

**UNITED STATES DEPARTMENT OF THE INTERIOR  
MINERALS MANAGEMENT SERVICE**

NTL No. 2008-N07

Effective Date: 08-28-08

**NOTICE TO LESSEES AND OPERATORS OF FEDERAL OIL, GAS, AND  
SULFUR  
LEASES AND PIPELINE RIGHT-OF-WAY HOLDERS IN THE OUTER  
CONTINENTAL SHELF**

**Supplemental Bond Procedures**

The Minerals Management Service (MMS) is issuing this NTL to clarify the procedures and criteria MMS uses to determine when a supplemental bond is required to cover potential decommissioning liability. This NTL has been updated and revised to clarify in paragraph III, that: 1) the lessee must initially meet a minimum net worth of \$65 million, as indicated on the lessee's audited balance sheet; 2) the lessee must initially meet an allowable cumulative decommissioning liability amount calculated using only record title interest as a percentage of its net worth; and 3) a portion of the value of a lessee's proved producing reserves may be added to their net worth, only after meeting certain financial criteria. This NTL supersedes and replaces NTL No. 2003-N06, effective June 17, 2003.

**Background**

For each OCS lease, 30 CFR 256.53(d) and (e) provide the Regional Director the authority to require additional security [i.e. security above the amounts prescribed in 30 CFR 256.52(a) and 256.53(a) and (b)] in the form of a supplemental bond, based upon a calculation of the potential decommissioning liability and an evaluation of the lessee's ability to carry out present and future financial obligations in this regard. Each lease, right-of-use and easement (RUE), and right-of-way (ROW) with determined liability must be covered by a supplemental bond unless at least one lessee or holder of a RUE or ROW demonstrates to the satisfaction of the MMS that it has the financial ability to ensure that wells can be plugged and abandoned, platforms removed and the drilling and platform sites, including pipeline corridors, cleared of all obstructions, per MMS regulations. Supplemental bonds may additionally be required to satisfy other lease obligations, as determined by the Regional Director.

**I. General**

This NTL sets forth the procedures and criteria that MMS uses to: calculate decommissioning liability, determine the risk regarding the lessee's ability to carry out present and future financial obligations, and specify the types and terms of the supplemental bonds or other additional security the MMS may require or accept. The MMS reserves the right to vary from the procedures or criteria in this NTL on a case-by-case basis within the framework established in the governing regulations.

## **II. Timing of Review of Potential Lease, RUE, and ROW Decommissioning Liability**

Generally, MMS will conduct an initial review of the potential decommissioning liability when a lessee submits an Exploration Plan (EP) for approval.

1. Reviews will also be conducted when a lessee or holder requests approval of one of the following:
  - A. Assignment of a record title interest, or a portion thereof, in a lease.
  - B. Significant revision to an approved EP.
  - C. Development and Production Plan (DPP) or a significant revision to an approved DPP.
  - D. Development Operations Coordination Document (DOCD) or a significant revision to an approved DOCD.
  - E. Deepwater Operations Plan (DWOP)
  - F. Application for a pipeline ROW or modification of an existing pipeline ROW.
  - G. Assignment of an interest in a pipeline ROW grant with associated platform facilities.
  - H. Significant revision to an approved pipeline installation plan for a pipeline having associated platform facilities.
  - I. Application for or modification of a RUE.
2. The MMS also may conduct reviews:
  - A. periodically;
  - B. when MMS becomes aware of information that indicates a change in the financial strength of the company or potential cumulative decommissioning liability; or
  - C. when a Notification of an Incident of Noncompliance (INC) is issued related to safety, environment, non-payment of royalty, or other violations of MMS regulations.
3. If the lessee takes an action that causes MMS to initiate a review and then withdraws the action, at MMS's discretion, the review may continue and, if necessary, the submission of a supplemental bond may be required.

