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September 6, 2023

Via E-mail/Facsimile: www.regulations.gov

Office of Regulations
Bureau of Ocean Management
Attention: Kelley Spence
U.S. Department of the Interior
45600 Woodland Road
Mailstop VAM-BOEM DIR
Sterling, VA 20166

Re: Risk Management and Financial Assurance for OCS Lease and Grant Obligations RIN 1010-AE14 Notice of proposed rulemaking and request for comments 30 CFR Parts 550, 556 and 590 Federal Register Volume 88, No. 124, Page 42136, Dated June 29, 2023

Dear Ms. Spence,

Chevron U.S.A. Inc. ("Chevron") appreciates the opportunity to comment on the Bureau of Ocean Energy Management's ("BOEM") Federal Register Notice requesting feedback on the Proposed Risk Management and Financial Assurance for OCS Lease and Grant Obligations rulemaking ("Proposed Rule"). Chevron, and its affiliated companies, have been exploring and developing outer continental shelf ("OCS") leases from inception of the federal offshore leasing program under the Outer Continental Shelf Lands Act of 1953 ("OCSLA") through today and are committed to remain active in the OCS well into the future. We continue to hold interest in hundreds of both producing and non-producing leases in the Gulf of Mexico and have held interests in thousands of leases during the existence of the offshore leasing and development program established under OCSLA. Chevron and its legacy companies share a long history of operating safely and in an environmentally responsible manner in the OCS. We believe our company's focus on developing and operating world class projects in a prudent manner coupled with the development of new offshore technologies, will allow us to effectively and efficiently continue to explore for and produce hydrocarbons needed for the U.S. economy today and in the future.

Chevron fully supports revising the risk management, financial assurance, and loss prevention regulations to better reflect the changing offshore business environment that exists today. It is critical that owners of offshore leases fulfill their contractual and regulatory responsibilities when acquiring and developing these leases including all obligations associated with decommissioning activities. A robust risk management, financial assurance and loss prevention program ensures the federal government, and ultimately the U.S. taxpayers, will not be required to fund any lease decommissioning obligation that goes unaddressed.

All offshore operators and leaseholders should be held to the highest standards when operating on the OCS and there should be no exception to this requirement. Whether an offshore operator/leaseholder is associated with a 50-person company or a 50,000-person

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organization, the same high standard of responsibility, performance and care should apply when operating offshore leases. To that end, all entities are expected to comply with the laws, regulations, industry practices, government procedures and guidelines that enable safe and environmentally responsible operations. At Chevron we take complying with these laws, regulations, industry practices, government procedures and guidelines very seriously. There is no different standard of operating for Chevron. We are committed to conducting our business responsibly and in accordance with all applicable laws, regulations, industry practices, government procedures and guidelines everywhere we operate. Protecting our employees and the environment are our highest priorities without exception. We expect other companies in the energy industry to conduct their business under these same guiding principles to protect people and the environment, especially those entities operating offshore.

Proposed Regulations Comment Overview

Chevron appreciates BOEM's efforts to streamline the risk management and financial assurance for OCS lease grant obligations regulations found under 30 CFR Chapter V Parts 550, 556, and 590. We understand BOEM's intended goal for its new proposed financial assurance program is to continue to protect the U.S. taxpayers from exposure to financial loss associated with OCS development while avoiding environmental and safety hazards associated with delayed compliance. We agree with this objective and fully support a financial assurance regime that is fair to all parties, balanced, understandable and can be easily administered. Regulations that are clear, provide certainty and predictability are paramount to the success of the OCS program. Chevron believes that it is of paramount importance that each and every current lessee and grant holder be able to demonstrate that it has the financial capability to meet all of its lease/grant obligations, including decommissioning. To that end, it is imperative that BOEM clarify that supplemental bonds will be: (i) called if the current owners fail to perform concurrent with or prior to calling on predecessors in title; and (ii) made available to predecessors that are ordered to take corrective action on the lease or grant. Without these clarifications, current owners may continue to rely on the financial wherewithal of their predecessors.

In addition to these comments, Chevron supports and has participated in the development of comments being submitted by the American Petroleum Institute (API), of which Chevron is a member, and, to the extent not inconsistent, incorporates them by reference herein. For ease of review, we have divided our comments into parts and subparts of the regulations that are under consideration for change. We provide Chevron's answers to questions BOEM asked throughout the Federal Register Notice, offer feedback on the proposed regulatory changes, and in some cases recommend enhancements to those proposed regulatory changes. In addition, we have included text edits we are proposing to the rule language throughout this comment letter. Our proposed edits are shown in a different color.

