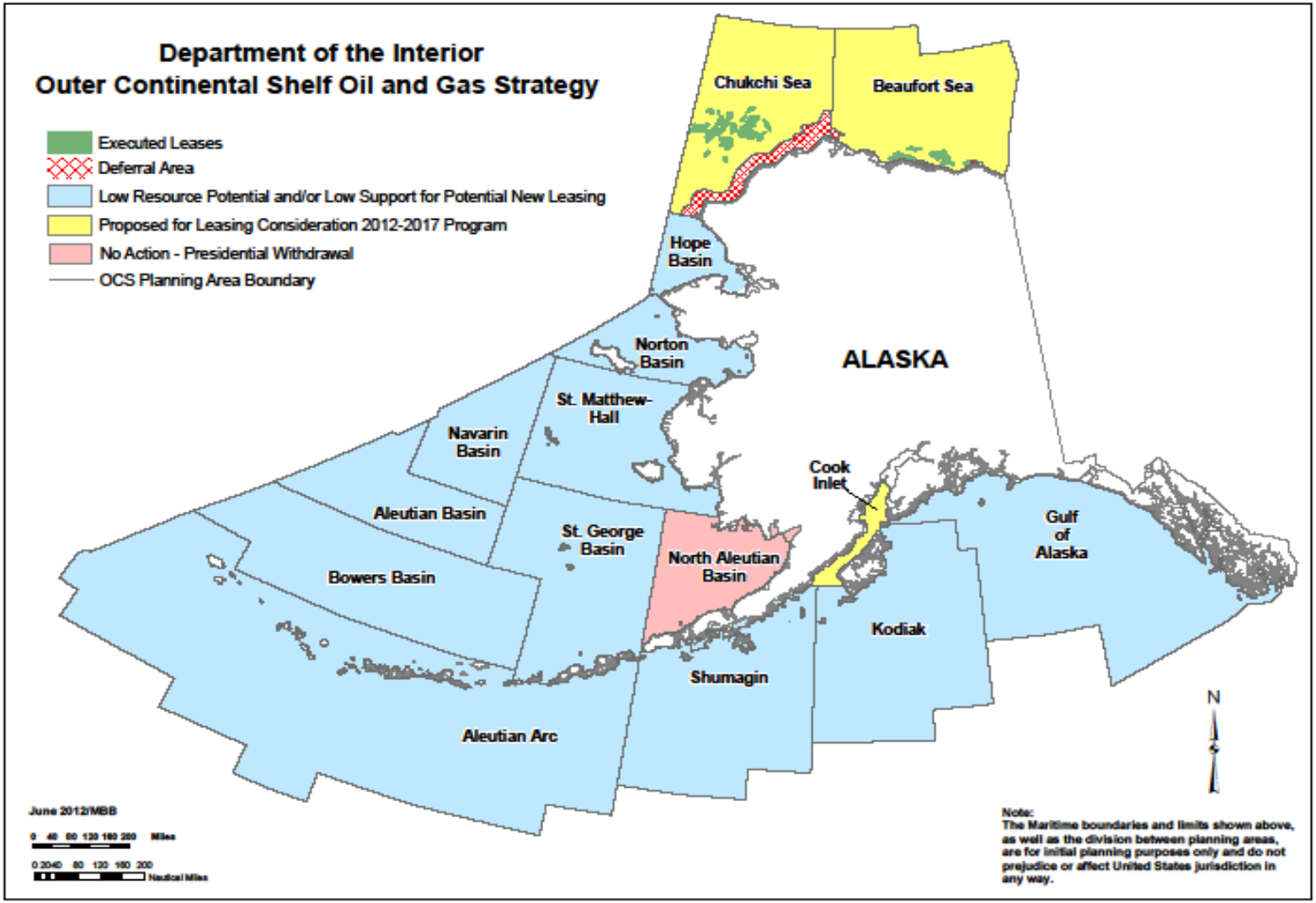
- OCS Land Act (OCSLA)
- 1978 Amendments to OCSLA
  - 5 - Year Leasing Program
    - 2012 – 2017 Leasing Program
    - *2017 – 2022 Leasing Program*
      - *State government engagement*
      - *Grassroots and Grass tops, etc…*
- Lease Sale Planning Areas

Lower 48 States – 11 Planning Areas



Source: BOEM

15 Alaska Planning Areas



Source: BOEM

2012-2017 OCS Lease Sales

Sale No.	Area	Year
229	Western Gulf of Mexico	2012
227	Central Gulf of Mexico	2013
233	Western Gulf of Mexico	2013
225	Eastern Gulf of Mexico	2014
231	Central Gulf of Mexico	2014
238	Western Gulf of Mexico	2014
235	Central Gulf of Mexico	2015
246	Western Gulf of Mexico	2015
226	Eastern Gulf of Mexico	2016
241	Central Gulf of Mexico	2016
237	Chukchi Sea	2016
248	Western Gulf of Mexico	2016
244	Cook Inlet	2016
247	Central Gulf of Mexico	2017
242	Beaufort Sea	2017

2012-2017 5-Year Leasing Program

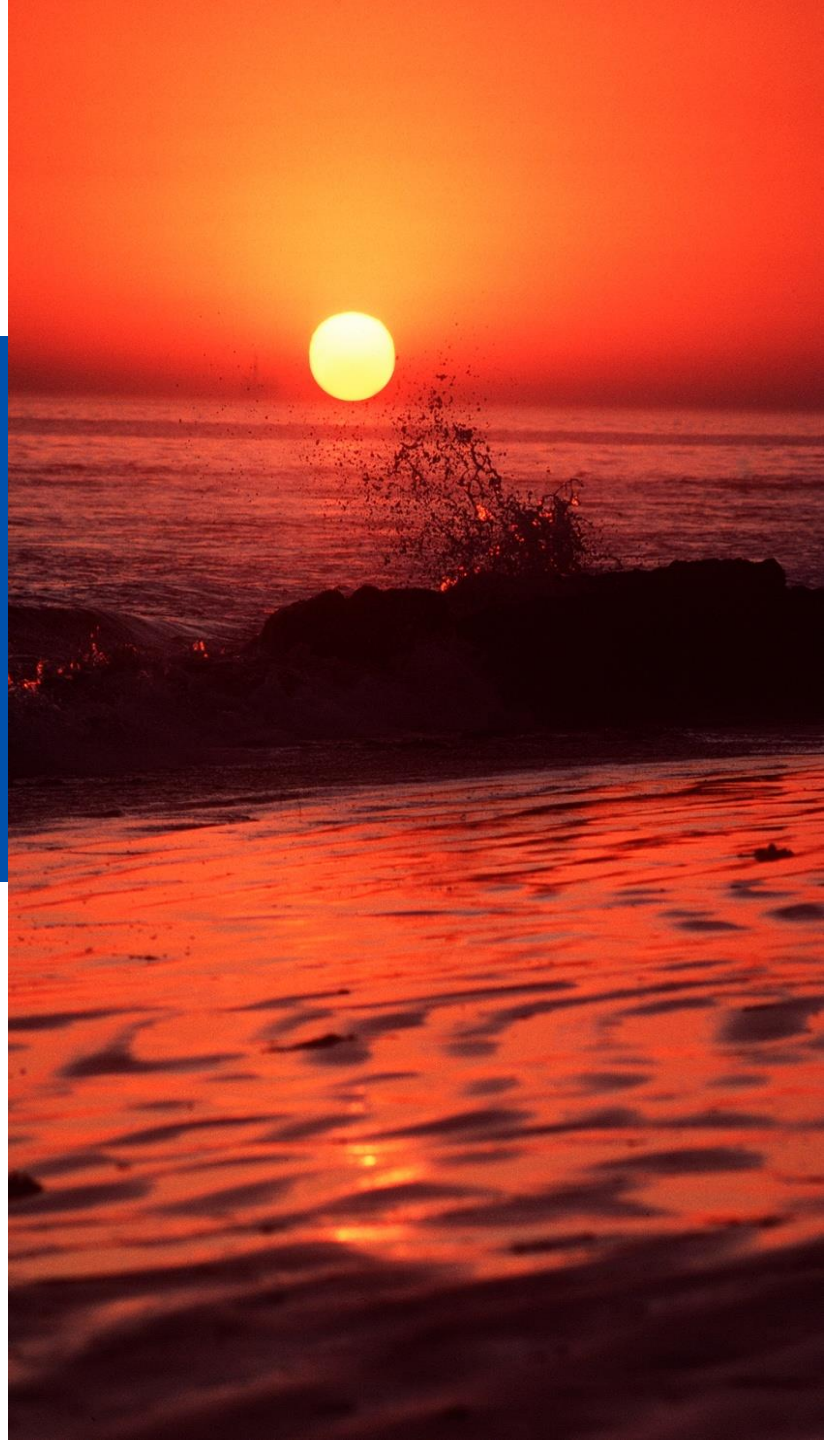
Total Acreage offered in the Five Year Program	
Total OCS	218.94 million
Alaska	125.19 million
GOM	93.75 million
Alaska	
Chukchi Sea	55.11 million
Beaufort Sea	64.72 million
Cook Inlet	5.36 million
Gulf of Mexico	
Western	28.58 million
Central	64.51 million
Eastern	0.66 million

Source: BOEM

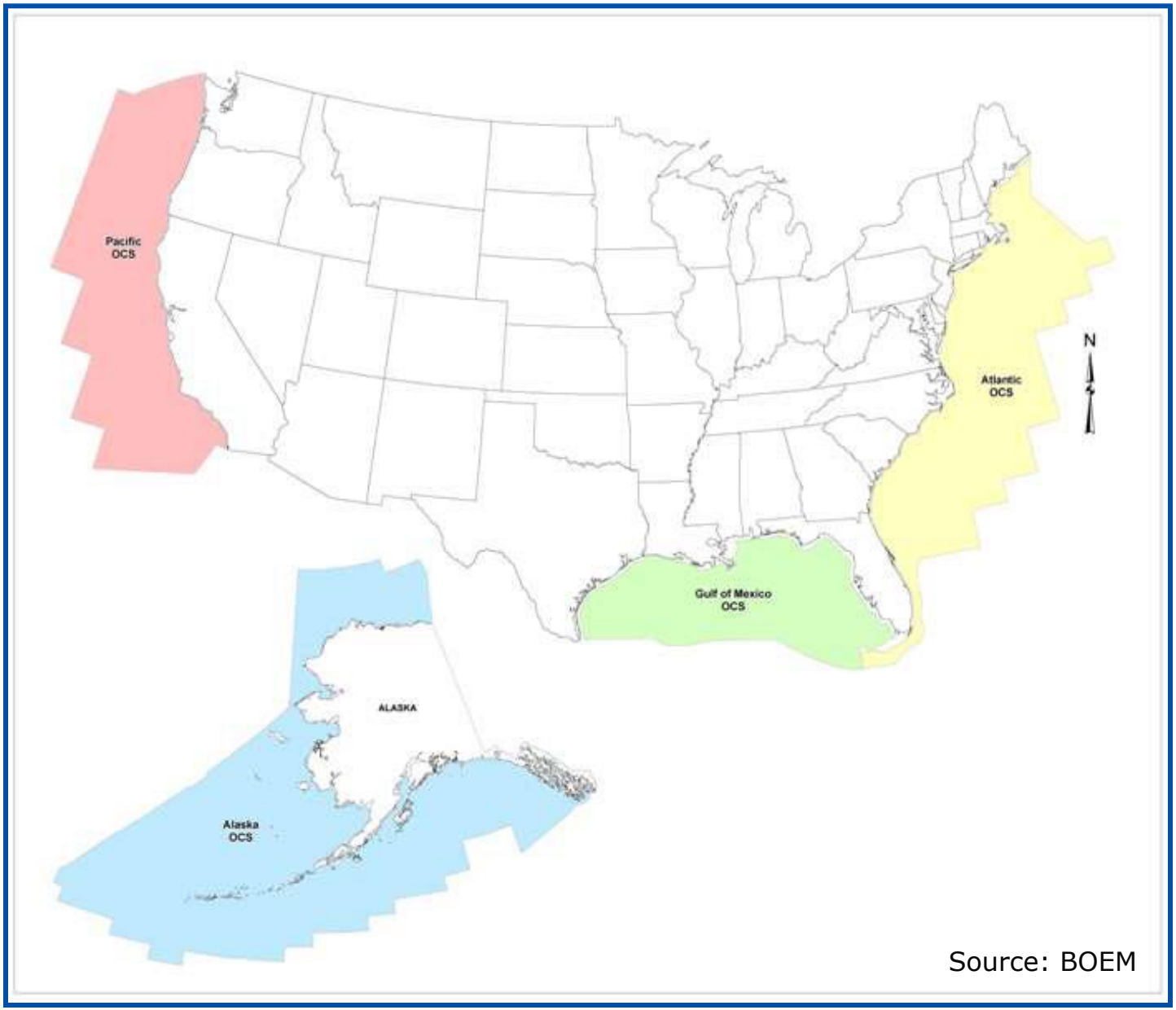
2017-2022 -5 Year Leasing Program Process

Source: DOI

OCS Regions



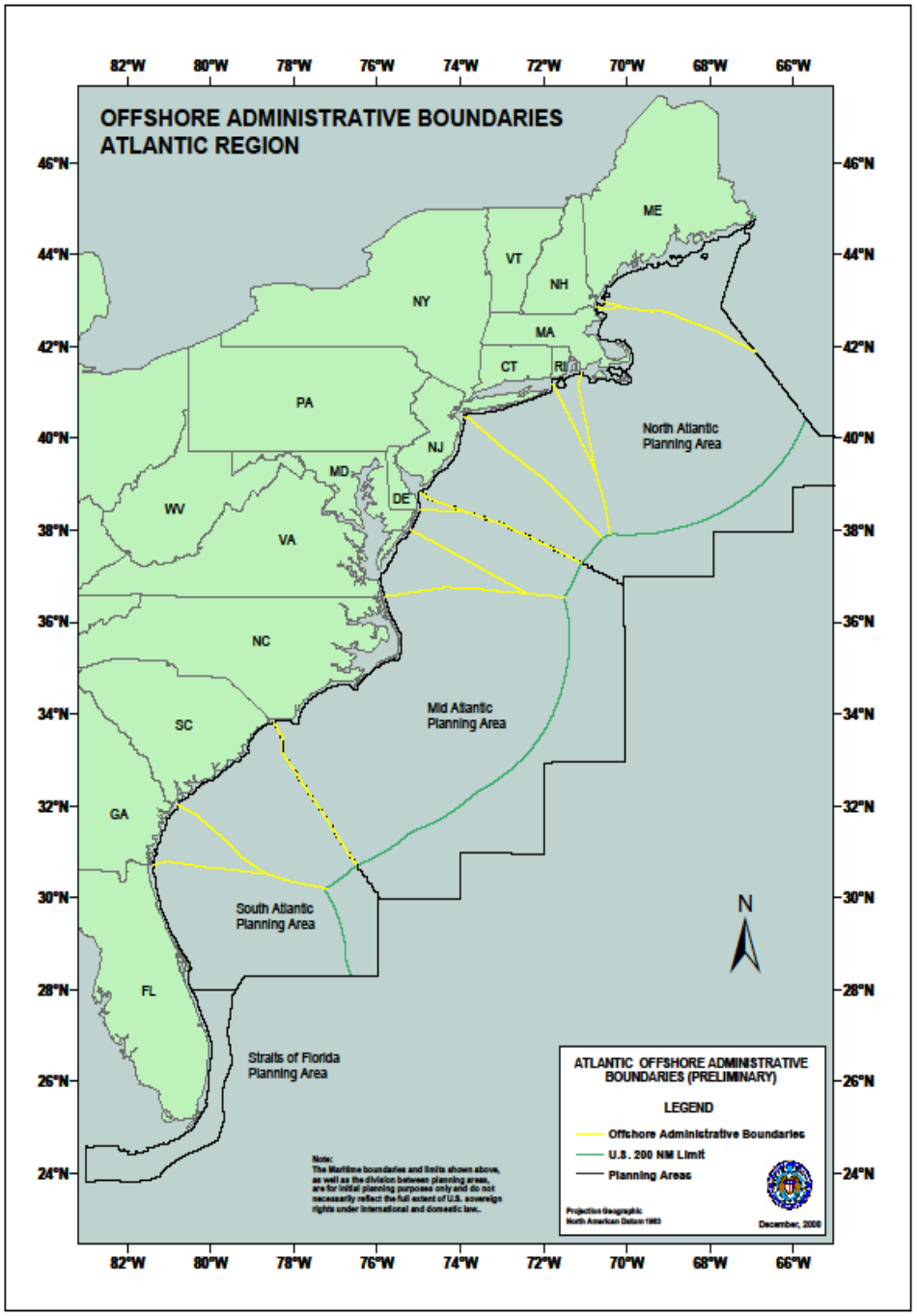
BOEM-BSEE OCS Regions



Source: BOEM

Atlantic Region

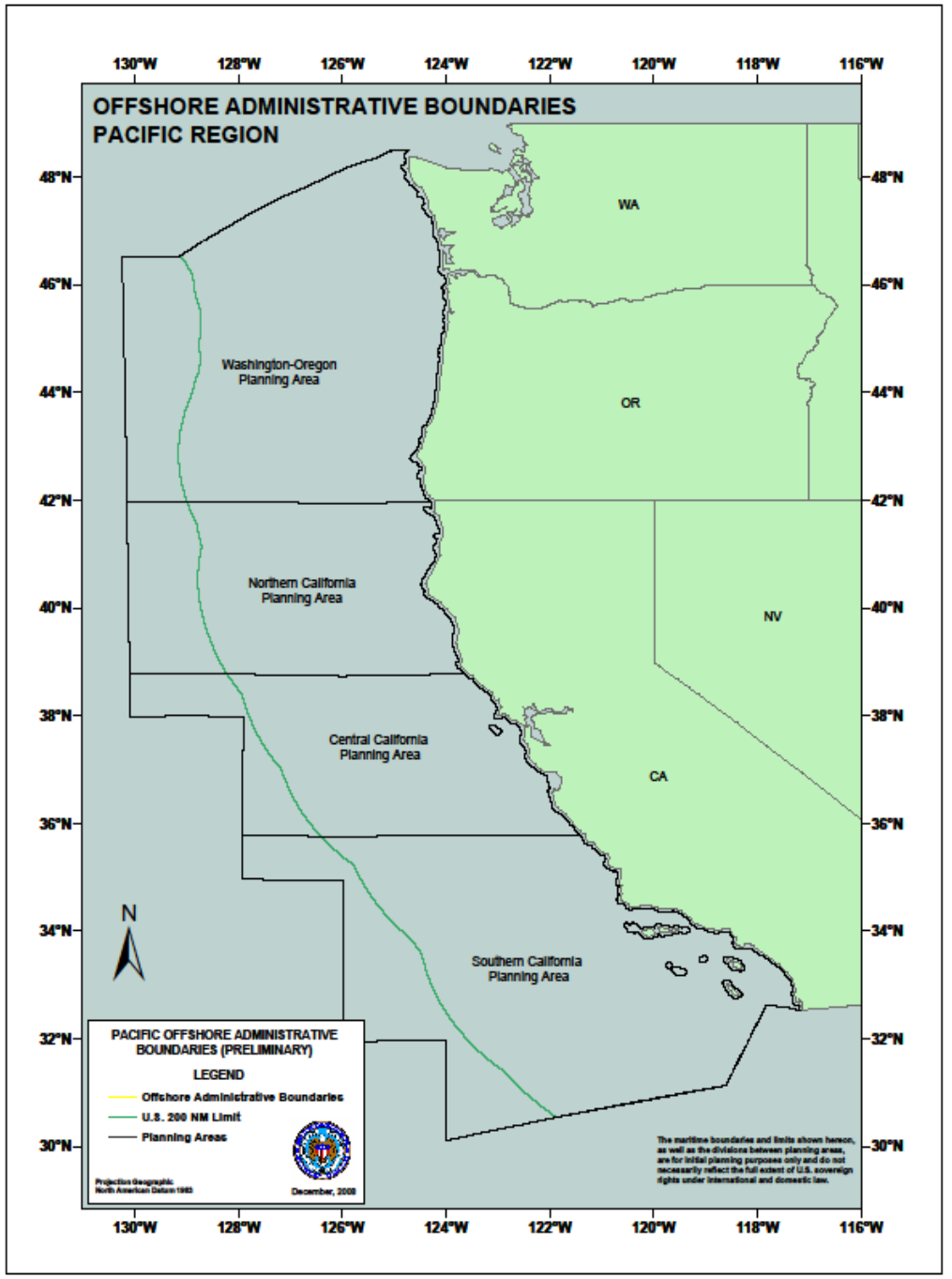
Acres in Region	265,348,686
Active Leases	0
Acres Leased	0
Wells Drilled	46
Platforms	0



Source: BOEM

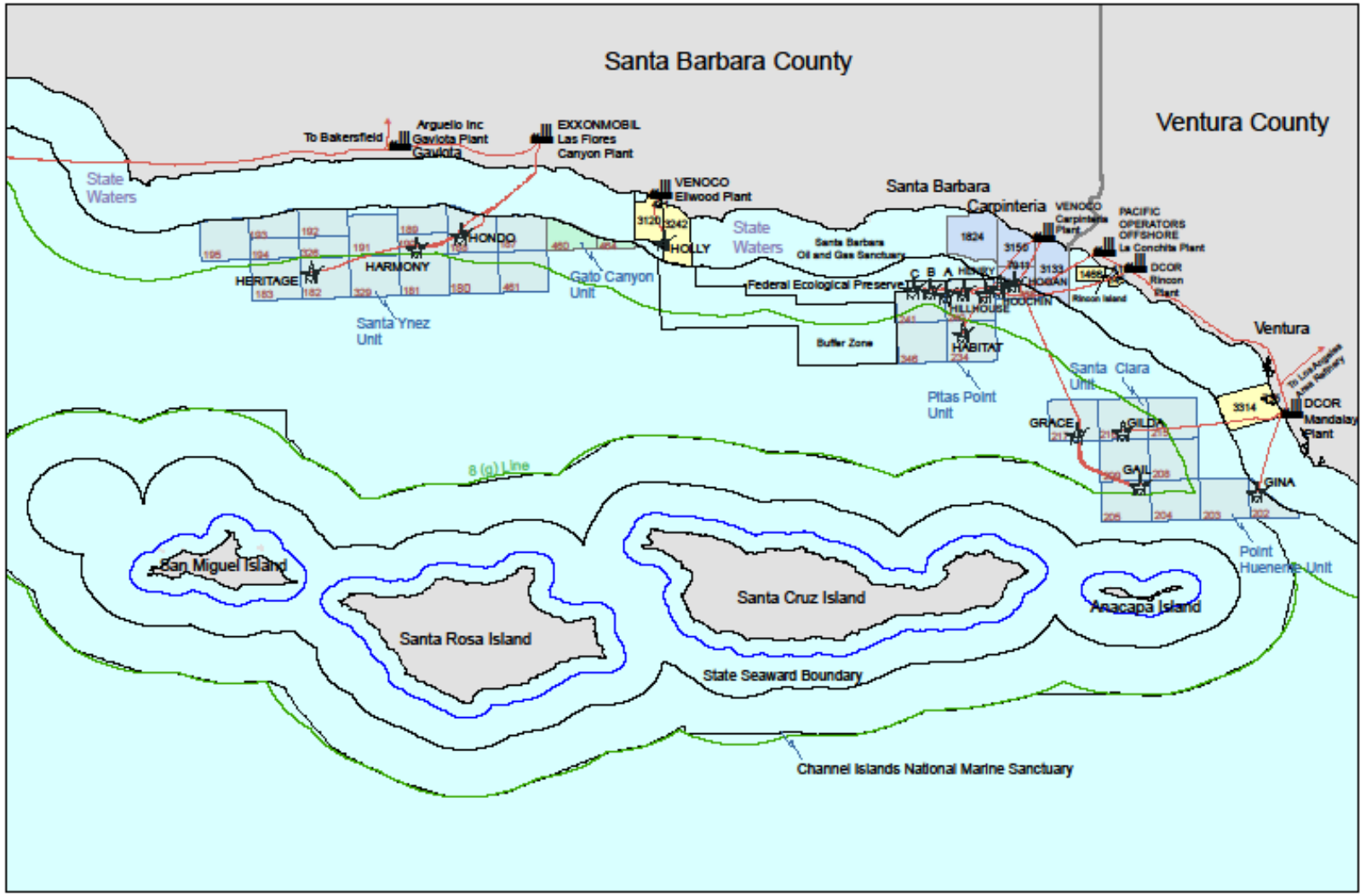
Pacific Region

Acres in Region	248,458,455
Active Leases	43
Acres Leased	217,669
Wells Drilled	1,354
Platforms	23



