Council of Petroleum Accountants Societies, Inc.

129th Council Meeting

Friday, October 24, 2025
8 a.m. CST

Marriott County Club Plaza
Kansas City, Missouri

copas
Council of Petroleum Accountants Societies

Council of Petroleum Accountants Societies, Inc.

Meeting Notice

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Council of Petroleum Accountants Societies

August 15, 2025

COPAS Board of Directors
Standing and Special Committee
Chairpersons Society Presidents
Council Representatives

Re: **Notice of Fall 2025 Council Meeting**

This is notice of the 129th Council meeting to be held on Friday, October 24, 2025. The meeting will begin at 8 a.m. CST and will conduct business as outlined on the agenda included in this notice. The voting items on the agenda meet the 60-day notice requirement. There may be other items presented for vote that have not met the 60-day notice requirement, and they will be handled according to the Bylaws. The voting items are listed below with a parenthetical indication of the vote required to approve that voting item.

1. 2025 COPAS Spring Council Meeting Minutes (majority)
2. Dissolution of the Austin, Corpus Christi, and New Mexico Societies (2/3)[1]
3. Dissolution of the Michigan and New Orleans Societies (2/3)[2]
4. Vote to retire the "CAPECUP" publication guideline (majority)
5. Vote to approve PRUTCOM changes for MFI-21, MFI-44, MFI-45, and MFI-46 (2/3)
6. Election of (3) Board of Directors for 2026 - 2028 term (top 3)
7. Election of 2026 Nominating Committee (majority)

The Board of Directors will meet on Tuesday, October 21 from 8:00 a.m. to 5:00 p.m. CST, and from 1:30 p.m. to 5:00 p.m. CST on Thursday, October 23.

Four hours of Continuing Professional Education will begin the activities on Tuesday, October 21, beginning at 1 p.m. Exhibitor booths will also open at 1 p.m.

President-elect Kevin Launchbaugh will lead the COPAS Leadership Conference from 8 a.m. to Noon on Wednesday, October 22. The Leadership Conference is open to all COPAS members. The Leadership Reception is by invitation only. An agenda will be posted on the website when it is completed.

There will also be a nightly Hospitality Suite beginning on Tuesday, October 21. Committee

[1] These societies were suspended in Fall 2024. They have not provided a plan to resume compliance with the COPAS Bylaws as a Participating Society.

[2] These societies are transferring their membership to the Virtual Society and have elected to dissolve and cease functioning as a COPAS Participating Society. The Council is required to ratify their election to discontinue.

meetings, a Head Shot booth, a First Timers Meeting, and the Welcome Reception will fill the Wednesday, October 23 activities. Committee meetings will continue on Thursday as well as a Board meeting and evening reception to conclude the October 23 activities.

The Council agenda is included in this notice. Other committee agendas will be posted to the COPAS Website Meeting Registration page when they become available.

Three board members will be elected at this meeting. There are four candidates for the positions. Candidate information is included in the packet.

Details of all other voting items are included to the extent they are available. Please contact the COPAS Office if you have any questions or need assistance in registering for the meeting. Registration is available by clicking the events tab on the COPAS website. You will also find the link to book your hotel under the group rate.

I look forward to seeing you all soon.

Sincerely,

Kim Peyton

Kim Peyton, President

Council of Petroleum Accountants Societies, Inc.

Meeting Agenda

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Council of Petroleum Accountants Societies

129th Meeting
Council of Petroleum Accountants Societies, Inc. (COPAS)
Marriott Country Club Plaza – Kansas City, Missouri
Council Meeting Agenda
8 A.M. Friday, October 24, 2025

Call to Order	Kim Peyton
Reading of COPAS Antitrust Policy	Lisa Collins
Roll Call	Tom Batsche
Minutes of Spring 2025 Meeting	Tom Batsche
Vote – Approval of Minutes (majority)	
Financial Reports	Stephanie Schwindt
COPAS 2025 Goals and Objectives	Kim Peyton
COPAS Board of Directors Report	Carole Tear
Bylaws Committee Report	Carole Tear
Membership and Society Activity Report	Carole Tear
Vote – Dissolution of Austin Society (2/3)	
Vote – Dissolution of Corpus Christi Society (2/3)	
Vote – Dissolution of Michigan Society (2/3)	
Vote - Dissolution of New Mexico Society (2/3)	
Vote – Dissolution of the New Orleans Society (2/3)	
Leadership Conference	Kevin Launchbaugh
First Timer Social	Stephanie Schwindt
Research and Advisory Committee Report	Kim Peyton
Executive Director's Report	Tom Wierman
Editorial Committee Report	Tom Wierman
Audit Standing Committee Report	Cecil Sprague

Council of Petroleum Accountants Societies

Joint Interest Standing Committee Report	Vanessa Green
Vote – Retirement of CAPECUP guidance (majority)	
Vote – Approval PRUTCOM Changes MFI-21, MFI-44, MFI-45, MFI-46	
Education Standing Committee Report	Jeff Wright Carolyn Sczepanski
Small Oil & Gas Companies Standing Committee	Howard Hong
Revenue Standing Committee Report	Robert Toudouze
APA® Program Report	Tanya Paul
CEPS Control Panel Report	Dalin Error
Ring of Honor	Kim Peyton
Eagle Award	Kim Peyton
Nominating Committee Report	Rebecca Paris
Vote – Election of 2026 – 2028 Directors (3) (majority)	
Vote – Election of 2026 Nominating Committee (majority)	
Recognition of Retiring Board of Directors	Kim Peyton
Fall 2025 Council Meeting, COPAS Office October 21 – 24, 2025, Marriott Country Club Plaza Kansas City, Missouri	Tom Wierman
Spring 2026 Council Meeting, COPAS Office April 28 – May 1, 2026 Oklahoma City, Oklahoma	Tom Wierman
Fall 2026 COPAS Office TBD	
Spring 2027 Houston Society (75th Anniversary) April 19 – 23, 2027 Hyatt Regency Baytown-Houston Baytown, Texas	
Other Business	All Attendees
Adjournment	

Council of Petroleum Accountants Societies, Inc.

Voting Items

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128th Meeting
COUNCIL OF PETROLEUM ACCOUNTANTS SOCIETIES, INC. (COPAS)

April 25, 2025

Embassy Suites – Northwest Arkansas
Rogers, Arkansas

The 128th meeting of the Council of Petroleum Accountants Societies, Inc. (COPAS) was held on Friday, April 25th, at the Embassy Suites – Northwest Arkansas in Rogers, Arkansas.

Call to Order
President Kim Peyton called the Council meeting to order at 8:01 a.m. CT.

COPAS Antitrust Statement
Rebecca Paris read the COPAS Antitrust Statement.

Society Welcome
Kim called on Bryan Cox, Tulsa Society President, and Rick Jones, Arkansas Society President, to give welcoming remarks. They discussed the overall events for the week, including reference to the 140 plus attendees.

Roll Call
Secretary Tom Batsche called the roll of Council Members. Thirteen (13) of twenty-two (22) Participating Societies were present during roll call. One additional Society joined after the meeting was already in session. The following societies did not have a representative present for the Council meeting: Ark-La-Tex, Canada, Corpus Christi, Dallas, Kansas, New Mexico, Permian Basin, and Wichita Falls. A quorum was present. One (1) society was unable to vote (Austin) due to suspension.

Fall 2024 Council Meeting and January 2025 Special Meeting Minutes
The minutes of the 127th Council meeting held at the Westin Riverwalk Hotel, San Antonio, Texas, and the minutes from the January 2025 Special Meeting were distributed in the 60-day notice and were presented for approval.

Kim entertained a motion for approval of both sets of minutes as presented. Houston moved and Fort Worth seconded the motion. Kim asked if there was any discussion; hearing none she requested a vote by acclamation. The motion carried 12-0-0.

Financial Reports

Carole Tear, Vice President, gave the following financial report for Treasurer Stephanie Schwindt:

- The projections are for membership for 2024 to be about the same as it was in 2022 and 2023, with a slightly lower trend indicated. Publication revenues also indicate a slightly lower trend. Results from Education are favorable. The budget numbers for 2025 will be lower due to conservative estimates.
- Membership assessment rate trends are moving slightly higher.
- For expenses, the majority of the costs are in the COPAS Office.
- Year-to-date numbers are low as only three months are presented.
- COPAS Membership assessments continue to trend up as we see a recovery in membership for many societies. In 2025, revenues are anticipated to decrease slightly from products and publications after the boost caused by the release of significant new documents in 2022 and 2023. Additional revenue decreases are expected as sales of the APA® Review Course level out after the initial boost from its 2023 release and marketing. A large spike in Other Income in 2022 was due to the ERC funds received that year, and the bump in 2023 Other Income was related to the 2023 Spring meeting revenues, which are largely offset by related expenses.
- As with previous years, the largest portion of COPAS revenues were attributable to the sale of publications and member assessments. An expected 2024 increase in member assessments was materially offset by the decrease in income related to the COPAS Office hosting of Spring 2023 meeting.
- Membership assessments rates trended up at a consistent rate since 2015. The member assessment rate was $115 for 2025.
- While membership has been fairly flat in the post-COVID periods of 2021-2024, COPAS has begun to see signs of recovery. COPAS continues to face challenging economic trends, but considers the recovery encouraging, and is actively looking for ways to encourage and foster growth in membership.
- Expenses have remained flat over the five-year review period. A slight annual increase in Marketing is due to increased investment in the COPAS website, including search algorithms and various other COPAS and APA® promotions. Depreciation decreased significantly over the five-year period as a large portion of COPAS assets have been fully depreciated. Product sales, APA®, and Education expenses remained flat, or experienced very slight increases in support of increased demand.
- The largest portion of COPAS 2023-2024 expenses continue to relate to Membership Services, primarily the COPAS Office. The COPAS Office provided support to members related to local society leadership, education, CPE support, and other priorities and initiatives. The COPAS Office also helped execute strategic plans and goals. In addition, the comparison indicates a continued significant Marketing

expense as they continue to invest in expanding services offered through the website and other marketing initiatives.

- A question was raised about membership numbers on the website. The number of members and the number of societies will be reviewed and updated.

Kim entertained a motion for approval of the 2026 Membership Assessment Rate of $120 for Participating Society members. Michigan moved and Colorado seconded the motion. Kim asked if there was any discussion; hearing none, she requested a vote by acclamation. The motion carried 12-0-0.

COPAS 2025 Goals and Objectives

Kim discussed her 2025 Goals and Objectives.

- Have the Virtual Society up and running as a participating society. In January, California changed their name to the Virtual Society. Going forward, it is anticipated that many societies will be joining the Virtual Society as well. Several struggling Societies will be joining as well. Anticipate that the leadership from the combined societies will contribute to the society leadership.
- Increase number of APA's by twenty (20). Forty-five (45) are currently in progress.
- Finalize the new CEPS platform.
- Implement the Sharepoint storage option. Initiated for Board, PRUTCOM, DRT, Project Teams and Committees. Will be expanding to Societies.
- Approve twenty-five (25) PRUTCOM documents. Eighteen (18) are in line for today, anticipate at least four (4) in the fall.

COPAS Board of Directors Report

Carole Tear, Vice President, provided an update of the Board of Directors meetings since the last Council meeting in September 2024.

The COPAS Board has met multiple times. During those meetings, the Board took the following actions:

- Approved minutes for all of the Board Meetings
- Form 990 and 990T prepared for 2023
- MFI-57AD added to ePub
- Approved updated website hosting package with increased security through a Security Certificate for end-to-end data encryption
- Approved Learning Management System (covered by a grant from the COPAS Education Foundation) that includes low implementation and maintenance cost, resulting in office staff efficiency by reducing manually prepared and distributed CPE certificates, allows for participant self-service in retrieving CPE certificates, future revenue generation (self-study courses, product upselling), integrates with current systems, and allows for targeted email campaigns.
- Approved Drip Campaign to send upsell emails and a Document Management System that includes an upgrade to BetterDocs for streamlined organization of long-form content to improve navigation and scalability.

- Approved Automatic Annual Adjustments to Product Pricing
- Approved both Board Meeting Minutes from December 9, 2024 (old and new Board)
- Approved General Liability and Workers Compensation premiums for 2025.
- 2024 Form 1099 NEC and 1099-MISC completed and mailed.
- 2024 Q4 Colorado Sales Tax return filed.
- Annual Colorado Foundation reports and Foundation 990N completed and submitted.
- 2026 Membership Assessment Rate recommendation proposed to be $120 for Participating Societies. Limited Member Assessment Rates removed.
- Approved 60-day Notice for the Spring COPAS meeting
- Approved the 2025 goals.
- Approved the 2025 Budget
- Approved motion to scrub the mailing list for ACCOUNTS, removing all individuals who have not renewed their memberships.
- Approved 20% discount on the price of the APA® Review Course for a six-week period.
- Approved motion to open up the Economic Factors Page to advertisers on a highest bid basis with the high bidder earning the right to place the advertisement.
- Approved the PRUTCOM Style Guide.
- Approved Initial Project Notification Forms for AG-9 *Vendor Audits*, MFI-35 *Employer and Contractor Training.*
- Employee and Contractor Training Costs, AG-6 *Oil Accounting Manual* and AG-9 *Gas Accounting Manual*

Membership and Society Activity Report

Carole presented a summary of the membership and society activity. The current COPAS membership stands at 1,268, which is down approximately 200 members from 2024. While most societies have seen declines, Colorado has seen an increase. There is a certain excitement level about the potential of pulling back lost membership into the Virtual Society.

Bylaws Committee Report

Carole had no updates from the Bylaws Committee.

Leadership Conference

Kevin Launchbaugh provided an update on the Leadership Conference. There were roughly seventy (70) attendees at the meeting, so thank you to all those that attended and participated in the discussion. Just a reminder that the Leadership Conference is open to all meeting attendees. Please feel free to sign up for that meeting in the fall, especially if you are serving in a leadership position or are interested in serving in a leadership position in COPAS or your local society.

Tom Wierman provided an update from the COPAS Office, including recognizing Vanessa Galindo's 10-year Anniversary, as well as PAS-ARK's 10-year anniversary as a society. Tom touched on information on the operation of the COPAS Office, COPAS Energy Education updates, the Document Review Team (DRT), a PRUTCOM update, the APA®

program, the COPAS Learning Management System, the COPAS Sharepoint site, a CEPs update, an update on the COPAS Virtual Society, the membership renewal on August 1st, and the COPAS meeting frequency and format. The attendees then broke into small groups to discuss ideas for the COPAS national meeting format including a 4-day versus a 5-day meeting format; travel day preferences; and the importance of CPE offerings to meeting attendees. We also discussed the possibility of renaming and rebranding the Leadership Conference as well as potentially combining the Leadership Conference and the Council meeting and moving the meeting to another day during the National meeting.

The second portion of the meeting included a brief presentation by Lindsey Steiger-Muck from the University of Arkansas. Her presentation included some interesting facts about the Sam M. Walton College of Business including CPA exam pass rates, student major information, and average salary ranges for recent graduates of the college. After Lindsey's presentation, there was a panel of three students majoring in accounting. The students provided their insight on various topics including motivations and considerations for their career paths after college as well as joining professional organizations like COPAS.

Research and Advisory
Kim Peyton noted there was nothing to report.

Nominating Committee
The Nominating Committee will be formed to provide nominations for Board elections in the Fall. Vanessa Green and Robyn Tarnowski will be participating on the Committee.

Kevin Launchbaugh and Scott Barrios are Board members that will be re-running. Tom Batsche will not be.

Executive Director's Report
Tom Wierman provided the Executive Director's Report.

- Discounts are provided to COPAS members for publications, including ePub. Model Forms are free to members. Tom talked about the publication pipeline, including getting volunteers involved with projects, and noted two recently established projects, AG-9, *Vendor Audits* and MFI-35, *Employer and Contractor Training*.
- Sharepoint – Please contact COPAS office if you are interested in storage.
- Learning Management System – This is a website plugin which will be replacing AdobeConnect. We are moving to Zoom platform. AdobeConnect contract has now expired. Historically there have been various issues with audio that are not anticipated with Zoom and at a much lower cost. This system will also reduce the hundreds of CPE certificates that Vanessa currently prepares and distributes manually.
- CEPS – the new tool is close to release. It has the ability for bulk uploads, storage of records, saving of drafts. COPAS will provide an opportunity for a "test run" of the product. The anticipated go-live date is May 12. We anticipate having a Lunch n' Learn session to help with the transition.
- Membership renewals – If society plans to update rates, they need to provide the information to the COPAS office by July 1, 2025. Renewals will be processed on August 1, 2025.

- There will be more information coming about the Virtual Society. There is a 75-mile limit for joining the Virtual Society. If an individual is within this geographical area of an existing society, then the individual would be steered towards that society. Individuals from struggling societies or from those that have folded will be open to join the Virtual Society.
- Format of meeting – Spring 2026 meeting will be a similar format to the Spring 2025 meeting. Going forward, the meeting format will continue to be reviewed.
- Publication pricing – to use annual adjustments similar to overhead factor.

Editorial Committee Report

Tom Wierman noted the Spring edition of ACCOUNTS has been mailed. Encouraged Committee and Society news. Next deadline is May 1 for the Summer edition. Photos are encouraged as well.

Audit Standing Committee Report

Cecil Sprague, Chair of the Audit Committee, summarized the activities of the Audit Committee.

The Joint Interest and Audit Standing Committees held a joint meeting, Tuesday, January 28, 2025 in Houston, Texas. The meeting commenced at approximately 9:36 a.m. with approximately ninety-seven (97) attendees representing nine different societies. Introductions were made, where first timers were recognized. The antitrust statement was read. Roll call of the Audit Chairs representing the societies was taken with nine representatives of the ten societies present. Roll call of the Joint Interest Chairs representing the societies was taken with nine representatives of the ten societies present. In summary, votes were held for the following items. All voting items were approved.

Audit Leadership – Kat Benkowski for Secretary
Joint Interest Leadership – Kirk Foreman for Vice Chair
COPAS JI Standing Committee Meeting Minutes for Spring 2024
COPAS JI Standing Committee Meeting Minutes for Summer 2024
AG-1*, Well Cost Allocations and Adjustments AG-9 Vendor*
AG-9, *Vendor Audits*
AG-12, *Determining Finding, Development and Acquisition Costs*
AG-13, *Accounting for Farmouts/Farmins, Net Profits Interests and Carried*
MFI-14, *Employee Benefits Limitations*
MFI-18, *Operator Affiliates and Related Entities*
MFI-23, *Discounts*
MFI-27, *Employee Benefits and Percentage*
MFI-31, *Self-Insurance for Workers Compensation and Employers Liability*
MFI-35, *Employer and Contractor Training*
MFI-36, *Audit Rights of Non-Participation and Non-Consenting Parties*
MFI-37, *Incentive Compensation Costs*
MFI-41, *Electronic Invoice Documentation Requirements*
MFI-42, *Procurement Card and Convenience Check Documentation Requirements*
MFI-43, *Joint Interest Expenditure Documentation Requirements*
MFI-47, *Overhead Rate Adjustments*

MFI-48, *Application and Calculation of Drilling Overhead*
MFI-50, *Overhead Adjustment Index Change*

Lucas Vaughn and Robyn Tarnowski led the discussion and helped move the Slido presentation along. Discussion on the use of AI and how people and companies currently use AI, questions on COPAS documents, Discussion audit processes. Vanessa Green and Kim led a Slido presentation for feedback on opening AG 9, *Vendor Audits* for a rewrite. Roll Call, Voting Items and Discussion on re-opening AG-9 and MFI-35, *Employer and Contractor Training*

Joint Interest
MFI 35, *Employer and Contractor Training* - San Antonio moved to approve, and Houston seconded. The document was approved unanimously by roll call.