Chapter V, Part 550

Below are Chevron's specific comments regarding the various changes to the additional security regulations found in 30 CFR 550.

Subpart A (General) 550. 166, 167

§ 550.166 If BOEM grants me a right-of-use and easement, what surety bond or other security must I provide?

Chevron supports BOEM using the same issuer credit rating or proxy credit rating criteria to

evaluate a right-of-use and easement grant holder as BOEM proposes to apply to current lessees. We also support the Regional Director retaining the right to require a grant holder to provide additional security if the right-of-use and easement grant holder does not have an issuer credit rating or a proxy credit rating that meets the new criteria once adopted.

While Chevron supports API's concept of multiple owners in an RUE, Chevron believes that each current owner of an RUE should demonstrate that it has the financial ability to meet all of its obligations under the RUE, including abandonment.

§ 550.167 How may I obtain or assign my interest in a RUE?

Chevron supports BOEM exercising additional oversight on the RUE application process, as well as requiring assessing the financial capacity of RUE applicants according to the proposed provisions of 30 CFR 550.166 and 900 through 907.

Subpart J (Pipelines and Pipeline Rights-of-Way) 550.1011

§ 550.1011 Financial assurance requirements for pipeline right-of-way grant holders.

As stated above regarding 550.166, Chevron supports BOEM using the same issuer credit rating or proxy credit rating criteria to evaluate pipeline right-of-way grants as BOEM proposes to apply to current lessees. We also support the Regional Director retaining the right to require a grant holder to provide additional security if the pipeline right-of-way grant holder does not meet the criteria established in 30 CFR 556.901(d)(1) and (2) once adopted as proposed.

Chapter V, Part 556

Below are Chevron's views of the various changes to the existing additional security regulations found in 30 CFR 556.

Subpart A (General Provisions) 556.105

§ 556.105 Acronyms and definitions

Chevron supports clarifying the definitions in the regulations to eliminate ambiguity and to ensure definitions are clear and understandable. We support the addition of "Investment grade credit rating" as a defined term meaning "an issuer credit rating of BBB- or higher from S&P or Baa3 from Moody's". Offshore companies with less than investment grade credit ratings have a greater potential of defaulting on their decommissioning obligations. This has become very evident in recent years with multiple bankruptcies being filed and idle iron obligations not being timely performed.

Chevron, however, does not support the proposed changes to the definition of "You" to include "Assignor or Transferor" as those terms include parties that are not current owners. We understand it is not the intent of the Proposed Rule to impose financial assurance obligations on predecessors or allow current owners to rely on the credit worthiness of predecessors. Removing "Assignor or Transferor" from the proposed changes avoids possible confusion and is more clearly in furtherance of the Proposed Rule's intent.

Subpart I (Bonding or Other Financial Assurance) 556.900 – 556.907

§ 556.901 Base financial assurance and supplemental financial assurance.

BOEM is proposing to streamline its financial capacity evaluation process by using the following criteria to determine whether additional security on a lease may be required:

- 1) Investment grade issuer credit rating as defined in the proposed revisions to 30 CFR 556.105;
- 2) A proxy credit rating determined by the Regional Director based on audited financial information for the most recent fiscal year;
 - (i) The audited financial information for your most recent fiscal year must cover a continuous twelve-month period within the twenty-four-month period prior to the lessee's receipt of the Regional Director's determination that you must provide supplemental financial assurance.
 - (ii) In determining your proxy credit rating, the Regional Director may include the value of the contingent liabilities associated with any lease(s) or grants in which you have an ownership interest. Upon the request of the Regional Director, you must provide the information that the Regional Director determines is necessary to properly evaluate your contingent liabilities, including joint ownership interests and liabilities associated with your OCS leases and grants.
- 3) Your co-lessee or co-grant holder has an investment grade issuer credit rating or proxy credit rating, BOEM qualifies that the Regional Director may require supplemental financial assurance for decommissioning obligations for which such co-lessee or co-grant holder is not liable; or
- 4) There are proved oil and gas reserves on the lease, the value of which exceeds three times the estimated cost of the decommissioning associated with the production of those reserves based on reserve reports submitted on a per lease basis.
 - (i) Where BSEE-generated probabilistic estimates are available, BOEM will use the estimate at the level at which there is a 70 percent probability that the actual cost of decommissioning will be less than the estimate (P70).
 - (ii) If there is no BSEE probabilistic estimate available, BOEM will use the BSEE-generated deterministic estimate.