Source: BOEM

Santa Barbara Channel



Legend

- Federal Leases (as of 02/2012)
- Producing State Leases (as of 02/2012)
- Platforms (as of 02/2012)
- Non Producing State Leases
- Federal Undeveloped Leases
- Pipelines
- 8 (g) Line
- Channel Islands National Park

Santa Barbara Channel
OCS Operations Map

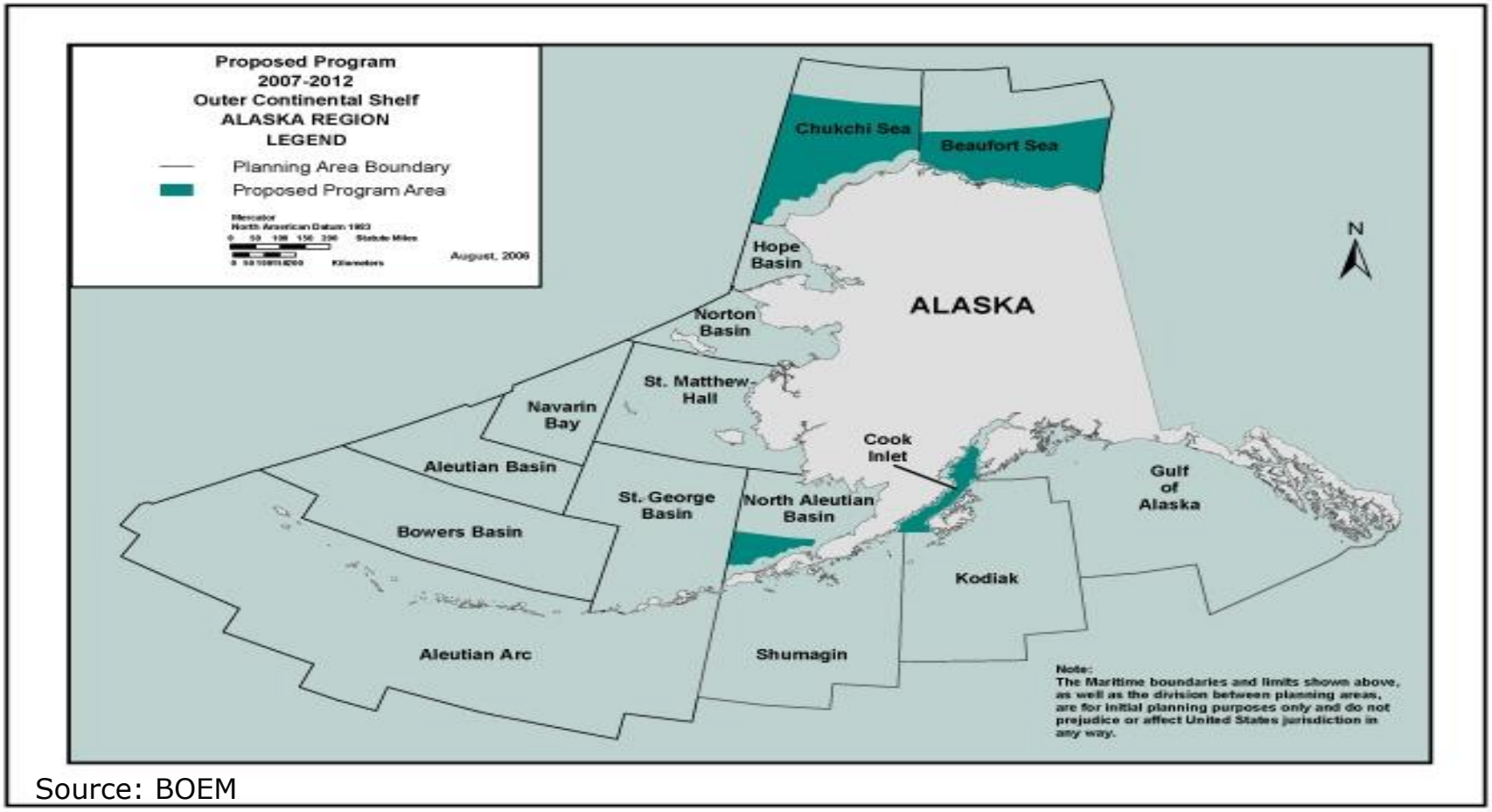
0 5 10 20 Miles

BOEM
Bureau of Ocean Energy Management

SR 11/21/12

Alaska Region

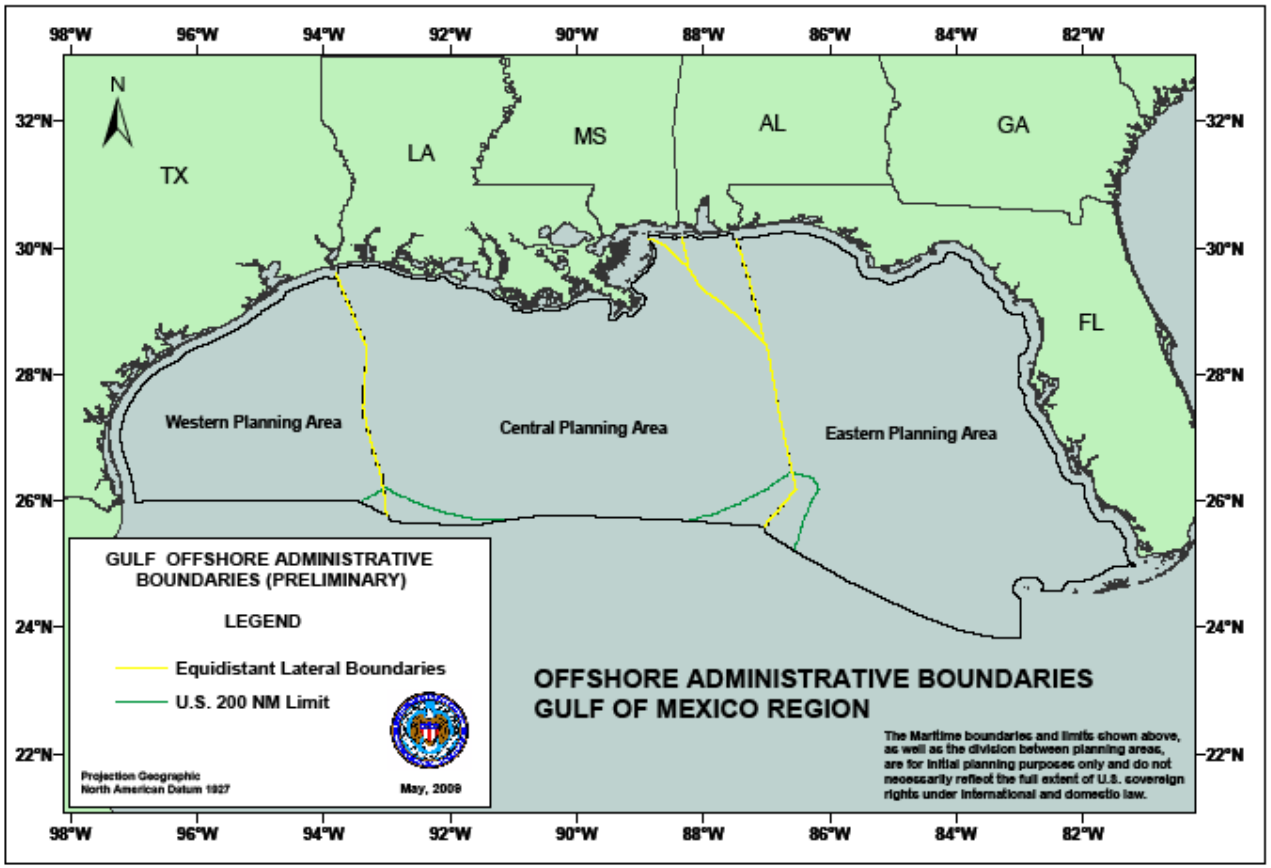
Acres in Region	1,084,461,757
Active Leases	670
Acres Leased	3,723,389
Wells Drilled	84
Platforms	0



Source: BOEM

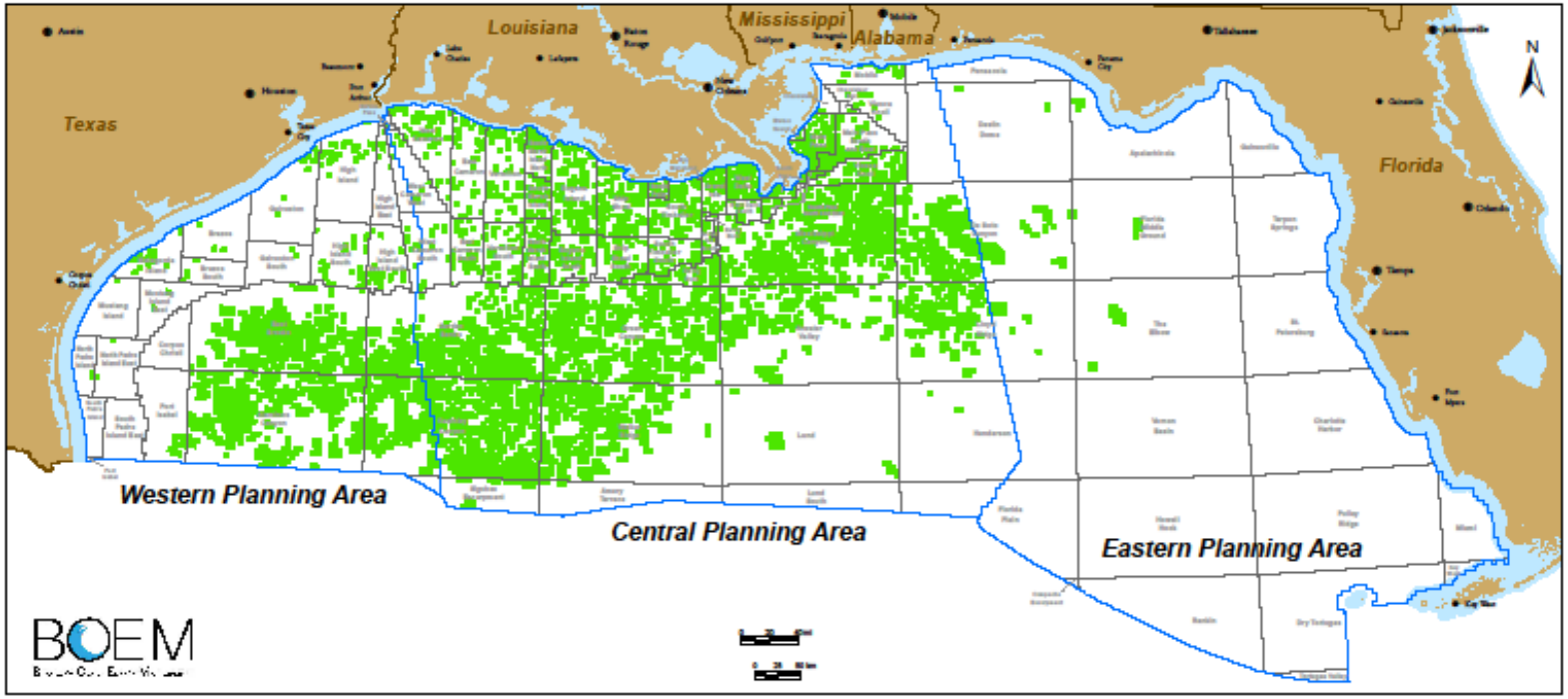
Gulf of Mexico Region

Acres in Region	159,387,771
Active Leases	5,504
Acres Leased	29,743,910
Wells Drilled	50,000+
Platforms	2,634



Offshore Gulf of Mexico Activity Map

BOEM Gulf of Mexico OCS Region
Blocks and Active Leases by Planning Area
September 2, 2014



Planning Areas	Total Blocks	Total Acres	Number of Leases	Acres Leased
Western	5,240	28,576,813	1,216	6,928,759
Central	12,409	66,446,351	4,191	22,248,047
Eastern	11,526	64,563,679	106	567,104
Sub-Totals	29,175	159,586,843	5,513	29,743,910
CPA / EPA Shared Blocks*	(86)		(9)	
Totals	**29,089**	**159,586,843**	**5,504**	**29,743,910**

Active Leases
Planning Area Boundary

* CPA and EPA contain 86 shared blocks of which 9 are leased. These blocks are given both a CPA and EPA designation in the data which accounts for a higher block total.

Non-Energy Mineral Resources

Marine Minerals Program

Loss of sand from the Nation's beaches, dunes, and barrier islands is a serious problem that affects both the coastal environment and the economy. For example, Louisiana, which has the highest coastal erosion rate in the country, has lost an average of 43 square km of land from its coast each year since 1985. Beach nourishment and other coastal restoration projects are addressing this problem, and sand from the Outer Continental Shelf (OCS) is often used to stem this erosion.

BOEM has conveyed rights to millions of cubic yards of OCS sand for coastal restoration projects in multiple states. These projects have resulted in the restoration of hundreds of miles of the Nation's coastline, protecting billions of dollars of infrastructure as well as important ecological habitat.

Marine Minerals Program

Key Statistics

OCS sand authorized for use	more than 92 million cubic yards of sand conveyed
Total number of restoration projects	46 Projects
Number of States with restoration projects	7 States
Miles of coastline restored	256.5 miles of coastline restored

Louisiana Coast Pre-Katrina

Louisiana Coast Post-Katrina

Source: BOEM

Marine Minerals Program - Example

Date Lease or MOA Executed	Cubic Yards Authorized	Miles of Shoreline Restored	Supporting Environmental Documents
August 2012	5,200,000	6.0	Caminada Headlands, LA 2012 EA and FONSI
August 2012	5,000,000	8.0	Cameron Parish, LA 2012 EA and FONSI
December 2010	750,000	1.2	Raccoon Island Phase B 2009 Final EA FONSI

Source: BOEM

Marine Minerals Program - Example

Date Lease or MOA Executed	Cubic Yards Authorized	Miles of Shoreline Restored	Supporting Environmental Documents
December 2012	1,000,000	7.1	Bogue Banks 2012 EA | Bogue Banks FONSI | Bogue Banks Biological Opinion

Source: BOEM

Offshore Renewable Energy

Offshore Wind Energy

The first offshore wind project was installed off the coast of Denmark in 1991. Since that time, commercial-scale offshore wind facilities have been operating in shallow waters around the world, mostly in Europe. Newer turbine and foundation technologies are being developed so that wind power projects can be built in deeper waters further offshore.

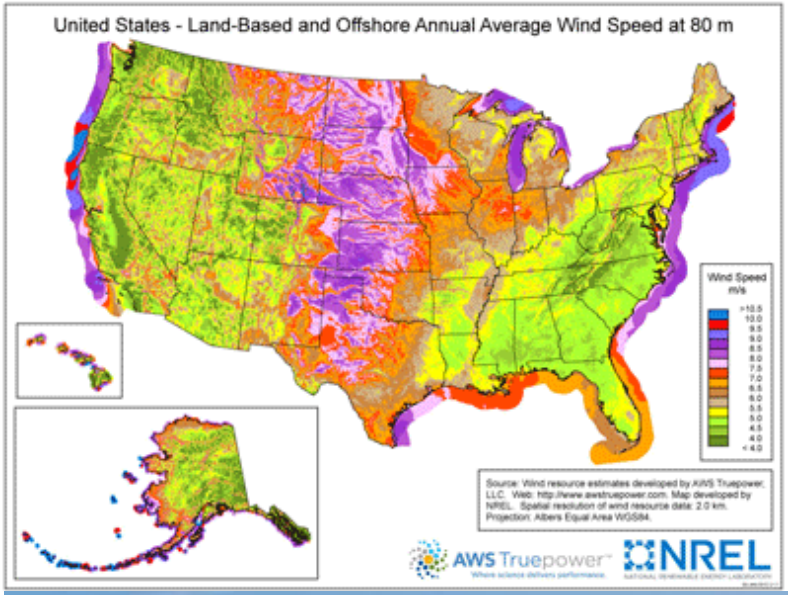
As the wind blows, it flows over the airfoil-shaped blades of wind turbines, causing the turbine blades to spin. The blades are connected to a drive shaft that turns an electric generator to produce electricity. Offshore wind turbines are being used by a number of countries to harness the energy of strong, consistent winds that are found over the oceans.

Offshore winds tend to blow harder and more uniformly than on land. The potential energy produced from wind is directly proportional to the cube of the wind speed. As a result, increased wind speeds of only a few miles per hour can produce a significantly larger amount of electricity. For instance, a turbine at a site with an average wind speed of 16 mph would produce 50% more electricity than at a site with the same turbine and average wind speeds of 14 mph.

Wind resource potential is typically given in gigawatts (GW), and 1 GW of wind power will supply between 225,000 to 300,000 average U.S. homes with power annually.

Wind speeds off the Atlantic Coast and in the Gulf of Mexico are lower than wind speeds off the Pacific Coast. However, the presence of shallower waters in the Atlantic makes development more attractive and economical for now. Hawaii has the highest estimated potential, accounting for roughly 17% of the entire estimated U.S. offshore wind resource

Source: BOEM



Offshore Wind Farm

Ocean Wave Energy

Ocean wave energy is captured directly from surface waves or from pressure fluctuations below the surface.

Waves are caused by the wind blowing over the surface of the ocean. In many areas of the world, the wind blows with enough consistency and force to provide continuous waves along the shoreline. Ocean waves contain tremendous energy potential. Wave power devices extract energy from the surface motion of ocean waves or from pressure fluctuations below the surface.

Wave power varies considerably in different parts of the world. Areas of the world with abundant wave power resource include the western coasts of Scotland, northern Canada, southern Africa, Australia, and ***the northwestern coast of the United States, particularly Alaska.***

Whereas wind resource potential is typically given in gigawatts (GW), wave and tidal resource potential is typically given in **terawatt-hours/year (TWh/yr)**. The Electric Power Research Institute (EPRI) has completed a recent analysis of the U.S. wave energy resource potential. EPRI estimates the total wave energy resource along the outer continental shelf at 2,640 TWh/yr. ***That is an enormous potential, considering that just 1 TWh/yr of energy will supply around 93,850 average U.S. homes with power annually***. While an abundance of wave energy is available, it cannot be fully harnessed everywhere for a variety of reasons, such as other competing uses of the ocean (i.e. shipping, commercial fishing, naval operations) or environmental concerns in sensitive areas. Therefore, it is important to consider how much resource is ***recoverable*** in a given region. EPRI estimates that the total recoverable resource along the U.S. shelf edge is 1,170 TWh/yr, which is almost one third of the 4,000 TWh of electricity used in the United States each year.

Source: BOEM

Wave Dragon Overtopping Device

Ocean Current Energy

The relatively constant flow of ocean currents carries large amounts of water across the earth's oceans. Technologies are being developed so that energy that can be extracted from ocean currents and converted to usable power.

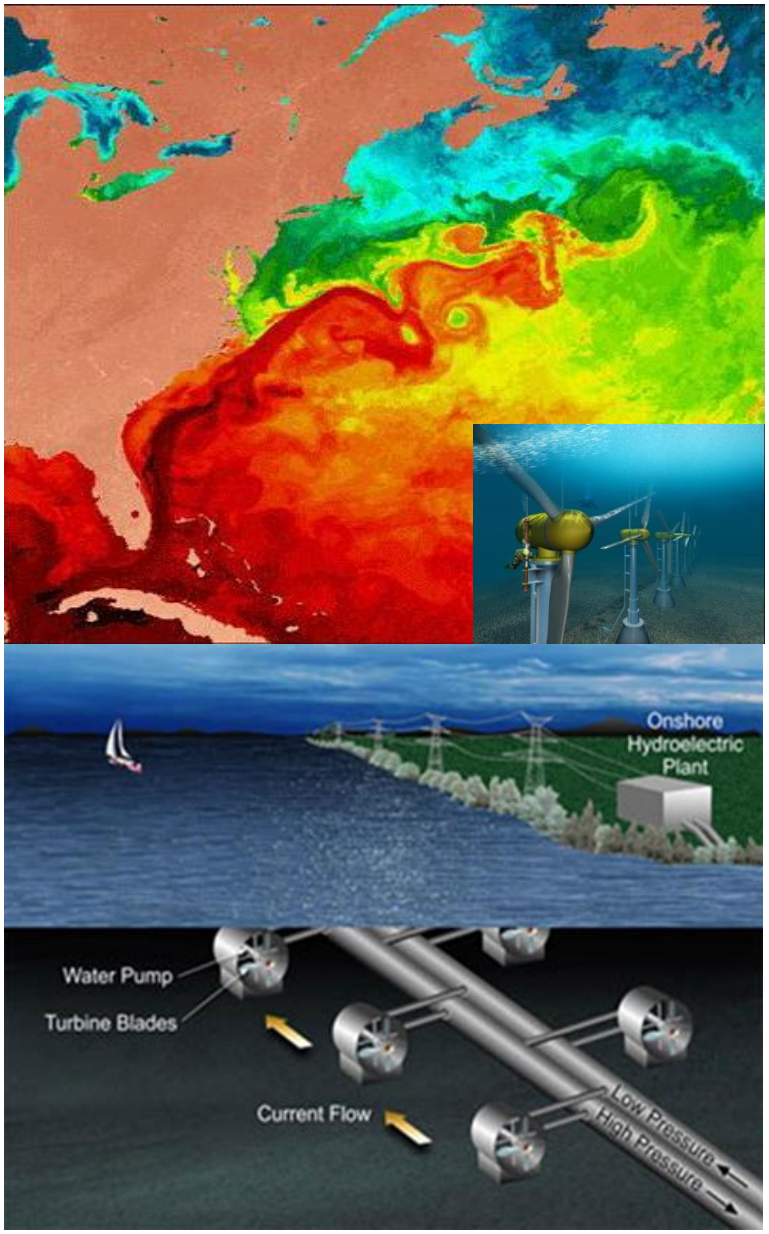
Ocean waters are constantly on the move. Ocean currents flow in complex patterns affected by wind, water salinity, temperature, topography of the ocean floor, and the earth's rotation. Most ocean currents are driven by wind and solar heating of surface waters near the equator, while some currents result from density and salinity variations of the water column. Ocean currents are relatively constant and flow in one direction, in contrast to tidal currents along the shore.

While ocean currents move slowly relative to typical wind speeds, they carry a great deal of energy because of the density of water. Water is more than 800 times denser than air. So for the same surface area, water moving 12 miles per hour exerts the same amount of force as a constant 110 mph wind. Because of this physical property, ocean currents contain an enormous amount of energy that can be captured and converted to a usable form.

The United States and other countries are pursuing ocean current energy; however, marine current energy is at an early stage of development. Relative to wind, wave, and tidal resources, the energy resource potential for ocean current power is the least understood, and its technology is the least mature. There are no commercial grid-connected turbines currently operating, and only a small number of prototypes and demonstration units have been tested.

