



**The State of Israel**  
**The Ministry of Energy**  
**Natural Resources Administration**

**Oil and gas**

Tamuz 15, 5779

July 18, 2019

Petroleum\_160\_2019

**Re: Guidelines for the Provision of Collateral with regard to Rights granted under the Petroleum Law<sup>1</sup>**

Below are guidelines regarding the provision of collateral with regard to petroleum rights required by virtue of the provisions of Section 57 of the Petroleum Law, 5712-1952 (the “**Petroleum Law**”).

Applicants for petroleum rights and holders of rights, will be required to submit collateral to the office of the Petroleum Commissioner (the “**Commissioner**”) as follows:

- (a) An autonomous bank guarantee in accordance with the provisions of the guidelines and in the form attached hereto as Annex A.
- (b) Confirmations regarding an insurance policy in accordance with the requirements specified herein, and in the language attached hereto as Annex B.

**A. Bank guarantees**

**1. Onshore and offshore licenses – base guarantee**

- a. Applicants for new onshore licenses shall deposit with the Commissioner's Office a bank guarantee (“**Guarantee**”) in the amount of 500,000 U.S. Dollars (“**USD**”).
- b. Rules regarding the submission of base guarantees for new offshore licenses shall be determined as part of the procedures for granting offshore licenses.

**2. New and existing licenses – additional guarantee**

- a. Prior to drilling, the license holders will be required to submit an additional guarantee as specified in this section.
- b. Upon granting of an application for approval of the drilling, to which the drilling plan will be attached, the Commissioner shall determine the

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<sup>1</sup> The English version of all translated law and regulation documents is a non-binding, unofficial translation from the original, binding, Hebrew version and is published for the convenience of the Public. Only the Hebrew version, as officially published in the official gazette (Reshumot) or in the Ministry of Energy website, or in the Israel Government Secretariat, as applicable, shall be binding

amount of the additional guarantee in accordance with the characteristics of the drilling and the drilling plan, shall notify the license holder thereof in writing, and the license holder shall deposit the additional guarantee with the Commissioner Office.

- c. The amount of the additional guarantee for onshore licenses shall be no less than USD 250,000, and the amount of the additional guarantee for offshore licenses shall be no less than USD 5,000,000.
- d. The guarantee, as determined by the Commissioner, shall be deposited with the Commissioner Office for each drilling separately, and at least 14 days prior to the drilling date, which was specified in the application for approval of the drilling, granted by the Commissioner.
- e. If the Commissioner finds that exceptional circumstances so justify, such as the nature of the work plan and the nature of the possible damage, he may demand, *ab initio*, a guarantee in an amount lower than the amount stated in subsection 2(c) for grounds to be recorded.

### **3. Guarantee validity and period**

- a. The base guarantee for new onshore licenses shall be initially valid for a period of one year. The holder of the right shall renew the guarantee periodically until the Commissioner's notice that the guarantee is no longer required, in accordance with the provisions of Section 5(b) hereof.
- b. The base guarantee and the additional guarantee for existing onshore and offshore licenses shall be valid for a period of one year from the date set forth in these guidelines, and the guarantees shall be updated as specified in Section 5(b) hereof, for a period to be determined by the Commissioner. The holder of the right shall renew the guarantee periodically until the Commissioner's notice that the guarantee is no longer required.
- c. The guarantees provided pursuant to these guidelines shall remain in effect also after expiration of the right for which they were provided, so long as the Commissioner did not notify that they are not required, but not more than seven years after expiration of the right for which they were granted.
- d. The guarantees shall be returned as follows:
  - 1. **The additional guarantee** will be returned to the holder of the right in full only after the Commissioner is convinced that the holder of the right has properly sealed the well, rehabilitated the area and restored it to its previous condition as required, but no earlier than 12 months from the date of performance of the sealing.

2. **The base guarantee** shall remain with the Commissioner so long as the Commissioner has not notified that it is no longer required, but not more than 7 years after expiration of the right, for which it was granted.
- e. If the license holder reached a discovery and received a lease, the base guarantee and the additional guarantee will be returned against the submission of a new guarantee under the terms and conditions of the lease.