Chevron has framed our comments on items one through four above in the format of response to each of BOEM's requests for comment included in the preamble on these criteria.

BOEM Question: BOEM is soliciting comments on the appropriateness of the proposed approach of relying on lessee and grant holder credit ratings, including whether BOEM has proposed an appropriate credit rating threshold of BBB-, and if not, what threshold or set of thresholds would best protect taxpayers while not imposing undue burdens on industry. BOEM also invites comments on alternative options for determining the need for financial assurance other than credit ratings. Additionally, BOEM invites comments on whether financial assurance should be required of all companies, regardless of credit rating, and the impacts such a requirement might have on OCS investment and on potential taxpayer liabilities.

Chevron Answer: *Chevron agrees with BOEM's proposal to modify its financial capacity mechanism for evaluating the financial strength of OCS operators, lessees and grant holders primarily focused on the use of a lessee's/grant holders actual or proxy credit rating. We agree that credit rating agencies take many factors into account when evaluating a company, particularly those that emphasize cashflow, such as debt-to-earnings ratios and debt-to-funds from*

operations. A credit rating is forward-looking and includes the income statement and cash flow statement which provide a broader picture of how well a company can meet its future OCS obligations. By using credit ratings, BOEM will be in a better position to predict a lessee's/grant holder's possible financial distress ahead of time and be in a position to take appropriate action. As discussed previously, we also strongly support a credit rating threshold of BBB- or higher to determine when supplemental financial assurance is required. We also suggest BOEM consider establishing a policy (not regulation) requesting lessees and grant holders (1) submit an annual update of their credit rating to BOEM, and (2) submit an update whenever they become aware of an event that would likely result in a material change to their credit rating.

We also commend BOEM for strictly considering the credit rating of the current lease or grant owners to determine whether to require those owners to provide additional security for their lease, right-of-use and easement or pipeline right-of-way decommissioning obligations. Such policy mitigates the potential for encouraging current owners to default on their decommissioning obligations leaving only the limited financial security, if any, posted with BOEM to cover a portion of these obligations and those obligations accrued by a predecessor.

Chevron does not support requiring financial assurance for all companies. In all cases where a lessee or grant holder fails to meet the minimum credit rating threshold criteria where the three-to-one reserves-to-decommissioning ratio is not met, those lessees and grant holders should also provide BOEM with additional security covering decommissioning obligations to protect the U.S. taxpayer and predecessors from unsecured decommissioning liabilities. Requiring additional financial assurance from companies that meet the criteria proposed in 30 CFR 556.901(d) unnecessarily ties up capital that could be used to invest in further offshore exploration and production that would otherwise contribute millions of dollars annually to the federal treasury and Land & Water Conservation Fund in the form of bonus, rental and royalty payments while not putting the U.S. taxpayer at an increased risk for assuming decommissioning liabilities.

With respect to § 556.901(d)(3), Chevron believes that each and every current lessee and grant holder should be able to demonstrate that it has the financial capability to meet all of its lease/grant obligations, including decommissioning, and should not rely on the strength of its co-lessees or co-grant holders if § 556.901(d)(1), (2), or (4) reserve criteria is not met. Chevron proposes that § 556.901(d)(3) be deleted.

BOEM Question: BOEM requests comment on whether the three-to-one reserves-to-decommissioning ratio is in fact an appropriate threshold, or if there are better approaches and/or data sets available for analysis that would allow BOEM to provide better certainty that taxpayer interests will ultimately be protected.

Chevron's Answer: *Chevron's position is that if a co-lessee or grant holder does not meet the credit rating or proxy credit rating criteria minimum thresholds, BOEM should look to the proved oil and gas reserves on the lease, unit or field, or a lease identified to support a grant or grants. The Regional Director should require the lessee to provide additional security for that lease if the net present value of those proved reserves is less than or equal to three times the cost of the decommissioning. The three-to-one reserves-to-decommissioning ratio is appropriate to reasonably assure economic viability of leases in situations where the credit rating, or proxy credit rating, threshold is not met.*

BOEM Question: BOEM is proposing to eliminate the existing "record of compliance" criterion found in the current version of § 550.901(d)(1)(v). BOEM has determined that the number of INCs a company receives correlates with the number of properties it owns, not its financial stability, and

therefore, BOEM has concluded that it is not an accurate predictor of its financial health. BOEM specifically requests comments regarding the use of fines and violations as a criterion in the determination of a company's ability to fulfill decommissioning obligations, and any data of analysis addressing any correlation between the number of violations and the risk of financial default. BOEM also requests comments on whether the elimination of the INCs criteria would create a disincentive to comply with the regulations. BOEM also requests comment on whether or not the cost of decommissioning is likely to increase based on the type, quantity, or magnitude of previous violations.