Audit
AG 9, *Vendor Audits* - Houston moved to approve, and Mississippi seconded. The document was approved unanimously by roll call.

Vanessa discussed the differences between the Document Review Team (DRT) and the Publication Reopening for Updates, Technical Corrections, or Modernization (PRUTCOM). She shared the progress of DRT: MFI's completed thirty (30) and in progress is nine (9); AG's completed four (4), twenty-two (22) in progress; MFI's recommended for rewrite twenty (20). PRUTCOM will get some documents out for review by February 10th per Mike Cougevan.

Discuss Documents to be reopened:

1. MFI 18 rewrite
2. MFI 21
3. MFI 23 Rewrite OR Addendum
4. MFI 31 Addendum
5. MFI 36
6. MFI 37: Rewrite Issues with references
7. MFI 38
8. MFI 41, 42, 43
9. MFI 44
10. MFI 46
11. MFI 47: Needs to be AG MFI 50 Rewrite
12. MFI 48
13. MFI 52
14. MFI 55

The Joint Interest and Audit Standing Committees held a joint meeting, Thursday, April 24, 2025 in Rogers, Arkansas. The meeting commenced at approximately 8:01 a.m. with ninety-two (92) attendees representing fourteen different societies. Introductions were made, where first timers were recognized. The antitrust statement was read. The newly formed project teams for AG-9, *Vendor Audits* and MFI-35, *Employer and Contractor Training* were

introduced. Carole Tear from Artisan Accounting Services shared an update on the 2025 Legal and Regulatory Topics. Carole shared recent litigation cases related to the Oil and Gas Industry and described legislative situations impacting the industry. Next, Robert Gabe from Chem Treat gave a presentation on Global Sustainability: Conserving Water Resources. His presentation explained the water value chain in Oil and Gas Operations and discussed water sustainability in operations. Karla Bower presented the differences on the Equipment & Facilities Furnished by Operator section on the various COPAS documents and provided all the different options for charging out Operator Owned Equipment and Facilities. The Audit Standing Committee met separately immediately after the combined session. The meeting commenced at approximately 11:15 a.m. and concluded at 11:32 p.m. There were seven societies present to vote and 28 total attendees. Robyn Tarnowski gave an update on the Emerging Issues sub-committee meeting that took place Wednesday, April 23, 2025. Kevin Launchbaugh gave the Board of Directors report update.

The following items were approved:

1. Fall 2024 Meeting Minutes (Acclamation)
2. Winter 2025 Meeting Minutes (Acclamation)

PRUTCOM Changes
Arkansas moved to approve the two audit documents with the PRUTCOM updates, and Houston seconded. The motion passed 13-0-0.
AG-9*, Vendor Audits*
MFI-36*, Audit Rights of Non-Participation and Non-Consenting Parties*

Joint Interest Committee Report
Vanessa Green, Chair of the Joint Interest Committee, presented a report on the Joint Interest Committee activities.

Since our last general council meeting, the Joint Interest Standing Committee met in a combined session with audit on January 28th, 2025. At this meeting, the Joint Interest Committee voted to approve the following items:

- Approval of Kirk Foreman as JI Vice Chair.
- Approval of Spring and Summer 2024 JI Committee Meeting Minutes
- Approval of the following PRUTCOM Documents:
  - AG-1, *Well Cost Allocations and Adjustments AG-9 Vendor*
  - AG-9, *Vendor Audits*
  - AG-12, *Determining Finding, Development and Acquisition Costs*
  - AG-13, *Accounting for Farmouts/Farmins, Net Profits Interests and Carried*
  - MFI-14, *Employee Benefits Limitations*
  - MFI-18, *Operator Affiliates and Related Entities*
  - MFI-23, *Discounts*
  - MFI-27, *Employee Benefits and Percentage*
  - MFI-31, *Self-Insurance for Workers Compensation and Employers Liability*
  - MFI-35, *Employer and Contractor Training*
  - MFI-36, *Audit Rights of Non-Participation and Non-Consenting Parties*

    - MFI-37, *Incentive Compensation Costs*
    - MFI-41, *Electronic Invoice Documentation Requirements*
    - MFI-42, *Procurement Card and Convenience Check Documentation Requirements*
    - MFI-43, *Joint Interest Expenditure Documentation Requirements*
    - MFI-47, *Overhead Rate Adjustments*
    - MFI-48, *Application and Calculation of Drilling Overhead*
    - MFI-50, *Overhead Adjustment Index Change*
- Approval to open MFI-35*, Employer and Contractor Training Costs* and form a re-write team

This week, the Joint Interest Standing Committee met again on Thursday, April 24th. First, in a joint session with Audit that began with an introduction of the drafting teams, followed a legal and legislative update presentation from Carole Tear. Then an engaging presentation from Bob Rabe of ChemTreat to explain the water value chain in Oil and Gas Operations. The joint session concluded with a presentation from Karla Bower on the Operator Owned Equipment and Facilities section of the Model Form Accounting Procedure. After a small break, the Joint Interest Standing Committee met, independently from audit, from 11:00 a.m. to 11:30 a.m. There were forty (40) attendees from fifteen (15) societies.

The Joint Interest Committee voted on numerous items:

- Overhead Escalation Rate – proposed 2025 rate +6.3%
- Loading/Unloading Rates – proposed 2025 rate $1.12 per hundred-weight
- Excluded Amount - proposed 2025 rate of $2,700
- Vehicle Rates
- Workers Compensation Rates
- Fall 2024 and Winter 2025 Meeting Minutes
- PRUTCOM Documents
    - MFI-21, *Overhead Principles*
    - MFI-44, *Field Computer and Communication Systems*
    - MFI-45, *Offshore Marine and Aircraft Allocations*
    - MFI-46, *Shorebase Facilities and Offshore Staging Areas*

All items were approved unanimously.

Following voting, sub-committees provided their reports, the committee discussed societies action item to review Worker's Compensation Insurance Manual rates for 2026 economic factors, not having a summer 2025 meeting, and JI secretary vacancy. Vanessa thanked Joint Interest Vice Chair Kirk Foreman and the Audit Committee Leadership Cecil, Kim and Kat for their help preparing for this meeting and minute taking. The Joint Interest Committee would like to encourage everyone to attend future meetings to participate in these discussions. The Joint Interest Committee would also like to thank Tulsa and PAS_ARK for hosting the Spring 2025 COPAS meeting.

The PRUTCOM changes:

Tulsa made the motion to approve the sixteen (16) Joint Interest documents with the PRUTCOM updates, and Rocky Mountain seconded. The motion was approved 13-0-0.
AG-1, *Well Cost Allocations and Adjustments AG-9 Vendor*
AG-12, *Determining Finding, Development and Acquisition Costs*
AG-13, *Accounting for Farmouts/Farmins, Net Profits Interests and Carried*
MFI-14, *Employee Benefits Limitations*
MFI-18, *Operator Affiliates and Related Entities*
MFI-23, *Discounts*
MFI-27, *Employee Benefits and Percentage*
MFI-31, *Self-Insurance for Workers Compensation and Employers Liability*
MFI-35, *Employer and Contractor Training*
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MFI-47, *Overhead Rate Adjustments*
MFI-48, *Application and Calculation of Drilling Overhead*
MFI-50, *Overhead Adjustment Index Change*

Education, Financial Reporting, and Small Oil and Gas Standing Committee Reports

Jeff Wright, Co-Chair of the Education Committee provided an update for the Education, Financial Reporting and Small Oil and Gas Standing Committees.

The combined session of the Education Committee, Financial Reporting Committee and Small Oil & Gas Committee met April 24, 2025, in Rogers, Arkansas at 1:30p CDT. Jeff Wright, Education Committee Co-Chair welcomed the attendees and read the COPAS Antitrust Statement. Carol Tear provided the COPAS Board of Directors report.

The first speaker was Christopher Liner. His presentation was titled, "Hot Stuff: The New Age of Geothermal Power." For this session, there were twenty-six (26) attendees from twenty (20) different companies, nine different societies. Two (2) of the attendees did not have a society affiliation. One and one -half hours of CPE was awarded for this session.

Following a break, the second speaker was Deanna Duell. Her presentation was titled. "Internal Audit, Light, for Small Oil & Gas Operators." For this session, there were twenty-six (26) attendees from nineteen (19) different companies, ten different societies. Two (2) of the attendees did not have a society affiliation. One hour of CPE was awarded for this session.

The third speaker was Jeff Wright. His presentation was titled, "Drilling Down: COPAS Accounting Procedure Distinction." For this session, there were nineteen (19) attendees from fifteen (15) different companies, eight (8) different societies. One of the attendees did not have a society affiliation. One hour of CPE was awarded for this session. The meeting ended at 5p CDT.

Revenue Standing Committee Report

Robert Toudouze, Chair of the Revenue Committee presented his report to Council. The Revenue Standing Committee and the Revenue Subcommittees held meetings on Wednesday and Thursday, April 23 and 24. CPE presentations included detailed legislative updates, a virtual presentation from the Office of Natural Resources Revenue (ONRR), a walkthrough from wellhead to royalty reporting, ONRR Unbundling, Oklahoma Indian Severance taxes, a history through future of the local area, and Federal low producing tax incentives. Over the two-day period, we had eight presentations offering eight hours of CPE.

Wednesday presentations included one from the Destination Rogers team that recalled the history of the area, the current state of arts, dining, entertainment and the future plans for Rogers and Northwest Arkansas. Shayna Hoercher from the ONRR provided a virtual presentation discussing staffing changes and the Royalty. Ryan Woolery concluded the day with a presentation "Following Production from the Wellhead through Royalty Distribution."

Thursday provided the opportunity to earn five hours of CPE. Rebecca Paris provided a board update. The Revenue Accounting Guideline team provided an update on the status of the two publications being revised. Both teams are making progress and will provide more updates at the fall meeting. Nate Wolf gave a presentation on the federal low producing incentives. This included details about how to qualify for the credit, and how to calculate and use the credit. Bobby Bolton gave a presentation on tribal severance taxes primarily in Oklahoma. Bobby discussed his role with certain tribes and the calculations used to determine taxes due. He also addressed the double taxation issue and his opinions on it. The morning concluded with a session on ONRR unbundling by Morris Miller. Morris reviewed some of ONRR's examples and offered ways he has unbundled plants and gathering systems for his clients.

Jeremy Norton presented updates to new, pending, passed, and failed legislation efforts for both federal and state royalties. Nate Wolf concluded the conference with a similar presentation for legislative changes and proposals for state severance taxes. These two presentations keep us up to date on current changes to regulations as well as foresight into what could be coming in future sessions.

APA® Program Report

Mike May reported that there were six new APA®'s. Looking at potential new credentials for international with interest in Guyana and Suriname. Mike will be stepping down as chair. Tanya Paul will be the new Chair, and Jeffrey Davidson will be the new Vice-Chair.

CEPS Control Panel Report

Dalin Error provided the CEPS report. Dalin is the new CEPS Control Panel chair, as Cody Deckhart has completed his term. The current Control Panel includes three (3) members. The CEPS surveys were mailed in the fall, and updates have now been noted. The latest pricing updates are due to a cumulative 10% adjustment (2% Jan, 3% Feb and 5% in Mar).

The Panel is seeking subject matter experts. Control Panel members do not have to be accountants or COPAS members.

First Timers Update

Kirk Foreman, a member of the Mentoring Advisory Committee, provided a recap of the Committee's activities. A First Timer Virtual Welcome Event was conducted on Wednesday, April 16th. Three first timers and ten COPAS mentors participated in the call. The event consisted of three breakout sessions, grouped by each registrant's focus area (Audit, JI, Financial Reporting/SMOG/Revenue). This event provided an opportunity for participants to put a face to a name and has proven to ease the arrival at the COPAS meeting.

A First Timers Social Mixer was conducted Wednesday, April 23rd. Attendance was great, with fourteen (14) First Timers and sixteen (16) COPAS mentors present. We also welcomed eight (8) additional COPAS members to the event. There was no set agenda, just an opportunity to meet everyone in person and get to know each other better.

Future COPAS Meetings

Tom Wierman reported the Fall 2025 COPAS Meeting will take place at the Kansas City Marriott Country Club Plaza. The meeting will take place October 21-25.

Spring and Fall 2026 Council Meetings – time and location to be determined COPAS will begin hosting all future meetings with the assistance of interested societies.

Spring 2027 – Houston

Anticipate future meetings will be in locations where societies are located – not destination locations.

Other Business

None

Adjournment

Kim entertained a motion to adjourn. Tulsa moved and Arkansas seconded. The meeting was adjourned at 9:30 a.m. (EDT).

Respectfully Submitted,

Tom Batsche

COPAS Secretary

July 31, 2025

Mrs. Heather Jank
President of Austin Petroleum Accountants Society
Ameredev Operating, LLC
2901 Via Fortuna, Suite 600
Austin, TX 78746

RE: Dissolution of the Petroleum Accountants Society of Austin as a COPAS Participating Society

Dear Heather:

The Petroleum Accountants Society of Austin has failed to meet the minimum requirements for a COPAS Participating Society as stated in the COPAS Bylaws. While membership numbers have been strong, the society has not held the required number of society meetings and has not attended a COPAS Council meeting as required. The Society was suspended by the Council in September 2024 for non-compliance with the COPAS Bylaws.

Given your indication that the Petroleum Accountants Society of Austin doesn't have the energy to continue as a COPAS Participating Society and has not demonstrated to the COPAS board that they will be able to comply with the requirements of a Participating Society, the COPAS board has determined that the COPAS Bylaws must be enforced.

In accordance with the COPAS Bylaws, the Petroleum Accountants Society of Austin as a Participating Society will be included in the 60-Day mailer and as a voting item on the Council agenda for the Fall 2025 Council meeting in Kansas City, Missouri.

The good news is that we have established a home for your current members so they can continue to receive COPAS member benefits. The Virtual Society is now accepting members who fall outside of local society boundaries. The Texas General Land Office has already taken steps to transfer their memberships to the Virtual Society. If any other member wishes to join the Virtual Society, the COPAS Office will be pleased to assist in the transfer of any Austin membership.

Sincerely,

Carole Tear
Vice President
COPAS Board of Directors

CC: COPAS Board of Directors

July 31, 2025

Ms. Brenda Hottell
President of COPAS of Corpus Christi
Winn Exploration Company, LLC
800 N. Shoreline Ste 1900N
Corpus Christi, TX 78401

RE: Dissolution of COPAS of Corpus Christi as a COPAS Participating Society

Dear Dan:

COPAS of Corpus Christi has failed to meet the minimum requirements for a COPAS Participating Society as stated in the COPAS Bylaws. The society has not maintained the required membership number of 25 individuals, has not held the required number of society meetings and has not attended a COPAS Council meeting for some time. The Society was suspended by the Council in September 2024 for non-compliance with the COPAS Bylaws.

Understanding the unusual challenges faced, the COPAS board has been lenient in the application of the requirements for Participating Societies in the COPAS Bylaws for the past several years. However, COPAS of Corpus Christi has not demonstrated to the COPAS board that they will be able to comply with the requirements of a Participating Society. The COPAS board has determined that the COPAS Bylaws must be enforced.

In accordance with the COPAS Bylaws, the dissolution of COPAS of Corpus Christi as a Participating Society will be included in the 60-Day mailer and as a voting item on the Council agenda for the Fall 2025 Council meeting in Kansas City, Missouri.

The good news is that we have established a home for your current members so they can continue to receive COPAS member benefits. The Virtual Society is now accepting members who fall outside of local society boundaries. If any member wishes to join the Virtual Society, the COPAS Office will be pleased to assist in the transfer of any Corpus Christi membership.

Sincerely,

Carole Tear
Vice President
COPAS Board of Directors

CC: COPAS Board of Directors

July 31, 2025

Mr. Dan Lewis
President of the Petroleum Accountants Society of New Mexico
Abo Empires, LLC
PO Box 900
Artesia, NM 88211

RE: Dissolution of the Petroleum Accountants Society of New Mexico as a COPAS Participating Society

Dear Dan:

The Petroleum Accountants Society of New Mexico has failed to meet the minimum requirements for a COPAS Participating Society as stated in the COPAS Bylaws. The society has not maintained the required membership number of 25 individuals for several years, has not held the required number of society meetings and has not attended a COPAS Council meeting for some time. The Society was suspended by the Council in September 2024 for non-compliance with the COPAS Bylaws.

Understanding the unusual challenges faced, the COPAS board has been lenient in the application of the requirements for Participating Societies in the COPAS Bylaws for the past several years. However, the Petroleum Accountants Society of New Mexico has not demonstrated to the COPAS board that they will be able to comply with the requirements of a Participating Society. The COPAS board has determined that the COPAS Bylaws must be enforced.

In accordance with the COPAS Bylaws, the dissolution of the Petroleum Accountants Society of New Mexico as a Participating Society will be included in the 60-Day mailer and as a voting item on the Council agenda for the Fall 2025 Council meeting in Kansas City, Missouri.

The good news is that we have established a home for your current members so they can continue to receive COPAS member benefits. The Virtual Society is now accepting members who fall outside of local society boundaries. If any member wishes to join the Virtual Society, the COPAS Office will be pleased to assist in the transfer of any New Mexico membership.

Sincerely,

Carole Tear
Vice President
COPAS Board of Directors

CC: COPAS Board of Directors

Conversion and Publication Errors Clean-Up Project (CAPECUP)

Errors have been discovered in numerous COPAS publications resulting from conversion of the original Word documents to the Adobe .pdf forms created for E-Publication and single-purchase subscribers. Correction of these conversion errors should be made so that COPAS' .pdf versions of publications remain identical to the original Word versions.

In addition, several errors have been discovered that are not conversion errors, but rather errors in the original documents that should be corrected to maintain the professionalism of COPAS' publications.

This ongoing project is intended to simply correct these cosmetic errors and not in any way affect the wording, structure, language, meaning, or intent of any publications.

Approval of proposed corrections

Anyone who identifies a CAPECUP error will submit the error and proposed correction to the Chair of the originating standing committee. If the Chair approves the correction, he/she will submit the proposed correction to the Chairs of the other affected committees, just as is done in the COPAS Publication Process. Upon receipt of approval from all required Chairs, the proposed correction will be forward to the COPAS Executive Director who will be responsible for ensuring the correction is made immediately so the original document is corrected, if applicable, all subsequent single-issue sales versions are correct, and the next E-Publication package is also correct.

Scope of Corrections

COPAS publications undergo an exhaustive and comprehensive review process to ensure its documents represent industry consensus and are worded precisely as intended. Words matter. Most publications undergo numerous drafts before final Board or Council approval to ensure the document says what COPAS intends it to say, with the specific words, grammar, phraseology, and manner carefully chosen to achieve that goal.

This ongoing CAPECUP project cannot and will not make any substantive or even minor changes or "tweaks" to COPAS' publications. Grammar errors due to changing grammar "rules," spelling errors, use the wrong word, or other errors that should have been noticed by the committees or technical writer, will remain in the document because those types of corrections are the responsibility of the originating and affected committees to address in subsequent rewrites or Addendums. This is only a clean-up project, to correct obvious errors in the original document and ensure the .pdf versions are identical to the original and official Word versions of COPAS' publications.