#### **4. Petroleum leases**

- a. The Commissioner shall determine the amount of the guarantee for the leases granted under the Petroleum Law, taking into consideration, *inter alia*, the development plan, the characteristics of the lease, its development stage and the size of the petroleum field.
- b. The amount of the guarantee shall be no less than USD 1,500,000 for an onshore lease, and USD 7,500,000 for an offshore lease.
- c. Guarantees for leases will be deposited upon the grant of the lease, for a period to be determined by the Commissioner.
- d. If the Commissioner believes that, following a change in circumstances, including due to approval of changes to the development plan or due to the nature of the possible damage, the guarantee should be increased, the Commissioner shall order an increase of the guarantee amount and the lease holder shall deposit a guarantee in accordance with the Commissioner's instructions within 45 days from receipt of the notice on the increase of the guarantee.

#### **5. Update of the guarantee amount and extension thereof**

- a. The Commissioner's decisions regarding an increase of the guarantee amount as stated in Section 4(d) or determination of an amount different to that stated in Section 2(c), shall be issued after the holder of the right is afforded an opportunity to present its arguments on the matter.
- b. Upon expiration of the said period, the validity of the guarantee shall be extended for its amount at that time for one additional year each time, no later than 60 days before its expiration date. The holder of the petroleum right will renew the guarantee every year, also after the expiration of the right, so long as the Commissioner did not notify that it is no longer required and subject to Section 57(c) of the Petroleum Law.
- c. If the guarantee has not been renewed at such time, the Commissioner shall notify the holder of the right by written notice that it must renew the guarantee within 7 days. If the holder of the right does not renew the guarantee, the Commissioner may forfeit the entire guarantee prior to its expiration.

**6. Forfeiture of the base guarantee and the additional guarantee**

- a. If the Commissioner believes that the holder of the petroleum right did not act diligently in the petroleum right; or failed to keep with the work plan which was approved by the Commissioner; or caused damage in its operations due to the petroleum right; or did not incur expenses or fulfill obligations which it is required to incur or fulfill under the Petroleum Law, and the Commissioner instructed the holder of the petroleum right by written notice, to carry out actions or incur expenses or fulfill obligations pertaining to the petroleum right, and the holder of the petroleum right did not fulfill such instruction and the Commissioner believes that it did not provide adequate reasons for such failure, the Commissioner may order the forfeiture of the base guarantee or the additional guarantee, or both of them or any part thereof, after hearing the arguments of the holder of the right.
- b. The Commissioner shall notify the holder of the right of his intention to forfeit guarantees by a notice, which shall include, *inter alia*, the following:
  - (1) The grounds for forfeiture of the guarantees;
  - (2) Specification of the factual foundation that *prima facie* establishes the grounds for forfeiture of the guarantees;
  - (3) The amount he intends to forfeit;
  - (4) The considerations that led him to determine the amount of the forfeiture;
  - (5) The entitlement of the holder of the right to present its arguments before the Commissioner, in accordance with the provisions of this section.
- c. A holder of a right to whom notice of intention of forfeiture has been delivered, may present its arguments to the Commissioner in writing, as the Commissioner shall instruct, regarding both the decision to forfeit the guarantees and the amount of the forfeiture, within 14 days from the date of delivery of the notice. The Commissioner may, at the request of the holder of the right, extend the period stated in this section for no longer than 14 additional days.
- d. The Commissioner shall decide, after considering the arguments presented under Section (c) whether to forfeit the guarantees and the amount to be forfeited, and shall give the holder of the right written notice regarding the same, as well as the reasons for his decision.
- e. If the holder of the right does not present its arguments under (c) at the end of the said period, the notice of the forfeiture intention shall be deemed as notice of forfeiture which was delivered to the holder of the right on such date.

- f. If a guarantee or any part thereof is forfeited, the holder of the right shall provide a new guarantee, or make up its balance up to the amount of the guarantee, as it is meant to be at that time, immediately upon receipt of the Commissioner's demand.

