



Delta Consultants



Environmental Liability Transfer for Petroleum Marketers

Presented to:  2007 Annual Meeting Attendees



Value Proposition

Environmental Liability Transfer Programs provide responsible parties with the opportunity to transfer known and unknown liabilities to a third party for a fixed cost, backed by insurance products.

- **Quantification and capping of future costs** with protection against inflation and changing regulatory drivers
- Applicable to **single sites or portfolios** of sites
- **Pre-funding** at Net Present Value (proceeds from sale?)
- Can incorporate **alternative funding sources**, e.g. state reimbursement programs or pre-existing insurance policies
- Potential **tax advantages**
- Potential **balance sheet relief**
- Potential for the elimination of intrusive due diligence activities
- **Asset transaction support** for risk adverse buyers
- **Flexible structure** to meet client specific needs
- **Walk-away strategy for the responsible party** resulting in the elimination or reduction of internal management costs



Typical Program Features

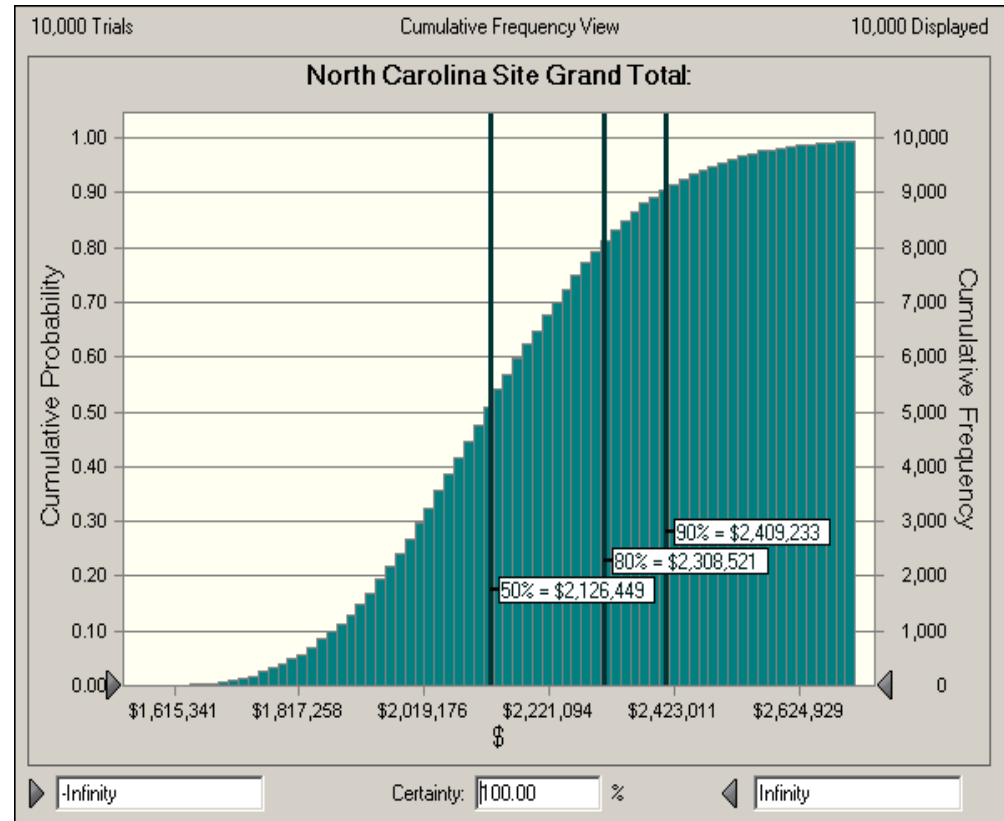
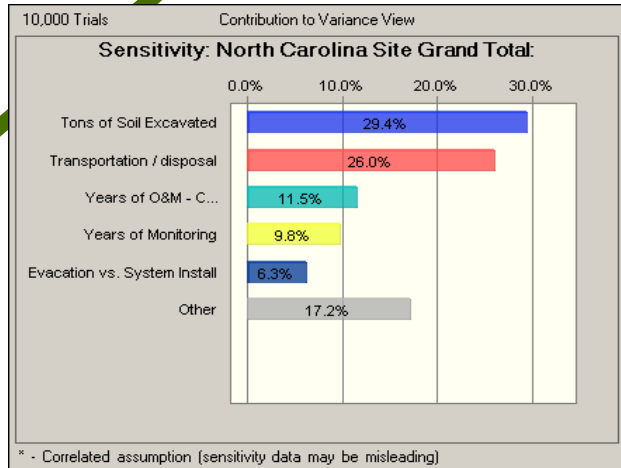
- Comprehensive Due Diligence Process
- Probabilistic Cost Forecast Modeling
- Remediation Contract (Indemnifications)
- Insurance Products
 - Remediation Cost Cap
 - Pollution Liability
- Asset Purchase Agreement Negotiation Support
- Execution/Implementation