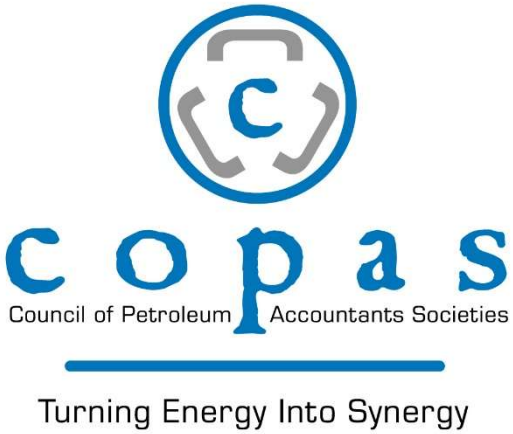
Examples of errors to be covered by the CAPECUP project are expected to be limited, to include areas such as:

- Stray punctuation
- Stay markings

- Indentation errors
- Inconsistent quotation marks
- Different quotation mark styles
- Inconsistent sentence spacing
- Inconsistent margins
- Obvious spelling errors
- Inconsistent spelling of the same word

Items that are beyond the scope of CAPECUP are:

- Inconsistent spelling of the same word in different documents (e.g. Non-Operator, Nonoperator
- Adding punctuation not in the original document
- Deleting punctuation in the original document
- Inconsistent capitalizations within the same or different documents
- “Bad” grammar differing from the original document
- Changing quotations marks to a specific style



Overhead Principles

MODEL FORM INTERPRETATION 21

Publication/Revision Date - April 2002

Council Approved

Joint Interest and Audit Conditionally Approved April 24, 2025

COPAS MODEL FORM INTERPRETATION 21

OVERHEAD PRINCIPLES

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This document has been reviewed by the Petroleum Accountants Societies through representation on the Council of Petroleum Accountants Societies.

I. INTRODUCTION

Even before the 1966 publication of COPAS Model Form Interpretation ("MFI") 1, *COPAS 1962 Model Form Accounting Procedure Interpretation,* providing interpretive language related to the COPAS 1962 Model Form Accounting Procedure, the interpretation and application of Overhead charged to the Joint Account has been a common subject of misunderstandings and audit exceptions. Although the method of charging Indirect Costs has changed over the years as the industry has sought better ways to define and apply these costs and there have been numerous publications attempting to clarify these issues, the interpretation and application of Indirect Costs continues to be a source of misunderstanding.

Overhead, frequently referred to as Indirect Cost, can be found at every level of an organization, from the lease to the CEO's office. Likewise, Direct Costs may be incurred within and outside the lease boundaries. An issue to address is how to determine which costs are chargeable and how they should be charged (Direct vs Indirect). Even when charges are considered "Direct," the amount to charge may be difficult to determine and difficult to audit.

The distinction between costs directly chargeable to the Joint Account and Indirect Charges (Overhead) is further complicated by the evolution of model form accounting procedures to reflect industry changes, in addition to differences in company sizes, organization, accounting practices, and contract interpretation. It is important to note that as company job titles may change due to consolidations, downsizing, acquisitions, etc., job functions primarily remain unchanged. The Operator still has to monitor well operations, pay invoices, report financial and production results, etc. Therefore, the function performed versus the job title should be the primary consideration when determining whether a cost is chargeable as direct or indirect.

Since most agreements now provide for the recovery of Overhead by a Combined Rate or a percentage rate, this distinction becomes even more important. Direct Costs are recoverable dollar-for-dollar from the Non-Operator to the extent of each Party's proportionate share. On the other hand, costs classified as Overhead are recovered through the negotiated Overhead rate in accordance with the associated COPAS model form accounting procedure, which may result in under- or over- recovery.

Discussed in this publication are the development of and the unique provisions for each of the major COPAS model form accounting procedure Overhead categories: Drilling and Producing Operations, Major Construction, and Catastrophe, as well as the all-inclusive Fixed Rate concept introduced in the COPAS 1995 Model Form Accounting Procedure, and Project Team Overhead.

The purpose of this publication is to provide an overview of Overhead provisions specific to each COPAS model form accounting procedure and increase the awareness of those Parties involved in negotiating agreements regarding the implications and consequences associated with various COPAS model form accounting procedure Overhead options. It is

not the intent of this publication to change Overhead provisions currently contained within a signed agreement.

COPAS recommends that this document serves as a basis to aid in the understanding of Overhead and to facilitate the resolution of differences in applying Overhead. Nonetheless, this document does not supersede or override the provisions of any COPAS model form accounting procedure that is part of an existing agreement.

II. DRILLING AND PRODUCING OPERATIONS - OVERHEAD

A. METHODS OF RECOVERY

Various methods for charging Overhead to the Joint Account for drilling and producing operations developed as the industry grew to understand and accept Overhead as a cost associated with conducting such operations. The following discussion addresses each of the methods found in the COPAS model form accounting procedures for charging these costs that should be shared by the Parties.

1. DISTRICT EXPENSE

The COPAS 1962 and 1968 Model Form Accounting Procedures have provisions for charging District Expense, either directly or through inclusion in a Combined Fixed Rate. COPAS MFI-1, *COPAS 1962 Model Form Accounting Procedure Interpretation,* states:

> District Expense is an accumulation of drilling and producing charges of such a general nature that all wells, leases and facilities in the district area benefit proportionately. The Operator's district office is a field production office whose function is to supervise the drilling and producing operations in the specified district. Such office may be called an area office, or some other designation, as long as it conforms to the specifications indicated above.
>
> District Expense consists of the salaries and expenses of the field production superintendent and other employees located in the district serving properties in the same operating area, whose time is not charged directly to the properties, and the cost of maintaining and operating the field production office and necessary sub-offices, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations of properties in the same operating area. The expense of, less any revenue from, housing and other facilities, may include depreciation or a fair monthly rental in lieu of depreciation on the investment.

District Expense would either be allocated to the Joint Property or charged as part of a Combined Rate, depending on the election made in the governing COPAS model form accounting procedure. Types of costs considered District Expense and the methods of allocating District Expense are varied. Examples may be found in COPAS MFI-1, *COPAS 1962 Model Form Accounting Procedure Interpretation,* and COPAS MFI-2, *COPAS 1968 Model Form Accounting Procedure Interpretation*. Regardless of which allocation method is used, the allocation should be based upon a method that is equitable and consistent with the Operator's accounting practices.

As the oil and gas industry changed, some Operators consolidated field employees into offices that served several operating areas. These offices were utilized by First

Level Supervisors and field employees. In the COPAS model form accounting procedures developed after 1968, specifically the COPAS 1974, 1976 Offshore, 1984, 1986 Offshore, and 1998 Project Team COPAS Model Form Accounting Procedures, the Operator recouped Overhead for drilling and producing operations through either a "fixed rate basis" or a "percentage basis." COPAS MFI-17, *COPAS 1984 Model Form Accounting Procedure Interpretation,* and COPAS MFI-19, *COPAS 1986 Offshore Model Form Accounting Procedure Interpretation,* state: "Costs of field operated and maintained buildings permanently staffed by field employees responsible for directly operating leases and units, and whose salaries and wages are charged directly to the leases and units served by the building and associated facilities are direct charges to the Joint Properties served by the field employees." The term "building" as used in these Model Form Interpretations is intended to include field offices, as well as sheds, pump stations, and other such fixtures.

The COPAS 1995 Model Form Accounting Procedure also allows for the direct charging of a field office but may require that such field office be specifically named in the agreement, along with the specified rate or allocation method if such field office is located off the Joint Property.

Typically, the office of a technical employee is not chargeable to the Joint Property unless specifically agreed to by the Parties. Due to these changes in language between older and newer COPAS model form accounting procedures, it is imperative that the accountant review the governing operating agreement and Accounting Procedure before assuming any specific intent of the Overhead section.

2. ADMINISTRATIVE OVERHEAD

Administrative Overhead consists of general costs attendant to executive and administrative functions incurred by an Operator at its headquarters, divisional, regional, or other administrative office above the operating level, serving indirectly the development and producing operations. Administrative Overhead historically has been shared on a Combined Rate or percentage basis, rather than through an allocation by the Operator. However, the costs of these Administrative Overhead functions are now normally included in Overhead rates (either Combined Rate basis or percentage basis).

3. WAREHOUSE OPERATING AND MAINTENANCE EXPENSE

In the COPAS 1962 Model Form Accounting Procedure, the warehouse expense provision was left blank for the Parties to fill in at the time the contract was negotiated. One practice that was employed under those contracts was to provide for the recovery of warehouse expenses by applying a separate percentage rate to Direct Costs or other methods specified for a particular property. In the COPAS 1968 Model Form Accounting Procedure, there were four methods for charging warehouse expense. If the Operator charged District Expense, Administrative

Overhead, and warehouse expense separately, the Parties to the negotiation selected one of three options listed for charging warehouse expenses. The three options were: (1) include it in District Expense, (2) no charge, either Direct or Indirect, or (3) percentage basis. The fourth method of recovering warehouse expense under the COPAS 1968 Model Form Accounting Procedure was to include it in a Combined Rate Overhead charge. The COPAS 1974, 1976 Offshore, 1984, 1986 Offshore, and 1998 Project Team Model Form Accounting Procedures provide only for the use of combined rates, in lieu of separate warehousing charges, either on a well basis or percentage basis. The COPAS 1995 Model Form Accounting Procedure provides that the Parties will negotiate all items to include in the Overhead rate, which may or may not include warehousing expense.

For additional information on the types of costs considered as warehouse operating costs, refer to the warehouse section of the Model Form Interpretations for the COPAS 1962 and 1968 Model Form Accounting Procedures (MFI-1 and MFI-2, respectively).

4. COMBINED RATES

Many Agreements prior to the 1960s utilized a single Combined Rate that was primarily designed to recover administrative costs. In most cases District Expense and Warehouse Operating and Maintenance Expense were considered costs the Operator recovered through a Direct Charge to the Joint Account. Beginning in the 1960s, use of the "Combined Rate" option became more prevalent and was referred to in the various COPAS model form accounting procedures as either "Combined Fixed Rate," "Combined Rate," or simply as Overhead. There is a provision in the COPAS 1962 and 1968 Model Form Accounting Procedures under which all charges considered to be "District Expense," "Administrative Overhead," and "Operator's Fully Owned Warehouse Operating and Maintenance Expense" were combined and recovered by the Operator using a Combined Rate. These items are further defined in Sub-sections A.1-A.3 of Section II of this MFI. The COPAS model form accounting procedures since the COPAS 1974 Model Form Accounting Procedure do not use the terms "District Expense" or "Administrative Overhead." Readers should consult the MFIs for these respective COPAS Model Form Accounting Procedures for the types of costs included in the Combined Fixed Rate.

Most of the COPAS model form accounting procedures have options available to either include or exclude the salaries and Personal Expenses of specific employee groups within the Combined Rate charge. These options are outlined in the table titled "Comparison of Labor and Personal Expense Elections Under Combined Rate Section of COPAS Accounting Procedures," located at the end of the Combined Rate section.

Rates are initially established during the negotiation of the joint operating agreement and should be commensurate with the Operator's cost of providing the

component services covered by the rate. Refer to COPAS Accounting Guideline ("AG") 23, *Overhead Rate Negotiation and Calculation,* for more information. It is necessary at this point to emphasize that the Joint Account should not be charged directly for any services or materials included in the Overhead rate base unless special agreement is reached among the Parties.

Use of Combined Rates eliminates the fluctuation of Indirect Charges that occur frequently with District Expense allocations due to changes in drilling activity or well count on other properties under the Operator's jurisdiction. An Operator may move, consolidate, or redefine the functions of the various offices indirectly serving the Joint Property without affecting the costs chargeable to the Joint Account. As such, each property is unaffected by the activities on other properties. The use of Combined Rates is intended to eliminate disagreements among Operators and Non-Operators as to the proper distinction between District Expense and Administrative Overhead.

Most of the COPAS model form accounting procedures provide two options for computing the Combined Rate, either on a Combined Rate basis (well basis) or on a percentage basis.

4.a. COMBINED RATES – FIXED RATE BASIS (WELL BASIS)

The Combined Rate based on well count was first utilized in the COPAS 1962 Model Form Accounting Procedure, where it was referred to as a Combined Fixed Rate. In the COPAS 1968 Model Form Accounting Procedure the wording was changed to "Combined Rate - Well Basis" and in subsequent COPAS model form accounting procedures the term Fixed Rate Basis was utilized. Unlike the recent Accounting Procedures– such as the COPAS 1974, 1984, 1986 Offshore, 1995, and 1998 Project Team Model Form Accounting Procedures, which have provisions for only one drilling well rate and one producing well rate, the COPAS 1962 and 1968 Model Form Accounting Procedures allowed for various Overhead rates depending on the depths of the wells and on the number of producing wells. Separate drilling and producing rates were established for various well depths. In addition, producing well rates were established for the first five producing wells, next five producing wells, and all producing wells in excess of ten. If there were five wells or fewer producing, the "first five" rate would apply to each well, based on the assumption that the Overhead incurred per well is relatively the same from one to five wells. Similarly, the "next five" rate per well would apply to wells six through ten, etc. The rate for the "first five" was the highest rate provided for producing wells since it was assumed that the incremental Overhead cost per well is reduced as the number of wells increases. The "all wells over ten" rate was the lowest rate provided because the incremental Overhead cost per well was presumably further reduced as the number of wells increased. In addition, the depth of the well, whether drilling or producing, was felt to have an influence on the Overhead required for the well. Therefore, several rates are often listed under each of the categories described above to correspond to depth ranges for the wells. Deeper wells often had higher rates since they often required greater engineering effort. This practice was discontinued because Combined Fixed Rate drilling Overhead is based on the number of drilling days, so deep wells inherently recover more Overhead than shallow wells, even when they have the same rate. As for producing operations, Overhead costs primarily consist of routine reporting and accounting functions that are not dependent on well depth.

The rules for applying the drilling and producing well Overhead rates vary depending on the governing Accounting Procedure and should be the basis for the actual assessment of the Overhead charge. Generally, the rules for drilling Overhead incorporate the need for the presence of a drilling or completion rig and for remedial work, the need for the project to extend beyond a specified number of days.

Some agreements prior to 1962 do not provide Overhead escalation. The COPAS 1962 through 1986 Offshore Model Form Accounting Procedures provide for annual adjustment of well rates as of the first day of April using the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers published by the U.S. Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index, as applicable. In the event this index

is not available in the future, Parties are encouraged to use the rate adjustment recommended by COPAS. The COPAS 1995 and 1998 Project Team Model Form Accounting Procedures specify that the rate shall be adjusted annually as of the first of the production month of April based on the rate recommended by COPAS. For more information refer to COPAS MFI-30, *COPAS 1995 Model Form Accounting Procedure Interpretation* and COPAS MFI-39, *COPAS 1998 Project Team Model Form Accounting Procedure Interpretation.*

The rates and their effective date as specified in the agreement, COPAS escalation factors, and the well status information for the property are elements necessary for the Operator to administer and for the Non-Operator to verify the Overhead chargeable on a well or Combined Rate basis.

4.b. COMBINED RATES - PERCENTAGE BASIS

Many of the agreements predating the COPAS model form accounting procedures contain provisions allowing the Operator to recover its cost of maintaining records and performing accounting and other Overhead functions for the Joint Account. This was accomplished through the application of a percentage rate against specified costs. During the 1940s, 1950s, and even into the early 1960s, percentage rates were used in contracts involving gas plants, compressor stations, and most other non-well facility operations in the mid-continent area of the United States. The percent-of-cost method was utilized for all activities of the industry on the West Coast. This method preceded the well basis method in its application as a Combined Rate.

The percentage basis is designed to recover more of the Operator's Overhead at the time the Operator incurs such costs. Overhead incurred by an Operator may fluctuate in direct relation to the increase or decrease of development and operating costs. Application of percentage Overhead rates will result in higher Overhead recovery when higher drilling or operating costs are incurred. Percentage Overhead also has the effect of recovering additional Overhead costs during inflationary periods. Utilization of percentage Overhead reduces administrative and audit costs by eliminating the problems normally associated with a Combined Rate per well basis, such as well count, well status, and the appropriate escalation factor. The base used for applying the agreed percentage is the total chargeable costs currently billed less certain items that have been specifically excluded by agreement between the Parties.

Charges under the percentage basis are usually separated into two general categories as shown below.

- Development Rate:

  Costs subject to the development Overhead rate include all chargeable costs in connection with drilling, re-drilling, deepening, or any remedial operations on any wells involving the use of drilling or completion equipment. Depending on the COPAS Model Form Accounting Procedure, the application of this rate may be dependent upon the number of drilling/workover days involved or the requirement that a drilling crew and drilling equipment be involved in the project. Also included are preliminary costs necessary in the preparation of drilling and costs incurred in abandonment when a well is not completed as a producer.

It should be noted that certain costs may be subject to Major Construction or Catastrophe Overhead rather than development Overhead. The COPAS 1998 Project Team Model Form Accounting Procedure, for example, specifically states that "the cost of drilling relief wells, substitute wells, or conducting other well operations resulting from the catastrophic event shall be included" in Catastrophe Overhead. The Major Construction Overhead and Catastrophe Overhead sections of this document should be referred to for further details.

The cost of litigation and claims and all salvage credits are excluded from the amounts subject to the development Overhead rate.

- Operating Rate:

  Operating costs are chargeable costs other than those classified as development, Major Construction, Catastrophe, or Project Team. The costs of lease rentals and royalties, litigation and claims, taxes and assessments paid on mineral interests, the value of injected substances purchased for enhanced recovery, all salvage credits, as well as other items, are usually excluded from the amounts subject to the operating Overhead rate. Also, the value of hydrocarbons, water, etc., purchased for use on the property for enhanced recovery is normally excluded from the amounts subject to Overhead. These items are excluded because the Overhead recovery that would result from applying the Overhead percentage to these costs is not considered commensurate with the Operator's actual Overhead costs. There may be some variations from one contract to the next, so the applicable agreement should always be reviewed to determine which specific items, if any, are to be excluded.

  The term "salvage credits" as used in the percentage basis provisions for recovering Operator's Overhead is defined as the amount credited to the Joint Account resulting from the disposal of any material and equipment previously installed on the property and charged to the Joint Account. Unless such salvage credits are excluded from current costs and credits when computing the basis to which percentage Overhead rates are applied, the Operator would, in effect, be refunding compensation previously earned at the time the disposed-of items were originally installed.

  Credits resulting from the return of any unused material and equipment to a supplier or to jointly owned or 100%-owned stores stock should not be considered as salvage credits but should be used to reduce the basis to which Overhead rates are applied.