## **7. General provisions regarding the guarantees**

- a. The amounts of the guarantees shall not limit the extent of liability of the holder of the right vis-à-vis the State for the payment of the full damage caused to the State (including any of its authorities), for which the holder of the right is liable under the terms and conditions of its right or any law.
- b. Neither the forfeiture power nor the forfeiture shall derogate from the power to terminate, limit or suspend the petroleum right according to the provisions of the Law and the terms and conditions of the right.
- c. Neither the forfeiture power nor the forfeiture shall derogate from the right of the State to claim payment from the holder of the petroleum right, for damage for which it is liable under the terms and conditions of the right, nor derogate from the right of the State or the Commissioner to claim any other remedy or relief under any law or the terms and conditions of the right.
- d. It is clarified that insofar as the guarantees are provided by each one of the constituents of the holder of the right according to its proportionate share, any amount of forfeiture under this section shall be divided *pro rata* between the guarantees provided as aforesaid.
- e. If guarantees are provided by each one of the constituents of the holder of the right according to its proportionate share, and the Commissioner approved the transfer of the petroleum right, the transferor's guarantee shall not be returned before the transferee has furnished a guarantee according to these guidelines, for an amount no less than the amount of the transferor's guarantee, and the transferee's guarantee shall have been approved by the Commissioner.
- f. The language of the guarantee shall be in accordance with Annex A hereto and shall be signed by authorized signatories on behalf of the Bank.
- g. The costs of the guarantee shall be borne solely by the holder of the right.
- h. The Guarantee shall be granted by an Israeli bank or a foreign bank who has an office in Israel.

## **B. Insurance policies**

### **1. Insurance requirements**

- a. The holder of the petroleum right shall purchase, at its own expense, and maintain throughout the entire period of the petroleum right, any and all standard insurance policies of international companies engaged in the exploration or production of oil or natural gas, pursuant to the requirement which are specified herein, and submit to the Commissioner on an annual basis insurance certificates according to the provisions of **Annex B** hereto.
- b. The policies shall be taken out with reputable insurance companies, rated by Standard and Poor's as "A-" or higher, or having a parallel rating from a similar international rating company which is acceptable to the Commissioner. The aforesaid notwithstanding, the holder of the right may purchase insurance as specified below:
  1. Insurance by an insurance company which is rated by Standard and Poor's as "BBB" or higher, or having a parallel rating from a similar international rating company, provided that the entire portion of the policy issued by companies rated as BBB shall not exceed 10% of the total scope of the insurance policy.
  2. If the rating of an insurance company shall have decreased during the insurance term, below the rating which is required hereunder, the holder of the right shall deliver, directly or through the broker, a notice thereof to the Commissioner within 30 days.
  3. The insurance company whose rating has decreased during the insurance term, below the rating which is required hereunder, may participate in the insurance policy for a period that shall not exceed 60 days from the date of reduction of the rating as aforesaid.
- c. Insurance with a 'captive' insurance company shall only be taken out if the 'captive' insurance policy or its reinsurers are rated by Standard and Poor's as "A-" or higher, or have a parallel rating from a similar international rating company. If the rating of the 'captive' insurance company or its reinsurers shall have decreased during the insurance term, below the rating which is required hereunder, the holder of the right shall deliver, directly or through the broker, a notice thereof to the Commissioner within 30 days. The 'captive' insurance company or its reinsurers may participate in the insurance policy for a period that shall not exceed 60 days from the date of reduction of the rating below the above required rating, as aforesaid.
- d. The insurance policies will be on terms and conditions which are suitable for the cover of the scopes and types of activity of the holder of the petroleum right, and the exposure entailed by its operation, and will at least cover (but not be limited to) the following risks:

1. Loss or damage to facilities, equipment and other assets which are used for the production of oil and gas onshore and offshore, as the case may be;
  2. Control of well, redrill and any contamination or other environmental damage caused as a result of the exploration or production of oil and gas, onshore and offshore, as the case may be;
  3. Loss of property or damage or bodily injury caused to any third party during activities for the exploration or production of oil and gas, onshore and offshore, as the case may be;
  4. The cost of debris removal and cleaning activities which are required due to an accident which occurred during the exploration or production of oil and gas, onshore and offshore, including abandonment. In addition, with respect to essential facilities, equipment and assets leased by the holder of the petroleum right, the holder of the petroleum right must require the lessor to take out an insurance for debris removal and cleaning activities in respect of such essential facilities, equipment and assets while they are used by the holder of the petroleum right, and further demand a waiver of a right of subrogation, claim, contribution or recourse against the State of Israel – the Government ministries and any of its authorities (other than exposure to acts of war or terrorism). Facilities, equipment and assets shall be defined as essential in each petroleum right according to the Commissioner's discretion. The holder of the right must file with the Commissioner a certificate of insurance as stated herein.
- e. The holder of the petroleum right must use its best efforts to have all of the sub-contractors who act on its behalf in Israel or in the Exclusive Economic Zone of the State of Israel maintain insurance which covers the risks which are covered by the insurance of the holder of the right, as specified in Section d(3) above. The required insurance shall cover, according to the operations of the sub-contractor, *inter alia* the following risks: protection & indemnity; third party liability; and aviation liability. A contractor acting on behalf of the holder of the petroleum right must take out insurance to cover the costs of debris removal and cleaning activities related thereto, deriving from an accident which occurred during the exploration or production of oil and gas, onshore and offshore. The holder of the petroleum right shall submit to the Commissioner, if required to do so, evidence of such policies of the sub-contractor. Furthermore, the holder of the petroleum right must use its best efforts to have the sub-contractor's insurance include a waiver of any right of subrogation, claim, contribution or recourse against the State of Israel – the Government ministries and any of its authorities (other than exposure to acts of war or terrorism). The holder of the petroleum right will file with the Commissioner a certificate of insurance as stated herein.



- f. The holder of the petroleum right will submit, at least 60 days prior to the performance of exploration, development, production or abandonment, a detailed insurance plan which will include details regarding the limits of liability of the required policies. The plan must include a clear explanation of the limits of liability in the insurance policies and a clear methodology for a well substantiated assessment of the costs entailed by a worst-case wild well blowout scenario and the cleaning activities involved therein, as well as redrill. The insurance policies shall be taken out according to the specification of the insurance plan.
- g. The holder of the petroleum rights will ensure that the liability policies taken out according to the insurance plan, will include the State of Israel, the Government ministries and any of its authorities as additional insured parties, to cover their liability in respect of acts or omissions of the holder of the petroleum right, and that each one of the policies will state that the policy is irrevocable without giving written notice to the Commissioner no less than 30 days prior to the date of cancellation, and that the insurance company waives any right of subrogation, claim, contribution or recourse against the State of Israel, the Government ministries and any of its authorities.
- h. At least 30 days prior to any exploration, development, production or abandonment, and every year thereafter, the holder of the petroleum right will submit to the Commissioner a certificate signed by the insurer or an international broker regarding the insurance policies which were taken out according to these guidelines. The content of the certificate and the manner of submission thereof shall be in accordance with the provisions of **Annex B**.
- i. In addition to the aforesaid, and pursuant to the Commissioner's requirement, the holder of the petroleum right shall submit to the Commissioner the following:
  - 1. Explanations regarding the content of the insurance, its type and scope and the liabilities thereunder;
  - 2. Assessments of the type and size of the risks involved in the operations of the holder of the petroleum right;
  - 3. Any other information pertaining to the insurance policies hereunder, as the Commissioner will deem necessary, according to his own discretion, including the actual insurance policies, if the Commissioner believes that there are circumstances which justify the same;
- j. For the avoidance of doubt, the submission of the certificate to the Commissioner as specified in **Annex B** shall not derogate from the responsibility of the holder of the petroleum right to maintain the required level of insurance. It is further clarified that the cost of the



deductible stated in each policy shall apply exclusively to the holder of the petroleum right, or the sub-contractor or lessor, as the case may be.

- k. The Commissioner may require the holder of the petroleum right to perform, at its own expense, assessments and risk surveys as the Commissioner will deem necessary in order to determine the suitability of the policies.
- l. Without derogating from the foregoing, the Commissioner may determine and add instructions in respect of the applicability of the policies, their type and scope and the liabilities thereunder, after allowing the holder of the petroleum right to present its arguments and position in this respect. If such instructions are determined, the holder of the petroleum right will comply with the Commissioner's instructions. It is clarified that the insurance requirements specified herein are minimum requirements, and the holder of the petroleum right must adjust the scope of the insurance and its applicability as required.
- m. The holder of the petroleum right will fulfil all the requirements included in the insurance contracts, including the payment of premium, as required by the policies.
- n. If a cancellation notice is sent in respect of an insurance, the holder of the petroleum right will take immediate action to remove the cause of the cancellation or will immediately act to obtain alternative insurance, and will further immediately inform the Commissioner of the acts so taken.
- o. In the event that the holder of the petroleum right shall have failed to comply with the insurance requirements hereunder, or upon the cancellation or expiration of the insurance for any reason whatsoever, including failure to pay the insurance premium, and the holder of the right shall have failed to provide a new alternative insurance, the Commissioner may, if he shall so deem fit, forfeit the guarantee which was submitted in respect of the right or any part thereof.