## **III. Determination of Financial Strength and Reliability**

Generally, a supplemental bond will be required for a lease, RUE, or ROW, unless it is determined that at least one record title owner or holder of the RUE or ROW meets the following conditions that demonstrate financial strength and reliability:

1. Provides an independently audited calculation of net worth (including an independent auditor's report and a balance sheet) equal to or greater than \$65 million, in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP) or the International Financial Reporting Standards

- (IFRS), where accepted by the U.S. Securities and Exchange Commission (SEC) in their filings.
2. Cumulative decommissioning liability must be less than or equal to 50 percent of the most recent and independently audited calculation of net worth. The MMS will use the procedure outlined in paragraph IV of this NTL, to calculate the cumulative decommissioning liability for each OCS lease, RUE, or ROW for which the lessee owns record title interest or is a holder.
  3. Demonstrates reliability as evidenced by the following:
    - A. number of years of successful operations and production of oil and gas or sulphur in the OCS or in the onshore oil and gas industry;
    - B. credit rating(s), trade references, and verified published sources;
    - C. a record of compliance with current and previous governing laws, regulations, and lease terms; and
    - D. other factors that indicate financial strength or reliability;

**and, the lessee or holder either:**

4. Produces fluid hydrocarbons in excess of an average of 20,000 barrels of oil equivalent (BOE) per day from OCS leases for which the lessee owns a record title interest.

Calculations of production will be based on the most recent 12 months for which data and information are available. [For the purposes of computing BOE for natural gas, 5.62 thousand cubic feet of natural gas equals 1 BOE as measured fully saturated at 14.73 pounds per square inch atmosphere and 60 degrees Fahrenheit according to 30 CFR 250.1203(b).]

5. Demonstrates:

Meeting the criteria set forth in the table below by providing independently audited financial statements (including an independent auditor's report and a balance sheet), in accordance with U.S. GAAP or the IFRS, where accepted by the SEC in their filings.

For lessees with stockholders' equity or net worth of:	If the lessee's cumulative potential decommissioning liability is $\leq$ 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 $\leq$ 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	$\leq 2.5$	$\leq 2.0$
Above \$100 Million	$\leq 3.0$	$\leq 2.5$

In III.5 of this NTL only, the lessee may request MMS to consider future net revenue associated with the value of proved producing reserves in the calculation of net worth. The lessee must choose either scenario A or B below in which MMS will evaluate all of the lessee's properties.

- A. The lessee may request that MMS consider the lessee's future net revenue associated with the lessee's value of proved producing reserves in the calculation of the lessee's net worth, for all OCS leases in which the lessee owns a record title interest equal to the percentage of their interest. Based on potential risk associated with the reserves, MMS may include up to 25 percent of the reserve value in its calculation of the lessee's net worth.
- B. The lessee may request that MMS consider the lessee's future net revenue associated with the lessee's value of proved producing reserves in the calculation of the lessee's net worth by providing to MMS for all OCS leases in which the lessee has a net revenue interest as verified by an independent third-party estimate of the total proved producing reserves. This third-party reserve report shall break down proved producing reserves on a lease, reservoir and well completion basis. It shall also include a cash flow spreadsheet to show anticipated production, expenses, and cash flow. All net revenue and operating expense interests must be provided and certified by a third party. Upon receipt of this information, MMS will determine the value of the proved producing reserves to be included in the lessee's net worth. If the lessee requests an analysis based upon record title and operating rights interest, the decommissioning liability applied in paragraph III.2 of this NTL will also account for the decommissioning liability for each OCS lease, for which the lessee owns operating rights interest. Based on potential risk associated with the

reserves, MMS may include up to 50 percent of the reserve value in its calculation of the lessee's net worth.

In addition to the other information included in this section, the determination of the lessee's or RUE or ROW holder's financial strength is valid for up to one year. MMS may extend the determination, one year at a time, if: a) an independent accounting firm provides the most recent audited evidence of your entities financial strength and reliability, b) you continue to meet the criteria established above, and c) if within the first two years of acquiring a financial waiver of supplemental bonding you provide 10-Qs or quarterly reviews for the first eight quarters of your financial waiver of supplemental bonding.