Comparison of Labor & Personal Expense Elections Under Combined Rate Section of
COPAS Model Form Accounting Procedures

Description	COPAS 1962 Jt. Opt.	COPAS 1968 Jt. Opt.	COPAS 1974 Jt. Opt.	COPAS 1976 Offshore	COPAS 1984 Jt. Opt.	COPAS 1986 Offshore	COPAS 1995 Jt. Opt. (Note 1)	COPAS 1998 Proj. Team
Combined Rate {shall} or {shall not} include "salaries and expenses of production foremen."	X							
Overhead rates {shall} or {shall not} include "salaries and personal expenses of first-level supervisors in the field."		X						
Overhead rates {shall} or {shall not} include "salaries, wages and personal expenses of technical employees temporarily assigned to and directly employed on the Joint Property."		X						
Overhead rates {shall} or {shall not} include "salaries, wages and personal expenses of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Account."		X						
Overhead rates {shall} or {shall not} include the "salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property."			X	X	X	X		
Overhead rates {shall} or {shall not} include the "salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property."					X	X		
Overhead Rates {shall} or {shall not} include the "salaries, wages, related payroll burden and Personal Expenses of Technical Employees and/or cost of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property."								X
Overhead rates {shall} or {shall not} include the "salaries, wages, related payroll burden and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property in the conduct of Joint Operations."								X

Note 1 – COPAS 1995 Model Form Accounting Procedure has no election clause

5. FIXED RATE

The COPAS 1995 Model Form Accounting Procedure introduced the concept of an all-encompassing Fixed Rate per month per active well to compensate the Operator for all routine Direct Costs and Overhead. Royalties, ad valorem taxes, and production/severance taxes paid by the Operator for Joint Operations are excluded from this Fixed Rate and charged directly to the Joint Account. The costs for projects or activities that qualify for drilling, construction, or Catastrophe Overhead, downhole well work and Controllable Material are also excluded and charged directly to the Joint Account. All other costs not specifically excluded under the terms of the COPAS 1995 Model Form Accounting Procedure shall be included in the Fixed Rate.

Since the costs of operating a lease may change significantly, Section I, Paragraph 8, of the COPAS 1995 Model Form Accounting Procedure allows the Operator the opportunity to elect, at two-year intervals, to review the actual costs associated with the operations and calculate a new Fixed Rate for approval by the Parties. Likewise, Non-Operator(s) may challenge the existing Fixed Rate at intervals of at least four years and require the Operator to calculate a new rate under the terms of the contract. Any challenge by Non-Operator(s) shall be supported by factual data pertaining to the Joint Property. Any changes to the Fixed Rate, regardless of whether proposed by the Operator or Non-Operator(s), requires approval of the Parties.

The Parties should carefully consider whether to use this option because of the variable nature of the costs and potential financial exposure.

B. DIRECT VS INDIRECT COSTS

The COPAS model form accounting procedures classify costs as either Direct or Indirect. Direct Costs may be billed to the working interest owners and are not to be recovered via the Overhead rate. Direct Costs may consist of an invoice containing a charge only for a given property but may also consist of allocated charges. An example of an allocated Direct Cost is an invoice for 1,000 gallons of oil that is used on multiple properties' compressors. Another common example is an allocated charge for use of a central tank battery. The term "Indirect Costs" is synonymous with the term "Overhead," and should be recovered by the Operator through the agreed upon Overhead rate.

Expenditures for materials and services on the Joint Property, at the Lease Level, or for the direct benefit of the Joint Property are the prime source of Direct Charges, to the extent allowed by the governing Accounting Procedure. A thorough understanding of the applicable Accounting Procedure is the first step in determining whether a cost is treated as a Direct or Indirect Cost. Nonetheless, the distinction between Direct and Indirect Costs is not always clear and the Operator is sometimes required to make a judgment call. In an effort to properly apply Overhead provisions previously discussed in this publication, and in order to minimize disputes and audit exceptions, it is important to have an appreciation and understanding of the complexities in identifying a cost as either Direct or Indirect.

The Accounting Procedures do not list each and every type of item that could be considered a Direct Charge. Even if that were feasible, such a listing would make the agreement too voluminous. Also, in determining whether something is a Direct Charge or Overhead, one must consider the type of goods/services being used as well as how and where such goods/services are used. For example, a fire extinguisher used at a compressor station would be considered a Direct Charge, but a fire extinguisher used in an accounting office would be considered Overhead. Another reason Direct Charges are not itemized in an agreement is that doing so would make the agreement inflexible and obsolete as operational and technical changes occur. Rather, the agreements list general categories of costs that are considered Direct Charges. Examples of these categories, which may vary from agreement to agreement, are as follows:

- Rentals and royalties
- Labor, payroll burden, and Personal Expenses
- Material
- Transportation
- Services
- Equipment and facilities furnished by Operator
- Affiliate goods, services (to the extent allowed by the governing agreement)
- Damages and losses to Joint Property
- Legal expenses
- Taxes
- Insurance
- Communications

- Ecological and environmental
- Abandonment and reclamation
- Other expenses (not covered elsewhere, necessary and proper for Joint Operations, and of direct benefit)

A cost billed directly to the Joint Account must be chargeable under one of the specific Direct Cost provisions listed in the agreement. If it does not qualify as directly chargeable through one of the specific Direct Costs, the cost is considered an Indirect Cost covered by Overhead and recovered by the Operator through whatever mechanism was chosen by the Parties to assess Overhead to the Joint Account. Note, readers are cautioned to check the provisions of the operating agreement since it may make specific allowance to treat certain costs as Direct Costs.

Indirect Costs are those costs not allowed to be billed as Direct Costs. These types of costs do not fit into one of the Direct Cost sections and are generally, but not necessarily, incurred off the Joint Property or above the Lease Level.

Examples of Indirect Costs are as follows:

Administration
Accounting
Accounts payable
Accounts receivable
Office services
Data processing
Human resources
Internal auditing
Vendor audits

Operations Support
Planning and follow-up
Design and drafting (except when allowed as a direct charge, e.g., under Major Construction, Option B)
Purchasing
Inventory taking
Obtaining permits and certifications
Warehousing (except temporary staging areas for a specific project or as agreed to by the Parties)

General Management
Supervision above first level
Negotiations with contractors
Negotiations with vendors
Negotiations with landowners
General onsite inspections / periodic visits

Legal
Except when allowed as Direct Costs

Matters before or involving governmental agencies
Except when allowed as Direct Costs

Marketing
Except when allowed as Direct Costs

Taxation
Except when allowed as Direct Costs

Technical Employees
Except when allowed as Direct Costs

Most operations will contain a mix of both Direct Costs and Indirect Costs. For example, Direct Costs related to drilling and producing operations include rigs, workover and wireline units, field labor (including benefits and burdens), field services, materials used or consumed, rental items, costs of permits, routine fines, transportation, repair costs, chemicals, water, agreed-upon insurance, and other costs directly pertaining to the operation and classified into one of the Direct Cost categories. Indirect Costs related to drilling and producing operations include costs such as planning, purchasing, accounting, marketing, insurance administration, bidding, permitting, and general supervision.

Costs for technical employees could be Direct or Indirect depending on the Parties' elections and the nature of the operation, e.g., off-site technical employees may be considered Overhead, except during a Major Construction project using Overhead Option B. Costs for legal services, including attorney's fees, settlements, claims investigation and handling, and title opinion work, will also either be Direct or Indirect depending on the Parties' elections.

Exceptions to the above can occur when the agreement specifically provides for different treatment, e.g., off-site Technical Labor to be billed as a Direct Charge, or when the Parties make a specific agreement for charging the costs of specific studies or projects.

These examples are not intended to be all-inclusive, but merely examples of some functions that are generally included as Direct or Indirect Costs. When there are questions as to the classification of particular costs, the Parties should come to an agreement.

It is not the person performing a function that determines whether the cost is a Direct or Indirect expense. Rather, the types of functions listed as Direct or Indirect are considered as such regardless of whether the function is performed by the Operator's personnel, an affiliate of the Operator, or outsourced to a third party.

Even though the Accounting Procedure definitions and provisions governing Direct and Indirect Costs have attempted to clarify industry's intent, differences in interpretation of these provisions have led to different accounting practices and treatment of charges to the Joint Account. The following is a discussion of costs where these differences typically exist within the industry.

1. FIRST LEVEL SUPERVISION

Most agreements now provide for salaries and Personal Expenses of First Level Supervisors in the field to be accounted for as Direct Charges. A problem arises within the industry, however, in identifying the employees that qualify under this category. Therefore, one must focus on functions performed rather than job title or location in determining whether an individual is a First Level Supervisor. Examples of a First Level Supervisor's functions and responsibilities may include the following:

- Responsibility for company employees and contract labor engaged in activities that can include field operations, maintenance, construction, well remedial work, equipment movement and drilling
- Responsibility for day-to-day direct oversight of rig operations
- Responsibility for day-to-day direct oversight of construction operations
- Coordination of job priorities and approval of work procedures
- Responsibility for optimal resource utilization (equipment, materials, personnel)
- Responsibility for meeting production and field operating expense targets
- Representation of the Joint Account in local matters involving community, vendors, regulatory agents and landowners, as an incidental part of the supervisor's operating responsibilities
- Responsibility for all emergency responses with field staff
- Responsibility for implementing safety and environmental practices
- Responsibility for field adherence to company policy
- Responsibility for employment decisions and performance appraisals for field personnel
- Oversight of sub-groups for such field functions as electrical, safety, environmental, telecommunications, etc., which may have group or team leaders.

The COPAS 1974, 1976 Offshore, 1984, 1986 Offshore, and 1998 Project Team Model Form Accounting Procedures define First Level Supervisors as "those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity."

The COPAS 1968, 1974, 1976 Offshore, 1984 and 1986 Offshore Model Form Accounting Procedures specify the "Salaries of First Level Supervisors in the field" may be charged directly to the Joint Account. The language suggests that this supervision must be performed in the field, in the vicinity of the Joint Property in order to qualify as a Direct Charge. However, it is recommended that when such supervision can be adequately and more economically exercised from a central location, the Parties reach an understanding that will allow a broader interpretation and enable the Operator to recover the costs of this function, while reducing the cost to the Non-Operator(s) of each affected property. In this event, the Operator

should provide sufficient documentation regarding the portion of time chargeable to each property as first level supervision.

A common practice is for the first level supervisor to be based in a location away from one or more of the properties for which the individual is responsible, and occasionally travel to the various properties. In some cases, an allocation to the respective properties based on the time, rather than a well-count basis, may be more equitable. A time allocation basis may be accomplished by a periodic review of how the First Level Supervisor's time is spent or by keeping detailed time records although it should be noted that First Level Supervisors usually do not keep detailed time records. Using time records as a basis for charging may create wide swings in the charges from month-to-month that will offset each other over time. Another difficulty with using detailed time records, as shown in the previous list of functions, is that some of the time benefits numerous properties (job performance evaluations) and/or is difficult to measure (approving invoices).

By focusing on the functions performed, the Non-Operator should accept a charge for the First Level Supervisor based on well count, time sheet, or other means of documentation of average time spent supervising the respective properties, rather than request detailed time records. The Operator should be prepared to demonstrate that the functions the individual performs meet the criteria for being the First Level Supervisor and that the individual does periodically visit the properties for which the individual is responsible. If this person only periodically travels to the property but nonetheless performs the functions described herein as being those performed by a First Level Supervisor and accepted as First Level Supervisor functions prior to a reorganization, this individual's time should be chargeable to the Joint Account, assuming that no other individual has responsibility for the same functions.

Following is a discussion of "function over location" in determining chargeability of an individual as a First Level Supervisor with respect to the language in each vintage of COPAS Model Form Accounting Procedures.

COPAS 1962 Model Form Accounting Procedure

- Section II.2.A allows a direct charge for "Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of Joint Operations…"

- Section III.4 requires the Parties to decide if "production foremen" costs, without any language regarding a work location, should or should not be included in the Combined Fixed Rate calculation and rate.

- This Model Form Accounting Procedure does not include the term "First Level Supervisor."

Thus, any individual who is working on the Joint Property and directly engaged in conducting operations is chargeable. This does not mean, however, that functions considered Overhead, such as accounting, are chargeable when on-site since they are not directly engaged in operating the property. Also, if the Parties have elected that production foreman costs are not included in the Combined Fixed Rate, then Parties agree that costs of the related function are directly chargeable no matter the production foreman's work location. There is no specific requirement under this Model Form Accounting Procedure requiring the production foreman be located on-site in order to be chargeable, only that he or she perform the function of a production foreman.

COPAS 1968 Model Form Accounting Procedure

- Section II.2.A.1 is virtually identical to Section II.2.A of the COPAS 1962 Model Form Accounting Procedure.

- Section II.2.A.2 allows a direct charge for "Salaries of first level supervisors in the field if such charges are excluded from overhead rates…"

- Section III allows the Parties to elect whether the salaries of "first level supervisors in the field" should or should not be included in the Combined Fixed Rate.

- COPAS MFI-2, *COPAS 1968 Model Form Accounting Procedure Interpretation,* in regard to Section II.2.A.2, defines the first level supervisor as "…employees and their assistants below the district expense level who supervise employees and/or contract labor directly engaged in operating and maintaining producing properties and production facilities."

A separate provision to specifically address the first level supervisors' costs and the addition of the "in the field" phrase are the key differences between the COPAS 1962 and COPAS 1968 Model Form Accounting Procedures. The question arises as to the intent of adding the phrase "in the field." Section II.2.A.2 must anticipate the First Level Supervisor might not be on the Joint Property. Otherwise, there would be no need for the additional provision since Section II.2.A.1 allows a Direct Charge for employees working on the Joint Property. As explained in COPAS MFI-2, *COPAS 1968 Model Form Accounting Procedure Interpretation* ("MFI-2"), "in the field" was chosen to differentiate between employees who have direct field operating responsibility and those working at the broader "District Expense" level who do not, and cannot, directly supervise daily field operations because their responsibilities are too broad to effectively or efficiently do so. Those directly responsible for field operations are considered as working "in the field," whereas those with broader accountabilities, those at the "District" level, are deemed at a higher level and cannot be directly charged.

The COPAS 1968 Model Form Accounting Procedure intends for the Non-Operators to pay for the function of a first level supervisor because COPAS MFI-2 further explains that "The salaries and wages incurred necessary to provide first level supervision may be charged direct or apportioned to all properties served on an equitable basis…"

Also, nowhere in the COPAS 1968 Model Form Accounting Procedure is the phrase "in the field" used interchangeably with "on the Joint Property," so the two phrases are not synonymous. If "on the Joint Property" were intended, that specific phrase would have been used as it has in numerous other instances where it was obviously intended as the qualifier for directly chargeable costs.

Analysis of the COPAS 1968 Model Form Accounting Procedure and COPAS MFI-2 as a whole indicates the intention that the Parties were expected to pay for the function of first level supervision of field operations by allowing a Direct Charge for the person "in the field" (i.e., below the District Expense level, but not necessarily "on the Joint Property") directly responsible for field operations, unless such costs were specifically included in the Combined Fixed Rate.

COPAS 1974 and COPAS 1976 Offshore Model Form Accounting Procedures

- Section I.1 of the COPAS 1974 and 1976 Offshore Model Form Accounting Procedures defines First Level Supervisors as "those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity." This is the first time the term "First Level Supervisor" is a defined term in a COPAS model form accounting procedure. Section II.2.A.2 in the COPAS 1974 Model Form Accounting Procedure and Section II.2.A.3 in the COPAS 1976 Offshore Model Form Accounting Procedure allow a direct charge for "Salaries of First Level Supervisors in the field."

The option to include First Level Supervisors' costs in the Combined Fixed Rate does not exist in COPAS 1974 Model Form Accounting Procedure and is not necessary because Section II.2.A.2 limits the labor chargeable as First Level Supervisor to that prescribed. By default, labor costs not meeting that criterion are covered by the Combined Fixed Rate. COPAS MFI-4, *COPAS 1974 Model Form Accounting Procedure Interpretation,* and COPAS MFI-5, *COPAS 1976 Offshore Model Form Accounting Procedure Interpretation,* advise "Due to the variations in job classifications assigned to First Level Supervisors by the various Operators, it is recommended that the Parties be in agreement as to which job classifications are considered as First Level Supervisors at the time the agreement is negotiated."

There is no provision in the COPAS 1974 Model Form Accounting Procedure that requires the First Level Supervisor work "on the Joint Property" in order to be directly chargeable. Rather, the "in the field" language was carried over from the COPAS 1968 Model Form Accounting Procedure indicating the Parties' intent to allow Direct Charges for the function of first level supervision of field operations, but not charges for supervision by those employees who do not directly supervise daily field operations because their responsibilities are too broad to effectively or efficiently do so.

COPAS 1984 and COPAS 1986 Offshore Model Form Accounting Procedures

No change from the language in the COPAS 1974 and 1976 Offshore Model Form Accounting Procedures.

COPAS 1995 Model Form Accounting Procedure

Unlike earlier COPAS model form accounting procedures, there is no distinction among various types of labor costs, and the term First Level Supervisor is not used. The COPAS 1995 Model Form Accounting Procedure generally focuses on the locations of work activities, rather than the functions, so that only time spent working on the Joint Property in the conduct of Joint Operations is directly chargeable. However, this COPAS 1995 Model Form Accounting Procedure

contains many unique provisions, and, in order to eliminate potential disputes, the Operator and Non-Operator(s) should agree ahead of time on which employees will be considered directly chargeable and which will be considered as included in the Overhead rates.

COPAS 1998 Project Team Model Form Accounting Procedure

- Section I.1 defines First Level Supervisors as "those employees whose primary function in Joint Operations is the direct supervision of the Operator's field employees and/or contract labor directly employed on the Joint Property in the conduct of Joint Operations."

- Section II.2.A.2.a allows a direct charge for "Salaries and wages of the Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations."

- Section II.2.A.2.c allows a direct charge for "Salaries of First Level Supervisors."

This COPAS 1998 Project Team Model Form Accounting Procedure resolved the confusion of the "in the field" phrase by completely eliminating it. As discussed for other COPAS model form accounting procedures, the intent is to allow a direct charge for the function of first level supervision, regardless of the location where that function is performed.

Each Operator has its own organization structured to perform the day-to-day functions necessary for drilling and producing operations. Differences exist in job classifications and work assignments. One or more employees may perform first level supervision for a given group of leases, or for a large and complex unit or facility. "First Level Supervisor" does not necessarily refer to a given box on the organization chart. Rather it refers to a layer of supervisory function; two or more individuals may provide the function in tandem, even though one is a direct report of another on the organization chart. Regardless of the Operator's first level supervisory structure, the allocated charges to Joint Properties for these services must pass the test of whether or not these costs include other supervisory and administrative functions above what would normally and reasonably be accepted in the industry as conforming to the guidelines contained in this section. Any other supervisory and administrative functions above first level performed by the First Level Supervisor otherwise chargeable would have to be removed from the allocated charges. This would include any temporary delegations of duties and/or authority by a level superior to first level supervision, as well as any permanent duties that are assigned to the individual serving in the role of First Level Supervisor.

The term first level supervision is, by design, a generic term, and not intended to preclude any particular company or organizational title from serving in the role as

defined in this section. The Parties to the agreement should reach an understanding of the job responsibilities that will qualify as "first level supervision," both in the initial negotiations and as required from time to time throughout the life of the Joint Account. Salaries and Personal Expenses of such employees should be charged to all properties served on an equitable basis consistent with the Operator's accounting practices.

Changes in the Operator's organizational structure required due to company realignments may make it difficult to ascertain who should be considered the First Level Supervisor when applying the cost recovery method agreed to by the Parties when the agreement was negotiated. Factors to consider when making this determination include:

- Historical basis
  Consider which position was considered first level supervision when the contract was negotiated and the functions performed by that person or persons. Titles and/or duties change so one must consider who currently performs those functions.

- Consolidation of Operations
  Previously, the Operator may have had a number of First Level Supervisors covering a given set of properties. Over time, the Operator may have consolidated some of these First Level Supervisors' jobs so that each property now receives a much smaller fraction of a First Level Supervisor's costs.

