Joint Interest and Audit Standing Committees
Summer 2018 National Meeting
Thursday July 19, 2018
Denver, Colorado
AGENDA

TIME	AGENDA ITEM	DISCUSSSION LEADERS
8:00	**Welcome and Introductions** **Antitrust Statement** **First Timers**	**Dalin Error/Jonathon Beene**
8:15	**COPAS Board of Directors Report**	**TBD**
8:20	**Mentoring Committee Update**	**TBD**
8:25	**Project Update: Model Form 20XX Accounting Procedure**	**Karla Bower**
8:45-9:35	**Presenter: Storage Tank Consent Decrees and Compliance Orders**	**Rusty Frishmuth, Highpoint**

Description:

This session will consist of a presentation by an oil & gas environmental expert on current industry issues and challenges.

Learning Objectives:

By the end of this session you will be able to:

1. Discuss the technical aspects of storage tank operation and key issues associated with storage tank-related enforcement
2. Explain the history of EPA and CDPHE enforcement actions and who is involved (i.e. basically everyone operating in the DJ)
3. Recall the key components of the Consent Decrees and Compliance Orders that are used to settle enforcement cases with CDPHE and EPA
4. Discuss the wide range of costs associated with complying with a Consent Decree or Compliance Order

Program Level: Intermediate
Pre-requisite: Some familiarity with oil & gas e&p operations
Advance Preparation: None
Delivery Method: Group Live
Field of Study: Specialized Knowledge
CPE Credits: 1

9:35 **15-Min Break (With Refreshments)**

9:50-10:40 **Presenter: Data Science for the Oil & Gas Industry** **Matthew Davis, Encana**

Description:

This session will consist of a presentation by a corporate data science expert and will involve discussions of current industry applications and challenges.

Learning Objectives:

By the end of this session you will be able to:

1. Summarize current industry trends and technologies pertaining to data science
2. Describe and discuss specific applications and challenges of data science in the o&g industry

Program Level: Intermediate
Pre-requisite: Some familiarity with oil & gas e&p operations and current technologies
Advance Preparation: None
Delivery Method: Group Live
Field of Study: Specialized Knowledge
CPE Credits: 1

10:40-11:45 **Project Update: AG-28, Real Time Operations Centers (Part 1)** **COPAS Technology Team**

Description:

This two-part session will consist of brief presentations on the Publication Review Initiative including policy and procedure and documents under review in PRI, followed by interactive analysis and discussion regarding the scope, purpose, and wording of the COPAS documents in question.

Learning Objectives:

By the end of this session you will be able to:

1. Analyze and discuss significant proposed changes to AG-28
2. Analyze and discuss some potential updates to the existing COPAS MFI Accounting Procedures for development of a new Model Form

Program Level: Intermediate
Pre-requisite: Some familiarity with the COPAS documents, their purpose and use.
Advance Preparation: None
Delivery Method: Group Live
Field of Study: Specialized Knowledge
CPE Credits: 2 (Combined)

11:45 **Break for Lunch**

12:45 1:20 **Project Update: AG-28, Real Time Operations Centers (Part 2)** **COPAS Technology Team**

Description:

A continuation of the AG-28 work session.

1:20-2:20 **Emerging Issues Case Studies** **Jeremy Rice and Jason Poteet**

Description:

This session will consist of discussion of EI case studies involving questions regarding accounting treatment for certain situations. Potential accounting issues will be discussed and proper accounting treatment debated.

Learning Objectives:

By the end of this session you will be able to:

1. Identify accounting concerns associated with each case presented
2. Analyze potential accounting treatments
3. Recall COPAS document(s) potentially addressing each issue and describe what those documents prescribe or recommend

Program Level: Intermediate
Pre-requisite: Some familiarity with the COPAS documents, their purpose and use, as well as some familiarity with general accounting standards
Advance Preparation: None
Delivery Method: Group Live
Field of Study: Specialized Knowledge
CPE Credits: 1 CPE credit hour

2:20 **15-Min Break (No Refreshments)**

2:35- 3:30 **Presenter: Blockchain Technology** **Dan Domagala, EKS&H**

Description:

This session will consist of a presentation on Blockchain technology and trends and will involve discussions of current industry applications and challenges.

Learning Objectives:

By the end of this session you will be able to:

1. Summarize evolving concepts of Trust: Local, Institutional, Distributed
2. Define Blockchain as a Distributed Ledger
3. Give examples of Blockchain technology
4. Explain the challenges and opportunities that exist with Blockchain technology

Program Level: Intermediate
Pre-requisite: Some familiarity with oil & gas e&p operations and current technologies
Advance Preparation: None
Delivery Method: Group Live
Field of Study: Specialized Knowledge
CPE Credits: 1

3:30- New Business / Open Discussion **Jonathon Beene/Dalin Error**

3:40 Adjourn

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Emerging Issues Sub-Committee Case Study

Chargeability of Security Personnel

Scenario

An Operator employs security personnel who perform well-site investigation services. For instance, if an electric motor were stolen from a well-site, the employee would inspect the well-site, inform the appropriate authorities, and potentially travel to various junk yards in the area to search for the missing equipment.