#### **IV. Determination of the Decommissioning Liability**

Regardless of any assumptions made by MMS in estimating decommissioning costs, the lessee is responsible for ensuring that all decommissioning obligations on its lease are satisfied. When MMS requires the lessee to provide and maintain a supplemental bond, the amount of the supplemental bond for the lease will be determined as follows:

1. The MMS will estimate the cost to plug and abandon wells, remove platforms and other facilities, and restore the lease to its original condition by clearing the obstructions from wells, platform sites, RUEs, and ROWs. MMS assumes that all facilities will be removed and transported to shore for recycling or disposal.
2. The MMS calculations are drawn from best available data and include costs for removing and transporting the facility onshore, plugging and abandoning wellbores, and performing site clearance according to the requirements of 30 CFR 250 Subpart Q and Gulf of Mexico NTL No. 98-26. This estimate is based upon costs in the Region and assumes that a rig will be used to plug and abandon all wellbores. These figures will be adjusted when available information shows that the numbers are not accurate. The lessee may provide additional information for consideration when MMS estimates decommissioning liability. When providing additional data, the lessee should explain the basis for the data.
3. The following procedure may be used to estimate the need for and amount of supplemental bonds for all entities:
  - A. Determine the decommissioning liability for all leases, RUEs, and ROWs for which the lessee owns record title interest or is a holder (and the decommissioning liability associated with the lessee's operating rights interest where the lessee has requested the MMS to include proved producing reserves for such operating rights interest in the calculation of its net worth as discussed herein).
  - B. Apply lease-specific bonds (i.e., lease-specific general bonds, lease-specific supplemental bonds, and lease-specific guarantees) to identified leases.

- C. Exclude from the lessee's decommissioning liability calculation, for the purpose of supplemental bond determination, the full amount of the decommissioning liability for any lease(s) for which MMS has determined that one or more co-lessees have sufficient financial strength such that it is not necessary to require a supplemental bond. The MMS will exclude less than the full amount of the decommissioning liability when it is determined that additional security is needed based upon the financial or operational history of the companies involved.
  - D. After calculating the remaining potential liability, the financial strength and reliability of the company will be evaluated using the procedures discussed herein. The MMS will then determine the need for a supplemental bond and the amount.
  - E. Request lease-specific supplemental bonds through the designated operator who coordinates the submittal with the lessees.
4. The lessee may facilitate the review and approval of the request by providing detailed information on existing leasehold facilities. The lessee may provide evidence to support an adjustment in the estimate of the cumulative potential decommissioning liability. This evidence may include:
- A. the itemized data and information by lease, RUE, or ROW used as a basis for the estimate of the cumulative potential decommissioning liability represented by wells and facilities on the lease(s), and
  - B. the itemized data and information by lease, RUE, or ROW on which a third party bases its estimate of cumulative potential decommissioning liability.
5. When conducting a subsequent review of the need for a supplemental bond, MMS will consider all pertinent information which affects bonding assessment, such as the number of wells drilled or plugged and abandoned in the time that has elapsed since the last review of the lessee's cumulative potential decommissioning liability, the number of platform installations or removals since the last review, changes in the amount and value of reserves being produced, the projected rates of oil and gas production, inflation, and other changes in the market conditions. The objective of the review and analysis will be to ensure that the supplemental bond coverage or alternate form of security provided is not less than the amount established based upon the lessee's cumulative potential decommissioning liability.

#### **V. Acceptable Forms of Supplemental Bonding**

Within 45 days following MMS written notification, the lessee must submit one of the following to meet the supplemental bond obligation:

- 1. A lease, RUE, or ROW-specific surety bond, U.S. Treasury Securities, or an alternate form of supplemental security approved by the Regional Director, in the full amount required. If the value of the lessee's security falls below this amount, or if the U.S. Treasury no longer certifies that the company that issued the bond is

acceptable, the lessee must notify MMS within 15 days and take necessary action to meet the supplemental bond obligation. Note that MMS will require any security presented as a means for satisfying the supplemental bond requirement to fully comply with applicable regulations, requirements or recommendations of the U.S. Treasury.