- Realignment
  Many companies have re-aligned from an organization by functions to an organization by asset units that are comprised of multi-discipline teams. Consequently, a First Level Supervisor may have engineers and administrative staff as direct reports even though supervision of such staff historically has not been directly chargeable. Thus, one criterion formerly used by the industry to identify First Level Supervisors, i.e., a First Level Supervisor does not supervise engineering and administrative personnel, may no longer be applicable. If the First Level Supervisor has any administrative/engineering staff and the supervision of such staff was not considered a Direct Charge at the time the agreement was negotiated, that portion of the First Level Supervisor's time spent supervising such functions should be considered as Overhead. This allocation may be based on any one of a number of factors, such as a periodic time and motion survey, headcount basis, or actual time spent.

- Technology
  Advancements in technology, including communications, make it easier for the First Level Supervisor to telecommute and supervise off-site without being directly located in the field all of the time.

2. TECHNICAL LABOR

The treatment of Technical Labor may be addressed in the Direct Charges section and/or the Overhead section of the Accounting Procedure. The following paragraphs contain references and explanatory comments for determining the chargeability of Technical Labor as it relates to the option of including or excluding it as a component of Overhead. When in doubt, users are encouraged to consult the

contract because of the difficulty in capturing all the intricacies of the contracts in this format.

- **COPAS 1962 Model Form Accounting Procedure**
  Section II.2.A and Section II.6

  Section II.2.A of the Direct Charges section allows for the charging of technical employees who are temporarily assigned to and directly employed on the Joint Property. Under Section II.6 of the Direct Charges section, the cost of contract services procured from outside sources is also chargeable.

- **COPAS 1968 Model Form Accounting Procedure**
  Section II.2.A.3 and .4, Section II.6, and Section III

  Section II.2.A.3 of the Direct Charges section allows for charging technical employees temporarily assigned to and directly employed on the Joint Property if such charges are not included in the Overhead rate, as established in Option B of Section III. Option B provides for Parties to elect whether these employees either included or excluded from the Overhead rates.

  Section II.2.A.4 of the Direct Charges section allows for charging technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are not included in the Overhead rate Option C of Section III. Option C provides that Parties make an election to have these employees included or excluded from the Overhead rates.

  Section II.6 governs Direct Charges for contract services and provides that the cost of professional consultant services shall not be charged unless agreed to by the Parties. The provision does not stipulate whether it applies only to off-site consultants.

- **COPAS 1974 Model Form Accounting Procedure**
  Section II.2.A.3, Section II.6, and Section III.1.ii

  Section II.2.A.3 of the Direct Charges section allows for charging Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates. Section II.6 of the Direct Charges section states that contract technical personnel directly engaged on the Joint Property are chargeable if excluded from Overhead, and that technical personnel not directly engaged on the Joint Property shall not be chargeable unless previously agreed to by the Parties. Section III.1.ii contains the options where the Parties elect to have Technical Employees and contract services of technical personnel directly employed on the Joint Property either included or excluded from the Overhead rate.

- **COPAS 1976 Offshore Model Form Accounting Procedure**

Section II.2.A.4, Section II.6, Section III.1.ii, and Section III.2

Section II.2.A.4 of the Direct Charges section allows for charging Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates. Section II.6 of the Direct Charges section states that contract technical personnel directly engaged on the Joint Property are chargeable if excluded from Overhead, and that technical personnel not directly engaged on the Joint Property shall not be chargeable unless previously agreed to by the Parties.

Section III.1.ii contains the options where the Parties elect to have Technical Employees and contract services of technical personnel directly employed on the Joint Property either included or excluded from the Overhead rate. Technical personnel engaged in the engineering, design, and drafting of a Major Construction project may be either directly charged or covered by Overhead depending on the Major Construction option (Section III.2 A or B) used by the Operator, which may vary from one project to the next. Under Major Construction Overhead Option A, all the engineering, design, and drafting work related to the project is absorbed by the Operator; i.e., it is considered Overhead. Under Major Construction Overhead Option B, the project engineering, design, and drafting provided by contractors may be directly charged.

- **COPAS 1984 Model Form Accounting Procedure**
  Section II.2.A.3 and 4, Section II.7, and Section III.1.ii and iii

  Section II.2.A.3 of the Direct Charges section allows for charging Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates. Section II.7 of the Direct Charges section allows for charging contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. It also states that contract services of technical personnel not directly engaged on the Joint Property shall not be chargeable unless previously agreed to by the Parties. Section III.1.ii contains the options where the Parties make an election to include or exclude from the Overhead rate Technical Employees and/or contract services of these technical personnel directly employed on the Joint Property.

  Section II.2.A.4 of the Direct Charges section allows for charging Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the Overhead rates. Section III.1.iii contains the option where the Parties elect to include or exclude from the Overhead rate, these off-site Technical Employees and contract services of technical personnel employed in the operation of the Joint Property.

- **COPAS 1986 Offshore Model Form Accounting Procedure**
  Section II.2.A.4 and.5, Section II.6, Section III.I.ii and iii, and Section III.2

Section II.2.A.4 of the Direct Charges section allows for charging Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates. Section II.6 of the Direct Charges section allows for charging contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. It also states that contract services of technical personnel directly engaged in the operation of the Joint Property shall be chargeable if such charges are excluded from the Overhead rates. Section III.1.ii contains the option where the Parties elect to include or exclude from the Overhead rate, Technical Employees and/or contract services of technical personnel directly employed in the operation of the Joint Property.

Section II.2.A.5 of the Direct Charges section allows for charging Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the Overhead rates. Section III.1.iii provides the option to include or exclude from the Overhead rate, these Technical Employees and contract services of technical personnel directly employed in the operation of the Joint Property.

Technical personnel (employees and contractors) engaged in the engineering, design, and drafting of a Major Construction project may be either directly charged or covered by Overhead depending on the Major Construction option (Section III.2.A or B) used by the Operator, which may vary from one project to the next. Under Major Construction Overhead Option A, all the engineering, design, and drafting work related to the project is absorbed by the Operator; i.e., it is considered Overhead. Under Major Construction Overhead Option B, all the engineering, design, and drafting related to the project may be directly charged.

- **COPAS 1995 Model Form Accounting Procedure**
  Section II, Section III.2.A., Section III.5 and Section IV

  In this Model Form Accounting Procedure, Technical Labor is not specifically addressed. The location of the employee/contract personnel is one of the key criteria for determining chargeability. Section III.2.A. states that the Operator's employees directly employed on the Joint Property in the conduct of Joint Operations will be chargeable provided such costs were not included in the Overhead rate. Section III.5 states that the costs of contract services provided by sources other than the Operator will be chargeable. However, it should be noted that the introductory paragraph of Section III states that costs charged under this section are for costs incurred on the Joint Property for Joint Operations. Moreover, this paragraph stipulates employees and contract

personnel who spend substantially all of their time in offices that are not Joint Property are not chargeable while working in those offices.

Section IV addresses charges for off-site facilities used in Joint Operations, which include the cost of Technical Labor for such facilities. If the facility is a production handling facility, the Technical Labor working on the facility in the conduct of Joint Operations may be a Direct Charge. The charges for other types of facilities that do not handle production is by specific agreement of the Parties.

Section V does not specifically address which types of costs are considered covered by Overhead, but rather states that it is for items not considered directly chargeable under Sections III and IV.

This Model Form Accounting Procedure alternatively provides for a fixed fee that is to compensate the Operator for all "routine" costs incurred in operating the property, including both on-site and off-site Technical Labor.

- **COPAS 1998 Project Team Model Form Accounting Procedure** - Sections II.2.A.1, II.2.A.2.d. and 2.e, II.5, II.7, II.13, III.1, III.2, and III.3

  On-site Technical Employees directly employed on the Joint Property in the conduct of Joint Operations are directly chargeable, pursuant to Sections II.2.A.2.d if not covered by the Overhead rates. Likewise, Section II.5 allows for Direct Charges for on-site contractors if not covered by Overhead. The election in Section III.i governs whether the Overhead rates include or exclude on-site Technical Employees and contract technical personnel. In addition to those paragraphs, labor costs associated with environmental, safety, and training costs may be chargeable for on-site labor, if the "on the Joint Property" election is made in Section II.13 and depending on whether the Parties elected to have Section II.13 or Section III.i and .ii prevail in the event of a conflict.

  Depending on the elections made in Section II.13, off-site Technical Labor engaged in environmental and safety functions may be charged directly. Likewise, other off-site Technical Labor, other than environmental and safety, are addressed in Sections II.2.A.2.e and II.5 and provide that such costs are chargeable if excluded from the Overhead rate, which is evidenced by the Parties' election in Section III.ii.

  Separate from the foregoing discussion, however, is Technical Labor assigned to or providing at least one full equivalent day or more per month to the Project Team. All such costs are directly chargeable, regardless of location. Technical Labor costs for the Parties' employees or the Parties' affiliate employees working on or for the Project Team are addressed in Sections II.2.A.1 and II.7, respectively. Finally, for Technical Labor engaged in a Major Construction or Catastrophe project, the Technical Labor may be either a Direct Charge or

considered Overhead depending on which Major Construction/Catastrophe option in Section III.3 the Operator is utilizing for the project in question.

Refer to COPAS MFI-39, *COPAS 1998 Project Team Model Form Accounting Procedure Interpretation*, for additional information on the nature, formation, structure, and function of project teams.

General:

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; rather, these skills may be acquired through a combination of life experiences and continuing education.

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.

Technical Labor costs are classified as either "on-site" or "off-site." Either one or both may qualify as a Direct Charge or as Overhead depending upon the terms of the agreement. On-site Technical Labor includes technical personnel directly employed on the Joint Property, while off-site includes those not working on the Joint Property but directly employed in the operation of the Joint Property.

Each individual COPAS model form accounting procedure must be examined to determine the extent to which Technical Labor may be charged directly because of subtle differences in the COPAS model form accounting procedures and because most COPAS model form accounting procedures contain elections. These elections concern whether Technical Labor is or is not a component of Overhead. In the above-mentioned procedures, if Technical Labor "shall" be included in Overhead rates, Technical Labor is not directly chargeable to the Joint Account. If Technical Labor "shall not" be included in Overhead rates, it is a Direct Charge to the Joint Property subject to the other requirements of the specific Accounting Procedure.

ON-SITE TECHNICAL LABOR

"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.

Work performed at the site of construction yards is considered on-site even though the Joint Property is not physically installed at its permanent location because Joint Property includes personal property regardless of its location. Time spent by technical personnel at the site of construction yards in verifying satisfactory performance of the contractor and in performing quality control inspections will qualify as "handling a specific operating condition or problem" as indicated in the preceding paragraph. In addition, technical personnel performing offshore operations may visit tie-in platforms or production systems that are not owned by the Joint Account, but which serve the Joint Operation in question. Visits to these sites are considered On-site Technical Labor.

On-site Technical Labor time includes travel time to and from the Joint Property. The provisions concerning Off-site Technical Labor govern preliminary preparation time and follow-up effort performed after the on-site visit. Equalization of travel time is not required as long as charges are reasonable in light of the Operator's organization. Exceptions to this treatment should be negotiated by the Parties at the time of completing the agreement.

When a trip includes both a primary and secondary purpose, the secondary portion of the visit qualifies as a Direct Charge if the trip would have been necessary anyway. In such cases, travel time and expense should be allocated on the basis of time spent on each property. When the secondary purpose does not qualify as a Direct Charge, 100% of the travel time should be associated with the primary purpose of the trip.

Determining whether On-site Technical Labor is allowed as a Direct Charge or considered Overhead depends on the vintage COPAS model form accounting procedure governing the property. The labor and overhead provisions of the COPAS model form accounting procedure should be examined carefully.

OFF-SITE TECHNICAL LABOR

Certain COPAS model form accounting procedures have an election that allows the Operator to charge directly for the salaries, wages, and Personal Expenses of Technical Employees and/or the costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property. This election provision is referred to as "Off-site Technical Labor."

Off-site Technical Labor refers to time spent by technical personnel working "in the operation" of the Joint Property but not on the Joint Property, where it would be considered "On-site Technical Labor." Off-site Technical Labor includes time spent working on specific operations, projects, circumstances or problems, but does not include planning, follow-up, or administrative functions.

Time should not be charged after the specific operating condition or problem has been resolved. Routine follow-up review after a project is completed should be treated as Overhead and not as a Direct Charge. Slack time between projects should be excluded. Non-productive time waiting on information, management review, etc., should be absorbed as Overhead.

Time worked on the project by clerical or non-technical employees or supervisory employees is not chargeable except when agreed to by the Parties. Preliminary review work or problem identification effort should not be included as a Direct Charge unless it directly benefits the Joint Property and has been approved by the Parties or is allowed by the agreement. Basic research typically benefits multiple properties, and thus is chargeable only if the Parties agree.

Determining whether Off-site Technical Labor is considered a Direct Charge or Overhead depends on the vintage COPAS model form accounting procedure governing the property. The labor and overhead provisions of the COPAS model form accounting procedure should be examined carefully, as well as the circumstances surrounding the charge. The accounting treatment may depend on whether the project is a Major Construction project and on the Major Construction Overhead option selected by the Operator.

The Operator should seek the approval of the Non-Operators if it feels a particular cost should be treated as a Direct Charge but is prohibited from billing the cost by the terms of the agreement.

DOCUMENTATION

For all Technical Labor charged, the Operator should provide, upon request, a general job description of Technical Labor and documentation of the basis for charging Technical Labor to the Joint Property. Documentation may vary from company to company but should be sufficient to verify that an employee or contractor provided a specific service for the Joint Property in question, as well as the location and date(s) of the service.

3. PERSONAL EXPENSES

REIMBURSABLE TRAVEL, MEALS, AND LODGING

Operators' employees whose salary and wages are directly chargeable to the Joint Account may, in the course of performing their assigned duties, incur personal "out-of-pocket" expenses. Such costs normally are Direct Charges to the Joint Account and should be allocated consistently with the salary and wages of the employee who incurs them.

Personal Expenses are defined in the COPAS 1974, 1976 Offshore, 1984, and 1986 Offshore Model Form Accounting Procedures as "… travel and other reasonable reimbursable expenses of Operator's employees." The COPAS 1995 Model Form Accounting Procedure refers to "Reimbursable travel, meals, and lodging of these employees." "These employees" refers to employees whose salaries and wages are chargeable under Section III.2, Labor. In each instance, Personal Expenses includes the cost for lodging, meals, transportation, and miscellaneous items reimbursable under the Operator's usual practice. The COPAS 1998 Project Team Model Form Accounting Procedure defines Personal Expenses as "reimbursed costs for travel, temporary living, relocation, and other expenses of Operator's employees, as well as similar expenses incurred by a Non-Operator or any Party's Affiliate for personnel assigned to a Project Team." Other costs related to the employee's function such as office rent, supplies, utilities and maintenance, office staff, and office depreciation are not typically chargeable as Personal Expenses. However, costs of this nature are recoverable either as Direct Charges or as Overhead depending on the COPAS model form accounting procedure in place.

The COPAS Model Form Interpretations and Accounting Guidelines dealing with the COPAS 1974, 1976 Offshore, 1984, and 1986 Offshore Model Form Accounting Procedures provide "Personal Expenses may include relocation expenses such as real estate fees, closing costs, compensation for loss on sale of home, carpeting, and drapery expenses, etc., unless such move is for the primary benefit of the Operator." Other relocation expenses such as travel expenses and the cost of moving household and personal effects are included if meeting the benefit criteria. COPAS Model Form Interpretations for the COPAS 1984, 1986 Offshore, and 1998 Project Team Model Form Accounting Procedures recommend including tax assistance payments made on behalf of the employee as an additional Personal Expense. Those reimbursable relocation expenses that do not specifically benefit the Joint Account and which are primarily beneficial to the Operator, should not be included as Personal Expenses. COPAS MFI-30, *COPAS 1995 Model Form Accounting Procedure Interpretation*, specifically excludes expenses associated with employee relocation from being directly charged unless previously approved by the Parties. The COPAS 1998 Project Team Model Form Accounting Procedure has built-in options regarding relocation expense that the Parties select when negotiating the agreement. There are separate options for personnel assigned to the Project Team and for different types of field employees, and one must carefully review the contract to determine the extent to which such costs are chargeable. The COPAS 1998 Project Team Model Form Accounting Procedure also requires prior approval for directly charging extraordinary relocation costs such as international relocations.

To eliminate disagreement, the Parties should initially come to an understanding on what types of costs will be treated as Personal Expenses.

4. COST OF CONDUCTING INVENTORIES

The Operator is responsible for Joint Account material, including inventories of Joint Account Controllable Material. The following paragraphs discuss the treatment of the expense of conducting these inventories. The paragraph headings group the types of inventories as they are classified in the various COPAS model form accounting procedures.

- **PERIODIC/NON-DIRECTED INVENTORIES**

  The Operator is required under the COPAS 1962, 1968, 1974, 1976 Offshore, 1984 and 1986 Offshore Model Form Accounting Procedures to conduct periodic inventories of Joint Account Controllable Material at reasonable intervals. The Operator should treat the cost of conducting inventories made in connection with ongoing, continuing, operations as Indirect Costs unless the Parties agree otherwise. Likewise, Non-Operators should absorb the associated costs of their representatives participating in the inventory or conducting their own physical inventory, if permitted by the operating agreement or the Accounting Procedure, unless agreed otherwise.

  Operator should give written notice of intention to take inventory at least thirty (30) days before an inventory is to begin so Non-Operators may be represented. Failure to be represented binds Non-Operators to accept the inventory as taken and the Operator is not obligated to take another inventory and incur the related cost because Non-Operators refused to participate.

- **DIRECTED INVENTORIES**

  The COPAS 1995 and 1998 Project Team Model Form Accounting Procedures give the Non-Operators the right, upon written request of a majority of the non-operating working interests, to direct the Operator to conduct a physical inventory at intervals of not less than five years. The expenses of such directed inventories will be borne by the Joint Account; the basis of such charges are outlined in the COPAS model form accounting procedures.

- **SPECIAL/OTHER INVENTORIES**

  The cost of conducting special inventories should be shared as agreed by the benefiting Parties. This would include inventories necessitated by special situations such as sale or change of interest in the property, completion of Major Construction projects, disasters, etc. The cost of conducting an inventory taken due to a change of Operator, however, is absorbed by the Joint Account

(COPAS 1984 and 1986 Offshore Model Form Accounting Procedures. The COPAS 1995 and 1998 Project Team Model Form Accounting Procedures use the term "other" to describe inventories taken either as a result of a sale or change of interest in the property or as a result of a change in Operator. The expense of conducting other inventories is charged to the Joint Account.

The costs to be shared should be limited to the expenses of employees participating directly in the inventory and required supplies or material. This would include salaries and wages plus payroll burden, allowable employee benefits, and Personal Expenses of participating employees, including reasonable costs of report preparation and processing. Office costs associated with those activities are excluded.

5. FIELD COMPUTER AND COMMUNICATION SYSTEMS

Field computing systems, as described in COPAS MFI-44, *Field Computer and Communication Systems*, is a general term used to describe the use of computers in conducting certain aspects of field operations such as field data gathering, surveillance, automation, and well control. Communication systems used in conducting Joint Operations include telephones, radios, microwave, satellite, alarm systems, e-mail, virtual hardware and software, etc.

These systems are becoming increasingly sophisticated and integrated with other systems as a result of technical advances and more widespread use. Distinctions between field systems and accounting or engineering applications have become less clear. Consequently, they may not fit neatly within traditional definitions of field operating systems and equipment. Likewise, allocation to the various properties using the field computing/communication equipment, based on benefits received by each property, can be complicated. Rather than try to address these issues in this document, readers are referred to COPAS MFI-44, *Field Computer and Communication Systems*, as well as the applicable COPAS model form accounting procedure, for guidelines on allocating and charging field computing and communication costs.