Chevron Answer: *Chevron supports the elimination of “record of compliance” as a criterion to assess a company’s financial health in determining when supplemental financial assurance should be required. We agree that BOEM’s proposed streamlining of the evaluation criteria for requiring supplemental financial assurance to focus on credit rating, or proxy credit rating, or the 3 to 1 ratio of value of proved reserves on a lease, unit or field to the decommissioning liability associated with such reserves. These two criteria are better indicators of financial risk and allow for a more objective analysis than the five criteria included in the current rule.*

Credit ratings provided by a NRSRO incorporate a broad range of qualitative and quantitative factors, and a business entity’s credit rating represents its overall credit risk, or its ability to meet its financial commitments in the future. Of the original five criteria used by BOEM to assess an entities financial capacity, credit rating was by far the most important. Eliminating reliance on less relevant information, such as length of time in operation to determine business stability, trade references, and record of compliance to determine reliability in meeting obligations is prudent. These criteria are inferior to credit rating and not a good indicator of a lessee’s or grant holder’s ability to meet its future obligations.

BOEM Question: BOEM is proposing to use and is requesting comments on this test [value of proved oil and gas reserves exceeding three times the decommissioning costs] as the criterion to replace the existing generalized “projected financial strength” criterion found currently at § 556.901(d)(1)(ii), which considers whether the estimated value of a lessee’s existing lease production and proved reserves is significantly in excess of the lessee’s existing and future lease obligations. BOEM requests comment on whether 3 to 1 is an appropriate threshold, or if there are better approaches and/or data sets available for analysis that would provide BOEM with better certainty that taxpayer interests will ultimately be protected.

Chevron Answer: *Chevron supports using the value of provided oil and gas reserves exceeding three times the decommissioning costs test (three times reserves-to-decommissioning cost) as proposed by BOEM in its evaluation of the financial ability of the current lease owner(s) to fulfill its/their decommissioning obligations. We support using the three times reserves-to-decommissioning cost test to determine whether the value of the reserves exceeds cost of the decommissioning associated with the production of those reserves. Using this test will allow BOEM to know when a producing lease is still generating sufficient revenue to meet current and potential future lease obligations. By using this test, BOEM will be in a better position to begin a dialogue with the lease operator and ascertain the operator’s plans for addressing pending decommissioning obligations. It would also be the best time to initiate creating a Decommissioning Account for the lease. Waiting to address decommissioning until the reserves-to-decommissioning cost ratio is one-to-one would mean that the estimated value of remaining oil and gas reserves on a lease is equal to the cost of decommissioning eliminating some of the options available to fund future decommissioning obligations. Allowing current interest owners to reduce lease reserves until leases can no longer be sold without setting aside funds to cover decommissioning obligations encourages defaults and exposes U.S. taxpayers to greater liability,*

especially for sole liability properties.

BOEM Question: BOEM requests comments on potential unknown risks associated with the use of P70. BOEM has examined the impact that the different P values would have on the amount of financial assurance required but lacks the data to estimate the impact that selecting a P90 value might have on offshore capital expenses and investments, and therefore has selected P70 in this proposal. We are also specifically seeking information and data related to these impacts from commenters.

BOEM requests comments and additional data on the costs and benefits of setting the supplemental financial assurance requirements based on each of the P50, P70, and P90 decommissioning liability levels. In particular, BOEM would like information on impacts to offshore capital expenses and investments of each liability level, as well as impacts to potential taxpayer liability.

BOEM also solicits comment on whether setting assurance requirements based on different liability levels might be appropriate for different circumstances.

BOEM also requests comments on costs and benefits of otherwise considering predecessor lessees or grantees in determining the level of required supplemental financial assurance. Additionally, BOEM requests comments on the possibility of using a higher BSEE decommissioning estimate (i.e., P90), including on how a P90 estimate would affect small entities.