2. A plan to MMS for review and approval whereby the lessee commits to fully fund a lease or RUE-specific decommissioning escrow account. Generally, the lessee must fully fund a lease or RUE-specific decommissioning account within four (4) years or by the beginning of the year in which it is projected that 80 percent of the originally recoverable reserves have been produced, whichever is earlier. The plan must include the following:
  - A. An initial payment into the lease or RUE-specific decommissioning escrow account equal to or greater than 50 percent of the estimate of the cumulative potential lease/RUE decommissioning liability. At the lessee's request, the MMS may approve an initial payment of less than 50 percent following the review of a third-party estimate of the proved producing reserves for the lease, if MMS determines that the lesser amount doesn't create a risk to the Government.
  - B. A prescribed time schedule for making specified incremental payments (e.g., monthly payments) in amounts that will ensure that the amount in the lease or RUE-specific decommissioning account will increase at a faster rate than the rate at which the originally recoverable reserves are being produced from the lease.
  - C. A commitment by the financial institution in which the lessee established the lease or RUE-specific decommissioning account to notify MMS of the date and amount of the initial deposit and of each incremental payment into the account.
  - D. A risk insurance policy for the benefit of MMS that covers the residual liability in the event of any catastrophic failure that prevented the completion of the remaining payments. This requirement has been met, in the past, by including MMS as a beneficiary on existing policies.

The MMS will review the above-described information and will approve it either as submitted or request specific revisions. For example, MMS will analyze both the initial payment amount as well as the time schedule for making specified incremental payments based on an analysis of current, past, and projected rates of production from the leasehold(s), or cash flow for facilities utilized by ROW, characteristics of the producing reservoir(s), decommissioning information available in MMS's databases, and/or other information provided.

The lessee must immediately submit, and subsequently maintain, a supplemental bond in an amount equal to the remaining portion of the estimate of the amount of the lessee's cumulative potential decommissioning liability in the event the lessee fails to:

- E. Make the initial payment into a MMS approved lease or RUE-specific decommissioning account; or
- F. Pay on the date due an incremental payment into the MMS-approved lease or RUE-specific decommissioning account in the amount agreed.

The following table provides an example of an incremental payment schedule for a lease or RUE-specific decommissioning escrow account.

<p>The following is an example of a lease-specific decommissioning account, the time schedule prescribed, and the amount of each incremental payment, to fund the account over a 4-year period. This example describes a situation in which, based on our estimate of your cumulative potential decommissioning liability, we required a \$5 million supplemental bond.</p>			
Year	Percent of Recoverable Reserves Produced at End of Year as a Percentage of Originally Recoverable Reserves	Dollar Amount (Security) Required at Start of Year	Quarterly Payment During Year
1	20	\$2,500,000	\$156,250
2	40	\$3,125,000	\$156,250
3	60	\$3,750,000	\$156,250
4	80	\$4,375,000	\$156,250
<p>Assumptions and Notes:</p> <ol style="list-style-type: none"> <li>1. Total Supplemental Bond Amount: \$5,000,000</li> <li>2. The amount of the initial payment is 50 percent of the cumulative potential decommissioning liability since 50 percent is greater than the percentage of the originally recoverable reserves projected to be produced by the end of Year 1.</li> <li>3. By the end of Year 3, MMS projects that 60 percent of the originally recoverable reserves will have been produced. Therefore, the lessee will need to fund at least 60 percent of the total supplemental bond (<math>\\$3,000,000 = 60\% \times \\$5,000,000</math>) by the start of Year 3.</li> <li>4. By the end of Year 4, MMS projects that the lease will have produced over 80 percent of the originally recoverable reserves. Therefore, the lessee will need to fund the entire \$5,000,000 by the end of Year 4. Quarterly payments of \$156,250 during the 4-year period will increase the fund to \$5,000,000 by the end of Year 4.</li> </ol>			



## **VI. Using a Third-Party Indemnity In Lieu of a Supplemental Bond**

The lessee may submit a third party indemnity agreement in lieu of a supplemental bond. The indemnity must be provided by a third party (indemnitor) who will guarantee compliance with all lease obligations. The indemnitor must also comply with all requirements in 30 CFR 256.57. The MMS will accept a third party indemnity only if the indemnitor and the indemnitee agree to meet all of the criteria below.