6. EARLY RETIREMENT INCENTIVE/SEVERANCE COMPENSATION

Since the 1980s, restructuring of companies has become commonplace within the industry. Various plans have been created to compensate severed employees, including early retirement incentives, severance pay, career counseling, etc. These costs are considered part of the Operator's Overhead and not directly chargeable to the Joint Account. Although these costs may be part of the Operator's benefits package, COPAS MFI-27, *Employee Benefits and Percentage Limitation,* states these particular benefits should be excluded from the calculation of the Operator's employee benefits rate chargeable to the Joint Account.

III. MAJOR CONSTRUCTION AND CATASTROPHE OVERHEAD

A. GENERAL COMMENTS

The Major Construction Overhead and Catastrophe Overhead charges to the Joint Account provide a mechanism for the Operator to recover general costs attendant to executive and administrative functions, as well as other costs that cannot be directly charged to the Joint Account in connection with the project. The timing of the monthly charge to the Joint Account for Major Construction or Catastrophe Overhead should coincide approximately with the recording of construction costs, or abandonment costs, if applicable. For many COPAS model form accounting procedures, the projects must exceed a dollar threshold to qualify for Major Construction Overhead and the Overhead rate varies by expenditure tiers. The Operator is not entitled to a tentative recovery of Overhead cost based on authorized expenditures at the time the AFE is approved by the Parties or at the time "first construction charges" are recorded, but should assess Major Construction Overhead on a monthly basis as the expenditure thresholds are attained. The Operator, however, may elect to use advance payment requests, including Overhead based on the amount of the cash advance, for the purpose of obtaining funds on a more timely basis.

All COPAS model form accounting procedures through the COPAS 1998 Project Team Model Form Accounting Procedure, except the COPAS 1962 Model Form Accounting Procedure, state that "Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account as follows." For projects involving a different amount of Overhead costs than provided by the agreement, or if a permanent change takes place in the Operator's Overhead costs, it is the responsibility of both Parties to negotiate higher or lower rates.

In negotiating Major Construction rates, special consideration should be given regarding whether construction projects including engineering, design, and drafting, will be performed wholly or in part by a third-party contractor rather than the Operator. In addition, the Overhead rate should consider whether the Operator is absorbing or billing directly those costs associated with engineering, design, and drafting. These factors will impact the actual Overhead costs of the Operator.

For the purpose of applying an appropriate Overhead rate, platform dismantling/abandonment is considered a Major Construction project and not an operating cost.

Overhead rates are applied to the total gross cost of a single project. Total gross cost means all Direct Costs correctly charged to the project, reduced by credits for refunds or returns of unused material charged to the project. The component parts of a single project are not treated separately in determining and applying the Overhead rate, even though the costs for the various components may be charged to separate AFEs. Additions, modifications, enlargements, etc., required at some date subsequent to completion and placement in service of the project would constitute a separate project.

In calculating the total project costs to which the Major Construction or Catastrophe Overhead applies, material that was charged to the project, and then returned, unused, should be credited to the project costs, thus reducing the Overhead charges. However, credits for material used in the project and then salvaged should not be credited against the total project costs as this would be refunding Overhead the Operator had earned. Litigation costs related to a Major Construction project or Catastrophe are separately authorized and handled under the terms of the agreement and should not be included in the total costs of the Major Construction or Catastrophe project. Additionally, the Operator must exclude the previous periods' Major Construction Overhead assessments from the cost basis upon which the current month's assessment is based.

The COPAS 1986 Offshore and prior Model Form Accounting Procedures contain tiered Major Construction Overhead rates, reflecting the conventional viewpoint that Overhead costs do not increase proportionately with increases in project costs. As a result, it is common in COPAS model form accounting procedures for the Overhead percentage applicable to the various tiers of project costs to decrease with each higher tier of Direct Costs. The tiers for Major Construction Overhead rates vary from contract to contract. The COPAS 1995 and 1998 Project Team Model Form Accounting Procedures provide for only one Major Construction Overhead rate, rather than tiered rates, for ease of administration.

B. MAJOR CONSTRUCTION OVERHEAD

Recognizing the need to reimburse the Operator for Overhead costs associated with Major Construction projects, Overhead provisions for Major Construction have been included in all COPAS model form accounting procedures. The Major Construction Overhead (MCO) Provision in the COPAS 1962 Model Form Accounting Procedure is virtually the same as the one in the COPAS 1968 Model Form Accounting Procedure. However, there were significant changes made following the COPAS 1968 Model Form Accounting Procedure that should be recognized.

COPAS 1962 and 1968 Model Form Accounting Procedures

Projects that are not considered routine and usual lease installations and whose costs exceed $25,000, are subject to Major Construction Overhead. Construction projects that cost less than $25,000 receive no Overhead charges. Rather, it is assumed these Overhead costs are recovered by use of an allocation of District Expense items plus the Administrative Overhead rate, and the warehousing charges or by the Combined Rates - Well Basis or percentage basis - Development Rate, depending upon the method agreed upon in the COPAS model form accounting procedure.

Examples of projects normally considered Major Construction include:

Compressor plants
Water stations
Enhanced recovery or pressure maintenance installations
Waterflood

Gas injection
Steam injection
Fireflood
Miscible drive (LPG)
Hydrocarbon recovery units
Gas conditioning plants
Vapor recovery units
Saltwater disposal facilities
Other such projects

When two or more of the above are combined in an enhanced recovery, pressure maintenance, or other similar installation, the total cost of each component should be combined, and the sum be considered as a single project for purposes of assessing Overhead.

The cost of well operations, such as drilling or workover wells, performed in conjunction with these projects, is subject to other Overhead provisions and does not qualify for Major Construction Overhead.

Examples of projects that are considered routine and usual, and therefore do not qualify for Major Construction Overhead, normally would include:

Pumping units
Flowlines
LACT units
Dehydration units, e.g., LTX
Tank batteries
Electrical systems
Roads, bridges, and canals

When the installation of the above equipment that otherwise would not qualify, is an integral part of a Major Construction project such as water stations, secondary recovery, or pressure maintenance installations, Major Construction Overhead should be applied to the cost of all such components.

The intent of use for which a construction project was designed determines whether Major Construction Overhead should be applied. For example, if a road or bridge were built for use in connection with a lease or well operations, the Indirect Costs would be recovered through the drilling/producing Overhead provisions. However, if the road or bridge was built for compressor plants, water stations, secondary recovery installations, etc., the Indirect Cost is recovered through the construction rate.

For agreements that provide for the recovery of Indirect Costs by the District Expense, Administrative Overhead, and warehousing method, the charging of Major Construction Overhead is in addition to warehouse handling charges and District Expense charges that may be allocated to construction projects. In other words, Major Construction Overhead typically is intended to recover Overhead above the district and warehouse levels; therefore, the Major Construction Overhead charge should be based on total costs, inclusive of District Expense and warehousing costs.

For those agreements utilizing a Combined Rate basis, the Combined Fixed Rate or percentage rate is in lieu of District Expense and warehouse handling charges, as well as Administrative Overhead. Therefore, the Major Construction Overhead rates should be negotiated to cover all three of these elements since the Major Construction Overhead charge will be based on total costs exclusive of the Combined Rate Overhead charge.

The COPAS 1968 Model Form Accounting Procedure provides the option for treating "on-site" or "off-site" Technical Labor as a Direct Charge or as Indirect Cost. Thus, if such costs were classified as Indirect Costs, the agreement was typically negotiated to increase the Major Construction rates accordingly.

COPAS 1974 Model Form Accounting Procedure

Under the COPAS 1974 Model Form Accounting Procedure, Major Construction Overhead is applied to the construction, installation, expansion, or other projects involving fixed assets. The term "fixed asset" is intended to mean property, plant, and equipment, rather than real property, but excludes wells. The provisions in this Model Form Accounting Procedure, like the COPAS 1968 Model Form Accounting Procedure, establish a minimum amount before any construction project qualifies as Major Construction. Unlike the COPAS 1968 Model Form Accounting Procedure, however, the minimum amount is established by the Parties negotiating the agreement. Any project costing less than the minimum amount receives no Overhead charge and it is assumed the Overhead for those projects is covered by the Fixed Rate Basis or the Percentage Basis - Development rate, depending upon the basis specified in that particular COPAS model form accounting procedure. Thus, if a project pertains to the construction and installation or expansion of fixed assets, qualification for Major Construction depends upon the amount of Direct Costs rather than a project being a non-routine lease installation. The Overhead cost of drilling, completing, reworking, and equipping a well through the wellhead, however, does not qualify as Major Construction Overhead, despite the dollar amount of the project. The Overhead associated with this type of work is covered under the Fixed Rate Basis or the Percentage Basis Overhead provision.

The application of construction rates, as indicated in the COPAS 1974 Model Form Accounting Procedure, is somewhat different from that in the COPAS 1968 Model Form Accounting Procedure. In the latter form, when total cost is more than $25,000, but less than $100,000, an agreed upon percentage is applied to total costs. When total cost exceeds $100,000, a separate, possibly different, agreed-upon percentage is applied to the first $100,000 and another, usually lesser, percentage is applied to that portion of total cost over $100,000. In the COPAS 1974 Model Form Accounting Procedure, the percentages are applied to three distinct tiers of total costs, as opposed to two tiers in the COPAS 1968 Model Form Accounting Procedure, and the tiers are negotiated by the Parties rather than being provided for in the pre-printed COPAS model form accounting procedures. For example, the Agreement might provide for a certain percentage of the first $100,000, a second percentage of total costs in excess of $100,000 but less than $1,000,000, and a third percentage of total costs over $1,000,000. Thus, in this COPAS Model Form Accounting Procedure, the percentage of Overhead applied to the first cost tier is not dependent upon the total cost of the project. In both the COPAS 1968 and 1974 Model Form Accounting Procedures, the Overhead rates are applied to total gross cost of a single project charged to the Joint Account.

COPAS 1976 Offshore Model Form Accounting Procedure

Like the COPAS 1974 Model Form Accounting Procedure, the Parties establish a minimum amount before any construction or dismantlement for abandonment project qualifies as Major Construction. Overhead on any project costing less than the

minimum amount is assumed included in the Fixed Rate Basis if that basis for Overhead was selected, or in the case of the Percentage Basis, the Development rate would apply. The procedure eliminates many auditing problems and controversies over whether or not a specific project is Major Construction. Drilling, completing, reworking, and equipping a well through the wellhead, however, are not considered Major Construction projects despite the dollar amount of the project.

In negotiating Major Construction Overhead rates, special consideration should be given regarding whether construction projects including engineering, design, and drafting, etc. will be absorbed by the Operator, i.e., charged by the Operator to its Overhead account, or whether it will be contracted to a third party. Provisions have been incorporated to establish rates to compensate the Operator for absorbing all engineering, design, and drafting, and rates to compensate the Operator if the contract engineering, design, and drafting are charged directly to the Joint Account. The first option allows the Operator to charge generally higher percentage rates since the Operator absorbs a considerable amount of cost for the engineering, design, and drafting, and the associated administrative effort. The second option is typically a lower rate since the Operator will not expend as much internal technical or administrative staff effort and costs, and, in addition, recovers the third-party cost by Direct Charges to the Joint Account.

Under the COPAS 1976 Offshore Model Form Accounting Procedure, Option A is general, referring to all engineering, design, and drafting, while Option B limits the Direct Charges to contract engineering, design, and drafting. Unlike the COPAS 1986 Offshore Model Form Accounting Procedure, the COPAS 1976 Offshore Model Form Accounting Procedure makes a distinction between the Operator's and the contract engineering, design, and drafting for purposes of assessing Major Construction Overhead under the two options.

It is anticipated that both sections will be completed and the Operator will select the appropriate option for each project. Provision is made for advance notification to Non-Operators of the option selected for each project. Such notification should accompany the AFE when submitted to the Non-Operators for approval.

The provisions for covering the engineering, design, and drafting costs for Major Construction are independent of the provisions governing charges for direct labor under Section II.2 and the provisions for charging of professional consultant services and contract services of Technical Personnel in Section II.6. The option selected in the Major Construction section governs, despite any conflict with the provisions in Section II.2 and Section II.6. In other words, the costs under the Major Construction provisions for contract engineering, design, and drafting costs can be directly charged to the Joint Account regardless of an election in Sections III.i. and ii. for these costs to be included in the Overhead rates. The provisions for Sections II.2 and II.6 are intended to govern only the drilling and producing operations and expenditures resulting from Catastrophes (except to the extent that restoring the property as a result of the

Catastrophe involves Major Construction), and not the manner of operation and cost recoupment of a Major Construction project.

COPAS 1984 Model Form Accounting Procedure

The Major Construction Overhead provision of the COPAS 1984 Model Form Accounting Procedure is almost identical to the COPAS 1974 Model Form Accounting Procedure. There are only two differences. First, in the COPAS 1974 Model Form Accounting Procedure the tiers for application of different Major Construction Overhead rates are set by the Parties during the negotiation of the agreement, whereas the tiers are already established in the COPAS 1984 Model Form Accounting Procedure. These tiers are the first $100,000 of costs, costs in excess of $100,000 but less than $1,000,000, and costs in excess of $1,000,000. The other difference in the COPAS 1984 Model Form Accounting Procedure is that it excludes artificial lift equipment; that is, installing pumping units or gas lift, from application of Major Construction Overhead.

COPAS 1986 Offshore Model Form Accounting Procedure

The provisions governing Major Construction Overhead in the COPAS 1986 Offshore Model Form Accounting Procedure are very similar to those of the COPAS 1976 Offshore Model Form Accounting Procedure. The differences in these COPAS Model Form Accounting Procedures are as follows:

- Under the COPAS 1986 Offshore Model Form Accounting Procedure, the cut-off between the first and second expenditure tiers that qualify for different Overhead rates is set at $100,000. It was left blank in the COPAS 1976 Offshore Model Form Accounting Procedure, to be negotiated by the Parties.

- Under the COPAS 1986 Offshore Model Form Accounting Procedure, the rates in Option B apply if the engineering, design, and drafting is directly charged to the project, regardless of whether provided by the Operator's staff or by third parties. This represents a change from Option B in the COPAS 1976 Offshore Model Form Accounting Procedure which applies when *contract* engineering, design, and drafting is directly charged.

- Artificial lift equipment is excluded from application of Major Construction Overhead in the COPAS 1986 Offshore Model Form Accounting Procedure.

COPAS 1995 Model Form Accounting Procedure

While the wording of the COPAS 1995 Model Form Accounting Procedure seems different at first glance, the basic concepts have not changed from prior COPAS model form accounting procedures. Following are the highlights of the COPAS 1995 Model Form Accounting Procedure Major Construction and Catastrophe Overhead provision:

- MCO applies to the construction and installation or expansion of fixed assets where the total project costs exceed an agreed-upon dollar threshold.

- MCO applies to the abandonment of fixed assets. This represents a slight change from the COPAS 1976 Offshore and 1986 Offshore Model Form Accounting Procedures that apply to dismantlement for abandonment of platforms and related production facilities.

- Unlike earlier COPAS model form accounting procedures, the MCO provision does not have different MCO rates for different tiers of project costs. Rather, it has one rate that is applied to the total project costs. Consequently, the provision concerning treating components as part of the total project is not needed and was not included in this Model Form Accounting Procedure.

- Like the COPAS 1986 Offshore Model Form Accounting Procedure, it has separate rates, A and B, one for when the Operator absorbs the engineering, design, and

drafting costs, and another when the engineering, design, and drafting costs are directly charged.

- The provision that excluded artificial lift equipment from application of Major Construction Overhead (found in the COPAS 1984 and 1986 Offshore Model Form Accounting Procedures) was deleted.

Catastrophe Overhead was combined with this section so that Overhead associated with Catastrophes is charged in the same manner as MCO, including the use of two different rates, depending on the treatment of engineering, design, and drafting.

COPAS 1998 Project Team Model Form Accounting Procedure

The Major Construction and Catastrophe Overhead provision of the COPAS 1998 Project Team Model Form Accounting Procedure closely follows the language in the COPAS 1995 Model Form Accounting Procedure. There are slight variations, however, as follows:

- In establishing a threshold to determine which projects qualify for MCO, the COPAS 1995 Model Form Accounting Procedure has a blank to be filled in by the Parties when the Agreement is negotiated, while the COPAS 1998 Project Team Model Form Accounting Procedure simply refers to the expenditure limit in the operating agreement. In other words, to qualify for Major Construction Overhead, the project must be one that requires an AFE under the operating agreement.

- Major Construction Overhead applies to abandonment and associated reclamation of fixed assets, while the COPAS 1995 Model Form Accounting Procedure states it applies to the dismantlement for abandonment of fixed assets.

- Like the COPAS 1995 Model Form Accounting Procedure, this Model Form Accounting Procedure does not have separate rates for different tiers of expenditures. However, where the COPAS 1995 Model Form Accounting Procedure has two separate Overhead rates, depending on the treatment of engineering, design and drafting costs, this Model Form Accounting Procedure has three rates. There is one rate if the Operator charges the Project Team AFE the engineering, design, and drafting costs associated with the Major Construction or Catastrophe project. If the engineering, design, and drafting costs are charged to the Major Construction AFEs rather than the Project Team AFE, one of the other two rates will apply, depending on whether the engineering, design, and drafting costs are absorbed by the Operator or charged to the project.

C. CATASTROPHE OVERHEAD

The language governing the calculation of Catastrophe Overhead in the COPAS 1995 and 1998 Project Team Model Form Accounting Procedures is integrated into the section dealing with Major Construction Overhead. Interpretive comments related to both Major Construction and Catastrophe Overhead are included following each COPAS Model Form Accounting Procedure section.

The Catastrophe Overhead section in the COPAS 1976 Offshore, 1984, and 1986 Offshore Model Form Accounting Procedures include the following provision, which is identical in these model forms:

> To compensate Operator for Overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other Catastrophes as agreed to by the Parties, which are necessary to restore the Joint

Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for Overhead based on the following rates:

(1)_____% of total costs through $100,000; plus

(2)_____% of total costs in excess of $100,000, but less than $1,000,000; plus

(3)____% of total costs in excess of $1,000,000.

Expenditures subject to the Overheads above will not be reduced by insurance recoveries, and no other Overhead provisions of this Section III shall apply.

It is recognized that the use of a single list of rates will not be equitable in all cases. The inclusion of this section, however, does provide reimbursement to the Operator for Catastrophe Overhead costs incurred and eliminates the confusion that exists regarding appropriate rates to apply, if any.

When provisions for Catastrophe Overhead are included in the COPAS model form accounting procedure, an equitable distribution of costs to the Parties depends, in part, upon a proper distinction between Catastrophe losses and operating costs. The classification is most appropriately determined by reviewing the type of occurrence, oil spill, fire, blowout, hurricane, etc., and the individual circumstances associated with the loss. Several factors to consider are:

- Size of the loss,
- Environmental impact,
- Suddenness of the loss,
- Effort required to restore the property,
- Unusualness of the loss,
- Publicity received,
- Nature/cause of the loss.

In the case of a Catastrophe that involves construction, no other Overhead provisions would apply. For a Catastrophe that involves the construction and re-installation of fixed assets, the Joint Account would be charged only the Catastrophe Overhead rates. The Operator would not be reimbursed under both the Major Construction and Catastrophe Overhead rates or for the larger of the two. Only the Catastrophe Overhead rates would apply. In the event of a blowout where a relief well is drilled, either the drilling Overhead rate or Catastrophe Overhead would apply, depending on the COPAS

model form accounting procedure, but not both. To the extent that an occurrence is not a Catastrophe, other provisions of Section III would apply.