Source: BOEM

Sea Surface Temperatures show the Gulf Stream Current



Ocean Current Turbines

Offshore Solar Energy

Solar energy technologies potentially suitable for use in ocean environments include concentrating solar power technology and photonic technology.

Solar energy reaches the United States at an average rate of about 6 million BTU/m^2 (about 6,330 mega joules/m^2) per year. Every minute the sun bathes the Earth in as much energy as the world consumes in an entire year.

Since oceans cover more than 70 percent of the earth's surface, they receive an enormous amount of solar energy. Deep ocean currents, waves, and winds all are a result of the sun's radiant energy and differential heating of the earth's surface and oceans.

Solar radiation can be converted directly to usable energy through a variety of technologies. ***There are no commercial solar energy facilities operating offshore at this time.***

Onshore Solar Power Tower in Operation

Marine Protected Areas

Marine Protected Area (MPA)

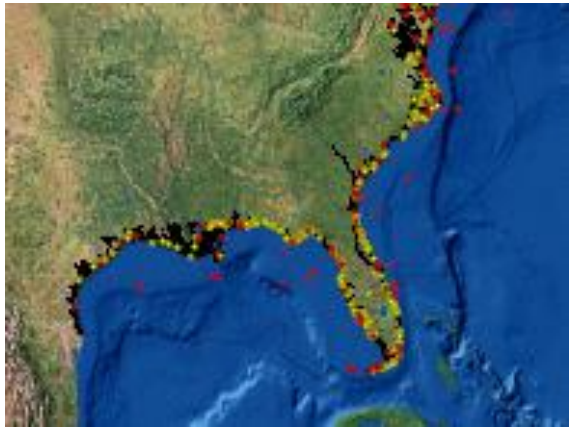
The term “marine protected area” encompasses a variety of conservation and management methods in the United States. In practice, ***MPAs are defined areas where natural and/or cultural resources are given greater protection than the surrounding waters.*** In the U.S., MPAs span a range of habitats including the open ocean, coastal areas, inter-tidal zones, estuaries, and the Great Lakes. They also vary widely in purpose, legal authorities, agencies, management approaches, level of protection, and restrictions on human uses.

The term “marine protected area” is defined in MPA Executive Order 13158 :

“...any area of the marine environment that has been reserved by federal, state, territorial, tribal, or local laws or regulations to provide lasting protection for part or all of the natural and cultural resources therein.”

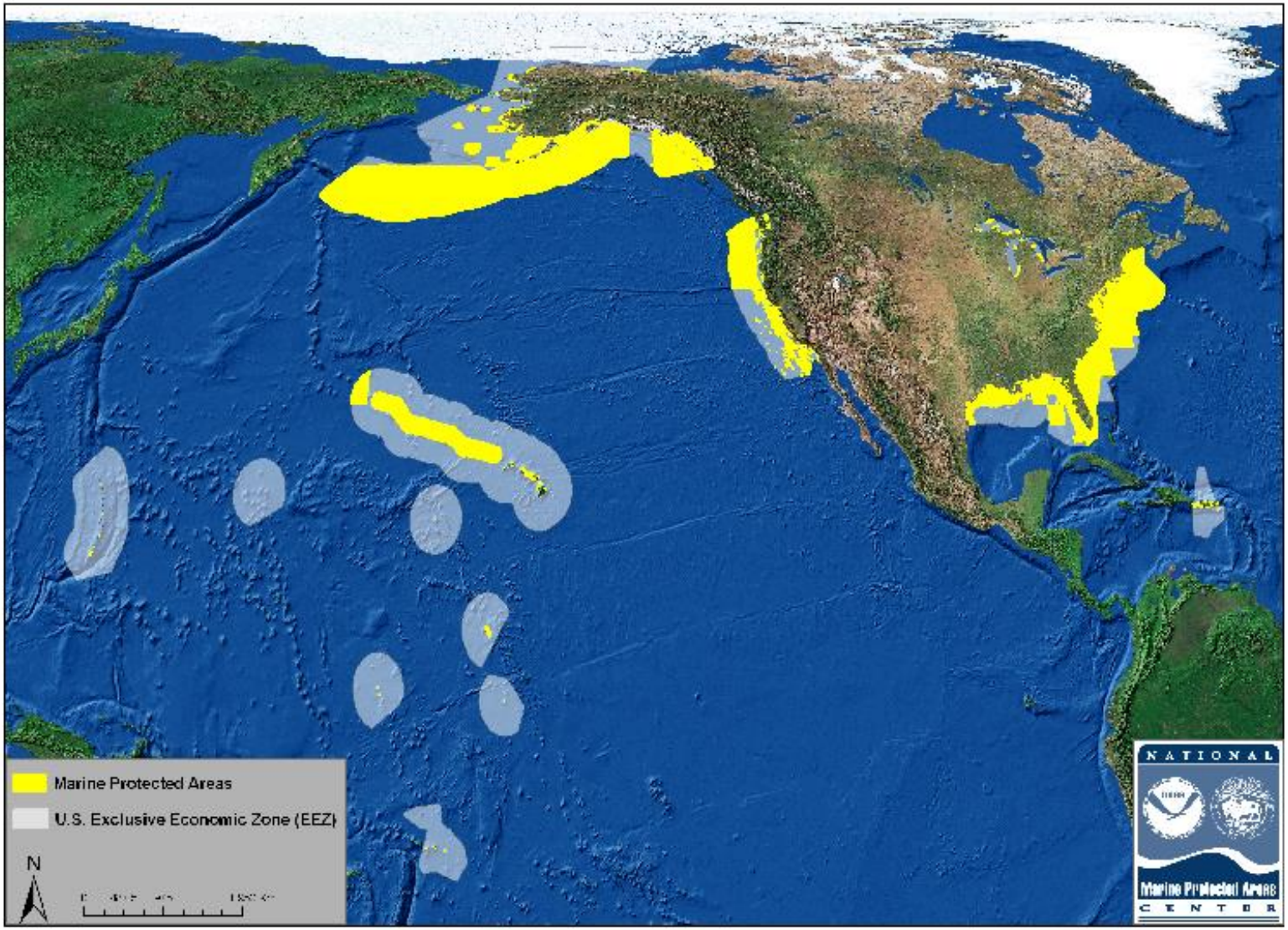
The Department of Commerce’s under NOAA’s established the ***National Marine Protected Areas Center*** (NMPAC) to oversee the MPAs in the U.S. NMPAC has developed a Classification System that provides agencies and stakeholders with a straightforward means to describe MPAs in purely functional terms using ***five objective characteristics*** common to most MPAs:

- Conservation Focus
- Level of Protection
- Permanence of Protection
- Constancy of Protection
- Scale of Protection



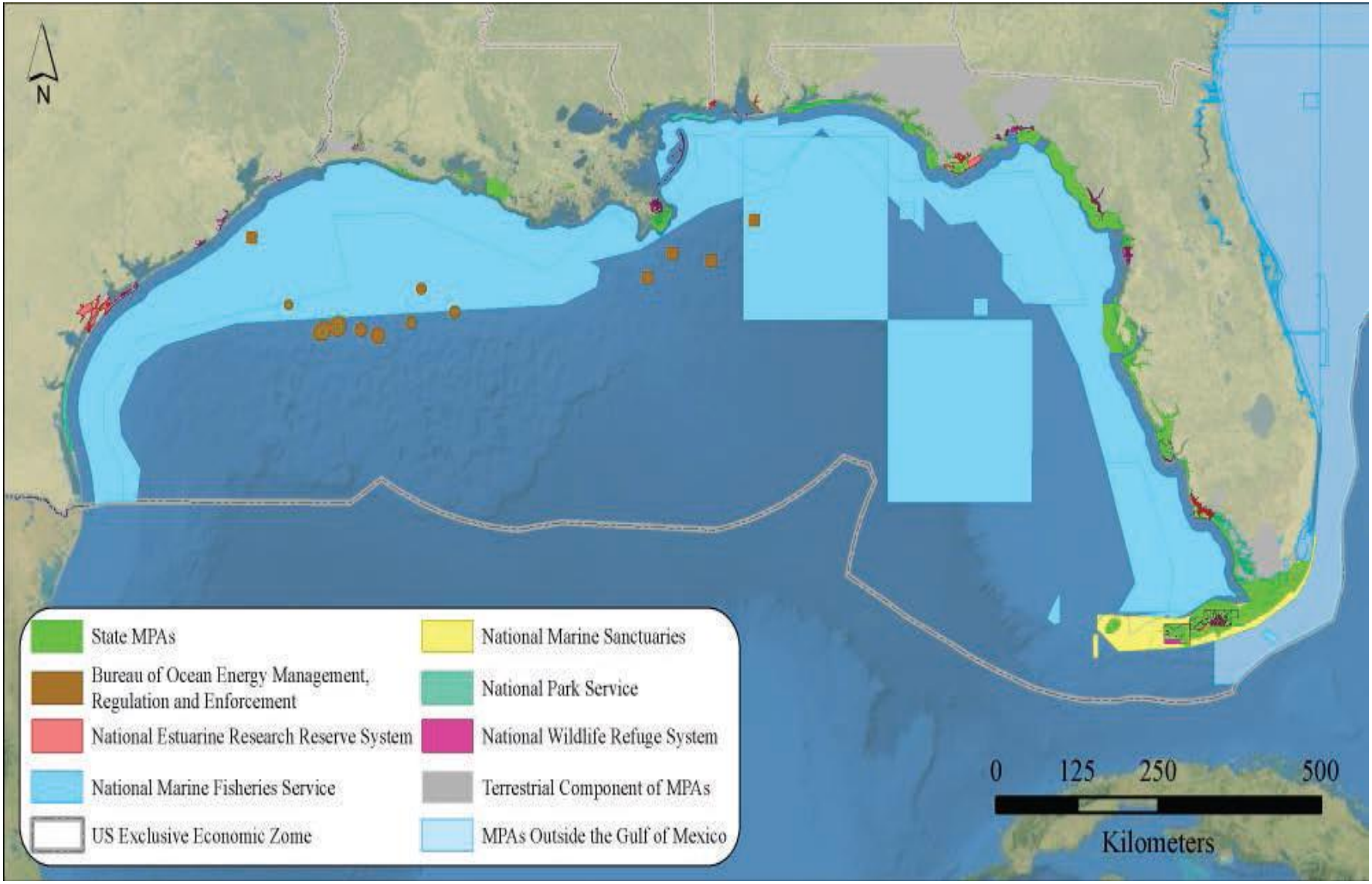
NATIONAL
NOAA
Marine Protected Areas
CENTER

Marine Protected Areas



Source: NOAA

Marine Protected Areas in the Gulf of Mexico



Source: NOAA

Other Ocean Stakeholder

The Crowded Ocean

U.S. Department of Defense

United States Coast Guard
U.S. Department of Homeland Security

(Shipping)

(Commercial and Recreational Fishing)

The Crowed Ocean

National Ocean Policy

National Ocean Policy

- The National Ocean Policy sets forth a vision of an America whose stewardship ensures that the ocean, our coasts, and the Great Lakes are healthy and resilient, safe and productive, and understood and treasured so as to promote the well-being, prosperity, and security of present and future generations.

- President Obama established the Interagency Ocean Policy Task Force (Task Force) and charged the Task Force with developing recommendations (National Ocean Policy Implementation Plan) to enhance our ability to maintain healthy, resilient, and sustainable ocean, coasts, and Great Lakes resources.

- Without creating any new regulations or authorities, the plan will ensure the many Federal agencies involved in ocean management work together to reduce duplication and red tape and use taxpayer dollars more efficiently.

- On July 19, 2010, President Obama signed an Executive Order (E.O. 13547) establishing the National Ocean Policy and adopting the Final Recommendations of the Task Force.

National Ocean Policy Implementation Plan

The Implementation Plan translates the National Ocean Policy into on-the-ground actions to benefit the American people and focuses on improving coordination to increase administrative efficiencies:

1. in the Federal permitting process;
2. better manage the ocean, coastal, and Great Lakes resources that drive so much of our economy;
3. develop and disseminate sound scientific information that local communities, industries, and decision-makers can use; and
4. collaborate more effectively with State, Tribal, and local partners, marine industries, and other stakeholders.

National Ocean Policy Implementation Plan

On July 19, 2010, President Obama signed an Executive Order (E.O. 13547) establishing the National Ocean Policy Council will oversee implementation of the Task Force recommendations to provide:

1. A framework for the Nation's first ever National Policy for the Stewardship of the Ocean, Coasts and Great Lakes

2. A governance structure to provide sustained high-level and coordinated attention to ocean, coastal, and Great Lakes issues

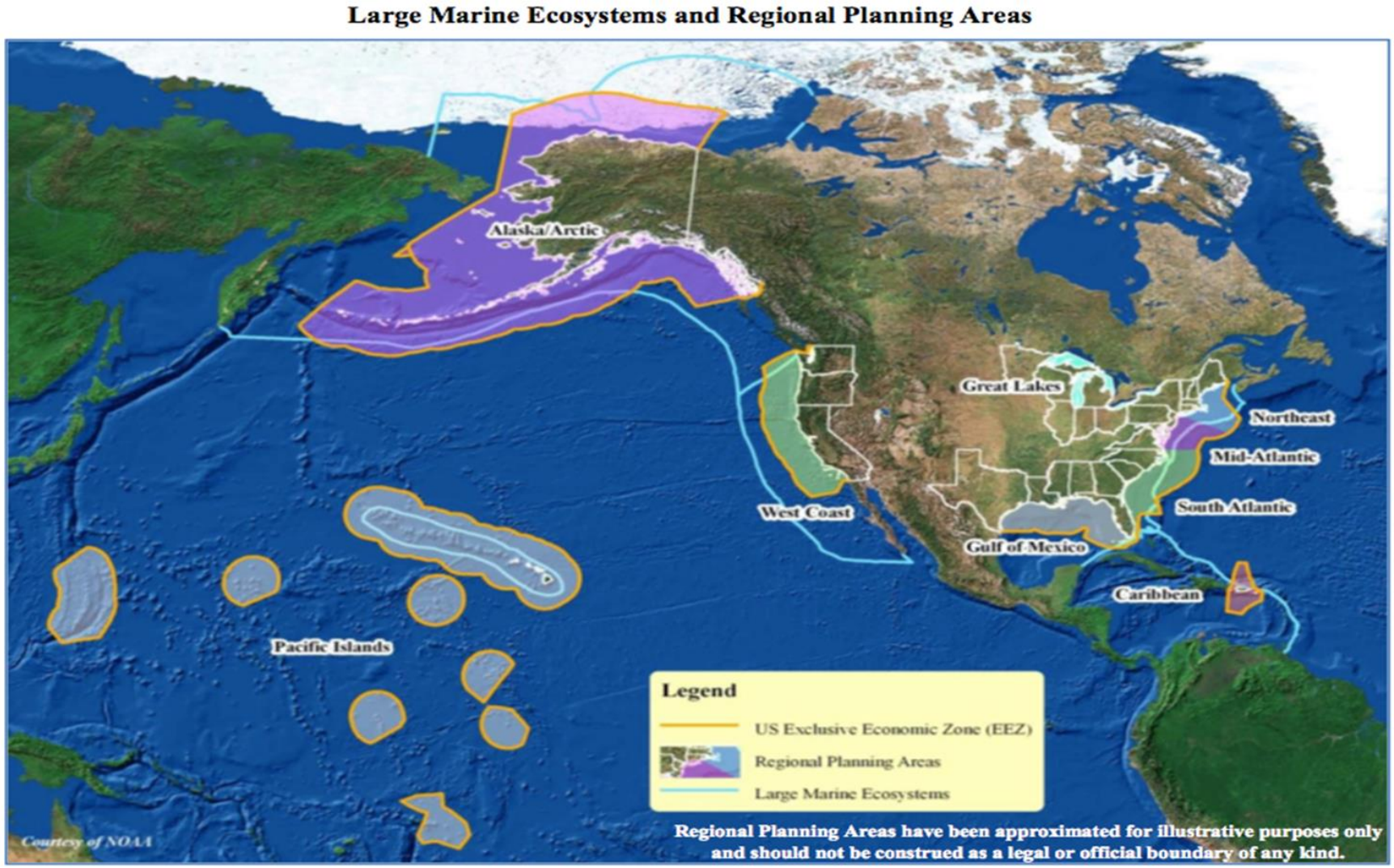
3. An implementation strategy that identifies nine priority objectives

4. ***A framework for effective Marine Planning employing a comprehensive and integrated Ecosystem-Based Management approach***

5. The nine priority objectives provide a bridge between the policy and specific actions required to achieve the intent of the National Ocean Policy.

6. Ecosystem-Based Management: foundational principle for the comprehensive management of the ocean, our coasts, and the Great Lakes

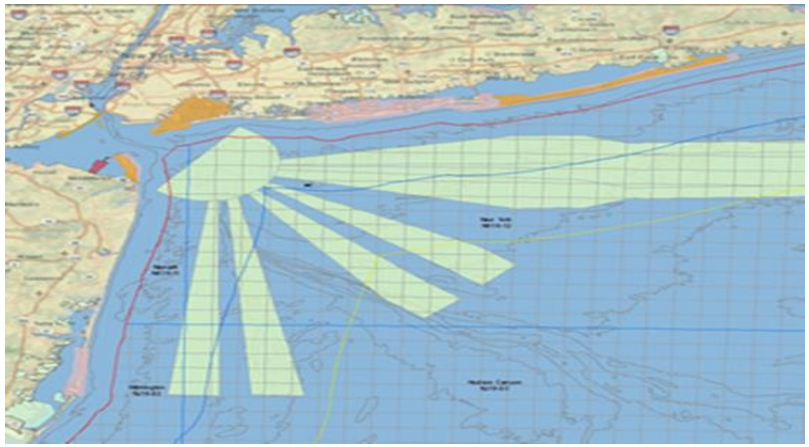
Nine Regional Planning Bodies



Source: NOAA

Coastal and Marine Spatial Planning

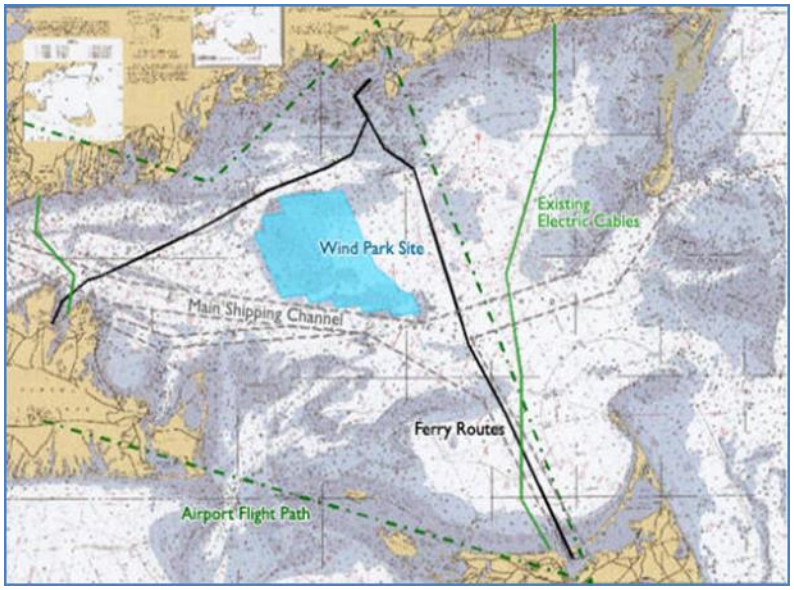
- Marine planning is a ***science-based tool*** that regions can use ***to address specific ocean management challenges*** and advance their economic development and conservation objectives. Marine planning will support regional actions and decision-making and address regionally determined priorities, based on the needs, interests, and capacity of a given region. Marine planning will provide a more coordinated and responsive Federal presence and the opportunity for all coastal and ocean interests in a region to share information and coordinate activities.
- Marine plans produced by regional planning bodies can provide information about specific issues, resources, or areas of interest to better inform existing management measures.
- ***Regional planning bodies are not regulatory bodies*** and have no independent legal authority to regulate or otherwise direct Federal, State, tribal, or local government actions. All activities will continue to be regulated under existing authorities.
- The National Ocean Council has released a ***Marine Planning Handbook*** to support the efforts of regions that choose to engage marine industries, stakeholders, the public, and government to advance their economic development and conservation priorities.



Coastal and Marine Spatial Planning – How will it help?