## 2. Applicability

- a. These guidelines shall enter into effect with respect to the holders of existing petroleum rights on June 6, 2019 (the "**Effective Date**").
- b. The holders of the petroleum rights who are in the midst of exploration, development, production or abandonment, of holders of petroleum rights who applied for the approval of such operations prior to the publication of these guidelines, shall submit to the Commissioner the insurance plan which is required herein no later than 60 days after the Effective Date. The insurance certificate which is required pursuant to **Annex B** shall be submitted no later than 45 days of the date of submission of the insurance plan.

## C. General Provision

Should the holder of the petroleum right fail to comply with these guidelines, or should it transpire that the guarantee or insurance taken were canceled or terminated for any reason whatsoever, prior to their renewal, extension or replacement by other guarantee or insurance, the Commissioner may forfeit the existing guarantee in respect of the right and act to reduce potential damage, at the expense of the holder of the right. Furthermore, the Commissioner may deem the same as failure to comply with the work plan and the provisions of the right, and act according to the provisions of Section 55 of the Petroleum Law.

**Annex A – Letter of guarantee**

Name of Bank \_\_\_\_\_  
 Telephone No. \_\_\_\_\_  
 Fax No. \_\_\_\_\_

**Letter of guarantee**

To  
 The Petroleum Commissioner  
 Through the Ministry of Energy

**Re: Guarantee No.** \_\_\_\_\_

We hereby guarantee to you the payment of any amount up to **USD** \_\_\_\_\_ (in words \_\_\_\_\_) which you will demand of: \_\_\_\_\_ (the “**Debtor**”) in connection with the \_\_\_\_\_ license/lease, granted under the Petroleum Law, 5712-1952 and in connection with compliance with the terms and conditions of the right, the provisions of the Petroleum Law, 5712-1952 and the guidelines of the Petroleum Commissioner, and any damage that may be caused in connection with the activity or inactivity in the license/lease, including in connection with the execution or non-execution of an abandonment plan.

We will pay you the above amount within 15 days from the date of your first demand sent to us in a letter by registered mail, without any obligation on your part to explain your demand and without asserting against you any defense argument which may be available to the Debtor in connection with the obligations to you, or first demanding payment of the said amount from the Debtor.

This guarantee shall be in effect from \_\_\_\_\_ until \_\_\_\_\_

A demand under this guarantee should be directed to the branch of the bank at the following address: \_\_\_\_\_

Name of bank \_\_\_\_\_  
 Bank no. and branch no. \_\_\_\_\_  
 Address of the branch of the bank \_\_\_\_\_

This guarantee may not be transferred. \_

\_\_\_\_\_

Annex B

**Insurance Certificate**

Issued annually by each petroleum right holder to the Petroleum Commissioner of the State of Israel, the Ministry of Energy (the "Ministry").

We the undersigned Insurance Broker/Insurer (including Captive Insurance Company) certify as follows:

- (1) That the policies detailed below have been issued to.....  
(hereinafter referred to as the "**Insured**") whose address is  
at.....  
.....
- (2) That subject to the policies terms and conditions including the payment of any premium due, the policies provide for:

Exploration Phase

Control of Well including cover for Redrill, Seepage and Pollution, Clean up and Contamination insurance with a Combined Single Limit of USD .....  
Per Occurrence/Accident [100%] OR [for Insured's % interest]. –

Deductible: Per Occurrence/Accident USD \$..... [100%] OR [for Insured's % interest].

Policy number .....

Effective from..... and expiring on .....