The phrase "restore the Joint Property to the equivalent condition that existed prior to the event" presents several questions. Where the condition is "roughly" equivalent, Catastrophe Overhead rates are applicable to the total Direct Costs of restoration and dealing with the Catastrophe. Even though the new or restored equipment/property is smaller or of lower grade specs than the previous equipment/property, Catastrophe Overhead rates also are applicable to the total Direct Costs of replacing or restoring the equipment/property and dealing with the Catastrophe. Where the new equipment/property represents a significant improvement or upgrade, the amount of costs attributable to the improved condition or upgrade should be subject to Overhead charges as indicated by other provisions of the Overhead section. In this situation, the portion of the costs attributable to bringing the Joint Property to an equivalent condition should be subject to Catastrophe Overhead rates.

In calculating Overhead, the value of production lost is not included in the base costs to which Catastrophe Overhead rates are applied.

In calculating Overhead on oil spills, remediation costs associated with the spill that are chargeable to the Joint Account should be included in the base costs to which Catastrophe Overhead rates are applied.

For agreements with no provision for Catastrophe Overhead, other Overhead provisions should be applied. Major Construction Overhead would be applicable to the construction and installation or re-installation of fixed assets incurred as a result of Catastrophe. Other restoration costs not covered by Major Construction Overhead would be subject to percentage Overhead, for those agreements containing percentage-based Overhead rates. For costs not covered by Major Construction Overhead, percentage Overhead, or any other Overhead provisions, the Overhead reimbursement is assumed included in the drilling and producing Overhead rates, if applicable, except as agreed to by the Parties.

IV. PROJECT TEAM OVERHEAD

The COPAS 1998 Project Team Model Form Accounting Procedure introduced another type of Overhead not found in previous COPAS model form accounting procedures: Project Team Overhead. This regards goods and services associated with supporting a Project Team. A Project Team is a group of personnel (employees, affiliate employees, contractors) representing both the Operator and Non-Operators, charged with preparing a development plan or performing other tasks authorized by the Parties. While the Project Team is mainly composed of technical personnel, it may include personnel from other disciplines, such as procurement and financial analysts.

Under the COPAS 1998 Project Team Model Form Accounting Procedure, the salaries and payroll burden of personnel assigned to the Project Team are charged directly to the Joint Account. An Overhead rate is applied to these direct Project Team costs to recover the cost of supporting the Project Team; e.g., office supplies, rent, utilities, support services. The Project Team Overhead is usually in the form of a percentage rate, but the Parties may negotiate any other Overhead recovery method, such as a flat monthly rate, if desired.

The COPAS 1998 Project Team Model Form Accounting Procedure has two options for Project Team Overhead. The first option allows the Parties to establish a percentage rate for the Project Team Overhead to cover the cost of items listed in the paragraph preceding this option. The second option simply states the Parties will negotiate an Overhead recovery method at the time the Project Team is authorized. This second option acknowledges there are many unknowns at the time the agreement is negotiated, specifically, which items will be directly charged, which items will be included in Overhead, and which Party (Operator, Non-Operator, contractor) will incur that Overhead, that could influence the Overhead recovery method.

For further reading on Direct Charges and Overhead recovery for Project Teams, refer to COPAS MFI-39, *COPAS 1998 Project Team Model Form Accounting Procedure Interpretation*.

V. GLOSSARY

In order to enhance the understanding of this document, certain words or terms that are widely used or peculiar to the oil and gas industry are defined below:

ACCOUNTING PROCEDURE - An exhibit attached to and made a part of an operating agreement that sets forth the provisions under which the working interest owner designated as Operator is required to account for costs and expenses incurred for the Joint Operations.

ADMINISTRATIVE OVERHEAD - Administrative Overhead consists of general costs attendant to executive and administrative functions incurred by an Operator at its headquarters, divisional, regional, or other administrative office above the operating level, serving indirectly the development and producing operations.

AFE/AUTHORIZATION FOR EXPENDITURE - An authority to expend funds prepared by a Party to estimate the costs incurred in conducting an operation.

CATASTROPHE - A calamitous event resulting in damage, loss, or destruction from a single occurrence.

COMBINED RATE/COMBINED FIXED RATE - A rate provided by the accumulation of all charges that can be included in District Expense, Administrative Overhead, and Operator's Warehouse Operating and Maintenance Expense. This rate may be stated in dollars or as a percentage of specific costs.

CONTROLLABLE MATERIAL - Material requiring the maintenance of detailed identification records, classified in accordance with the most recently approved COPAS Materials Classification Manual or Model Form Interpretation.

DIRECT CHARGE/DIRECT COST - Those costs permitted under Direct Charges, Section II of the COPAS 1962, 1968, 1974, 1976 Offshore, 1984, 1986 Offshore, and 1998 Project Team Model Form Accounting Procedures, or Sections III and IV of the COPAS 1995 Model Form Accounting Procedure.

FIRST LEVEL SUPERVISORS - Employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

FIXED RATE - An additional method to charge the Joint Account for costs of Joint Operations by the Operator was introduced in the COPAS 1995 Model Form Accounting Procedure (Section II.1). This Fixed Rate, not to be confused with the term Combined Rate/Combined Fixed Rate, is intended as an all-inclusive rate of both Indirect Costs chargeable as producing Overhead and those normal recurring operation and maintenance costs of Joint Operations chargeable as Direct Costs under other COPAS model form accounting procedures. Specific, defined, costs excluded from this rate are identified within the terms of the COPAS 1995 Model Form Accounting Procedure.

INDIRECT CHARGES/COST - All charges other than those deemed specifically as Direct Charges. (Synonym - Overhead.)

JOINT ACCOUNT - An account showing the charges paid and credits received in the conduct of the Joint Operations, and which are shared by the Parties.

JOINT OPERATIONS - All operations necessary or proper for the exploration, development, operation, protection, maintenance, and abandonment of the Joint Property.

JOINT PROPERTY - The real and personal property subject to the agreement. This includes not only the lease, but materials and equipment owned by the Joint Account.

LEASE LEVEL - Directly involving the lease or field operations.

MAJOR CONSTRUCTION - Construction, installation, or expansion of fixed assets, excluding drilling and workover wells. Usually involves significant amounts of design work and indirect supervision.

NON-OPERATORS - All Parties to the agreement other than the Operator.

OPERATOR - The Party designated to conduct the Joint Operations.

OVERHEAD - All costs not readily identifiable with a lease or product. (Synonym - Indirect Charges/Cost.)

PARTIES - Operator and Non-Operators.

PERSONAL EXPENSES - Travel and other reasonable reimbursable expenses of Operator's employees.

PROJECT TEAM - A group of employees and/or contractors of the participating Parties or their respective affiliates assigned to perform work and/or studies as authorized under the terms of the agreement.

PTAP - Project Team Accounting Procedure. The COPAS 1998 Project Team Model Form Accounting Procedure designed for use in Joint Operations where the Parties intend to use a Project Team.

TECHNICAL LABOR - Those individuals 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.

Council of Petroleum Accountants Societies

Turning Energy Into Synergy

Field Computer and Communication Systems

MODEL FORM INTERPRETATION 44

Publication Date - April 2000

Council Approved

Joint Interest and Audit Conditionally Approved April 24, 2025

COPAS MODEL FORM INTERPRETATION 44

Field Computer and Communication Systems

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I. INTRODUCTION

Continual advancements in technology have led to increased use of computers and sophisticated communication devices in joint operations. In many instances, direct operating labor costs, including field labor, supervision, and technical support, have been reduced as a result of the proliferation of such equipment and related software. Many operational activities can now be initiated for multiple properties from a centralized location via Communication Links. Early automation in the industry included the use of Lease Automatic Custody Transfer ("LACT") units, Automatic Well Test ("AWT") systems, and Supervisory Control and Data Acquisition ("SCADA") systems. This Model Form Interpretation ("MFI") was initially published in 1975 when COPAS recognized computers were increasingly used in oil and gas field data gathering, surveillance, automation, and supervisory control commonly referred to as Computer Production Control ("CPC"). This MFI was revised in 1992 in response to a 1989 survey that indicated operators' methods for accounting for these costs varied within the industry. Since then, these systems are more widely used and continually increase in sophistication and integration with other systems. Because of new technology, field operating personnel are increasingly able to use computers to maximize production while improving their productivity in field operations, thus reducing field operating expenses. Computing tools that years ago were available only to a headquarters' technical staff are now available to field employees to assist them in daily operating decisions. Consequently, the distinctions between field operating systems and accounting and engineering applications have become less clear.

Similarly, communication systems, equipment, and facilities necessary to provide communication from the field have evolved over time to combine both voice and data transmission links. While the technology is changing rapidly, the fundamental joint interest billing concepts are still applicable.

However, as the Comparison Matrix (Exhibit B) illustrates, the various COPAS Model Form Accounting Procedures and model form interpretations provide only minimal guidance for charging the costs of computing and communication systems. Although all COPAS Model Form Accounting Procedures permit direct charges for equipment and facilities owned by the operator, a specific reference to "Communication" costs did not emerge until the COPAS 1976 Offshore Model Form Accounting Procedure. Direct reference to CPC did not occur within a COPAS model form accounting procedure interpretation until the COPAS 1984 Model Form Accounting Procedure. The COPAS 1962 and 1968 Model Form Accounting Procedure Interpretations provide that communication expenses rendered to the district and which are not chargeable to any particular lease or facility operation are generally included in district expense (overhead). This MFI only applies to computer and communication systems for field operations and is not intended to suggest that the costs for computer and communication systems supporting administrative functions in a district office are chargeable.

The absence of specific language in earlier COPAS Model Form Accounting Procedures and their related MFIs regarding these expenditures should not be viewed as prohibiting such charges. It is likely that direct reference to such communication systems did not exist because the technology was limited to telephone, radio, or microwave communications. However, all COPAS Model Form Accounting Procedures issued prior to the COPAS 1995 Model Form Accounting Procedure provide for direct charges associated with equipment and facilities owned or furnished by the operator and other expenditures incurred by the operator in the necessary and proper conduct of

joint operations. Reference Exhibit B for specific language associated with COPAS Model Form Accounting Procedures under the category "Equipment."

As indicated in the summary of the COPAS model form accounting procedures in the Comparison Matrix (Exhibit B), COPAS Model Form Accounting Procedures generally provide for direct charges for field labor, facilities, equipment, and services necessary for joint operations, whether provided by the operator or third parties. However, provisions for charging technical labor and consultants vary among the various procedures and, in some cases, depend on options selected by the parties. The 1992 revision to this MFI recognized that if the operator's employees provide software components of the system, then some mechanism is necessary to recover those expenses, either through a direct allocation of the cost, charging appropriate usage fees, or revisions to overhead rates.

It is therefore recommended that field computing and communication costs directly associated with joint operations be considered an allowable direct charge. However, such costs should be limited to those that are necessary to conduct and are directly associated with joint operations, generally defined as all operations necessary or proper for the development, operation, protection, and maintenance of the joint property. Systems and communications associated with administrative functions, including but not limited to such functions as accounting, purchasing, and regulatory reporting, have traditionally been considered overhead and not directly chargeable.

It is recommended this MFI serve as a basis to equitably distribute computing and communication costs, regardless of ownership and properties served. Although COPAS believes this MFI is compatible with the existing COPAS Model Form Accounting Procedures, it does not supersede or override the provisions of any accounting procedure that is part of an existing agreement. The joint operating agreement and accounting procedure for a particular property should take precedence.

> NOTE: The term computer, as used throughout this MFI, refers to a mainframe, server, personal computer, laptop, tablet, etc.

II. BASIS FOR CHARGING COMPUTER AND COMMUNICATION SYSTEMS

Background

Modern technology provides numerous communication systems such as telephones, radios, pagers, facsimile machines, computers, printers, microwaves, satellites, etc. that facilitate more economic and efficient operations. Technological innovations will continually occur after accounting procedures and operating agreements are negotiated. The parties cannot always anticipate changes that will occur. As indicated in the Comparison Matrix (Exhibit B), many early COPAS Model Form Accounting Procedures do not directly address communication costs. However, they do allow direct charges for services and equipment and facilities furnished by the operator.

The underlying principle is that the overhead rates or district expense provisions usually provide cost recovery for communications serving the district and/or headquarters, not those costs serving a lease or facility. It is appropriate for working interest owners to share in the investment and operating expenses of communication systems that benefit the joint property. The cost of

communication devices or services that benefit multiple properties should be allocated on some equitable basis. This may include rates for facilities and equipment owned by an operator as well as those provided by third parties. The joint account should only be charged for communication systems required for field operations and used by chargeable personnel.

Cellular phones, radios, pagers, and other devices are typically assigned to an individual. The costs of these devices should follow the individual's labor distribution. Most other communication costs such as microwaves, satellites, etc., can be allocated based on the number of field locations, End Devices, circuits, and/or the distance served.

The accounting considerations for computing and communication systems that serve multiple properties, and/or are shared with non-chargeable functions, are presented below.

A. Justification for Direct Charge to Joint Property

Initially, an operator primarily used computer equipment to perform administrative and record keeping functions. Therefore, the cost of this equipment was covered by the operator's overhead charge. With the advent of AWT and CPC systems, computers became directly involved in field operations. As a result, the costs of these systems have been accepted as a direct charge to the joint account. The computer has become a primary tool that allows field personnel to become more productive. Pumpers, technicians, measurement personnel, foremen, and others depend on computer applications to make daily operating decisions. The computer has replaced the field employee's notebook used to plan, schedule, and document work activity. It also facilitates more effective communication among work groups, providing consistent information and reducing the time spent in team meetings.

However, with the multitude of systems now available, it is important to distinguish between those directly benefiting field operating functions such as measurement, control, and communications from those supporting administrative functions considered overhead. The list of applications presented in Table 1 below is not all inclusive; rather, it is intended as a guideline to determine the types of systems that may be charged to the joint account when used by field operating personnel (employees and contractors that are directly chargeable according to the accounting procedure for that field).

EXAMPLES OF COMPUTER APPLICATIONS (Table 1)	
FIELD OPERATIONS (Direct Charge)	**ADMINISTRATIVE (Overhead)**
Cathodic protection surveillance	Contractor/vendor analysis
Chemical analysis	Drafting
E-mail (field personnel)	E-mail (administrative personnel)
Facility alarm monitoring	Engineering documentation systems
Job safety analysis	Financial/budget (AFE) analysis
Meter calculation tools	Gas balancing (over/short)
Meter calibration scheduling	Invoice processing
Preventive maintenance	Invoice tracking
Production control/allowable monitoring	Payroll
Production volumes/run tickets/tank levels	Personnel
Production/flow rate analysis	Production accounting
Spill/hazardous waste tracking	Purchasing/inventory management

Well service tracking Well tests Wellbore pressure monitoring/analysis Word processing/spreadsheets (field personnel)	Regulatory reporting Reservoir analysis Timekeeping Word processing/spreadsheets (admin)

" "Field Operations" systems are chargeable only to the extent they are used by field operating personnel. Conversely, "Administrative" systems are not chargeable even when used by field personnel. For example, a timekeeping or AFE system should not be charged even though field operating personnel may use those systems.

B. Non-operator approval and audit

1. If the facilities and systems are owned by the joint account:

   Prior approval, if necessary, of working interest owners for the initial installation and/or upgrades to existing facilities and systems should be obtained in accordance with the single expenditure limitations set out in the operating agreement.

   If third parties utilize the computer and/or communication system, the operator should charge those parties a fee for the service and credit the joint account.

2. If the system is wholly owned or leased by the operator:

   The charge to the joint account should be made in accordance with the provision(s) of the accounting procedure dealing with services or equipment and facilities furnished by the operator.

Any computer or communication system cost charged to the joint account is subject to audit by the non-operators. The operator should be prepared to furnish documentation needed to verify the equity of the methodology used. To help determine if an allocation method is equitable, the following factors should be considered:

1. Do the charges match the benefits received by the properties?
2. Is the allocation method consistently applied?
3. Is the allocation method reviewed periodically to ensure it reflects actual operating conditions, with updates made as required?

Also, documentation of the allocation basis used needs to be maintained by the operator to support the charges. The level of support required should not cause an administrative burden on the operator but should be reasonably sufficient to justify the charge.

Finally, the establishment of written procedures is recommended to document the chosen allocation method and help ensure the method is consistently applied to given situations over a period of time.

If the operator decides not to directly charge the costs, the operator and non-operator(s) should consider (re)negotiating the overhead rate to provide compensation for the system costs incurred.

C. Costs, ownership and accounting

Overview

Computer and communication systems expenses include the following costs:

- Hardware costs include:
  - Investment costs - the purchase price, lease payment, and other costs to install the equipment.
  - Operating costs - costs associated with the repair and maintenance of the hardware, along with licenses, taxes, and other expenses.

- Software costs include:
  - Investment costs - the purchase price, if acquired from a vendor, or the development costs, if developed by a third party or the operator's employees, along with the costs to install and configure the software.
  - Support costs - troubleshooting, upgrading, maintaining, and reconfiguring to accommodate physical changes to the wells and equipment over time.

Either the operator or a third party can provide these computer and communication system components. The accounting for these costs is summarized below.

1. **Hardware**

   a. Operator-owned hardware: - dependent on the provisions of the accounting procedure regarding equipment and facilities furnished by the operator.

      Accounting treatment - If more than one property is served, or if the equipment serves both field operating and administrative functions, an allocation of costs would be required. The allocation should be based on the number of connected devices, wells served, or some other equitable basis.

   b. Hardware acquired from a third party -

      Accounting treatment - direct charge for the acquisition price or lease payment. If more than one property is served, or if the equipment serves both field operating and administrative functions, an allocation of costs would be required. The allocation should be based on the number of connected devices, wells served, or some other equitable basis.

2. **Software**

   a. Software used exclusively for field operations and acquired from a third party.

Accounting treatment - a direct charge based on the purchase price, or lease payment, plus the costs to configure, install, and support the software. If more than one property is served, an allocation would be required. The allocation should be based on the number of connected devices, wells served, or some other equitable basis.

b. Software used exclusively for field operations and developed by the operator.

Accounting treatment - a direct charge, based on actual costs, for the development, configuration, installation, and support of the software. If more than one property is served, an allocation would be required. The allocation should be based on the number of connected devices, wells served, or some other equitable basis.

c. Software used for both field operations and administrative functions and used by both directly chargeable field employees and administrative and technical employees, regardless of who provides the software.

Accounting treatment - the cost should be allocated between the administrative and operating functions using an equitable allocation method, such as processing time. Once this allocation is made, if more than one property is served, an additional allocation of the operations related costs would be required. The allocation should be based on the number of connected devices, wells served, or some other equitable basis.

3. **Labor**

a. Field labor to install and maintain equipment.

Accounting treatment - direct charge to the property. If more than one property is served, an allocation would be required. The allocation should be based on the number of connected devices, wells served, or some other equitable basis.

b. Engineers or systems analysts developing, installing, upgrading, troubleshooting, and reconfiguring software to accommodate physical changes to wells and equipment.

Accounting treatment - charge based on the time spent installing, upgrading, troubleshooting, and reconfiguring software to accommodate physical changes to wells and equipment. If more than one property is served, an allocation would be required. The allocation should be based on the number of connected devices, wells served, or some other equitable basis.

c. Network administrators, supervisors and administrative staff above the field operating level.