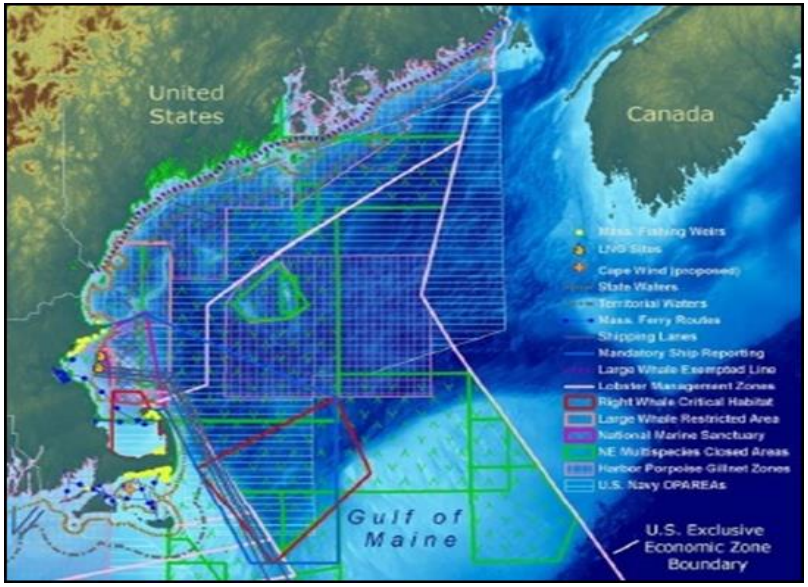
Pre-National CMSP

- Applicant proves suitability
- Checkerboard jurisdiction
- Delay, expense, confusion



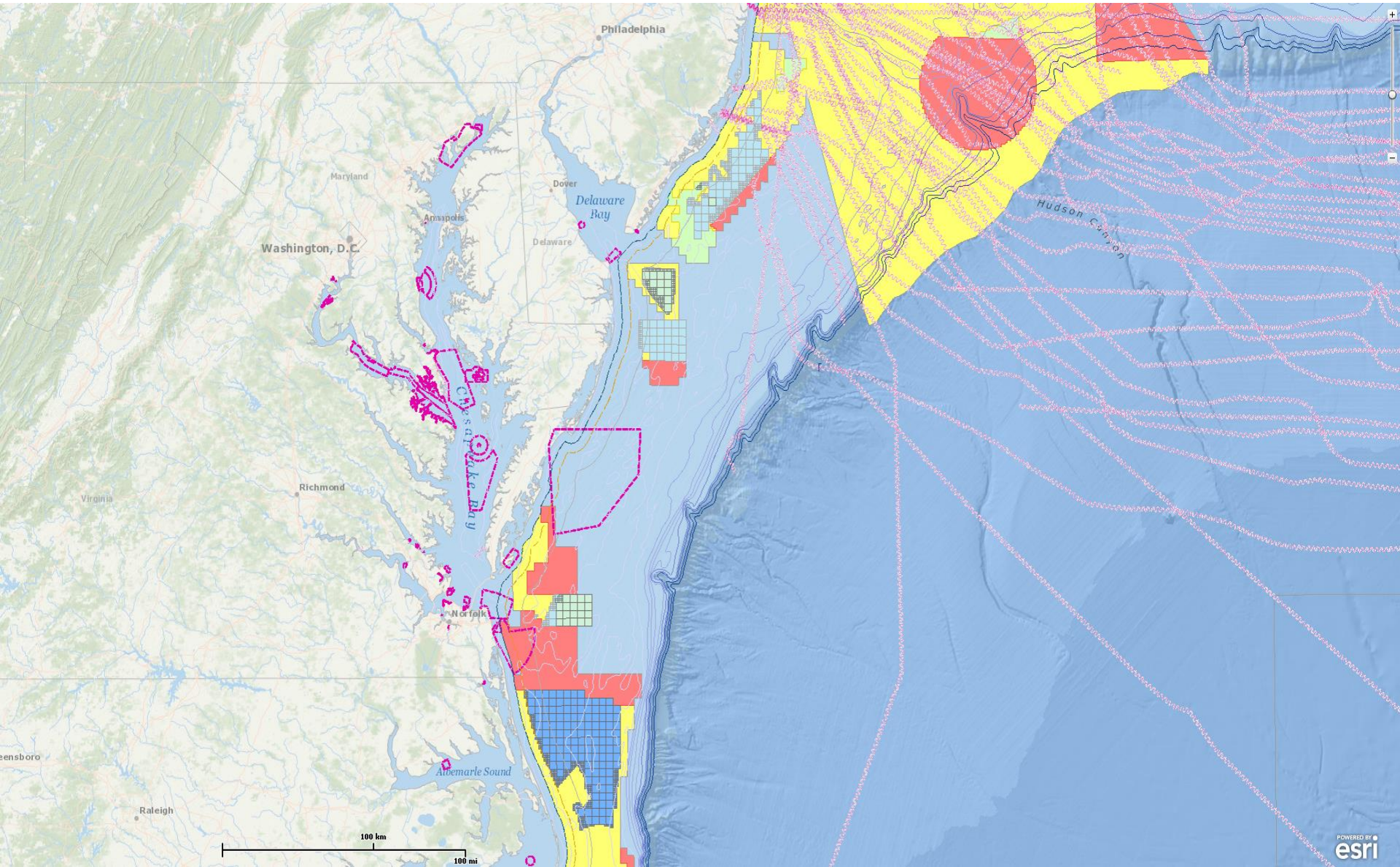
Post-National CMSP

- Predetermined suitability
- Regulatory certainty
- Less costly/less delay

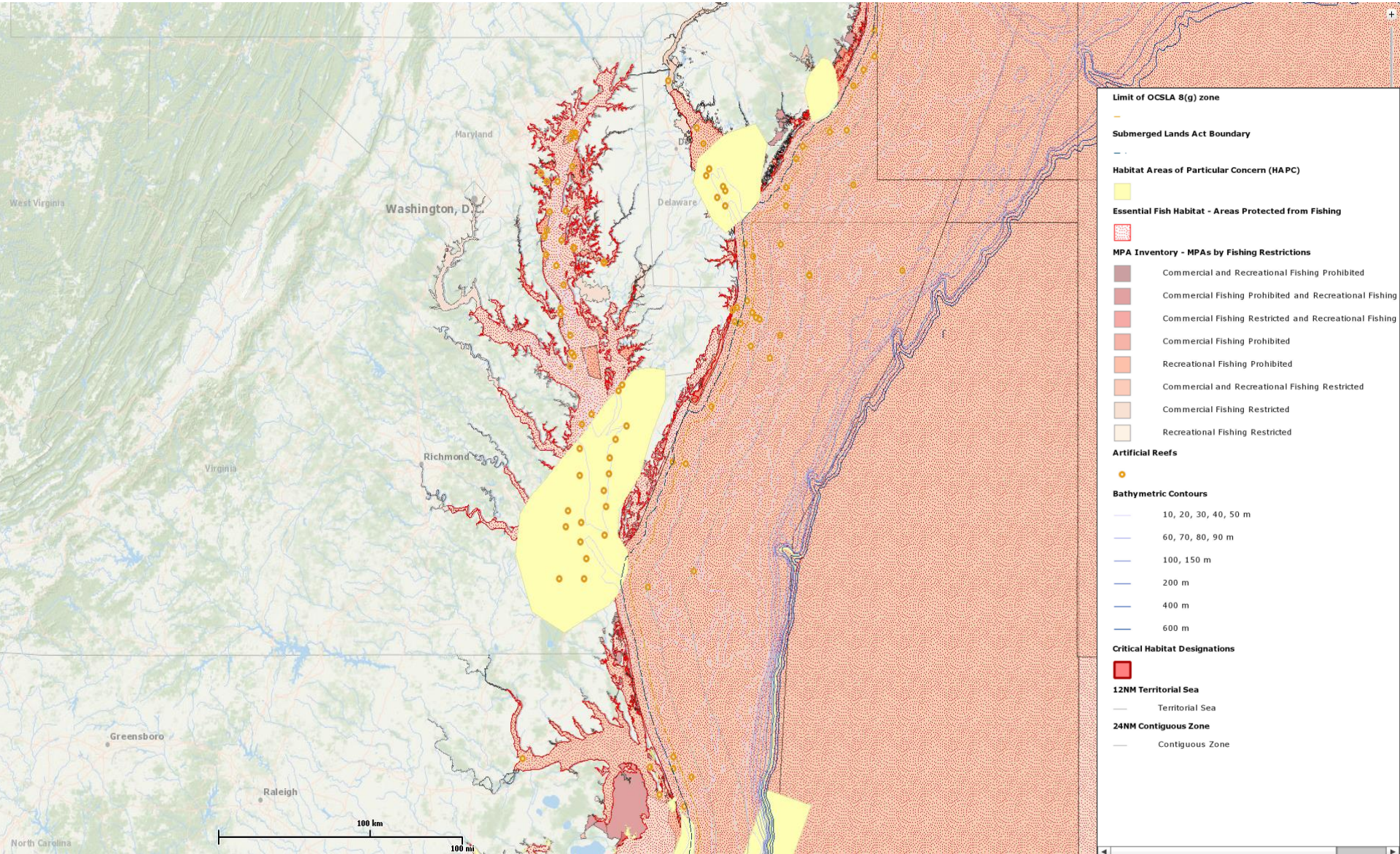


Marine Cadaster Mapping

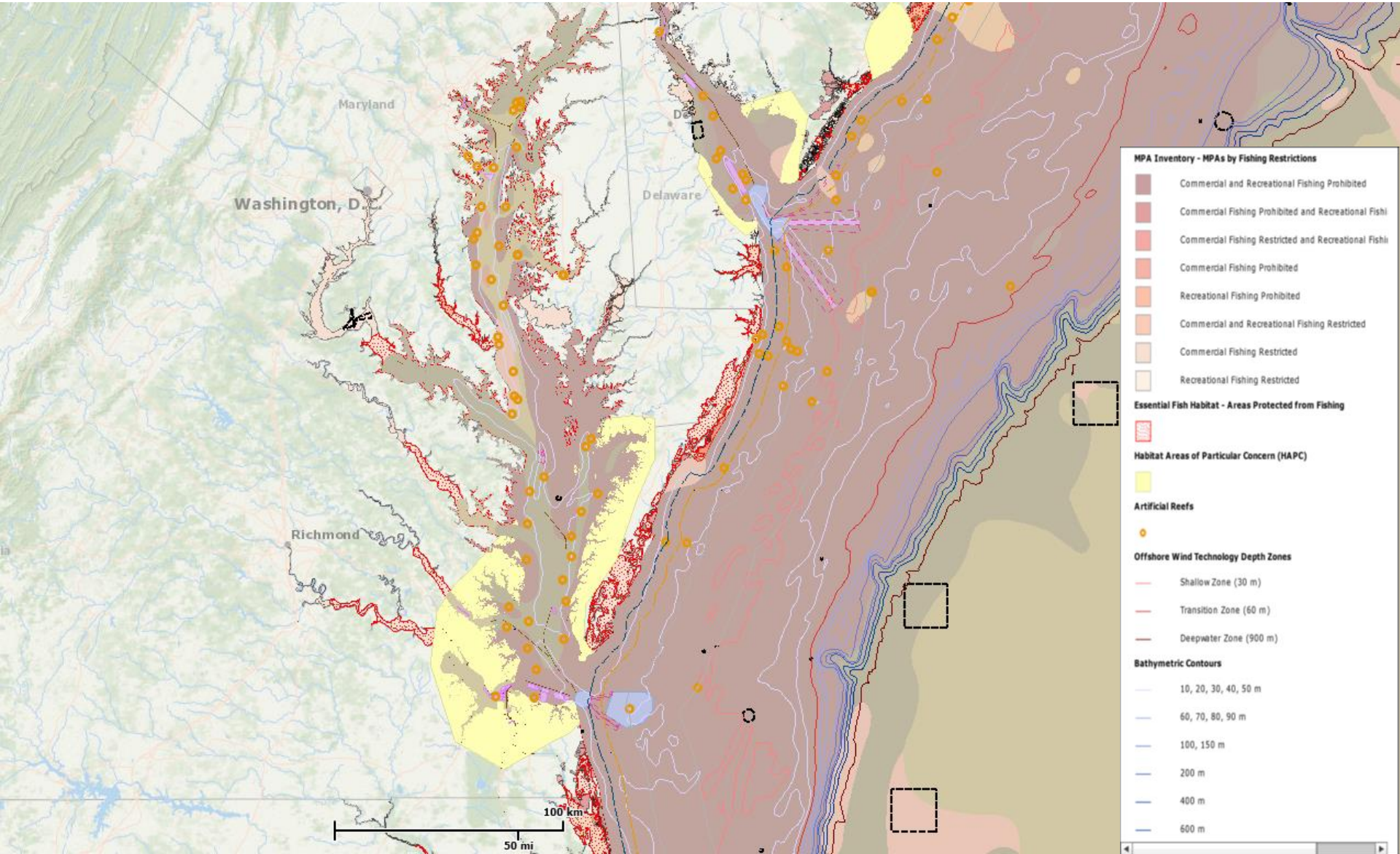
MarineCadastre.gov
"Wind Energy Map"



MarineCadastre.gov
"Marine Habitat Map"



MarineCadastre.gov
"Shipping Fairways and Ordinance Areas"



Questions ?????

CRAIG A. McKNIGHT, JD, CPA *

Decision & Economic Analysis Manager
Greater Gulf of Mexico
Chevron North America Exploration & Production

- **Current location and responsibilities**
- Greater Gulf of Mexico (DWEP & GOM BUs), Decision & Economic Analysis Mgr. Houston
- DA Team is responsible for all project business plans, decision and economic analysis and appropriation request preparation for exploration, appraisal, technology and major capital projects in DWEP/GOM Bus
- **Education focus areas –** CPA with accounting and law degrees
- **Relevant** non-Chevron work experience - Worked as attorney, investment banker and tax specialist
- **Other Chevron/Texaco experience (started in 1980 at Texaco)**
  - Chevron (power & gasification planning mgr., CSOC champion; Global Gas - international marketing & business development – CSOC, Regional Business Dev. & DA mgr.)
  - Texaco (upstream accountant; executive staff - economic studies; upstream international marketing & business development economist, power & gasification project developer)

Negotiation Terms, Tips & Tactics

2014 HAPL Offshore Seminar and Social Event

Craig A. McKnight, JD, CPA *
Decision & Economic Analysis Manager
Greater Gulf of Mexico
Chevron North America Exploration & Production

Agenda

- Disclaimer
- Negotiations – Psychological terms
- Negotiation Rules & Tactics
- Useful References & Reading

Disclaimer

Notwithstanding the affiliation of the presenter, or anything contained herein or in the verbal communication hereof to the contrary, this presentation and any statement made, or material issued, by the presenter in connection herewith represent the sole and independent position of the presenter and does not necessarily reflect the position of Chevron Corporation, Chevron North America Exploration & Production, or any of their affiliates.

* Craig McKnight is a member of the Bar of the State of Texas and is not admitted to the practice of law in any other jurisdiction and is also a CPA.

In business as in life - you don't get what you deserve,

You get what you negotiate.

Chester Karrass – 1996

Negotiations – Psychological terms

- Zone of Potential Agreement (ZOPA)
- Best Alternative to the Negotiated Agreement (BATNA)
- Behaviors/Body Language
- Anchoring
- Krunching
- Underlying Interests
- Power
- Competitive vs. Cooperative negotiation

Zone of Possible Agreement (ZOPA)

- Describes the intellectual zone between two parties where an agreement can be reach on an issue between the parties.
- Within this zone, an agreement is possible.
- Outside of the zone, no amount of negotiation will yield an agreement.
- However, you may have other currency to get you there…

Source: Wikipedia

What happens when no ZOPA exists?

Best Alternative To a Negotiated Agreement (BATNA)

- BATNA is the course of action that can be taken by a party if the current negotiations fail and an agreement cannot be reached *
- BATNA is often seen by negotiators not as a safety net, but rather as a point of leverage in negotiations *
- It is critical to understand your BATNA(s) and, if possible, that of your counterparty in the negotiations
- Developing a BATNA requires considering several factors including cost, feasibility, impact and any consequences
- Brief mgt on alternatives in case you need them
- Keep the alternatives alive as long as possible
- **What the other party thinks is your BATNA can vest you with little or a lot of power**

* Source: Wikipedia

Behaviors/Body Language

- Body language – facial expressions, arms, head nodding, posture can be very telling
- Cultural awareness – where do you sit at the table, understand local customs
- Tone – yelling vs. normal (don't escalate)
- Talk slowly & use simple words
- Emotional intelligence – social and self awareness (impact of your emotions on issues)
- Listening
  - Don't respond quickly
  - Repeat what you heard to verify; especially when English is not the primary language
  - Seek to understand and then seek to be understood

Anchoring

- Describes the common human tendency to rely too heavily, or "anchor," on one trait or piece of information when making decisions
- You may win by making the first offer yourself if you have done your homework
- Most negotiators make first offers that are not aggressive enough
- You may not always have the opportunity to make the first offer
- Try to defuse the offer if unreasonable
- If close to your price do NOT immediately accept, continue to negotiate as the other side may feel regret if a big issue

Krunch (per Jim Thomas)

- A krunch is your action or response to an offer that indicates you do not accept their current offer as a valid offer or position
- Some examples of krunches include:
  - Ouch!
  - You are going to have to do better than that
  - Can you cut us some slack?
  - Silence or a long sigh
- Every concession has a price, but krunches typically cost nothing (you need to be careful how you say this with certain cultures)
- Krunches can lead to obtaining additional information and destroy attempts at anchoring
- Krunch includes ways to withdraw such as silence, walking out, break

Source: Negotiate to Win book by Jim Thomas

Underlying Interests

- Understanding the other side's underlying interests
  - Don't assume; ASK!
  - Motives are influenced by compensation, culture, penalties, belief system, national character, etc.
  - Ask "WHY?" 5 times
- Determine/mitigate their constraints
- View onerous demands as an opportunity
- Create opportunities by looking for common ground based on underlying interests
- If the deal appears lost, stay at the table and keep trying to learn more

Power

- Power – ability to influence the behavior of another
- What gives you power?
  - BATNA
  - Patience & persistence
  - Legal support
  - Personal knowledge/experience/skill
  - Resources (experts, consultants)
  - Relationships
  - Homework
  - Reputation
- Exists to the extent it is accepted

Competitive vs. Cooperative Negotiation

Competitive – of or relating to a situation in which people or groups are trying to win a contest *

Cooperative – willing to be helpful by doing what someone wants or asks for *

Where do YOU fit between the two extremes?

What are some situations when you find solely competitive negotiations?

- No or limited future relationship (e.g., counterparty selling the company and exiting)
- Litigation
- Other party has other alternatives

* Source: Miriam-Webster Dictionary

A Few Negotiation Rules/Tactics

- Every meeting is a negotiation, be prepared
- Establish roles & keep your team manageable
- Be soft on the people and hard on the problem
- Deadlines – look at cost/benefit of meeting
- Understand the authority and culture of your counterparty
- Do your homework
- Understand your counterparty's decision criteria
- Bosses and subject matter experts give away the ranch (prepare them for every interaction)
- Use silence
- Ethical negotiating is the right thing to do
- Stress levels change behaviors

Useful References & Reading

Negotiate to Win (Jim Thomas - 2005)
Negotiation This, By Caring But Not THAT Much (Herb Cohen - 2003)
Predictably Irrational (Ariely 2008)
*Negotiation Genius (*Malhotra & Bazerman - 2007*)*
Strictly Business: Body Language (Hargrave - 2004)
Kiss, Bow, or Shake Hands (Morrison, Conaway & Borden - 2006)

International Association of Petroleum Negotiators
http://www.aipn.org/
Center for American & International Law
http://www.cailaw.org/institute-for-energy-law/programs-calendar.html

JACKSON M. SANDEEN

Research Analyst – Deepwater Gulf of Mexico

- **Jackson Sandeen is currently a Research Analyst working on the Deepwater Gulf of Mexico Upstream Research team. In this role he performs asset valuations, assists with consulting projects and publishes topical reports on key regional trends. He has spent his time focusing on the deepwater rig market, play-level economics and the commercial impact of emerging plays.**

- **Jackson earned dual degrees in Economics and Broadcast Journalism from Boston University. Jackson sits on the Playworks Texas and Houston COMPASS boards, and serves as a big brother in Big Brothers Big Sisters.**

2014 HAPL Offshore Seminar

Finding value in Deepwater Gulf Mexico

Jackson Sandeen
Research Analyst – Deepwater Gulf of Mex

Houston, Texas
13 November 2014

Wood Mackenzie

- We are a global leader in commercial intelligence for the energy, metals and mining industries
- We use a foundation of robust proprietary data and models to analyse, value and advise on assets, companies and markets.
- We have been a trusted source of knowledge for over 40 years and now employ over 950 professionals in 25 offices around the world
- Our clients include all the major energy, metals and mining companies, as well as governments, investment banks and institutional investors
- Our insight helps our clients to identify new opportunities, define strategy and improve their performance

HOUSTON ASSOCIATION OF PROFESSIONAL LANDMEN HAPL

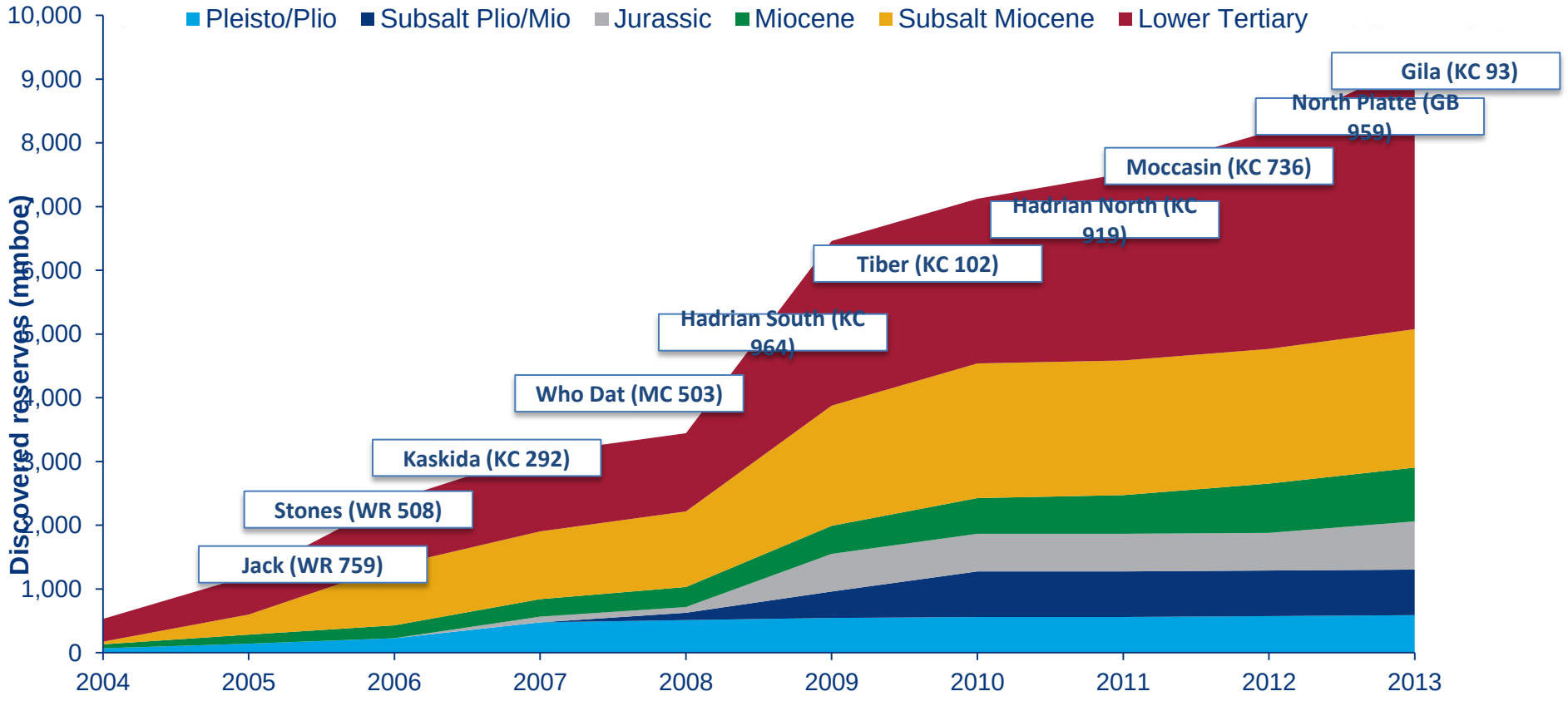
Wood Mackenzie

Agenda

1. US GoM deepwater activity slowing down?
2. Company performance – US GoM deepwater contribution
3. Exploration outlook – the volume to value shift

Volume-rich Lower Tertiary drives reserve replacement over the decade

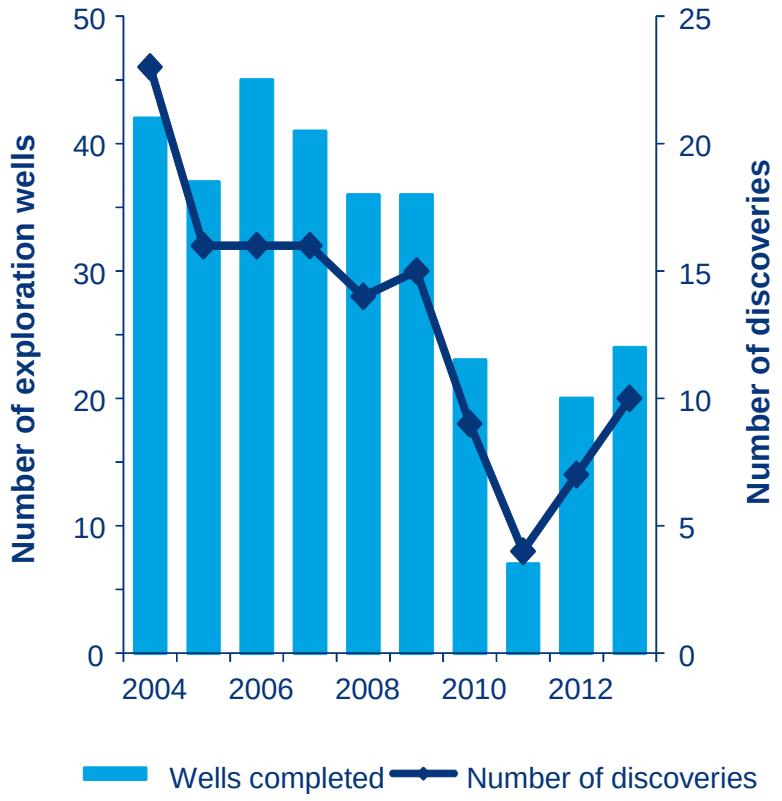
Cumulative reserves discovered (2014-2013)