1. The indemnitor must:
  - A. Meet the qualifications for a lessee in 30 CFR 256.35(b);
  - B. Demonstrate satisfactory levels of financial strength and business history that exceed financial and production thresholds in paragraph III of this NTL; and
  - C. Not have total outstanding and proposed indemnifications that exceed 25 percent of its unencumbered net worth in the United States.
2. The MMS will review the financial information that the indemnitee or the indemnitor submits to determine an indemnitor's financial strength, business history, and compliance with current financial and production thresholds. The indemnitee or the indemnitor will provide information MMS determines is necessary including the indemnitor's :
  - A. Current rating for its most recent bond issuance by either Moody's Investor Service or Standard and Poor's Corporation;
  - B. Net worth, taking into account potential liabilities under its guarantee of compliance with all the terms and conditions of the lease, MMS regulations, and any other existing guarantees to MMS;
  - C. Ratio of current assets to current liabilities, taking into account potential liabilities under its guarantee of compliance with all the terms and conditions of MMS lease, RUE, or ROW regulations, and any existing guarantees to MMS; and
  - D. Unencumbered fixed assets in the United States.
3. The MMS will review the following financial information that the indemnitee or the indemnitor submits and that an officer of the company certifies as correct:
  - A. Independently audited financial statements (including an independent auditor's report and a balance sheet), in accordance with U.S. GAAP or the IFRS, where accepted by the SEC in their filings.
  - B. If within its first two years of acquiring a financial waiver of supplemental bonding, 10-Qs or quarterly reviews for the first eight quarters of the indemnitor's financial waiver of supplemental bonding.

4. An evaluation will be based on the stability of the indemnitor, in part on the length of time that the indemnitor has been in continuous operation. An indemnitor's continuous operation:
  - A. Is the time immediately before submission of an indemnity agreement; and
  - B. Does not include periods of interruption of operations not within indemnitor's control and that do not affect the likelihood of the indemnitor remaining in business during the indemnitee's exploration, development, production, plugging, removal, and clearance operations on the lease, RUE, or ROW.
5. The indemnitor must submit an indemnity agreement providing for compliance with all lease obligations, the obligations of all operating rights owners, and the obligations of all operators on the lease. A third-party indemnity must contain each of the following provisions:
  - A. If the indemnitee, the operator, or an operating rights owner fails to comply with any lease term or regulation, the indemnitor must take corrective action or provide within 7 calendar days sufficient funds for MMS to complete corrective action.
  - B. If the indemnitor takes corrective action to bring a lease into compliance with MMS requirements or provides funds for MMS to bring the lease into compliance, these actions do not reduce the indemnitor's liability.
6. If MMS approves the third party indemnity, the indemnitor must submit an indemnity agreement that meets the following criteria, (see Attachment 1 for Example Agreement):
  - A. The indemnity agreement must be executed by the indemnitor and all persons and parties bound by the agreement.
  - B. The indemnity agreement must bind each person and party executing the agreement jointly and severally.
  - C. When a person or party bound by the indemnity agreement is a corporate entity, two corporate officers who are authorized to bind the corporation must sign the indemnity agreement.
  - D. The indemnitor and the other corporate entities bound by the indemnity agreement must provide MMS copies of:
    1. the authorization of the signatory corporate officials to bind their respective entities;
    2. an affidavit certifying that the agreement is valid under all applicable laws; and
    3. each entity's appropriate authorization to execute the indemnity agreement.
  - E. If the indemnitor or another party bound by the indemnity agreement is a partnership, joint venture, or syndicate, the indemnity agreement must

bind each party who has a beneficial interest in the indemnitor; and provide that, upon MMS demand under the third party indemnity, each party is jointly and severally liable for compliance with all terms and conditions of the lease.

- F. The indemnity agreement must provide that, within seven (7) calendar days of a demand for forfeiture under 30 CFR 256.59, the indemnitor will either commit itself to take all necessary corrective action or provide sufficient funds for MMS to take corrective action.
  - G. The indemnity agreement must contain a confession of judgment. It must provide that, if it is determined that the indemnitee, the operator, or an operating rights owner is in default of the terms of the lease or in violation of the OCS Lands Act (OCSLA) or its implementing regulations, the indemnitor will not challenge the determination and will remedy the default.
7. If an indemnitor wishes to terminate the period of liability under its indemnity, it must:
- A. Notify the indemnitee and MMS at least 90 days before the proposed termination date;
  - B. Obtain MMS approval for the termination of the period of liability for all or a specified portion of the indemnitor's indemnification; and
  - C. Remain liable for all obligations accrued during the period that the indemnitor's indemnification is in effect.
8. Each indemnity agreement is deemed to contain all terms and conditions above, even if the indemnitor has omitted them.

