

Supplemental Bonding Frequently Asked Questions

MMS Pacific OCS Region

Question	Answer
1. How frequently does MMS review supplemental bonding requirements?	The MMS conducts an annual review to assess lessees' decommissioning liability, evaluate financial capability, determine the risk regarding the lessees' ability to carry out present and future financial obligations, and specify the types and terms of supplemental bonds or other additional security the MMS may require or accept. Additionally, MMS will review supplemental bonding requirements when liabilities on a lease, right-of-way, or right-of-use and easement change.
2. Where can I find the supplemental bonding regulations and guidance?	30 CFR 256.52-59 includes the regulations addressing bonding. MMS National Notice to Lessees and Operators (NTL) No. 2008-N07 provides a detailed explanation of the regulations. NTL 2008-N07 may be found at: http://www.mms.gov/ntls/Attachments/2008-N07.htm .
3. What is the purpose of the supplemental bonding?	Supplemental bonding is used to ensure that lessees are capable of meeting their financial obligations and complying with the laws and regulations associated with the decommissioning of offshore oil and gas facilities, including pipelines, in Federal waters.
4. How does MMS determine supplemental bonding requirements?	The MMS may require supplemental bonding if it determines that additional security is necessary to ensure compliance with lease obligations. This determination will be based on the estimated cost to decommission the lease, and the lessees' financial strength and capacity, business stability, and record of compliance with lease obligations.
5. How does MMS determine a lessee's decommissioning obligation?	The MMS currently uses a report entitled "Decommissioning Cost Update for Removing Pacific OCS Region Offshore Oil and Gas Facilities, January 2010" to guide its decisions on supplemental bonding requirements. The report was prepared for the MMS by Proserv Offshore and is posted on the MMS Pacific OCS Region website at: http://www.mms.gov/omm/pacific/lease/decommissioning.htm .
6. How frequently does MMS update the decommissioning cost report?	The MMS customarily updates the cost report every 5 years but it may update the report more frequently if unanticipated advances in technology occur, or there is a significant change in regulatory requirements or in the market for decommissioning services.
7. What percentage of ownership is adequate for MMS to use as a lessee's financial capability to meet the MMS supplemental bonding criteria?	Any and all holders of record title interest are jointly and severally liable for all non-monetary obligations on that lease, right-of-way or right-of-use and easement. Therefore, regardless of percentage of ownership, any record title holder that satisfies MMS's financial capability requirements may satisfy the MMS supplemental bonding criteria for that lease, right-of-way or right-of-use and easement,

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8. Will MMS allocate decommissioning cost liability by the percentage of ownership?	The MMS does not allocate decommissioning cost liability by percentage of ownership. MMS holds each lessee responsible for 100% of all non-monetary obligations (joint and several liability). Additionally, former lessees are held responsible for the decommissioning liability that accrued during their tenure as a lessee if the current lessee fails to satisfy the obligation.
9. Will MMS allow a third party to guarantee compliance with or indemnify liability for decommissioning obligations?	The MMS may accept a third-party guarantee in lieu of a supplemental bond if the proposed guarantor meets the criteria set forth in 30 CFR 256.57. A model indemnity agreement can be found at: http://www.gomr.mms.gov/homepg/regulate/regs/ntls/2008NTLs/08-n07-att1.pdf
10. How will MMS handle proposed guarantors that are Limited Liability Companies (LLCs) with expiration dates?	Generally, when an LLC has a lifetime less than the estimated platform decommissioning date, we will not approve them as a guarantor or indemnitor for supplemental bonding.
11. Will MMS use a scrap allowance to reduce decommissioning costs to determine the supplemental bonding requirement?	The MMS does not allow the value of scrap metal to be used to offset the decommissioning costs for supplemental bond purposes.
12. What if I disagree with the MMS estimate of decommissioning costs for my OCS lease and related facilities?	A lessee or operator may request a reduction of the amount of supplemental bonding required by MMS. If such a request is made, the lessee or operator must provide MMS with a 3 rd Party decommissioning estimate for consideration. The 3 rd Party estimate must be based on commonly used conventional technology and methodology that has been proven to be successful. Submission of this information does not guarantee that a reduction will be approved.
13. Are decommissioning obligations limited to the MMS decommissioning cost estimate?	No, lessees are responsible for meeting all decommissioning obligations, including site clearance and restoration, no matter the cost.
14. Will MMS include pipeline or power cable removal in state waters or onshore in the decommissioning cost estimates?	MMS does not consider decommissioning costs for facilities in state waters or onshore.
15. Does MMS assume pipelines and power cables will be removed in the decommissioning cost estimates?	The January 2010 cost report estimated decommissioning costs for pipelines and power cables based on the following assumptions: for pipelines routed to shore, pipeline segments will be removed from the 200 foot water depth level to the State Tidelands boundary; pipeline segments in between platforms on the OCS will be decommissioned in place; and OCS pipeline segments in greater than 200 feet of water will be decommissioned in place.

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16. Has MMS established an order of precedence in the event the current lessees fail to complete their decommissioning obligations?	MMS will inform prior lessees or their successors when decommissioning is scheduled to begin on a lease. If the current lessee or lessees fail to complete their decommissioning obligations, MMS will pursue remedies including, but not limited to, calling surety bonds and requiring former lessees to fulfill the remaining obligations.
Who should be contacted with questions on supplemental bonds for decommissioning?	<p style="text-align: center;">Contact: Jaron Ming Lead Leasing Specialist MMS Pacific OCS Region 770 Paseo Camarillo, 2nd Floor Camarillo, CA 93010 (805) 389-7514</p>