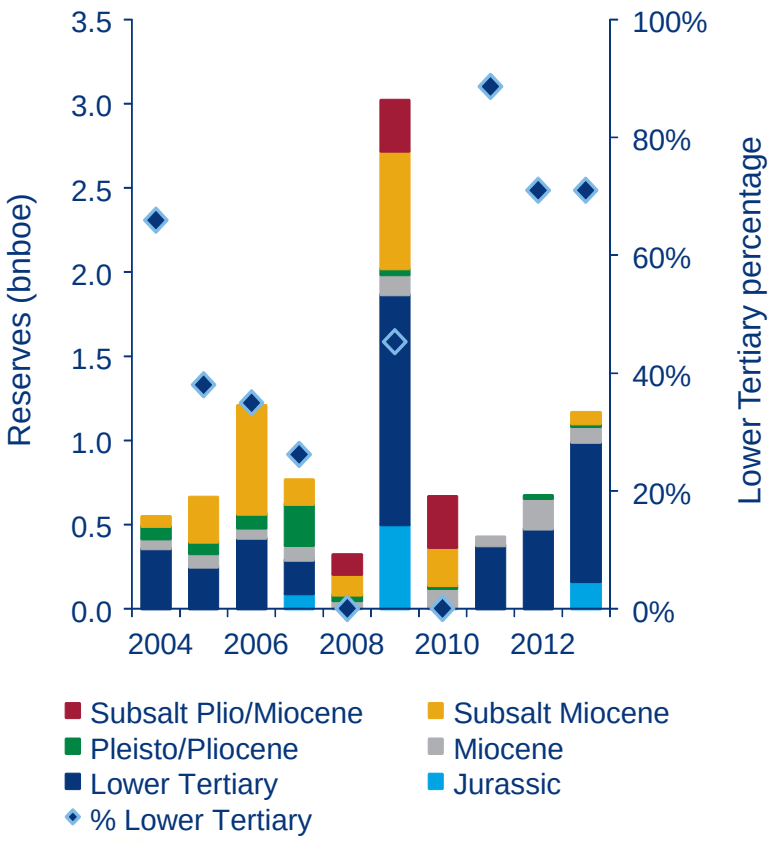
Source: Wood Mackenzie

Well count recovering – new volumes mostly in the Lower Tertiary

Exploration wells drilled and discoveries



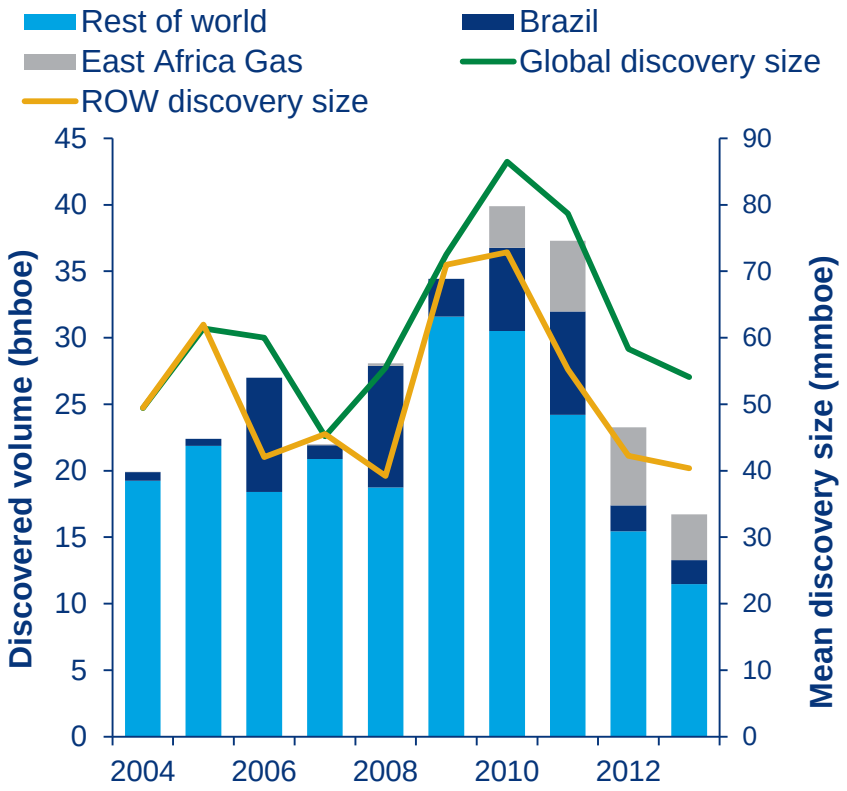
Reserves discovered by play-type



Source: Wood Mackenzie Exploration Service

GoM outperforms global avg discovery size and success rate

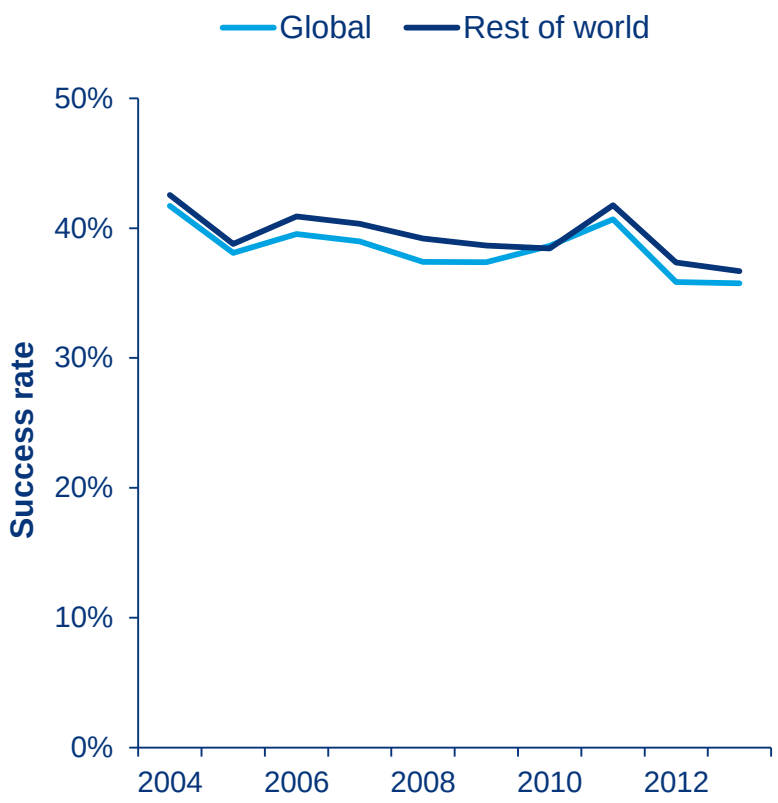
Total volumes and mean discovery size



Source: Wood Mackenzie

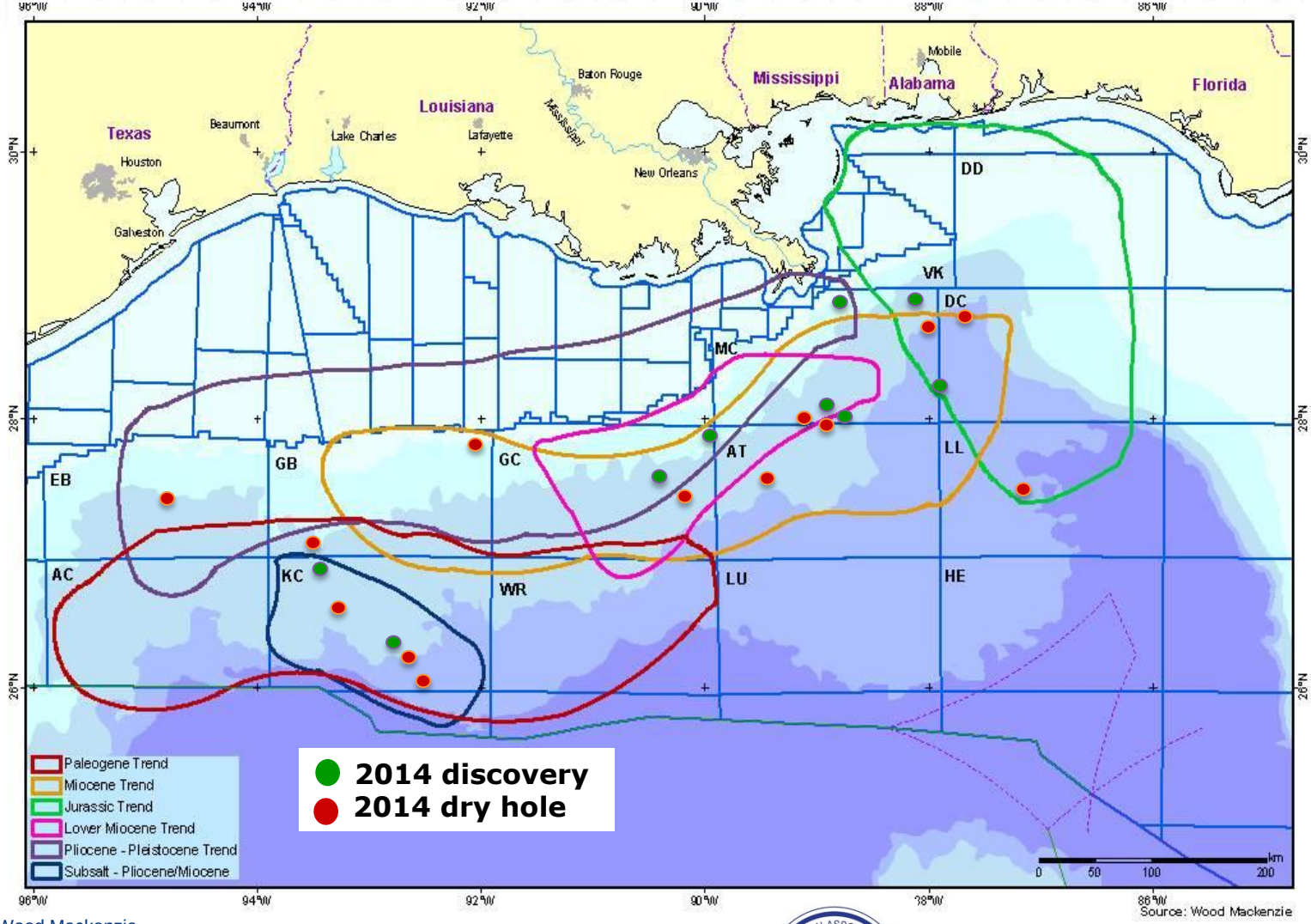
Conventional new field resources by year of discovery well completion. ROW is global excl Brazil and East Africa offshore.

Exploration success rates



Source: Wood Mackenzie

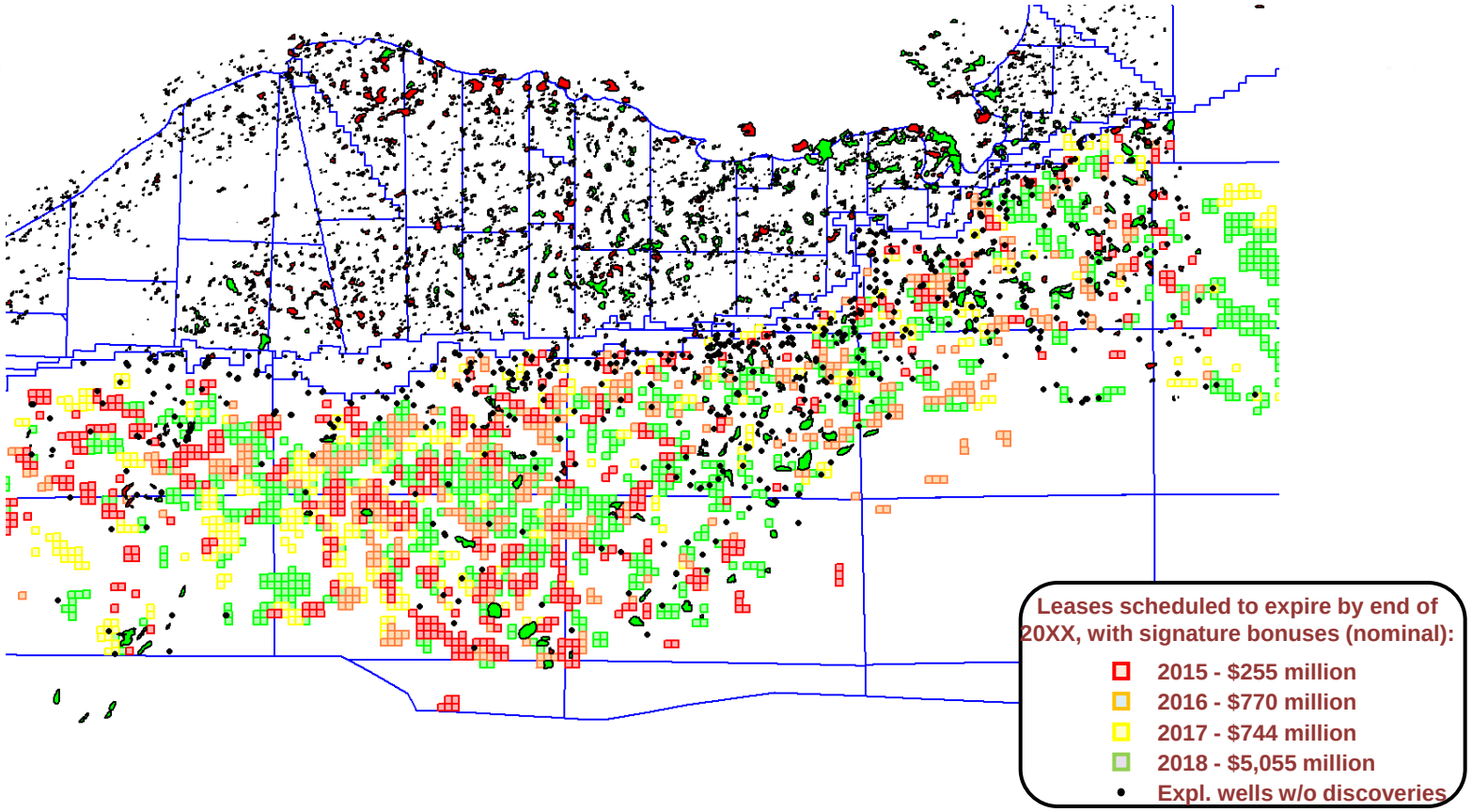
Infrastructure-led exploration success has been the story this year



Source: Wood Mackenzie

As acreage continues to roll, operators prepare for heightened Lease Sale activity

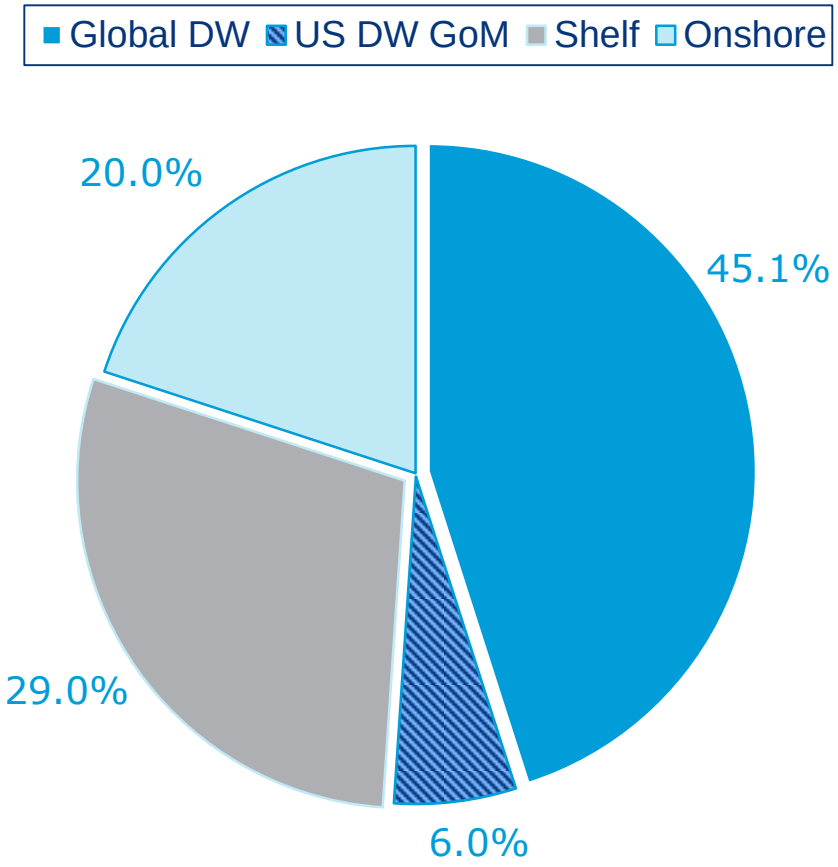
Acreage set to expire 2015-2018



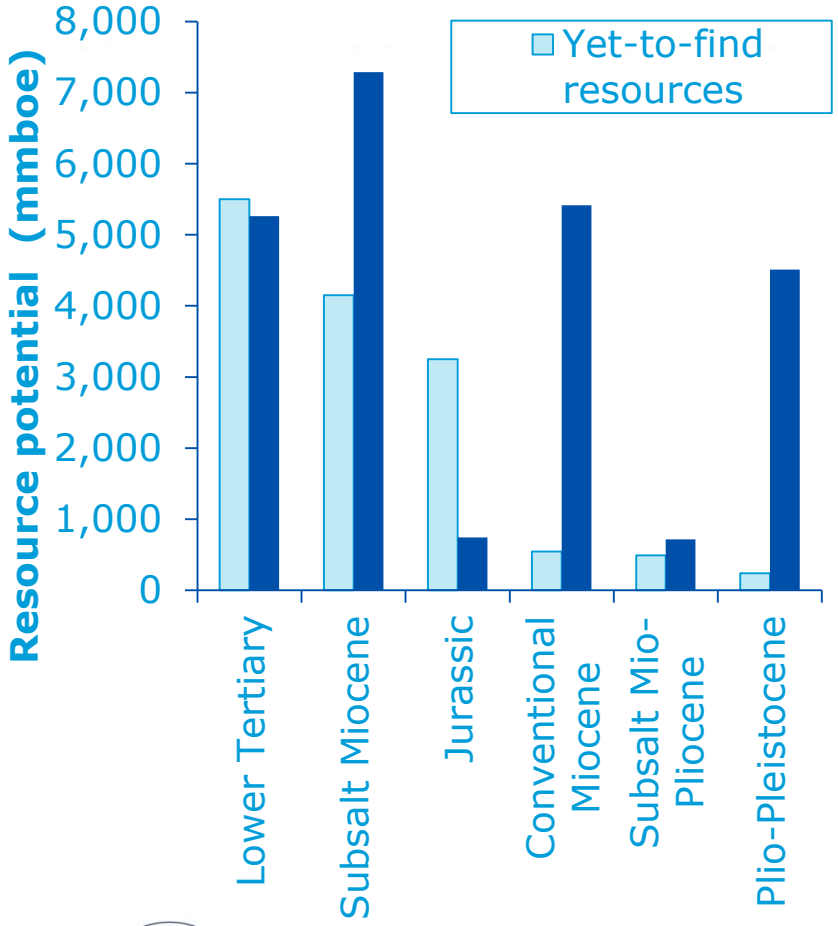
Source: Wood Mackenzie

Deepwater is over 50% of conventional yet-to-find volumes globally

Yet-to-find volumes by shore status



US DW GoM reserves and yet-to-find by play



Source: Wood Mackenzie

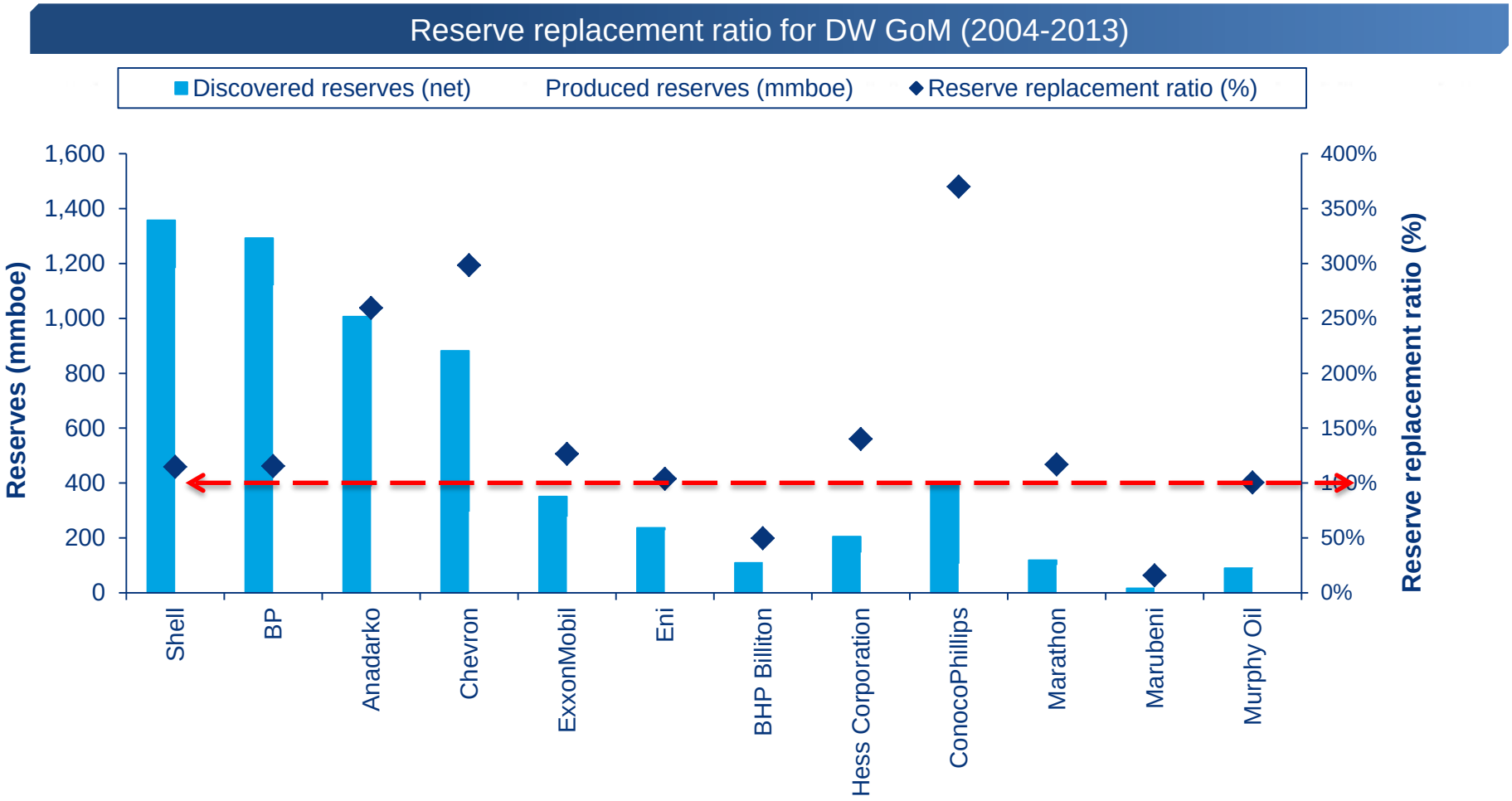
Agenda

1. US GoM deepwater activity slowing down?

2. Company performance – US GoM deepwater contribution

3. Exploration outlook – the volume to value shift

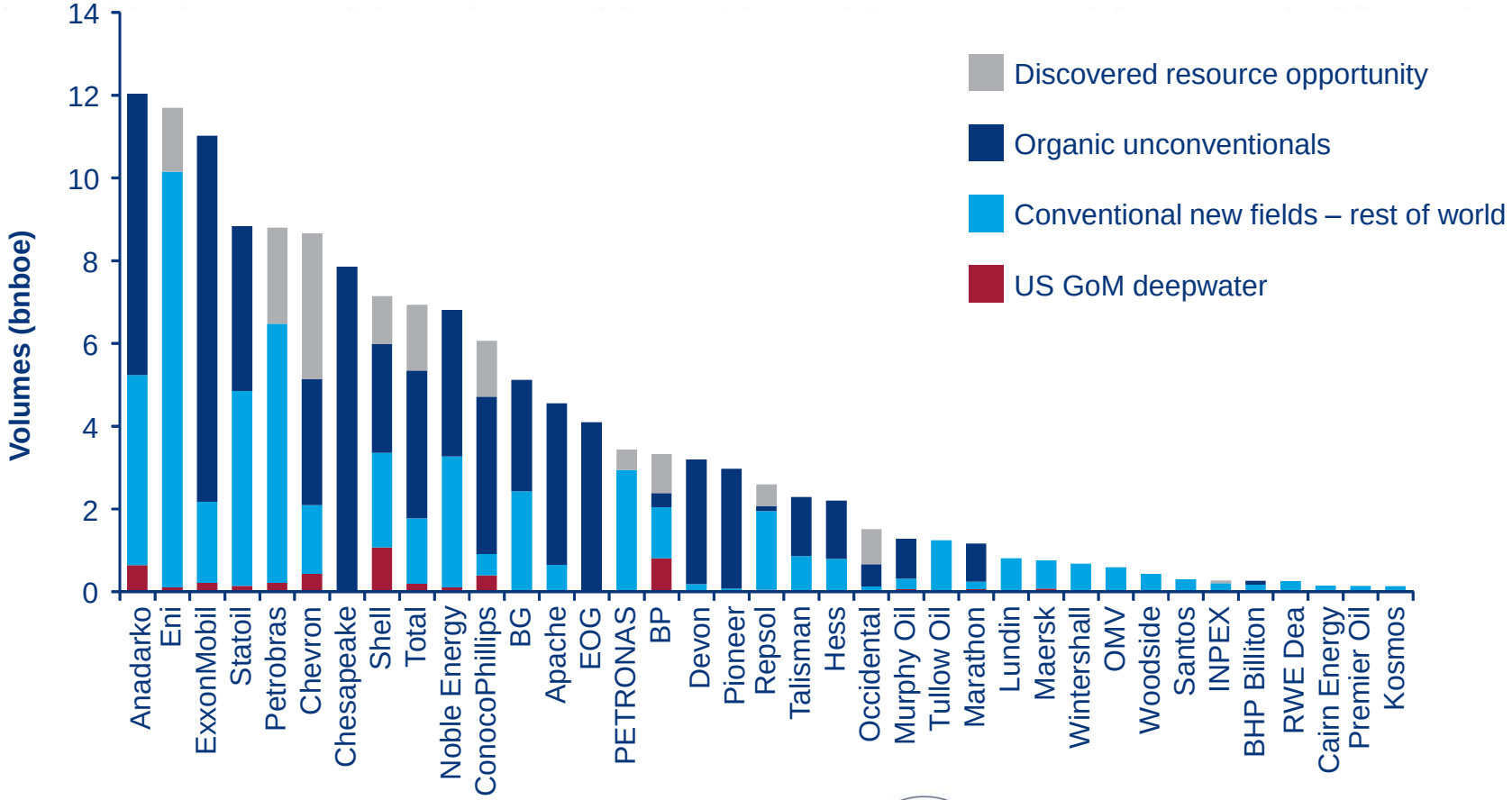
Ten year view shows bulk of operators replacing reserves



