# LIABILITIES FOR THOSE WHO LEASE: SHARING THE PAIN?

***[From: http://finance.yahoo.com/news/shale-ionaires-suffering-wave-bankrupt-000003079.html;_ylt=AwrC0wxOvWtVgVkATS2ZmolQ;_ylu=X3o DMTBzdWd2cWI5BGNvbG8DYmYxBHBvcwMxMAR2dGlkAwRzZWMDc3I-]***

"When business tanks, [resource owners] share the pain with producers. … Royalty payouts from bankrupt operations have shrunk to a fraction of the rates paid before the crash, sometimes more than can be explained by the drop in oil price. In the worst cases, **landowners can be left with no one to take responsibility for abandoned waste, spills and other hazards,** say industry experts who have past experience with oil busts. …

**"One of the biggest concerns is that workers who haven't been paid may walk off the job without taking the necessary steps to clean up or secure the site.** That leaves the ranchers and homeowners that allowed companies to extract minerals from their land at risk. Filing a lawsuit isn't helpful because the company responsible is insolvent… Turning to state officials for help is a waiting game, as the agencies responsible for oil and gas cleanups are shorthanded and usually have a long waiting list. Finding a company representative to sort out problems with royalty payments also is more difficult during bankruptcies, when company workforces may have been reduced to skeleton crews. … Geography can also become a headache when royalty owners don't have easy access to court proceedings in another state."

***[From: http://www.genre.com/knowledge/blog/who-will-bear-the-cleanup-costs-when-a-driller-goes-bankrupt.html]***

"Ohio environmental regulators were led to Hardrock Excavating's Youngstown property, which has 58 tanks that could each hold about 20,000 gallons, on Jan. 31 by an anonymous tip, according to court papers. They found black water coming from a hose connected to the storage tank that ran to the stream, court papers said. Some of the wastewater in the tank was very dark and had an 'oil-like viscosity, much like used motor oil'... Mr. Lupo later admitted he told an employee to empty the tank after dark and said it wasn't the first time he gave that order... An employee said Mr. Lupo gave the order more than 20 times...

"According to the article, D&L Energy, owned by Mr. Lupo, has drilled some 580 wells in Ohio and Pennsylvania. One must wonder about the environmental management practices employed at these other wells.

**"I've been concerned about whether those leasing land to drillers could be pulled into litigation and made responsible for paying for remediation of contaminated land, surface water or groundwater, or toxic tort litigation.** This case seems to provide an illustrative scenario. If additional cleanup costs are needed for this well site, or any contamination at the other wells drilled by this company, or if the drinking water wells of neighbors have been contaminated by the actions of this bankrupt driller, who will pay for any remaining cleanup costs? Land lessors are often deemed owners and operators of the well."

*[From: https://www.moodys.com/research/Moodys-downgrades-Alta-Mesa-to-Caa1-outlook-negative--PR_330738]*

# Moody's downgrades Alta Mesa [yet again] to Caa1; outlook negative

## Global Credit Research - 27 Jul 2015

### Approximately $450 million of debt securities affected

New York, July 27, 2015 – Moody's Investors Service, ("Moody's") downgraded Alta Mesa Holdings LP's (Alta Mesa) Corporate Family Rating (CFR) to Caa1 from B3, Probability of Default Rating (PDR) to Caa1-PD from B3-PD, senior unsecured rating to Caa2 from Caa1, and affirmed the SGL-4 Speculative Grade Liquidity rating. The rating outlook is negative.

"Alta Mesa will continue to struggle with weak liquidity, high leverage and limited cash flow generation in a low commodity price environment through 2016," said Sajjad Alam, Moody's AVP-Analyst." Although the company has made progress in shoring up its liquidity position in 2015 by issuing a $125 million second lien term loan, it will continue to face elevated covenant violation risks through 2016 absent further reduction in debt level or a material recovery in oil prices."

Downgraded:
.... Corporate Family Rating, Downgraded to Caa1 from B3
.... Probability of Default Rating, Downgraded to Caa1-PD from B3-PD
.... Senior Unsecured Rating, Downgraded to Caa2 from Caa1
Affirmed:
.... Speculative Grade Liquidity Rating, affirmed at SGL-4
Outlook: Negative

RATINGS RATIONALE:

The Caa1 CFR reflects Alta Mesa's weak liquidity, high leverage, limited scale, and the risks of further degradation in credit metrics in a low oil and natural gas price environment. Given our view of continued weakness in oil prices through 2016, the company will generate weak cash flows and have limited ability to reinvest in its business increasing the likelihood of declining production and earnings and potential covenant violation. …

The negative outlook reflects weak liquidity and the risks of further credit erosion. We will downgrade the CFR if the company is unable to raise additional liquidity and reduce revolver debt to avoid a potential covenant violation in late 2015. A downgrade is also likely if the EBITDA to interest ratio cannot be sustained above 1.5x or total liquidity (cash plus revolver availability) falls below $40 million. An upgrade is unlikely in 2015. However, if the company can show a stable to growing production trend, a retained cash flow to debt ratio above 20%, and adequate liquidity, an upgrade could be considered. …

**The State of Idaho is bending over backwards for (if not *forcing* you, if your property is "integrated", to have business dealings with) a company on shaky financial ground. Is this fair or wise? Tell your legislators what you think.**