Refer to Model Form and Model Form Interpretation Excerpts below.

Questions

1) Is an investigator / security professional a "Technical Employee" and/or providing "Technical Services"? If not, what is he or she?

2) If the investigator is a "field employee," does the work fall under the scope of the definition of "Joint Operations"?

3) Does all or part of this work qualify as "on the Joint Property" and/or "On-site"? (Consider work at the wellsite, work at the various junk yards, etc.)

4) Is this work covered by the Damages & Losses language?

Pertinent COPAS Excerpts:

1984 MF Excerpts:

Section I:
"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

Section II:
3.A.(1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

9. All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

2005 MF Excerpts:
Section I:
"Joint Operations" means all operations necessary or proper for the exploration, appraisal, development, production, protection, maintenance, repair, abandonment, and restoration of the Joint Property.

"Joint Property" means the real and personal property subject to the Agreement.

"Off-site" means any location that is not considered On-site as defined in this Accounting Procedure.

"On-site" means on the Joint Property when in direct conduct of Joint Operations. The term "On-site" shall also include that portion of Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are conducted, or other facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned by the Joint Account.

"Technical Services" means services providing specific engineering, geoscience, or other professional skills, such as those performed by engineers, geologists, geophysicists, and technicians, required to handle specific operating conditions and problems for the benefit of Joint Operations; provided, however, Technical Services shall not include those functions specifically identified as overhead under the second paragraph of the introduction of Section III (Overhead). Technical Services may be provided by the Operator, Operator's Affiliate, Non-Operator, Non-Operator Affiliates, and/or third parties.

Section II:
2.A.(1) *Operator's field employees directly employed On-site in the conduct of Joint Operations*

8. *All costs or expenses necessary for the repair or replacement of Joint Property resulting from damages or losses incurred, except to the extent such damages or losses result from a Party's or Parties' gross negligence or willful misconduct, in which case such Party or Parties shall be solely liable.*

The Operator shall furnish the Non-Operator written notice of damages or losses incurred as soon as practicable after a report has been received by the Operator.

MFI Excerpts:

MFI-21:
The chargeability of technical services does not rely on whether an employee of the Operator, an Affiliate of the Operator, or a third party did the work/service, but rather the location and type of work/service performed. The function should require skills, knowledge, and abilities that benefit the Joint Property for a specific circumstance or problem, which does not include ongoing routine maintenance and administrative functions

On-site Technical Labor is a term used to refer to time spent on the Joint Property by Technical Personnel to handle specific operating conditions or problems. "On the Joint Property" or "on-site" means that activities are performed in the vicinity of the real and personal property subject to the agreement.

MFI-51: *Work does not have to be performed within the contract area to be considered On-site because facilities, yards, and other sites not within the contract area handle Joint Property and Joint Operations or serve as staging areas for Joint Operations. Advanced technology is allowing functions previously performed only on the Joint Property to be performed at other locations, such as vendor facilities, the Operator's office(s), or possibly a Non-Operator's office. Such functions could include controlling downhole and other production operations such as workovers, choke changes, starting or shutting-in a well, controlling operations due to storms, etc. When these functions, otherwise chargeable if performed on the Joint Property, are performed at a location other than on the Joint Property, that location is considered On-site.*

The Parties are encouraged to reach prior agreement on the functions to be classified as Technical Services under "other professional skills." Refer to COPAS MFI-21, Overhead Principles, for more information concerning Technical Services (also referred to as technical labor). Technical labor charges have historically represented costs for "those employees, professional consultants or contract services having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property." Expanded regulatory requirements, changing technologies, and expanded job functions have changed the scope and role of technical labor. It is not necessary for a technical person to have attained the specialization at an accredited college or university, but rather, these skills may be acquired through a combination of life experiences and continuing education. The function should require skills, knowledge, and abilities that benefit the Joint Property for a specific circumstance or problem, which does not include ongoing routine maintenance and administrative functions.

Emerging Issues Sub-Committee Case Study

Joint Interest Billing Decks & Service Dates

Scenario

Non-operator KUBB acquires a working interest from non-operator SCB in a well operated by XIO. Just prior to the sale date an erroneous credit was issued on KUBB's JIB. During a transition services agreement period when SCB was still accounting for the properties on behalf of KUBB, a correcting debit was made by operator XIO and charged to the current working interest ownership deck. Thus, the debit was "paid for" by prior non-operator SCB and apparently re-billed to new non-operator KUBB by SCB.