Source: Wood Mackenzie

5-year exploration performance benchmarking
Unconventionals eclipse US GoM deepwater in drive for growth

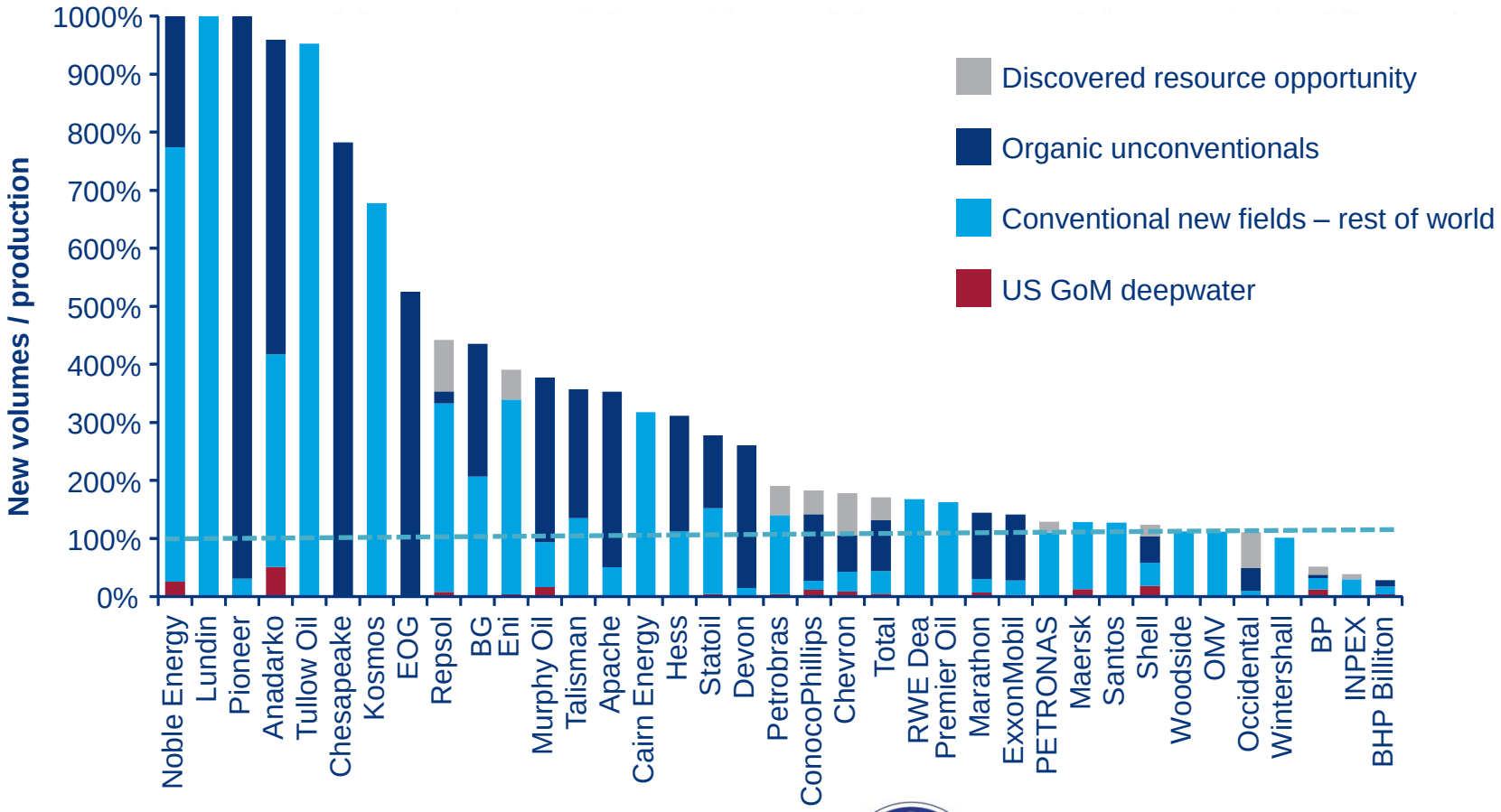
Organic volume additions of leading explorers (2009-2013)



Source: Wood Mackenzie Exploration Service Corporate Benchmarking Report, September 2(

5-year exploration performance benchmarking
The majority have achieved full organic reserve replacement

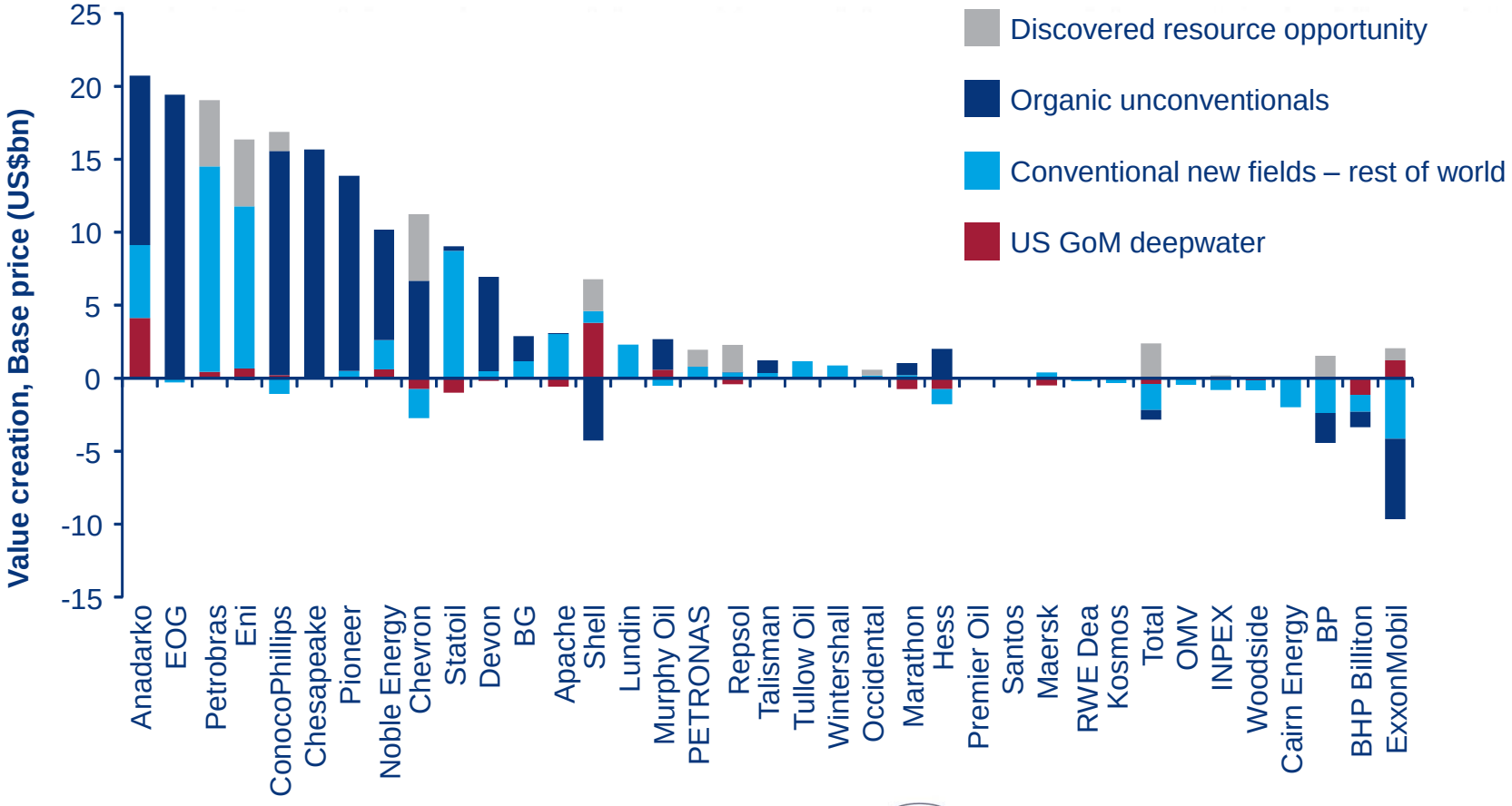
Reserve replacement ratio from new fields, organic unconventionals & DROs (2009-2013)



Source: Wood Mackenzie Exploration Service Corporate Benchmarking Report, September 20

Exploration performance benchmarking reveals the challenge of creating value

Value creation from new fields, organic unconventionals and DROs (2009-2013)



Source: Wood Mackenzie Exploration Service Corporate Benchmarking Report, September 2(

Agenda

1. US GoM deepwater activity slowing down?

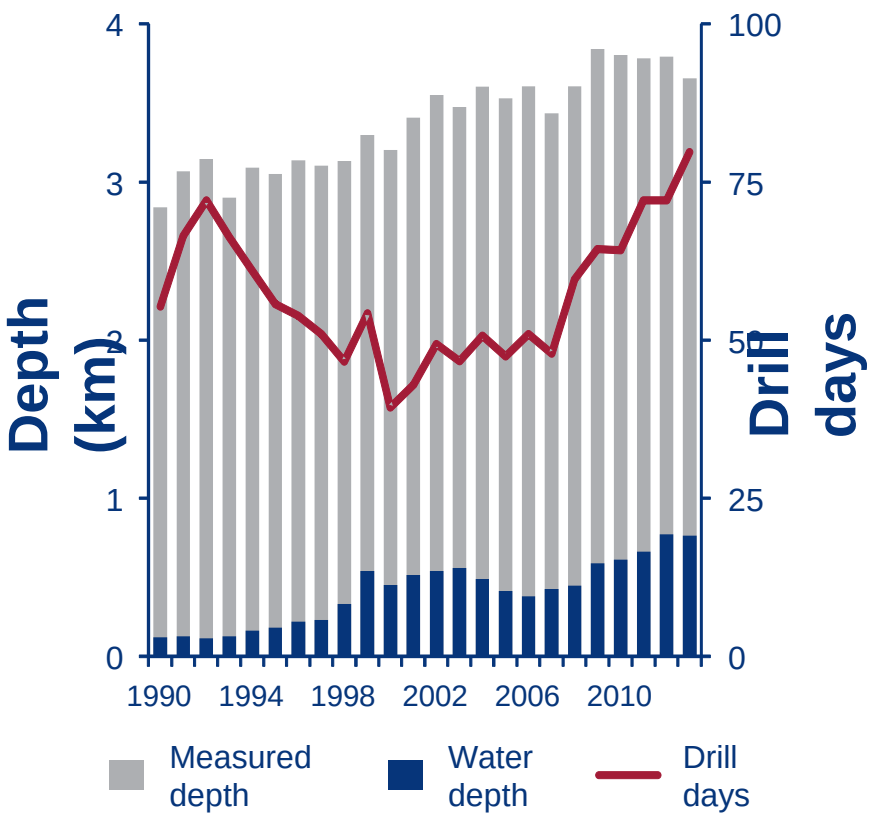
2. Company performance – US GoM deepwater contribution

3. Exploration outlook – the volume to value shift

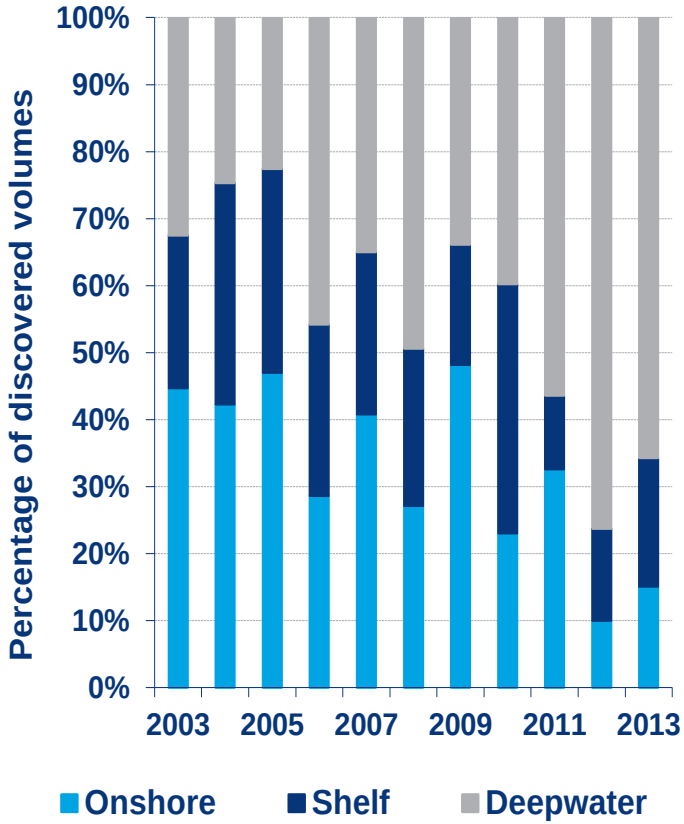
Explorers must drill to deeper targets and/or in deeper water

Number of drilling days per offshore well has increased sharply since 2000

Global offshore exploration well trends



New discovery volumes by water depth

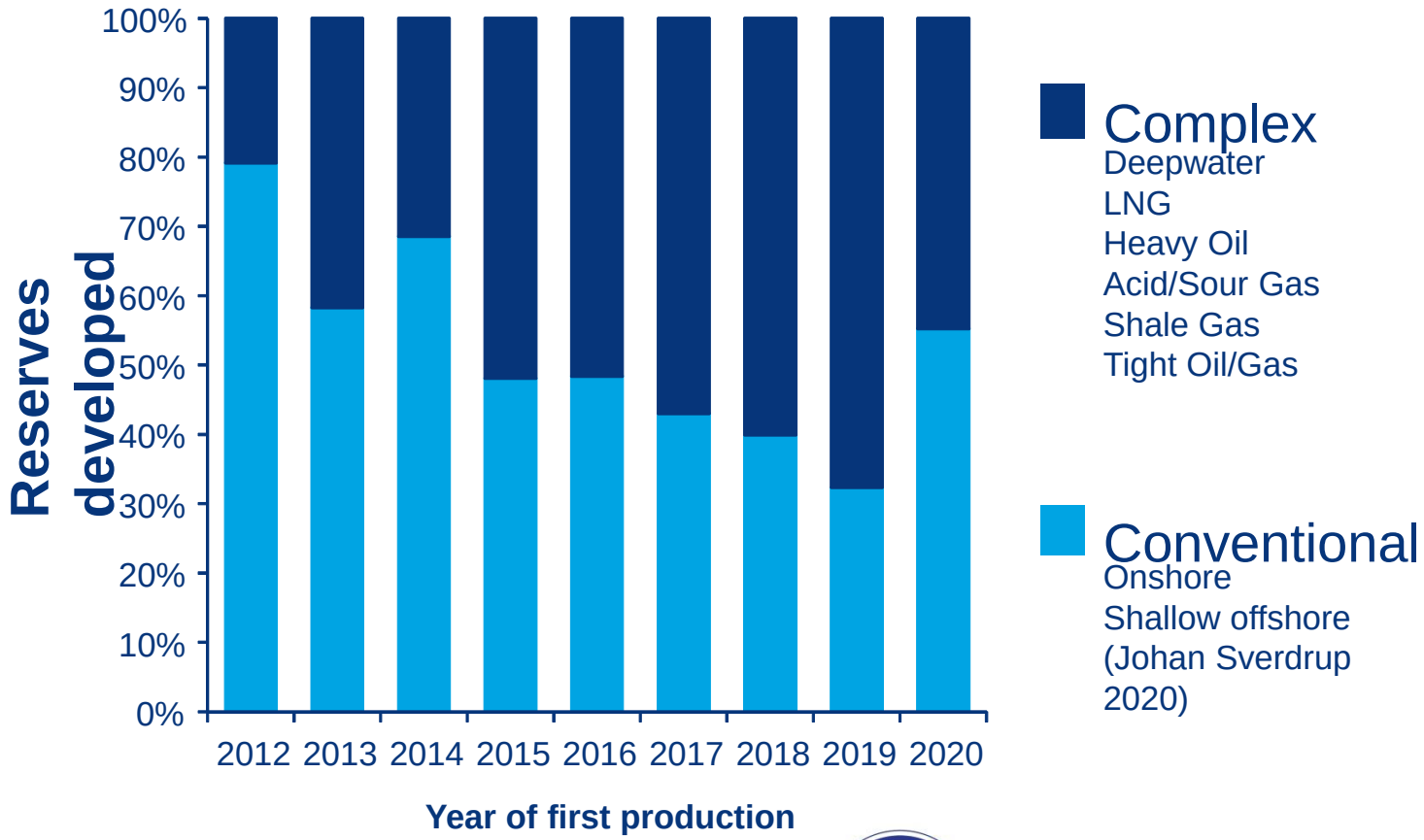


Source: Wood Mackenzie Exploration Service

Complexity is increasing – a global upstream issue

Rising technical and commercial complexity has not been matched by higher prices

New developments by conventional (“easy”) and complex (“hard”) resource themes

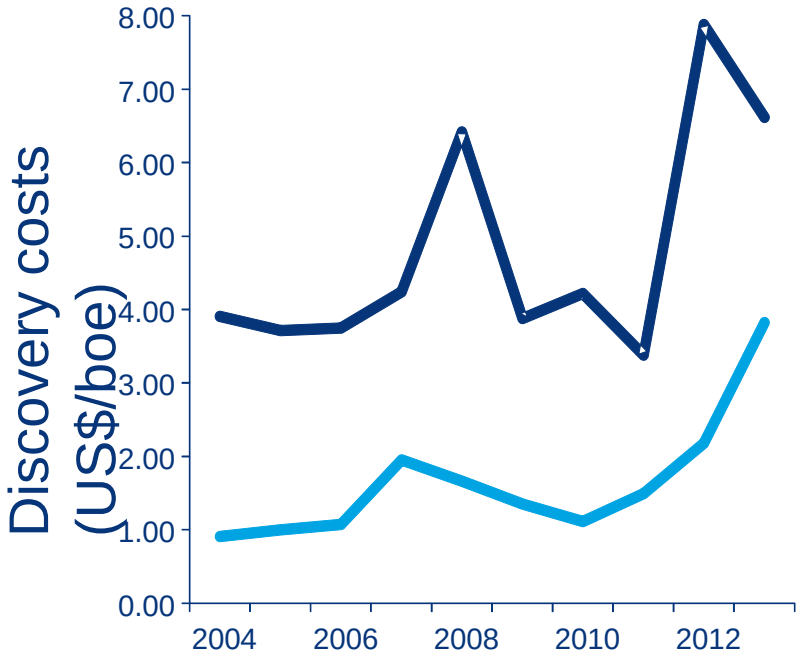


Source: Wood Mackenzie Exploration Service

The exploration and development industry is under stress

Higher costs have supressed returns – US GoM deepwater has not escaped this trend

Resource discovery costs



Full-cycle exploration returns

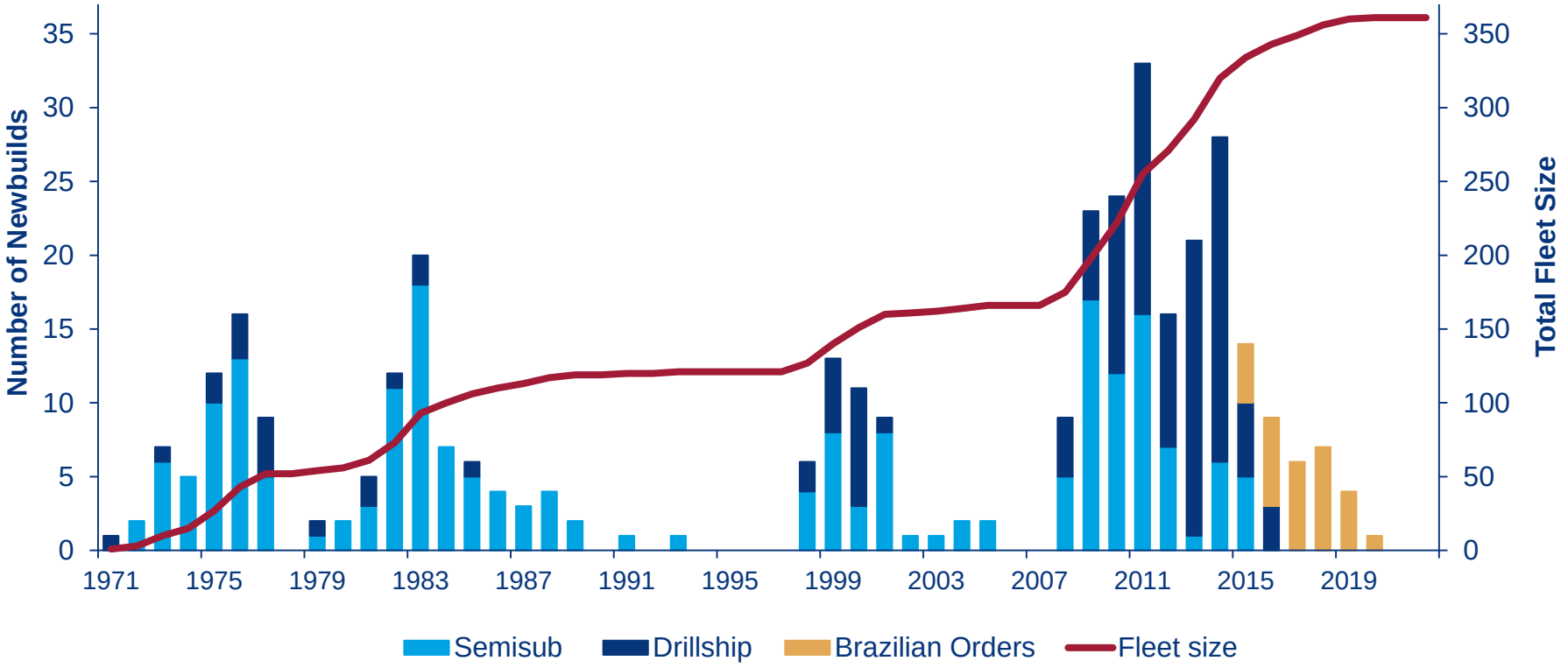
Global US GoM deepwater

Source: Wood Mackenzie Exploration Service. Discovery costs exclude appraisal. Returns at US$105/bbl Brent price scenario. US GoM costs are 3 year rolling average.