## **VII. Termination of Supplemental Bond or Third Party Indemnity, or Determination that a Supplemental Bond is Not Necessary**

MMS reserves the right to deny the lessee's request for a finding that a supplemental bond is not necessary, even though an independent accountant provides an audit and certification that the lessee meets the financial strength and performance criteria described herein. Normally, such a denial or revocation of a previous finding will be based on a review of independently audited information that indicates that recent or anticipated future events may adversely affect the lessee's ability to comply with current and/or future decommissioning obligations. The MMS may also require a supplemental bond on any lease, regardless of any prior determination under these requirements, if it is determined that the designated operator has not fully and consistently complied with MMS regulations.

- 1. When any of the following occur, the lessee must take necessary action immediately to meet these requirements. If the lessee does not, MMS may issue a civil penalty, stop operations on the lease, or take any other action authorized by the OCSLA or the implementing regulations.

- A. The MMS requires the lessee to provide a supplemental bond, when it was previously determined that the lessee's financial strength was sufficient such that a bond was not required. In such cases, the lessee will have a minimum of 40 days notice before the lessee must furnish a supplemental bond.
  - B. The lessee's third party indemnitor ends the period of the guarantee.
  - C. The lessee's bonding company ends the period of bond protection.
  - D. The value of the lessee's security falls below the required amount of the supplemental bond.
  - E. The U.S. Treasury no longer certifies that the company that issued the bond is acceptable.
  - F. Financial insolvency of lessee, lessee's surety, or lessee's financial institution.
2. If the lessee chooses to provide a lease or RUE-specific decommissioning escrow account instead of providing a bond, the lessee may be allowed up to an additional 70 days to prepare and allow MMS to review a plan for incremental payments and to contribute funds to the account, according to the plan.

### **VIII. Addresses**

Use the following contact information to obtain further information or to submit information:

#### Alaska OCS:

Jeffrey Walker, RS/FO  
Minerals Management Service  
Alaska OCS Region  
3801 Centerpoint Drive, Suite 500  
Anchorage, AK 99503-5823  
[jeffrey.walker@mms.gov](mailto:jeffrey.walker@mms.gov)  
(907) 334-5300

#### Gulf of Mexico & Atlantic OCS:

Joshua Joyce, Regional FARM Program Coordinator  
Minerals Management Service  
Gulf of Mexico OCS Region  
1201 Elmwood Park Boulevard  
New Orleans, LA 70123-2394  
[joshua.joyce@mms.gov](mailto:joshua.joyce@mms.gov)  
(504) 736-2779

Decommissioning assessment concerns:

Stephen Dessauer, Regional Decommissioning Assessment Coordinator  
Minerals Management Service  
Gulf of Mexico OCS Region  
1201 Elmwood Park Boulevard  
New Orleans, LA 70123-2394  
[stephen.dessauer@mms.gov](mailto:stephen.dessauer@mms.gov)  
(504) 736-2646

Pacific OCS:

Jaron Ming, Regional FARM Program Coordinator  
Minerals Management Service  
Pacific OCS Region  
770 Paseo Camarillo, MS 7000  
Camarillo, CA 93010-6064  
[jaron.ming@mms.gov](mailto:jaron.ming@mms.gov)  
(805) 389-7514

Decommissioning assessment concerns:

David Gebauer, Regional Decommissioning Assessment Coordinator  
Minerals Management Service  
Pacific OCS Region  
770 Paseo Camarillo, MS 7210  
Camarillo, CA 93010-6064  
[david.gebauer@mms.gov](mailto:david.gebauer@mms.gov)  
(805) 389-7795  
(805) 389-7775

### **Guidance Document Statement**

The MMS GOMR issues NTL's as guidance documents in accordance with 30 CFR 250.103 to clarify, supplement, and provide more detail about certain MMS regulatory requirements and to outline the information you provide in your various submittals. Under that authority, this NTL sets forth a policy on and an interpretation of a regulatory requirement that provides a clear and consistent approach to complying with that requirement.