Program Development Process

- Comprehensive Data Review/Gap Analysis
- Focused Evaluation to Reduce/Eliminate Data Gaps
- Probabilistic Cost Modeling to Establish Defensible Cost Scenarios
- Evaluation of Client-Specific Management Strategies

Probabilistic Cost Modeling



- Establish detailed likely / low / high cost estimates for all remediation components
- Establish various scenarios and outcomes that could affect cost (T&D cost changes, cleanup goal changes, remedial approach fails, more wells needed, etc.)
- Comprehensive site information input to cost modeling software such as Crystal Ball® (industry-accepted tool, based on Monte Carlo simulation)
- Output is used to estimate total environmental liability and to negotiate insurance coverage

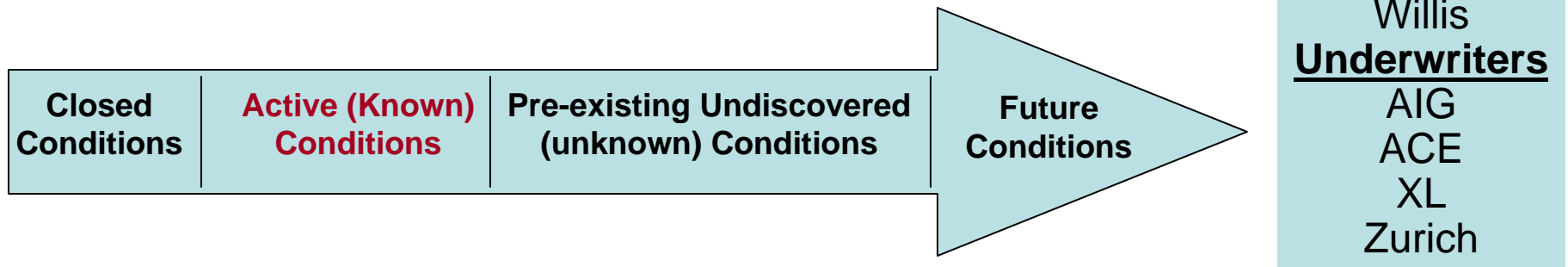
Range of Costs: \$1.6 MM to \$3.1MM
Mean: \$2.2 M



Insurance Products

Remediation Cost Cap (RCC) - policies cover cost overruns associated with the remediation of known conditions.

- Discovery of additional contamination
- Change in regulatory requirements during policy term
- Unexpected site conditions
- Increases to base costs
- Failure of clean-up technology