Where are exploration costs headed?

Increased supply is softening leading-edge rates for high-spec deepwater rigs

Deepwater rig fleet by delivery year

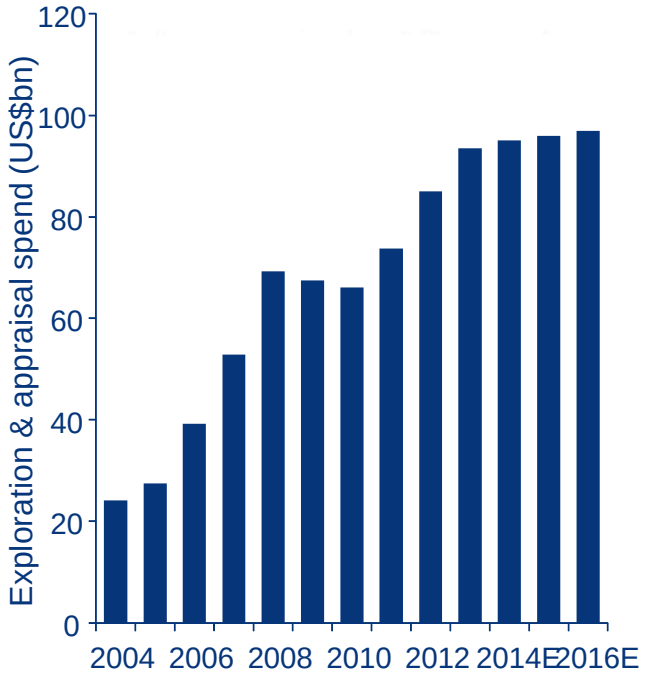


Source: Wood Mackenzie, RigLogix.

Some implications of the shift from volume to value
US GoM deepwater fits with a more cautious industry trajectory

Exploration themes	
Rising	**Falling**
Short term, existing ventures	Long term, new ventures
Emerging and mature basins	Frontier basins
Appraisal of promising recent discoveries	High cost, long lead time geophysics
Deepwater oil plays – US Gulf of Mexico, Atlantic transform margin, West Africa pre-salt, Canada Grand Banks	Arctic basins
Onshore oil plays – East Africa rifts	Long-term LNG plays
Early and high recovery of exploration spend against existing revenues – Norway	High cost deepwater gas
Proven liquids-rich unconventional plays	Unproven and internatio unconventionals

Conventional exploration spend



HOUSTON ASSOCIATION OF PROFESSIONAL LANDMEN HAPL

Wood Mackenzie

DW GoM players fuel growth with different exploration strategies

Cobalt International Energy	noble energy	Freeport-McMoRan	INPEX	Marubeni America Corporation
Organic explorer (high-impact)	Organic explorer (low-risk)	M&A/Organic explorer	Passive explorer	Acquirer
• First-movers advantage in building an acreage position in ILT • Focused on two play-types with cross-pollination between basins	• Targeting low-risk amplitude Miocene prospects • Subsea tie-back business model leads to shorter lead times, lower capex and higher returns	• Balances a mix of frontier wildcats with near-field exploration • Invests heavily in lease sales and upside potential in asset deals	• Enters DW GoM through acreage farm-in leading to ILT discovery • Farms-in to Lucius post-FID, reducing great deal of uncertainty	• Purchased distressed assets post-Macondo • Forms partnerships with experienced GoM operators reducing lead-time and capex

Summary – US GoM deepwater exploration trends and challenges

- **The global conventional exploration industry is under some stress**
  - Costs are the issue, not volumes
  - US GoM deepwater has not avoided this issue

- **Impact of unconventional plays**
  - Very important for volumes but can more companies unlock value?

- **The volume to value shift**
  - A more cautious trajectory across the industry
  - Widespread access opportunity in a buyer's market?

Q&A

Disclaimer

- **Strictly Private & Confidential**

- This presentation has been prepared for the HAPL 2014 Seminar on 13 November 2014 by Wood Mackenzie. The report is intended solely for the benefit of attendees and its contents and conclusions are confidential and may not be disclosed to any other persons or companies without Wood Mackenzie's prior written permission.
- The information upon which this presentation comes from our own experience, knowledge and databases. The opinions expressed in this report are those of Wood Mackenzie. They have been arrived at following careful consideration and enquiry but we do not guarantee their fairness, completeness or accuracy. The opinions, as of this date, are subject to change. We do not accept any liability for your reliance upon them.

Europe	+44 131 243 4400
Americas	+1 713 470 1600
Asia Pacific	+65 6518 0800
Email	contactus@woodmac.com
Website	www.woodmac.com

INVESTORS IN PEOPLE | Gold

POE LEGGETTE

BakerHostetler

Poe has published several articles on OCS development which you can find listed on his web biography. He is currently representing the Independent Petroleum Association of America on the subject matter of his presentation today, though he emphasizes that his remarks here are solely his own views and not those of IPAA or its members.

Poe Leggette is a partner with Baker Hostetler, dividing time between its Denver and Houston offices. He is national co-head of the firm's Energy Team.

Poe is a 1977 graduate of the University of Virginia School of Law. He is licensed to practice in Washington DC, Ohio, Pennsylvania, Wyoming, Colorado, and (starting in a month) Texas. As of last Tuesday, Poe has taken up a new hobby: ghost-writing energy legislation for the next Congress.

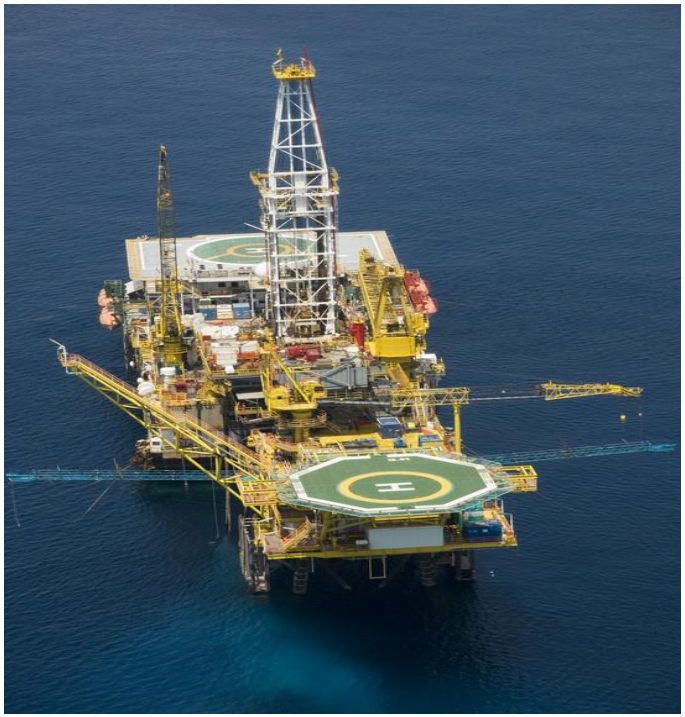
CAREY GAGNON

BakerHostetler

Carey Gagnon joined Baker Hostetler's Energy Team in August of 2014. She previously worked as an Assistant and Acting County Attorney in Garfield County, Colorado – which is located on the western slope of the Rocky Mountains and is the second largest oil and gas producing County in the State. Because of this experience she has a particular interest in the interplay among federal, state and local regulations.

Carey graduated from the University of Denver College of Law in 2003. She has been working with Poe on matters related to oil and gas development in the Outer Continental Shelf since joining Baker Hostetler. And although Colorado is now a land locked state, Carey is quick to point out that it did have ocean-front property during the Precambrian Era.

BakerHostetler



BOEM's Financial Responsibility Proposed Rulemaking

HAPL Offshore Seminar – November 13, 2014

L. Poe Leggette
Carey R. Gagnon

BOEM's Present Practices

- Decommissioning liability accrues when:
  - wells are drilled
  - platforms built
  - pipelines laid
- Joint and several liability
  - The current regulations treat all lessees, operators, and operating rights interest owners as jointly and severally liable for all lease obligations.

General Bonding

BakerHostetler

	Lease or Lease Assignment (No Operations, No Activity)	Lease Exploration Activities (Exploration Plan, Wells)	Lease Development and Production Activities (Submitting or significant revision of DOCD or DPP)
Lease specific bond	$50,000	$200,000	$500,000
Company areawide bond	$300,000	$1,000,000	$3,000,000
Timing	Before BOEM issues a new lease or approves the assignment of an existing lease	(a) The date you submit a proposed EP for approval; or (b) The date you submit a request for approval of the assignment of a lease on which an EP has been approved.	(a) The date you submit a proposed DPP or DOCD for approval; or (b) The date you submit a request for approval of the assignment of a lease on which a DPP or DOCD has been approved.

Supplemental Bonding

- Exempt v. Non-Exempt
  - Companies which demonstrate a threshold of financial strength and reliability may receive an exemption from the supplemental bonding requirement.
  - Notice to Lessees No. 2008-N07, *Supplemental Bond Procedures* (August 28, 2008)

Exemption Eligibility

- Step 1: Independently audited Net Worth ≥ $65 million
- Step 2: Cumulative Decommissioning Liability <= 50% of Net Worth
- Step 3: Demonstrated Reliability

Exemption Eligibility

- Step 4: Either:
  - GOM production in excess of an average of 20,000 BOE per day; or
  - Total liabilities/net worth ratio

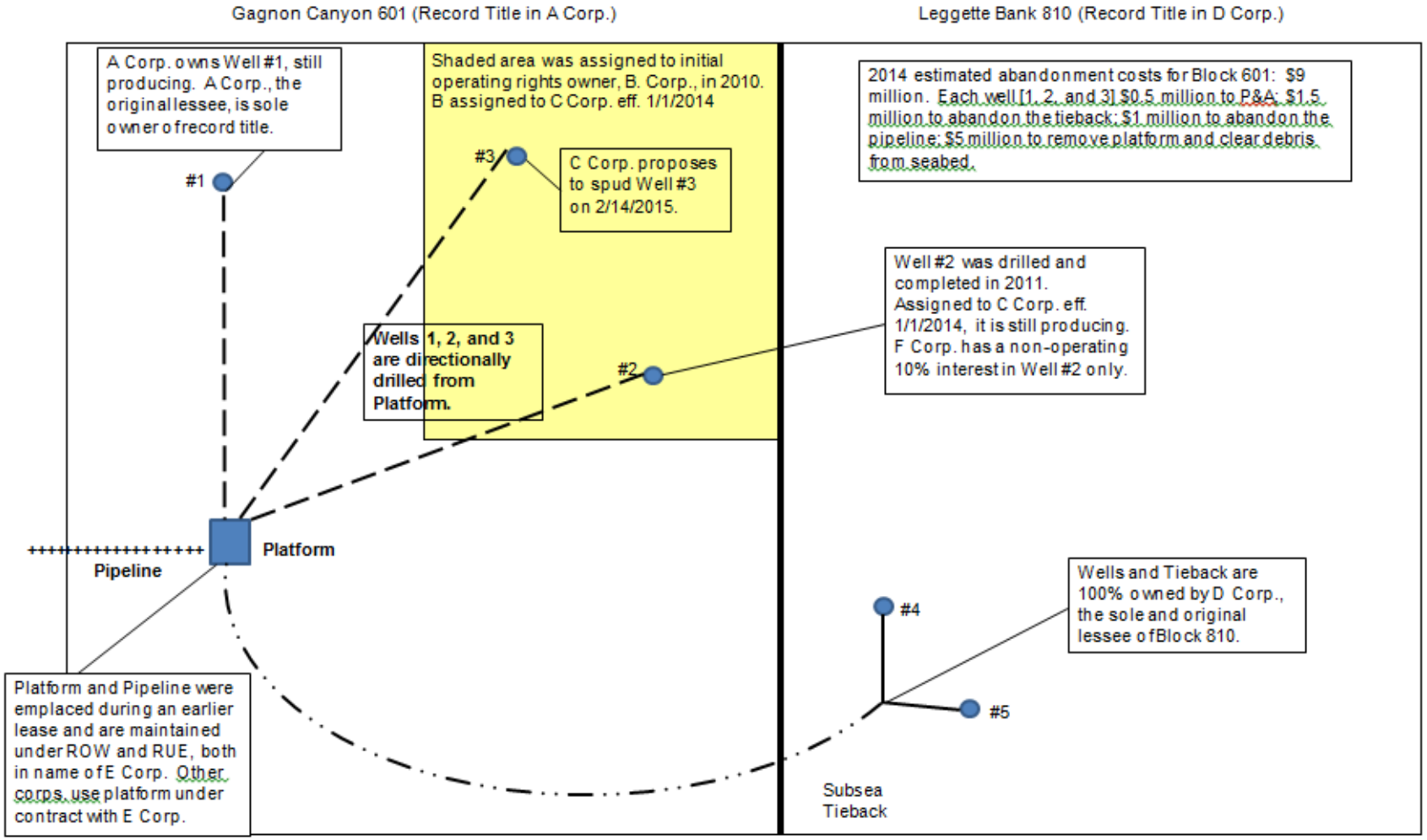
For lessees with stockholders' equity or net worth of:	If the lessee's cumulative potential decommissioning liability is ≤ 25 percent of stockholder's equity or net worth, the lessee's debt to equity ratio (total liabilities/net worth) must be:	If the lessee's cumulative potential decommissioning liability is >25 percent but ≤ 50 percent of stockholder's equity or net worth, the lessee's debt to equity ratio (total liabilities/net worth) must be:
$65 Million to $100 Million	≤ 2.5	≤ 2.0
Above $100 Million	≤ 3.0	≤ 2.5

Supplemental Bond Amount

- Calculating the Bond Amount
  - Determine decommissioning liability
  - Apply lease-specific bonds
  - Exclude financially capable co-lessees
  - Apply financial strength and reliability analysis

How does this work?

BakerHostetler



BOEM's Advance Notice of Proposed Rulemaking

BakerHostetler

- Risk Management, Financial Assurance and Loss Prevention

"Due to increasingly complex business, functional, organizational and financial issues and vast differences in costs associated with expanded and varied offshore activities, BOEM has recognized the need to develop a comprehensive program to assist in identifying, prioritizing, and managing the risks associated with industry activities on the OCS."

79 Fed. Reg. 49,027 (August 19, 2014)

Pacific OCS Region

Esri, DeLorme, FAO, USGS, EPA, NPS | MarineCadastre.gov

Pacific OCS Region

- Updated Cost Report
  - NTL No. 2010-P05
  - Proserv Offshore, Decommissioning Cost Update for Removing Pacific OCS Region Offshore Oil and Gas Facilities (January 2010).
  - Assumptions
  - Complete removal of platforms
  - Pipelines abandoned in place

Pacific OCS Region

- $1.2 Billion to Remove all 23 Platforms

  - Fixed platforms means direct relationship between location, weight and removal cost

    - Deep - $150 million
    - Shallow - $12 to $35 million
    - Middle - $88 million

Pacific OCS Region

BakerHostetler

- 15% of the total cost is barge mobilization ($180 million of $1.2 billion)

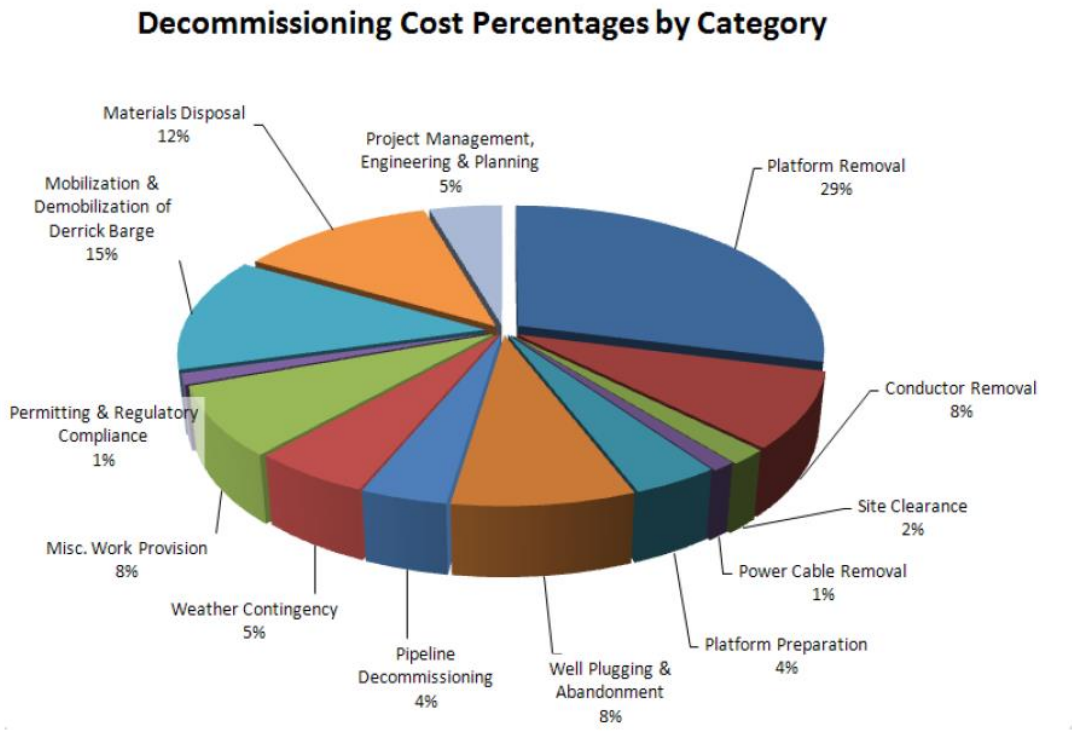
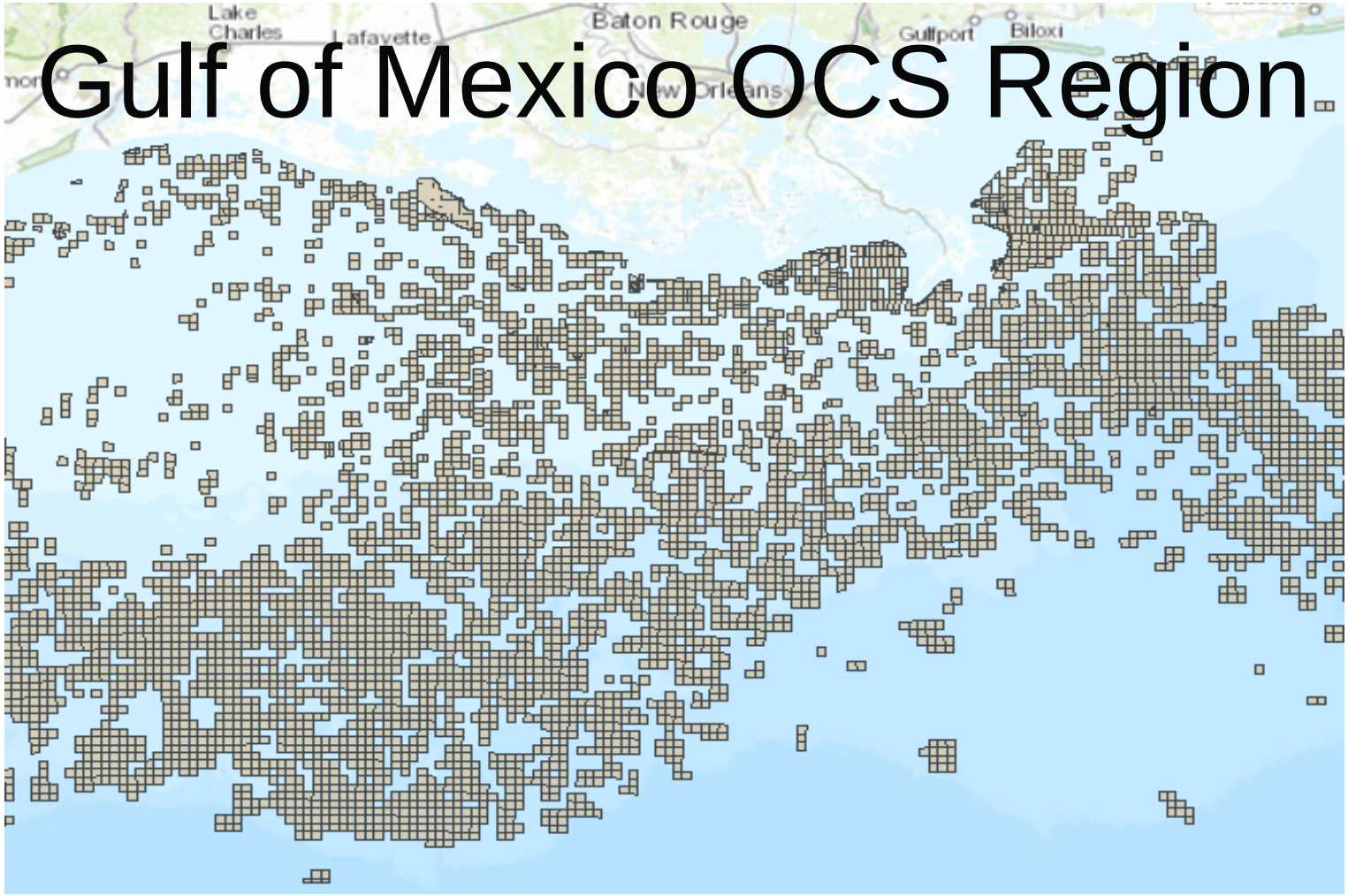


Figure E.1. Decommissioning Cost Percentages by Category

Gulf of Mexico OCS Region

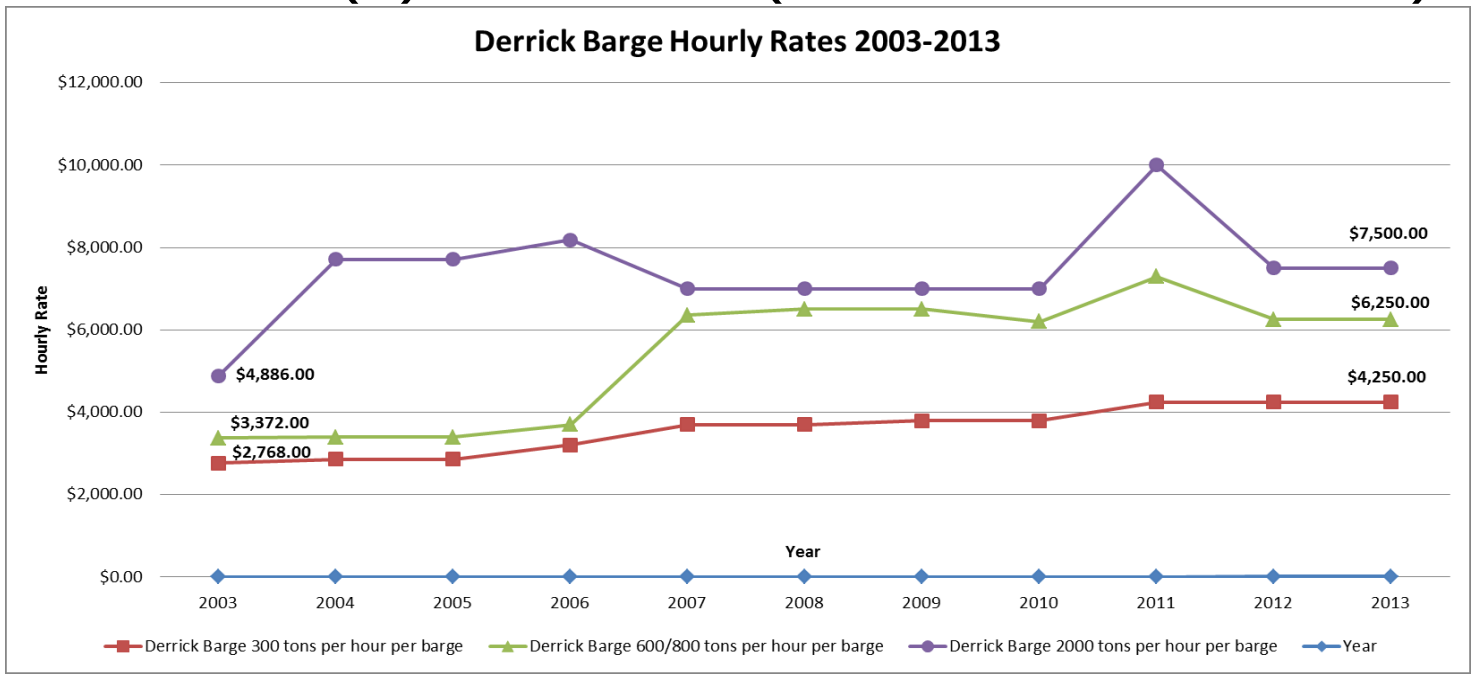


Esri, DeLorme, FAO, USGS, NOAA, EPA, NPS | MarineCadastre.gov

Gulf of Mexico OCS Region

BakerHostetler

- Three Complicating Events:
  - (1) Idle Iron (NTL No. 2010-G05)



Gulf of Mexico OCS Region

BakerHostetler

- Three Complicating Events:
  - (2) ATP Bankruptcy

B 10 (Official Form 10) (04/07)

UNITED STATES BANKRUPTCY COURT FOR THE SOUTHERN DISTRICT OF TEXAS	ADMINISTRATIVE EXPENSE REQUEST FORM
Name of Debtor **ATP Oil & Gas Corporation**	Case Number **12-36187**

IMPORTANT: THIS FORM SHOULD ONLY BE USED TO MAKE A REQUEST FOR PAYMENT OF AN ADMINISTRAT ARISING ON OR AFTER AUGUST 17, 2012 (THE "] YOU HAVE ALREADY FILED A PROOF OF CLAI OBLIGATION INCURRED BEFORE THE PETITIO NEED TO RETURN THIS FORM *UNLESS* YOU AL ADMINISTRATIVE CLAIM THAT AROSE ON OR DATE.