Non-operator KUBB audits expenditures, with the audit period commencing at acquisition date. KUBB identifies the debit on the JADE and takes exception to it, claiming it should have been billed to the previous ownership decks in effect before its acquisition of the interest. It further states that the JIB is not in compliance with contractual requirements because the correcting entry was an "unusual charge" as described in MFI-26 and was not separately identified nor was a service date included with the line item on the bill. The exception states that Operator XIO should reverse the charge and bill it to the previous working interest deck. It should also include the correct service date with the JIB line item.

Operator XIO responds that its billing policy is to bill the current working interest deck and that any adjustments required because of the change of ownership are between KUBB and SCB. It reasons that as operator it is not aware of specific contractual arrangements between third parties (Purchase & Sale Agreement provisions in this case) and therefore updates the decks timely when changes in ownership are received and owes no other obligations to non-operators other than to provide information that will allow the parties to resolve adjustments amongst themselves.

Assume a standard 1984 Accounting Procedure applies.

Questions

1. Is a reversal of a previous credit or debit within the 24-month adjustment limitation period "unusual"?

2. Is Operator XIO contractually required to include service dates on its JIBs? Does it matter if a charge is "unusual" or not?

3. Is Operator XIO's policy to charge the current billing deck appropriate?

Pertinent COPAS Excerpts:

1984 MF Excerpts:

Section I:

2. *Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.*

MFI Excerpts:

MFI-17: *Charges and credits should be classified to enable Non-Operator to meet government requirements and make proper distribution between capital expenditures (segregated by tangibles and intangibles) and operating expenses, and further identified as labor, material, transportation, contract services, employee benefits, overhead by type and other such classifications.*

The statement should detail Controllable Material as to quantity, description, price, sales tax, condition and other appropriate information for accounting purposes.

The statement should detail any unusual charges and credits applicable to the Joint Account. Examples of such transactions would be lease rentals, ad valorem taxes, legal expenses, damages, well contributions, audit adjustments and audit expenses. Each authority for expenditure should be identified by AFE number and further identified by well number, facility, project or other appropriate identification.

MFI-26: *In instances where summary billings are utilized the operator should provide, and the nonoperator is entitled to receive, cost data classified in a manner sufficient to meet the reasonable requirements of the non-operator. The suggested classifications set forth herein are designed to fulfill these reasonable requirements. It is recommended, therefore, that in preparing summary type billings, operators follow generally the classifications and subclassifications provided herein. In the event that classifications shown on summary billings differ materially from those recommended herein, the operator should provide each nonoperator with adequate* *information to enable the non-operator to determine the specific nature of the amounts billed and to record such amounts in accordance with acceptable industry practice.*

In addition to classifications of costs as described in this MFI, the accounting procedures typically require separate identification of any authority for expenditure, lease or facility, and unusual charges and credits. Therefore, costs for an AFE would be identified to the AFE but classified in appropriate categories to describe the cost incurred, and one would expect audit adjustments, for example, to be classified as appropriate for the entries being corrected but also identified as an audit adjustment. Similarly such items as environmental or safety costs may warrant special identification as unusual entries.

Emerging Issues Sub-Committee Case Study

Operator-Owned Saltwater Disposal Pipelines

Scenario

An Operator builds a saltwater disposal (SWD) pipeline and begins billing the Joint Accounts tied into the pipeline on a per barrel basis for both transportation and injection. The Operator based the transportation rate on trucking rates and the injection fee on third party SWD's in the area, each less 20%.

A joint venture auditor wrote an exception stating the fee/rate the Operator was charging for transportation was too high, and specifically noted that trucking and pipeline gathering are not comparable, since one is a service and one is equipment.

The Operator quoted from the applicable 2005 Accounting Procedure, Subsection 6 EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR: *"In lieu of charges in Section II.6.A above, the Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property, less twenty percent (20%). If equipment and facilities are charged under this Section II.6.B, the Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation…"* Additionally, the Operator responded that a SWD pipeline is more environmentally friendly than using trucks due to the reduction in traffic. A reduction in truck traffic also decreases road wear and tear, therefore there is less required road and location maintenance.

Questions

1. Is it equitable to use commercial trucking rates to charge for pipeline usage?
2. If trucking rates are not comparable, then what would be an equitable market rate to use, if any?
3. When does custody of the water transfer from the working interest owners if there is no formal agreement with the non-operators?

Additional pertinent 2005 MF language:

Section II, 6.A. *Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not limited to production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with the costs of ownership and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide direct service to personnel who are chargeable pursuant to Section II.2.A (Labor). Such rates may include labor, maintenance, repairs, other operating expense, insurance, taxes, depreciation using straight line depreciation method, and interest on gross investment less accumulated depreciation not to exceed ______ percent (__%) per annum; provided, however, depreciation shall not be charged when the equipment and facilities investment have been fully depreciated. The rate may include an element of the estimated cost for abandonment, reclamation, and dismantlement. Such rates shall not exceed the average commercial rates currently prevailing in the immediate area of the Joint Property.*