Chevron Response: *Chevron generally supports a P70 estimate decommissioning liability level. Please see the API comment letter for additional information.*

BOEM Question: BOEM acknowledges that the Proposed Rule requirements may have a significant financial impact on companies, and therefore is proposing to add a phased-in compliance option per §556.901(h) as detailed below:

(h) At any time during the first three years from the effective date of this regulation, you may request that the Regional Director allow you to provide, in three equal installments payable according to the schedule provided under this paragraph (h), the full amount of supplemental financial assurance required.

- (1) If the Regional Director allows you to provide the amount required on such a phased basis, you must comply with the following:
 - (i) You must provide the initial one third of the total supplemental financial assurance required within the timeframe specified in the demand letter or, if no timeframe is specified, within 60 calendar days of the date of receipt of the demand letter.
 - (ii) You must provide the second one third of the required supplemental financial assurance to BOEM within 24 months of the date of receipt of the demand letter.
 - (iii) You must provide the final one third of the required supplemental financial assurance to BOEM within 36 months of the date of receipt of the demand letter.
- (2) If the Regional Director allows you to meet your supplemental financial assurance requirement in a phased manner, as set forth in this section, and you fail to timely provide the required supplemental financial assurance to BOEM, the Regional Director will notify be eligible to meet your supplemental financial assurance requirement in the manner prescribed in this paragraph (h), and the remaining amount due will become due 10-calendar days after such notification is received.

BOEM is requesting comments from potentially affected parties about this phased approach and how it could most effectively be implemented to minimize any unnecessarily adverse effects from an increased supplemental financial assurance requirement.

Chevron Answer: *Chevron supports a phased compliance option over a 5-year period to mitigate potential significant risk to companies and to provide adequate time for the bonding market to adjust.*

Other Questions

BOEM Question: BOEM is considering the inclusion of offshore joint and several decommissioning liabilities (of the co-lessees that would otherwise have exempted the lessee from providing supplemental financial assurance) in the determination of a proxy credit rating when these liabilities are “disproportionately high” and may encumber that co-lessee’s ability to carry out future obligations. BOEM is requesting comments on the appropriate criteria to determine what constitutes “disproportionately high” offshore liabilities, for example, a ratio of decommissioning liabilities to the net worth of the co-lessee above X times, or other financially significant and reasonable criteria on how these liabilities should best be incorporated into the proxy credit rating that BOEM will derive.

Chevron’s Answer: *Chevron believes that it is of paramount importance that each and every current lessee and grant holder be able to demonstrate that it has the financial capability to meet all of its lease/grant obligations, including decommissioning.*

BOEM Question: The use of End-of-Life (Years) in the evaluation of asset value as an alternative to using the decommissioning costs ratio. BOEM requests comments on the use of a minimum number of years of production remaining criterion to qualify for an exemption from supplemental financial assurance. Possibly, End-of-Life criteria could be an alternative to the 3:1 ratio of value of reserves to decommissioning costs.

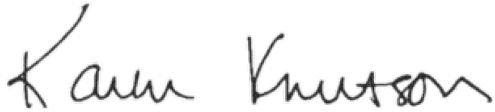
Chevron’s Answer: *Chevron supports the use of decommissioning ratios in lieu of the use of End-of-Life. The value of reserves and cost of decommissioning are subject to fewer variables than End-of-Life, which may be driven by a company’s cost of operating as opposed to the intrinsic value of the asset.*

BOEM Question: Should BOEM exclude third party guarantors from the requirement of §556.902(a)(2) that guarantors must “guarantee compliance with all obligations of all lessees, operating rights, owners and operators on the lease” in addition to allowing a third-party guarantee to be limited in amount?

Chevron’s Answer: *Yes. This is in line with the intent of the proposed rule to make third party guarantees a more commercially viable vehicle of providing financial assurance. A guarantor is unlikely to provide a guarantee unless it can be reasonably certain of its potential exposure. A guarantor can assess its exposure to the risks of the party whose liabilities it seeks to guarantee but has no reasonable ability to perform the same due diligence on third parties. In addition, the guarantor is at risk of becoming liable for new lessees, operating rights owners, and operators. Excluding third party guarantors from the requirement of §556.902(a)(2) is also in line with the intent of the Proposed Rule by ensuring there is adequate assurance that a lessee can perform its obligations.*

Should you have any questions regarding Chevron's comments or feedback on the proposed rule, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "Kaim Knutson". The signature is written in a cursive style with a large initial 'K' and a long, sweeping underline.