Name of Creditor (The person or other entity to whom the debtor owes money or property):
BUREAU OF SAFETY AND ENVIRONMENTAL ENFORCEMENT BSEE

Name and address where notices should be sent:

2. Date debt was incurred:	3. If court judgment, date obtained:
When ATP rejects those Leases, ROWs, and RUEs listed on attached sheet.	

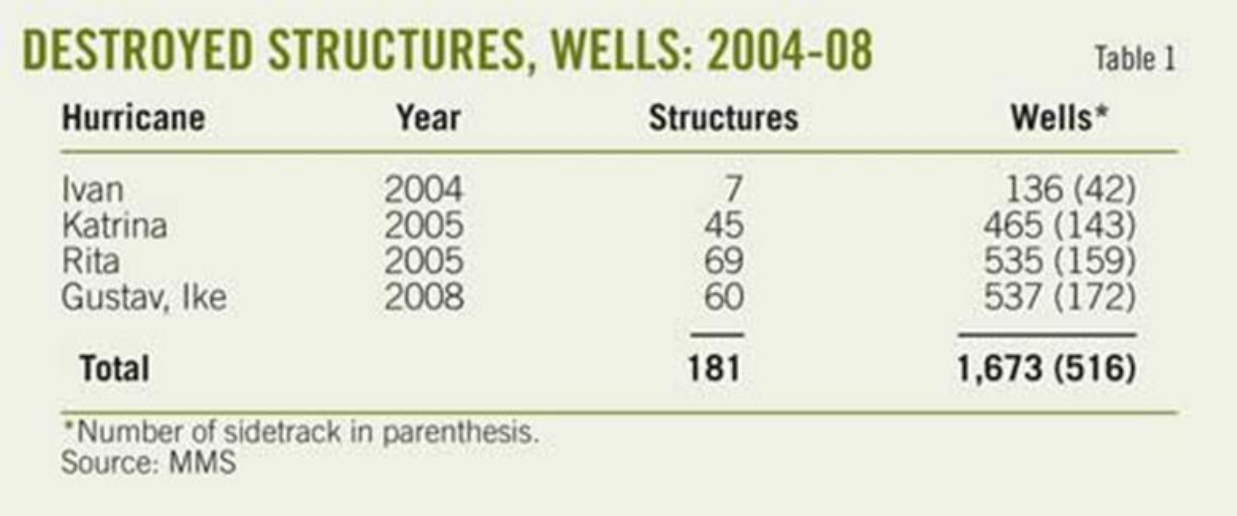
4. Total Amount of Administrative Expense: $ 61,181,370.00

☐ Check this box if claim includes interest or other charges in addition to the principal amount of the Administrative Expense. Attach an itemized statement of all interest or additional charges.

5. Brief Description of Administrative Expense (attach any additional information)
Prospective costs for decommissioning Leases, Rights of Way (ROWs), and Rights of Use and Easement (RUEs) that were not part of the assetsale to Bennu Oil & Gas LLC and are anticipated to be rejected by ATP. This claim is made to preserve the rights of the United States to set off in ATP Oil & Gas Corp. v. United States, Case No. 12-cv-379 (Fed. Cl.). See attached list of Leases, ROWs and RUEs with associated decommissioning costs.

Gulf of Mexico OCS Region

- Three Complicating Events:
  - (3) Hurricane Ivan and Taylor Energy's MC20 Platform

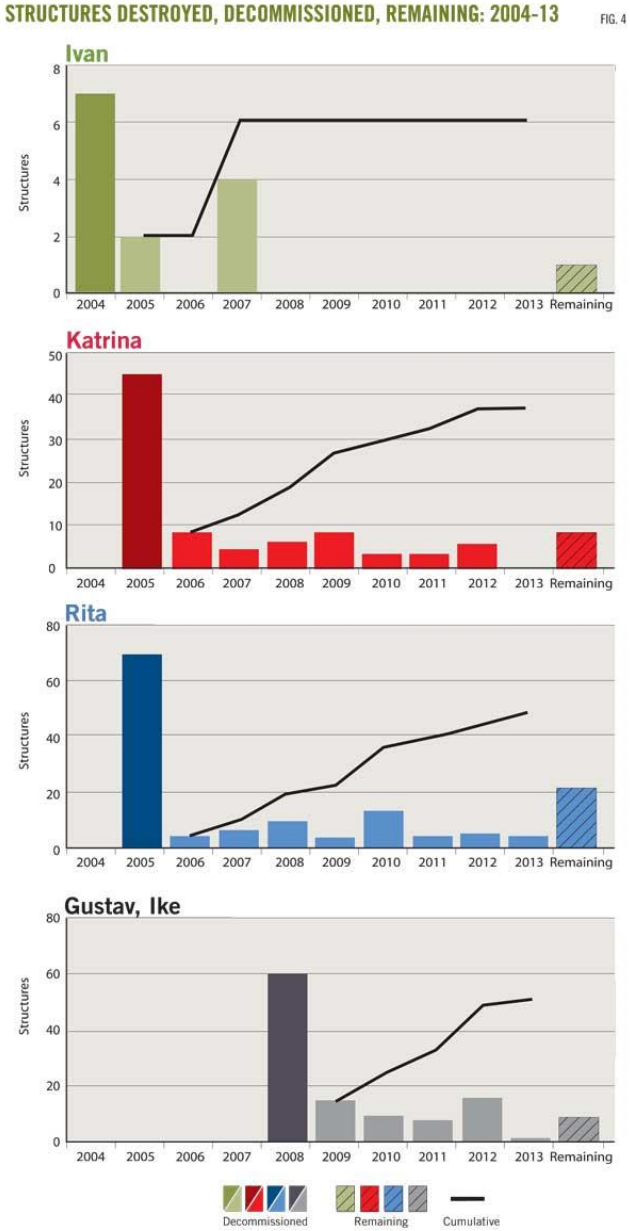


DESTROYED STRUCTURES, WELLS: 2004-08 Table 1

Hurricane	Year	Structures	Wells*
Ivan	2004	7	136 (42)
Katrina	2005	45	465 (143)
Rita	2005	69	535 (159)
Gustav, Ike	2008	60	537 (172)
Total		**181**	**1,673 (516)**

*Number of sidetrack in parenthesis.
Source: MMS

Source: Mark J. Kaiser, *Gulf cleanup continues after five major hurricanes*, Oil & Gas Journal (July 7, 2014).



Source: Mark J. Kaiser, *Gulf cleanup continues after five major hurricanes*, Oil & Gas Journal (July 7, 2014).

- Inadequate response?
- Government expenditure to decommission?

Recommendation No. 1

- Allocation
  - When determining “cumulative decommissioning liability” for purposes of exemption from supplemental bonding, limit liability to the company’s proportionate share of lease ownership.

Recommendation No. 2

- Credit for Existing Escrow
  - When assessing exemption eligibility give companies credit for security in place for cumulative abandonment obligations.

Recommendation No.3

- Revise Metrics for Cumulative Decommissioning Liability
  - Cumulative decommissioning liability must be less than or equal to 50% of Adjusted Net Worth (defined as GAAP based Shareholders' Equity + Current and Long-term ARO Liability) *OR*
  - Cumulative Decommissioning Liability <= 100% of Adjusted Net Worth (defined as GAAP based Shareholders' Equity + Current and Long-term ARO Liability); and
  - "Adjusted Debt" to "EBITDA(X)" ratio < 4.0x; and
  - EBITDA(X) to "Cash Interest Expense" ratio > 3.0x.

Recommendation No. 4

- Bonding Only Incremental Value for Exempt Status
  - Permit companies to bond the delta between the company's actual net worth and the net worth thresholds set forth in NTL No. 2008-N07.

Recommendation No. 5

- Access to Bonds and Release of Bonds
  - Make supplemental bonds available to those who share in joint and several liability so they can be used towards proper abandonment.

Recommendation No. 6

- Timing
  - Tie supplemental bonding requirements to accrual of decommissioning liability – i.e. at the time the operator files for a final APD or final authorization before emplacing a facility.

Recommendation No. 7

- Amount
  - Adopt a methodology for calculating supplemental bonding amount like that set forth in FASB 143 under which BOEM would:
    - Look at when the asset/platform is likely to be no longer used and need to be decommissioned; and
    - Estimate the cost of decommissioning at that time using a discount rate to bring that back to present value.

Recommendation No. 8

- The “Catastrophic Event” Concern
  - Not one federal dollar has been spent on the P&A of well or removal of platforms following the five hurricanes which hit the Gulf of Mexico between 2004 and 2008.

BakerHostetler

Atlanta
Chicago
Cincinnati
Cleveland
Columbus
Costa Mesa
Denver
Houston
Los Angeles
New York
Orlando
Philadelphia
Seattle
Washington, DC

www.bakerlaw.com

BakerHostetler®

JOSHUA JOYCE

US Department of the Interior, Bureau of Ocean Energy Management
New Orleans, Louisiana

Joshua Joyce is a member of the Risk Management Operations Group of the United States Department of the Interior, Bureau of Ocean Energy Management. Joshua has been with the Department of the Interior for nine years, following a Legal Intern position with the United States Environmental Protection Agency. Prior to graduating from Loyola University College of Law, with a specialization in Environmental Law, Joshua spent five years in the oil and gas industry, as a Fluid Engineer in the field before being promoted to the company's global headquarters in Houston, Texas. Joshua earned a Bachelor of Science in Environmental Management and a Minor in Chemistry from Louisiana State University. Throughout his career, Joshua has collaborated and continues to collaborate with Federal, State, and Municipal agencies; foreign governments; private industries; academic institutions; and nonprofit/nongovernmental organizations.

BOEM
Bureau of Ocean Energy Management

Financial Assurance and Risk Management

HAPL Offshore Seminar
Joshua Joyce
November 13, 2014
Houston, Texas

BOEM
Bureau of Ocean Energy Management

Reminder of Underlying Causes of U.S. Offshore Financial Risk Management Concerns

- **Contingent liabilities on the U.S. OCS are large and increasing - just one component of such liability, "routine" decommissioning in the Gulf of Mexico, is estimated between *$40-50 billion.***

- **Existing infrastructure is aging - BSEE records indicate 286 platforms currently fit idle iron criteria in the GOMR.**

- **Arctic infrastructure is in its infancy - this is a valuable opportunity to get it right. Operational and decommissioning costs are high, rivaling deepwater Gulf of Mexico costs.**

- **Characteristics of the types of companies operating on the OCS have changed.**
  - **Large companies transfer sunset properties to smaller, less experienced companies.**
  - **Less experienced companies are entering the decommissioning market.**

- **Existing infrastructure is aging - BSEE records indicate 286 platforms currently fit idle iron criteria in the GOMR.**

- **Technological advances are outpacing regulations, policies, and programs.**
  - **The current bonding regulations were last published in 1993 and 1997.**

- **Lack of industry/governmental expertise in subsea decommissioning.**

BOEM
Bureau of Ocean Energy Management

As a result of those concerns…

BOEM has been very actively engaged over the last year in developing a more robust financial risk management program, which will accomplish the following high level over-arching objectives:

- **Decrease costs/risks to taxpayers from end-of-life/ownership issues, non-payment of royalties and rents, risky business practices, bankruptcies, and catastrophic risks.**

- **Provide a fair, equitable and transparent approach to financial risk management that is understood by stakeholders and assists in the effective implementation of appropriate and cost-effective financial risk management and loss prevention techniques.**

BOEM Risk Management Program Structure and Overall Framework

- **The program is structured to divide principal responsibilities between BOEM's headquarters overseeing regulatory and policy development functions and BOEM's regions overseeing operational risk management activities.**

- **Incorporates updated risk analysis regarding the financial status of individual companies and/or projects (measured principally by liquidity), Health, Safety and Environmental (HSE) practices, relevant insurance portfolios, etc.**

- **Makes risk recommendations to senior management through a regular risk committee meeting process.**

Stakeholder Input for Rulemaking

- **BOEM received and analyzed various industry association comments received after the May 23, 2013 bonding forum.**

- **BOEM determined a need for additional/widespread stakeholder consultation regarding questions and improvement opportunities for its financial risk management program.**

- **On August 19, 2014, BOEM published in the *Federal Register* an advance notice of proposed rulemaking (ANPR), which seeks stakeholder comments on a wide variety of financial risk management issues, and concerns related to offshore energy development on the OCS.**

- **The ANPR includes specific questions in four major areas of interest to BOEM: (1) Identification of risks/liabilities; (2) Short term or periodic risk monitoring and management; (3) Demonstration of long term financial assurance; and (4) Proper assurance (perhaps bonding) for basic/minimum protection.**

- **The ANPR also:**

  - **Available via the internet at http://www.gpo.gov/fdsys/pkg/FR-2014-08-19/pdf/2014-19380.pdf.**
  - **Seeks comments on offshore oil and gas activities, as well as offshore renewable energy and hard minerals programs.**
  - **Solicits comments on best practices regarding both current and alternative forms of financial assurance.**
  - **Includes a 60-day comment period, which has been extended and will close at 11:59PM CDT on Nov. 17, 2014.**

- **After the ANPR comment period closes, BOEM will continue its outreach and plans to host a workshop with stakeholders to have additional opportunities for discussion as it considers options for proposed regulations.**

BOEM
Bureau of Ocean Energy Management

Guiding Principles in BOEM's Ongoing Development of its Financial Risk Management Program

- **Encourage utilization of a variety of risk management strategies and instruments.**
- **Establish clear communication channels with management to identify, reduce and control the impact of risks.**
- **Provide access to comprehensive and updated information/data regarding health of offshore oil and gas companies (legal, technical, safety, and financial).**
- **Safeguard stakeholders' interests by implementing loss mitigation practices.**

BOEM
Bureau of Ocean Energy Management

Specific Planned Activities for BOEM's Newly Developed Financial Risk Management Program Office

- **Solicit stakeholder comments via an Advance Notice of Proposed Rulemaking.**
- **Develop new comprehensive financial assurance regulations (not just bonding).**
- **Conduct and provide detailed, in-depth investigation, research and analyses necessary to support company-specific decision making processes and procedures of senior management.**
- **Conduct proactive and systematic company analyses in order to continually monitor companies doing business on the OCS.**
- **Incorporate sound and comprehensive project risk management practices into the program.**
- **Institute and monitor/enforce industry-developed financial assurance plans after Government review and approval.**
- **Assist management with offshore bankruptcy cases by participating in specific joint government/industry response plans.**

BOEM
Bureau of Ocean Energy Management

Preliminary Company/Project Analysis Parameters for Risk Committee Consideration

- **Financial and operational factors:**
  - **Operator cash flow**
  - **Debt-to-net present value of proved reserves**
  - **Water depth of facility**
  - **Age/type of facility**
  - **Operator experience**
  - **Insurance coverage**
  - **Site remoteness**
  - **Environmental sensitivity**
  - **Overall geographic spread of properties**

BOEM
Bureau of Ocean Energy Management

Some Preliminary Considerations in Evaluating a "Financial" Risk Profile

Company-specific financial risk factors:

- Debt to cash flow
- Debt to Capital
- Earnings Before Interest and Tax coverage

Company-specific business risk factors:

- Company size
- Cost competitiveness
- Volatility in the market
- Political risks
- Reserves from core operations (depleting reserves)
- Integration, diversity and size and royalty regime
- Regulatory and environmental factors
- Management of capital spending
- Overall corporate governance

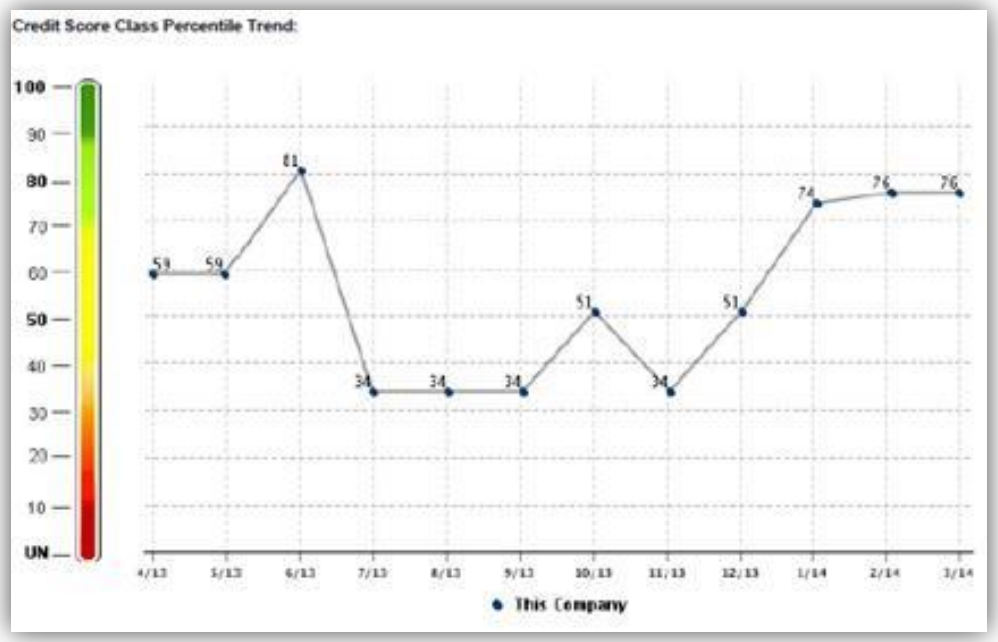
A company's financial risk must be considered along with the business risks it faces. For credit rating purposes, business risk carries more weight than financial risk.

BOEM
Bureau of Ocean Energy Management

Some Preliminary Considerations in Evaluating a "Company" Risk Profile

- **Utilization of full credit and business risk reports from Dun & Bradstreet, Moody's and/or Standard & Poor's includes information regarding:**

  - Corporate structure
  - Mergers and acquisitions
  - Liens
  - UCC filings
  - Litigation
  - Suspension or debarment
  - Violation of federal law, etc.



- **Relying on global credit and business reports allows immediate risk assessment and facilitates reasoned business decisions regarding financial assurance requirements in the global business economy**

BOEM
Bureau of Ocean Energy Management

Another Issue:
High Offshore Costs May Lead to Risky Cost Sharing Strategies

- **Two main types of OCS oil and gas property rights/interests in U.S.**
  - **Interests directly conveyed by the Government to lessees and operators (i.e., record title, operating rights).**
  - **Working interest conveyances between private parties (e.g., bought, sold, carried, pooled, unitized) without direct Government approval.**
- **Working interests may include, for example:**
  - **Overriding royalty interests**
  - **Production payment interests**
  - **Net profits interests**
- **Working interests are commonly used to spread the risk among private parties and make financing available to support the incredibly high costs of offshore production and development.**
- **Financial assurance is routinely required to protect Government-conveyed interests.**
- **BOEM must assess if private working interest conveyances warrant additional financial assurance.**

BOEM
Bureau of Ocean Energy Management

Synopsis of Planned Enhanced BOEM Review for Supplemental Financial Assurance

BOEM will require a company to provide and maintain supplemental financial assurance after considering the following matters:

- **Bureau of Safety and Environmental Enforcement's most current estimates of the company's cumulative potential decommissioning costs.**
- **The reliability, adequacy and sufficiency of the financial assurance already in place.**
- **The company's existing and prospective royalties, rentals, and other monetary obligations.**
- **Any unusual risk financial factors specifically pertaining to the company or one or more of its facilities/projects.**
- **Transfers of working interests, which move liability to a less reliable party or which result in unacceptable risk sharing results.**
- **Other relevant considerations--as they arise--including, but not limited to, those listed in BOEM regulation.**

BOEM
Bureau of Ocean Energy Management

Forms of Financial Assurance for Possible Consideration

- Payment Bonds
- Performance Bonds
- Insurance
- Captive Offshore Insurance
- Third Party Indemnity Agreements
- Treasury Notes
- Decommissioning Trust Agreements
- Signed Decommissioning Contracts
- Risk Pooling
- Packaged Financial Assurance

BOEM
Bureau of Ocean Energy Management

In Conclusion…

BOEM's mission is to manage the development of the nation's offshore energy and mineral resources in an environmentally and economically responsible manner.

BOEM's role is to encourage oil and gas development activities on the OCS to increase the nation's energy independence and promote U.S. taxpayers' interests, while simultaneously protecting natural resources and the environment.

BOEM strives to ensure appropriate procedural and operational safeguards without unduly discouraging exploration and development.