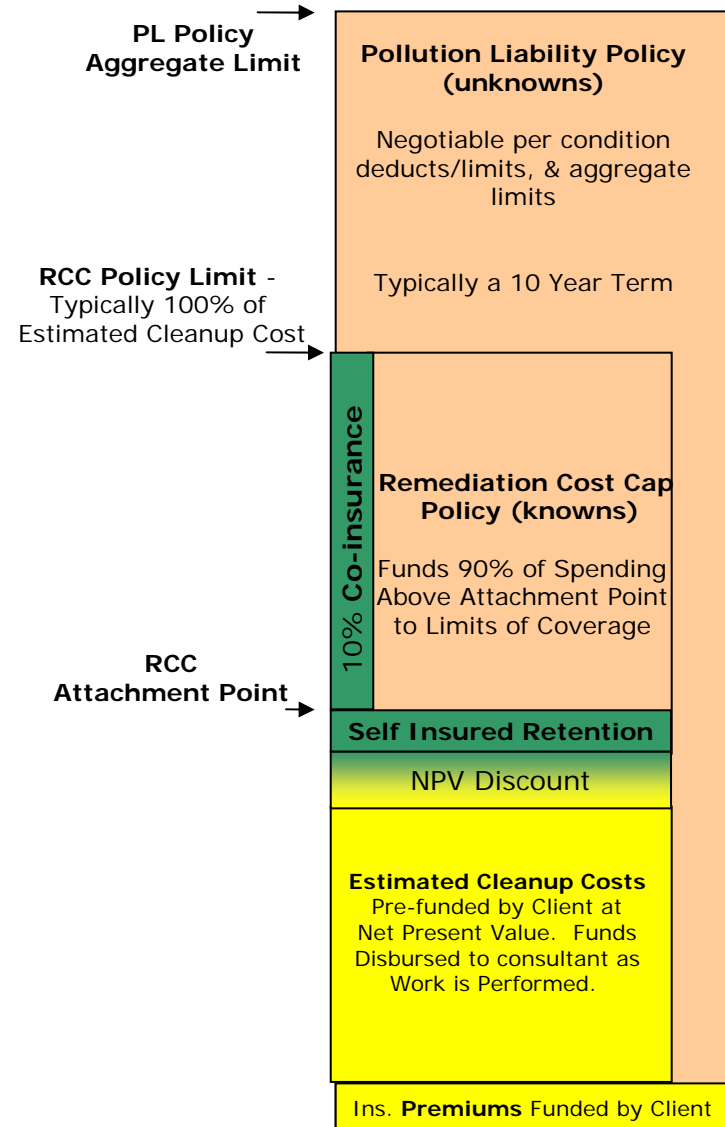


Pollution Liability (PL) - policies provide protection against pre-existing unknown conditions including unknown incidents, regulatory re-openers, third party claims, and non-owned disposal facilities. Tank Insurance is a type of PL policy that addresses future conditions.



Hypothetical Risk Transfer Structure

- RCC Attachment point reflects *Insurers* estimate, plus a contingency, based on their own engineering review.
- Funding vs. Attachment Point gap (deductible), co-insurance provisions (e.g. 10% to 20% of loss), and risk/reward pool serve as incentives to avoid claims.
- All remediation costs erode a single Self Insured Retention (SIR) layer.
- PL policy includes negotiable per incident deductibles/limits, and an aggregate limit.
- Insurance premium(s) represent a one time cost.





Additional Considerations

- Liability transfer is contractual and not necessarily recognized by regulators.
- Evaluation, underwriting, and contracting process typically takes 90-180 days assuming stakeholder motivation.
- Insurance markets require deal size of \$2MM+ in liabilities with the sweet spot lying in the \$5-\$15MM range.
- Identify and involve all stakeholders early in the process to avoid contracting delays late in the game:
 - Buyers/sellers
 - Underwriters/Broker
 - Consultant
 - Lenders
 - Escrow agent
 - REITs
- Unknowns and data gaps = uncertainty and conservative forecasts. More information is better.
- Risk Transfer Premium – Base Case forecast adjusted to a higher probability, plus insurance costs.
- Tradeoff is certainty and the elimination of mgmt overhead.



Questions?

At Delta, we believe successful endeavors are a combination of expertise, integrity and focused intent.

Our commitment to market-specific consulting and well-defined service offerings, delivered with professionalism and accountability, is the key to sustainable strategies that foster your success.

Put our innovation and integrity to work for you.

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