Third Party Liability insurance covering legal liability for bodily injury and or property damage up to a limit of USD..... Per Occurrence/Accident and in the aggregate [100%] OR [for Insured's % interest].

Deductible: Per Occurrence/Accident US \$..... [100%] OR [for Insured's % interest].

Policy number .....

Effective from..... and expiring on.....

Development Phase

- Control of well including cover for Redrill, Seepage and Pollution, Clean up and Contamination insurance with a combined single limit of USD..... Per Occurrence/Accident [100%] OR [for Insured's % interest].

Deductible: Per Occurrence/Accident USD..... [100%] OR [for Insured's % interest].

Policy number .....

Effective from..... and expiring on.....

- Third Party Liability insurance covering legal liability for bodily injury and or property damage up to a limit of USD..... Per Occurrence/Accident and in the aggregate [100%] OR [for Insured's %interest].

Deductible: Per Occurrence/Accident USD..... [100%] OR [for Insured's % interest].

Policy number .....

Effective from..... and expiring on.....

- Erection / Construction All Risk insurance with a sum insured of USD ..... [100%] OR [for Insured's % interest]

Deductible: Per Occurrence/ Accident USD..... [100%] OR [for Insured's % interest].

Policy number .....

Effective from..... and expiring on.....

Operational Phase

- Control of Well including cover for Seepage and Pollution, Clean up and Contamination insurance' with a combined single limit of USD..... Per Occurrence/Accident [100%] OR [for Insured's % interest].

Deductible: Per Occurrence/Accident USD..... [100%] OR [for Insured's % interest].

Policy number .....

Effective from..... and expiring on.....

- Third Party Liability insurance covering legal liability for bodily injury and or property damage up to a limit of USD ..... Per Occurrence/Accident and in the aggregate [100%] OR [for Insured's % interest].

Deductible: Per Occurrence/ Accident USD..... [100%] OR [for Insured's % interest].

Policy number .....

Effective from..... and expiring on.....

- Property All Risk insurance with a sum insured of USD ..... [100%]  
OR [for Insured's % interest

Deductible: Per Occurrence/Accident USD..... [100%] OR [for Insured's % interest].

Policy number .....

Effective from..... and expiring on.....

1. This certificate recognizes an insurance plan has been provided to the Petroleum Commissioner, but does not represent any confirmation of the validity of such a plan by the undersigned.
2. The certifying company should stipulate any exclusions which have been added to the standard market wording which may prejudice the interests of the State of Israel/the Ministry.
3. The following conditions apply to all of the policies in all phases:
  1. The State of Israel and/or any of its authorities are provided with a waiver of subrogation on all insurances referred to in this certificate.
  2. Should the policy be cancelled or adversely materially changed before the expiration date the Insurance Broker/leading insurer will provide 30 days written notice to the State of Israel as follows:

To: the Petroleum Commissioner

Ministry Energy

Address: 7 Bank Israel St., POB 36148, Jerusalem 9195021, Israel

Phone: +972-74-7681531

Fax: +972-74-7681568

3. In liability policies only: The State of Israel and/or any of its authorities is added as an additional Insured party for its liability arising out of any act or omission of the Insured, and the policy includes an applicable Cross Liability clause.
4. The property policies include cover for removal of debris as scheduled.
5. At least 90% (100% in the case of captives) of the risk is insured or reinsured with insurers/reinsurers holding the following credit or financial strength ratings: "A-" or higher from Standard and Poor's and/or the equivalent from another internationally recognized credit rating agency. The remaining 10% of the risk is insured or reinsured with insurers/reinsurers holding the following credit or financial strength

ratings: "BBB" or higher from Standard and Poor's and/or the equivalent from another internationally recognized credit rating agency.

6. If any such insurer/reinsurer ceases to satisfy such requirement resulting in a breach of the above, then Insurance Broker/Leading Insurer shall as soon as practicable notify the Insured and Ministry in writing of the same.

Signed for and on behalf of the Insurance Broker/Leading Insurer (including Captive Insurance Company) follows:

**Name of Insurance Broker/Leading Insurer (including Captive Insurance Company)**

.....

**Address of Insurance Broker/Leading Insurer (including Captive Insurance Company)**

.....

**Authorized Signature**

.....

**Full Name**

.....

**Title**

.....

**Date**

.....

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