**Paperwork Reduction Act of 1995 (PRA) Statement**

The information collection referred to in this NTL provides clarification, description, or interpretation of requirements in 30 CFR 256 and 30 CFR subpart Q. The Office of Management and Budget (OMB) has approved the information collection requirements in these regulations and assigned OMB Control Numbers 1010-0006 and 1010-0142, respectively. This NTL does not impose additional information collection requirements subject to the PRA.



Chris C. Oynes  
Associate Director  
Offshore Energy and Minerals Management

Attachments:

1. Model form for "Third Party Indemnity Agreement"	<a href="#">pdf file</a>	<a href="#">Word file</a>
2. Internet websites and information	<a href="#">pdf file</a>	

[Return to Notices to Lessees and Operators](#)

## Attachment 1

### MODEL THIRD PARTY INDEMNITY

The MMS developed the following model third party indemnity agreement. Executing this document will meet the requirements of 30 CFR 256.57 for a third party indemnity. You may execute this document as is or you may modify this document. If you choose to modify this document, MMS will review your modifications and may approve the modified document upon a determination that the modified document meets all of the requirements of 30 CFR 256.57.

#### THIRD PARTY INDEMNITY AGREEMENT

This THIRD PARTY INDEMNITY AGREEMENT, made and entered into this (day) day of (month), (year), by (entity name), MMS Company Number (#), (Indemnitor) for the benefit of the MINERALS MANAGEMENT SERVICE of the UNITED STATES DEPARTMENT OF THE INTERIOR (MMS) provides for the following:

I. By signing this document, the undersigned attests to the following:

A. If a party to this agreement is a corporation, it is incorporated and in good standing under the laws of the State of (State) and has all corporate power, authorizations, consents, and approvals required to carry on its business as is now conducted and to enter into this agreement.

B. If a party to this agreement is a corporation, the undersigned include corporate officers who are authorized to bind the corporation.

C. The undersigned are authorized to execute, deliver, and perform, under the terms of this agreement, on behalf of any non-corporate Indemnitor.

D. This agreement does not contravene or constitute a default under any provisions of applicable law or regulation or of its charter, certificate of incorporation or bylaws or any agreement, judgment, injunction, order, decree, or other instrument to which it may be subject.

II. The Indemnitor agrees to the following provisions:

A. The Indemnitor will punctually satisfy (check one)

- the performance and compliance by (entity name), MMS Company Number (#), (Indemnitee) with the terms and conditions of the lease, Right-of-Use and Easement (RUE), or Right-of-Way (ROW) and governing Federal regulations for all leases, RUEs, or ROWs in the \_\_\_\_\_ OCS Region, for which MMS has, at any point, recognized the indemnitee as a lease, RUE, or ROW interest or operating rights owner.

- the performance and compliance by (entity name), MMS Company Number (#), (Indemnitee), with the terms and conditions of the lease, RUE, or ROW and governing Federal regulations for (lease, RUE, ROW) number \_\_\_\_\_.
- the performance and compliance by (entity name), MMS Company Number (#), (Indemnitee), with the terms and conditions of the lease, RUE, or ROW and governing Federal regulations for (lease, RUE, ROW) number \_\_\_\_\_ for an amount not to exceed \$\_\_\_\_\_.

B. If the Indemnitee, Indemnitee's operator, or an operating rights owner fails to comply with any lease, RUE, or ROW term or regulations, the Indemnitor will:

- (1) not challenge the determination and
- (2) must either:
  - i) take corrective action to bring the lease into compliance within the time period specified by MMS, or
  - ii) provide, within 7 calendar days, sufficient funds for the MMS Regional Director/Manager to complete corrective action.

C. When the Indemnitor complies with this agreement, by correcting a problem or paying for a third party or for MMS to correct a problem, such compliance will not reduce the Indemnitor's liability for remaining obligations.

D. If this agreement is terminated, the Indemnitor will remain liable for all work and workmanship performed and liabilities that accrued during the period covered by this Third Party Indemnity, until such time that the indemnified company provides alternate security for the obligation(s) and MMS releases the Indemnitor from further liability.

E. If the Indemnitor wishes to terminate the period of liability under this guarantee, the Indemnitor must:

- (1) Notify the Indemnitee and the MMS Regional Director/Manager at least 90 days before the proposed termination date;
- (2) Obtain the MMS Regional Director/Manager's approval for the termination of the period of liability for all or a specified portion of the Indemnitor's indemnification; and
- (3) Remain liable for all work and workmanship performed and liabilities that accrued during the period covered by this indemnity, until such time that the Indemnitee provides a suitable replacement security instrument, assuming all outstanding liabilities and in an amount no less than provided by the indemnity herein, and MMS releases the Indemnitor from further liability.



F. If a party to this agreement is a partnership, joint venture, or syndicate, this agreement binds each partner or party who has a beneficial interest in the Indemnitor.

G. Each party who is an Indemnitor under this agreement agrees to be bound jointly and severally for the undertakings herein.

III. If during the life of this third-party guarantee, the Indemnitor no longer meets the criteria established in 30 CFR 256.57(a)(3) and 30 CFR 256.57(c)(3), the Indemnitor and the Indemnified Company will notify the MMS Regional Director immediately.

**INDEMNITOR**

(Affix Corporate Seal)	_____ (entity name) <b>INDEMNITOR</b>
_____ (signature) <b>CORPORATE OFFICIAL</b>	_____ (signature) <b>CORPORATE OFFICIAL</b>
_____ (typed signer's name) <b>TYPED NAME</b>	_____ (typed signer's name) <b>TYPED NAME</b>
_____ (typed signer's title) <b>TYPED TITLE</b>	_____ (typed signer's title) <b>TYPED TITLE</b>
Witness my hand and notary seal this <u>    </u> day of <u>    </u> , (year) <u>    </u> .	
(Affix Notary Seal)	_____ (signature) <b>NOTARY PUBLIC NAME</b>

**INDEMNITEE**

(Affix Corporate Seal) \_\_\_\_\_  
**INDEMNITEE**

\_\_\_\_\_  
(signature)  
**CORPORATE OFFICIAL**

\_\_\_\_\_  
(signature)  
**CORPORATE OFFICIAL**

\_\_\_\_\_  
(typed signer's name)  
**TYPED NAME**

\_\_\_\_\_  
(typed signer's name)  
**TYPED NAME**

\_\_\_\_\_  
(typed signer's title)  
**TYPED TITLE**

\_\_\_\_\_  
(typed signer's title)  
**TYPED TITLE**

Witness my hand and notary seal this (day) day of (month), (year).

(Affix Notary Seal) \_\_\_\_\_  
**NOTARY PUBLIC NAME**

**Attachment 2**  
**Internet Information**

The Minerals Management Service web-site is located at <http://www.mms.gov/>. The following web sites may assist you in determining your, "Bonding Requirements."

**1. NTL No. 2000-G16, Guidelines for General Lease Surety Bonds, Effective Date: September 7, 2000.**

Navigate to: <http://www.mms.gov>. Select tab, Offshore Program. Select tab of MMS Region desired, Gulf of Mexico, select tab Lease Information, select Bonding, and select Guidelines for General Lease Surety Bonds or <http://www.gomr.mms.gov/homepg/regulate/regs/ntls/ntl00-g16.html>

**2. Plugging and Abandonment Liability Query -Updated Weekly**

Navigate to: <http://www.mms.gov> select tab, Offshore Program select tab of MMS Region desired, Gulf of Mexico, select tab Lease Information, select tab Fast Facts, and select tab Plugging and Abandonment Lease Liability or <http://www.gomr.mms.gov/homepg/fastfacts/LeaseLiab/master.asp>

**3. Supplemental Plugging and Abandonment Bond , Form 2028A, May 2007.**

Navigate to: <http://www.mms.gov> select tab, Offshore Program select MMS Region desired, Gulf of Mexico, select tab Forms, and select Form 2028A or <http://www.gomr.mms.gov/homepg/mmsforms/FormMMS-2028a.pdf>