Accounting treatment - not chargeable.

4. **Field buildings**

a. Structures specifically dedicated to computing and communication hardware on the property.

Accounting treatment - chargeable.

b. Field office

Accounting treatment - may be chargeable depending on the applicable accounting procedure. However, the cost of computing and communication equipment for field personnel is directly chargeable even if the provisions for the field office equipment, utilities, etc. are covered by overhead.

c. Offices above the field operating level

Accounting treatment - rent, utilities, building services, and administrative personnel for offices above the field operating level are not chargeable. These costs are covered by overhead.

5. **Communication Links**

a. Links from computer and communication hardware to field devices required for field systems.

Accounting treatment - costs should be allocated to the properties served using some equitable allocation method, such as End Devices connected, wells served, or circuit miles.

b. Links to the next level office and/or computer and communication systems supporting field operations.

Accounting treatment - costs should be allocated to the properties served using some equitable allocation method, such as End Devices connected, wells served, or circuit miles. If the communications link is required for field operations, it may be directly charged even though it also serves some administrative function(s), assuming the administrative functions are insignificant. For example, charges for an internet connection may be appropriate for communications, viewing a manufacturer's equipment maintenance recommendations, safety bulletins, etc., even though it may also provide access to information not required for field operations. If administrative functions performed in the field are significant, the cost of the Communication Link should be allocated.

An example of how a combination of field computing and communication systems costs may be allocated is presented in Exhibit A.

III. GLOSSARY

AUTOMATIC WELL TEST (AWT) - An automated test performed on a well to determine its production characteristics.

COMMUNICATION LINK - A data transmission line or circuit between any two devices capable of communicating. Communication Links may be comprised of any combination of communication media: telephone lines, microwave circuits, radio channels, satellite links, etc. These links may serve a network benefiting many properties.

COMPUTER (INFORMATION) SYSTEMS STAFF - The personnel responsible for the overall coordination and direction of computing activities. This group may include engineers, programmers, systems analysts, and computer operators. This staff may include employees and contractors and may work in the field or at different organizational levels while performing essentially the same functions.

END DEVICES - The physical equipment installed in the field to directly sense or measure operating parameters or control operating conditions. This equipment may include liquid meters, gas meters, chokes, choke controllers, AWT valves and temperature sensors, liquid level sensors, flow sensors, dew point sensors, position (limit) switches, etc.

These devices can be used to measure, monitor, and/or control a variety of functions, such as:

- Measure gas flow rates, liquid flow rates or volumes, liquid levels in tanks, pressures and temperatures.
- Notify operators, via reports or alarms, indicating abnormally high or low pressures, flow or no-flow in a line, etc.
- Control the position of a valve, turn a pump on or off, or adjust a choke.

These devices are typically connected to a network within a plant or field, and usually are easily identifiable to the particular property where they are installed.

INPUT/OUTPUT DEVICES - The devices by which field operating personnel communicate with the operating system. The devices are used to input instructions, commands, data, and programs into the system. They are also used to receive alarm logs, reports, and system messages. Computers may be used for calculating gauged information. These devices may be linked to a computer either located in the field or at a distant office.

LEASE AUTOMATIC CUSTODY TRANSFER (LACT) - An automated system for measuring, sampling, and transferring oil from a lease gathering system into a pipeline.

MODEM - A device used to handle the flow of information and instructions between a computer, a communications link, and an End Device. The device is responsible for handling the data transmission functions of encoding, decoding, modulating, demodulating, security, error checking, and recovery. The modem (sometimes referred to as a computer communications unit) is physically located near the computer it serves.

PROCESS CONTROL COMPUTER HARDWARE - The computers that have a real-time operating system and perform time-clock-initiated tasks to gather field data, process field data, prepare field reports, and execute field control strategies, etc. These computers may be located on the lease, in the field office, in a central unit office, or away from the field location in a division, district, area, region or headquarters office.

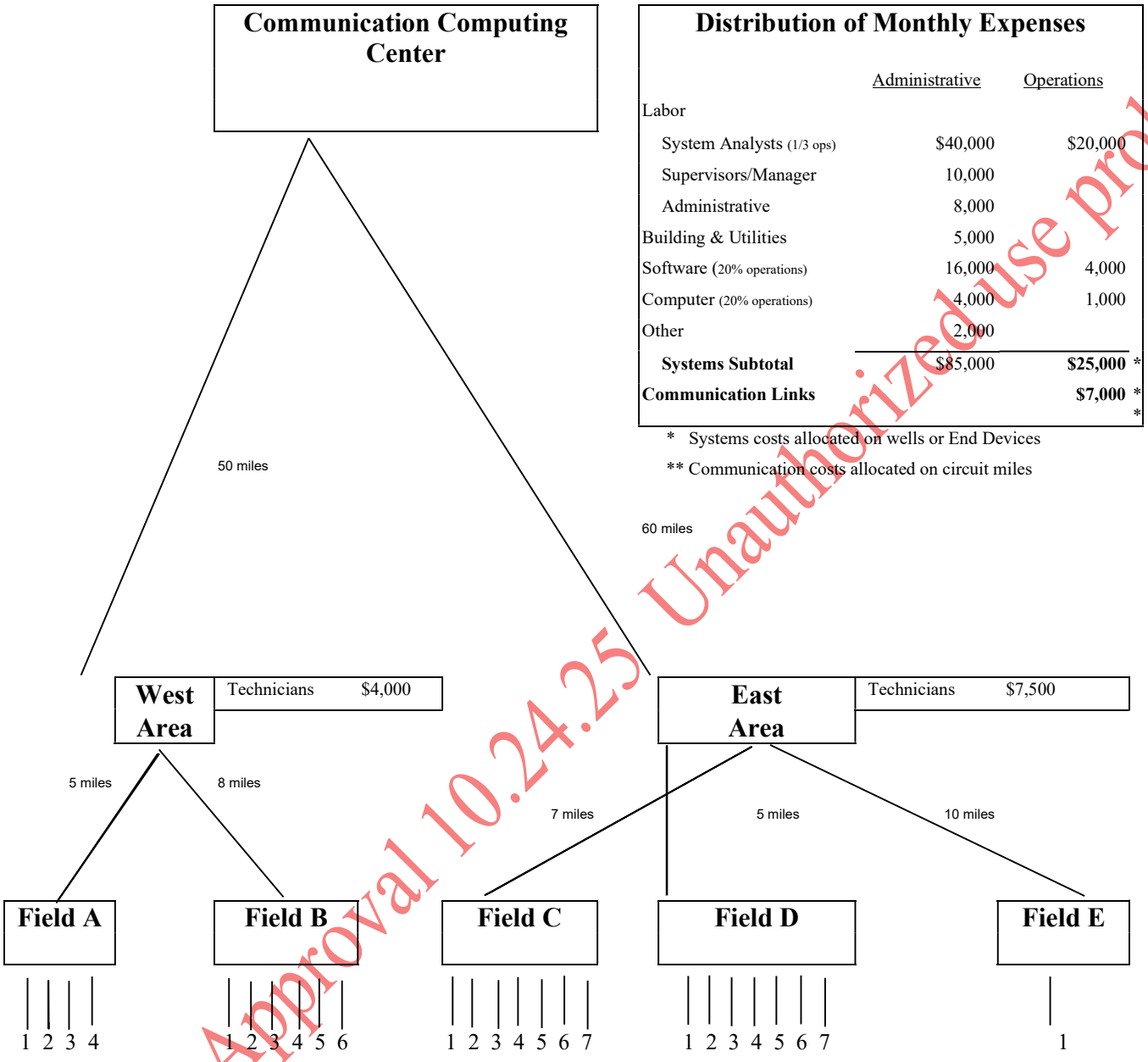
REMOTE TERMINAL UNIT (RTU) - A device which stores digital data from End Devices and passes these data on to the computer. The RTU may also be commanded by a computer to exercise controls via End Devices that are linked to it. It may store data such as:

- Status data consisting of individual bits of information which indicate, for example, whether a level is high, a pressure is high, a valve is closed, etc.
- Accumulated data consisting of pulses from meters.
- Analog data consisting of direct measures of temperature, pressure, flow rate, etc.
- Calculated data such as gas flow.

A Programmable Logic Controller (PLC) may provide many of these functions.

SUPERVISORY CONTROL AND DATA ACQUISITION (SCADA), COMPUTER PRODUCTION CONTROL ("CPC") or COMPUTER ASSISTED OPERATIONS - A method of oil or gas field operation using a computer system to assist in the gathering, field data evaluation and analysis, reporting, and/or control of certain field functions. It may be comprised of one, all, or any combination of these general functional categories of items. The intent of most of these systems is to improve the profitability of the field operation through increased production and/or reduced operating expense. The system may serve a single well, a portion of a field, an entire field, several fields, or an entire company.

EXHIBIT A
EXAMPLE OF FIELD COMPUTER AND COMMUNICATION COST ALLOCATIONS



Distribution of Monthly Expenses

	Administrative	Operations	
Labor			
System Analysts (1/3 ops)	$40,000	$20,000	
Supervisors/Manager	10,000		
Administrative	8,000		
Building & Utilities	5,000		
Software (20% operations)	16,000	4,000	
Computer (20% operations)	4,000	1,000	
Other	2,000		
Systems Subtotal	$85,000	**$25,000**	*
Communication Links		**$7,000**	**

* Systems costs allocated on wells or End Devices

** Communication costs allocated on circuit miles

Summary of Computer and Communication Expenses Allocated to the Fields

	Wells	Systems Expense *				Communication Expense **		Total Expense
		Computing Center		Area		Circuit Miles Basis		
Field A	4	$25,000 x 4/25 =	$4,000	$4,000 x 4/10 =	$1,600	(55 x 4) = 220 / 1562 x $7,000 =	$986	$6,586
Field B	6	$25,000 x 6/25 =	$6,000	$4,000 x 6/10 =	2,400	(58 x 6) = 348 / 1562 x $7,000 =	1,560	9,960
Field C	7	$25,000 x 7/25 =	$7,000	$7,500 x 7/15 =	3,500	(67 x 7) = 469 / 1562 x $7,000 =	2,102	12,602
Field D	7	$25,000 x 7/25 =	$7,000	$7,500 x 7/15 =	3,500	(65 x 7) = 455 / 1562 x $7,000 =	2,039	12,539
Field E	1	$25,000 x 1/25 =	$1,000	$7,500 x 1/15 =	500	(70 x 1) = 70 / 1562 x $7,000 =	313	1,813
Total	25		$25,000		$11,500		$7,000	$43,500

*** All hardware, End Devices (and associated labor) installed at the field level are charged directly to the leases ***

EXHIBIT B

COMPARISON MATRIX
COPAS MODEL FORM ACCOUNTING PROCEDURES

DIRECT CHARGES FOR FIELD COMPUTER AND COMMUNICATION SYSTEMS

	COPAS MFI-1, *COPAS 1962 Model Form Accounting Procedure Interpretation*	COPAS MFI-2, *COPAS 1968 Model Form Accounting Procedure Interpretation*
LABOR	**II. 2. Labor** A. Salaries and wages of employees directly engaged on the Joint Property in the conduct of Joint Operations including technical employees temporarily assigned to and directly employed on the Joint property.	**II.2. Labor** A. (1) Salaries and wages of Operator's employees directly employed on the Joint Property in conduct of Joint Operations. Option to include technical employees: (3) temporarily assigned to and directly employed on the Joint Property if excluded from overhead rates. and/ or (4) assigned to and directly employed in the operation of the Joint Property if excluded from overhead rates.
SERVICES	**II.6. Services** A. Contract services and utilities procured from outside sources.	**II.6. Services** A. Contract services and utilities provided by outside sources. Consultants are not chargeable unless approved.
EQUIPMENT	**II.6. Services** B. Use and service of equipment and facilities furnished by Operator **IV.5.A. Equipment and Facilities Furnished by Operator** Operator owned equipment and facilities at rates commensurate with costs of ownership and	**II.6. Services** B. Use and service of equipment and facilities furnished by Operator **IV.5.A. Equipment and Facilities Furnished by Operator** Operator owned equipment and facilities at rates commensurate with costs of ownership and operation not to exceed prevailing rates.

	operation not to exceed prevailing rates.		
COMMUNICATIONS	See Services **II.6.A and II.6.B.**		See Services **II.6.A and II.6.B.**
COMPUTERS	Not specifically addressed. **II.11. Other Expenditures** Any other expenditure not covered or dealt with in the foregoing provisions of this Section II or in Section III and which is incurred by the Operator for the necessary and proper conduct of the Joint Operations.		Not specifically addressed. **II.11. Other Expenditures** Any other expenditure not covered or dealt with in the foregoing provisions of this Section II or in Section III and which is incurred by the Operator for the necessary and proper conduct of the Joint Operations.

EXHIBIT B
COMPARISON MATRIX
COPAS MODEL FORM ACCOUNTING PROCEDURES

DIRECT CHARGES FOR FIELD COMPUTER AND COMMUNICATION SYSTEMS

	COPAS MFI-4, *COPAS 1974 Model Form Accounting Procedure Interpretation*		COPAS MFI-5, *COPAS 1976 Offshore Model Form Accounting Procedure Interpretation*
LABOR	**II.2. Labor** A. 1) Salaries and wages of Operator's field employees directly employed on the Joint Property in conduct of Joint Operations. (3) Technical employees directly employed on the Joint Property if excluded from the Overhead rates.		**II.2. Labor** A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in conduct of Joint Operations. (2) Salaries and wages of Operator's employees directly employed on Shore Based Facilities or other Offshore Facilities serving the Joint Property. (4) Technical employees directly employed on the Joint Property if excluded from the Overhead rates.
SERVICES	**II.6. Services** Contract services, equipment and utilities provided by outside sources. Consultant technical personnel on the Joint Property same as II.2.A.(3)		**II.6. Services** Contract services, equipment and utilities provided by outside sources. Consultant technical personnel on the Joint Property same as II.2.A.(4)
EQUIPMENT	**II.7. Equipment and Facilities Furnished by Operator** Operator owned equipment and facilities at rates commensurate with costs of ownership and operation.		**II.7. Equipment and Facilities Furnished by Operator** Operator owned equipment and facilities, including Shore Base and/or Offshore Facilities, at rates commensurate with costs of ownership and operation not to exceed average commercial rates.
COMMUNICATIONS	See Equipment and Facilities **II.7.**		**II.12. Communications** Cost of acquiring, leasing, installing, operating, repairing and maintaining communications systems including radio and microwave facilities between the Joint Property and the

			Operator's nearest Shore Base Facility.
COMPUTERS	Not specifically addressed. **II.12. Other Expenditures** Any other expenditure not covered or dealt with in the foregoing provisions of this Section II or in Section III and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.		Not specifically addressed. **II.14. Other Expenditures** Any other expenditure not covered or dealt with in the foregoing provisions of this Section II or in Section III and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

EXHIBIT B
COMPARISON MATRIX
COPAS MODEL FORM ACCOUNTING PROCEDURES

DIRECT CHARGES FOR FIELD COMPUTER AND COMMUNICATION SYSTEMS

	COPAS MFI-17, *COPAS 1984 Model Form Accounting Procedure Interpretation*	COPAS MFI-19, *COPAS 1986 Offshore Model Form Accounting Procedure Interpretation*
LABOR	**II.3. Labor** A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in conduct of Joint Operations. Option to include technical employees: (3) directly employed on the Joint Property if excluded from overhead rates, and/or (4) directly employed in the operation of the Joint Property if excluded from overhead rates.	**II.2. Labor** A. (1) Salaries and wages of Operator's field employees directly employed on the Joint property in conduct of Joint Operations (2) Salaries and wages of Operator's employees directly employed on Shore Base Facilities or other Offshore Facilities serving the Joint Property. Option to include technical employees: (4) directly employed on the Joint Property if excluded from the Overhead rates. (5) assigned to and directly employed in the operation of the Joint Property if excluded from overhead rates.
SERVICES	**II.7. Services** Contract services, equipment and utilities provided by outside sources. Technical personnel on the Joint Property same as II.3.A.(3). Offsite technical personnel are not chargeable unless approved.	**II.6. Services** Contract services, equipment and utilities provided by outside sources. Technical personnel same as II.2.A.(4) and (5).
EQUIPMENT	**II.8. Equipment and Facilities Furnished by Operator** Operator-owned equipment and facilities at rates commensurate with costs of ownership and operation.	**II.7. Equipment and Facilities Furnished by Operator** Operator-owned equipment and facilities, including Shore Base and/or Offshore Facilities, at rates commensurate with costs of ownership and operation.

	Interpretative section lists **Communication Equipment and Computer Production Control Equipment** as examples. Also refers to COPAS MFI-44 for charging the use of Operator-owned Computer Production Control Equipment.		***Interpretative Section*** lists **Communication Equipment and Computer Production Control Equipment** as examples. Also refers to COPAS MFI-44.
COMMUNICATIONS	**II.14. Communications** Cost of acquiring, leasing, installing, operating, repairing and maintaining communications systems including radio and microwave facilities directly serving the Joint Property. ***Interpretative Section*** Communications facilities shared by First Level Supervisors and district personnel should be allocated between the district and the properties served by the first level supervisor on some equitable basis. Systems used solely by personnel above the First Level Supervisor or systems not directly used in the operation and maintenance of the Joint Property should not be allocated to the Joint Property.		**II.12. Communications** Cost of acquiring, leasing, installing, operating, repairing and maintaining communications systems including radio and microwave facilities between the Joint Property and the Operator's nearest Shore Base Facility. ***Interpretative Section*** refers to COPAS MFI-44 for charging the use of Operator owned Computer Production Control Systems. Systems serving multiple offshore fields should be allocated on an equitable basis.
COMPUTERS	**II.14. Communications** *Interpretative section specifically identifies* Computer Production Control (CPC) systems and refers to COPAS MFI-44. **II. 15. Other Expenditures**		**II. 15. Other Expenditures** Any other expenditure not covered or dealt with in the foregoing provisions of this Section II or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

	Any other expenditure not covered or dealt with in the foregoing provisions of this Section II or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.	***Interpretative Section*** includes expenditures of a direct nature, which may be required due to changes in governmental regulations or operating practices.

EXHIBIT B
COMPARISON MATRIX
COPAS MODEL FORM ACCOUNTING PROCEDURES

DIRECT CHARGES FOR FIELD COMPUTER AND COMMUNICATION SYSTEMS

	COPAS MFI-30, *COPAS 1995 Model Form Accounting Procedure Interpretation*	**COPAS MFI-39, *COPAS 1998 Project Team Model Form Accounting Procedure Interpretation***
LABOR	**III. 2. Labor** Salaries and wages of Operator's employees directly employed on the Joint Property in conduct of Joint Operations.	**II.2. Labor** A. (2) (a) Salaries and wages of Operator's field employees directly employed on the Joint Property in conduct of Joint Operations. (b) Salaries and wages of Operator's employees directly employed on Shore Base Facilities or other Offshore Facilities serving the Joint Property. Option to include Technical Employees/Consultants: (d) directly employed on the Joint Property in the conduct of Joint operations, or on Offshore Facilities serving the Joint Property if excluded from the Overhead rates. (e) assigned to and directly employed in the operation of the Joint Property if excluded from overhead rates.
SERVICES	**III.5. Services** Contract services, equipment and utilities on the Joint Property provided by sources other than the Operator.	**II.5. Services** The cost of contract services, equipment and utilities used in the conduct of Joint Operations and provided by sources other than the Parties
EQUIPMENT	**III.6. Equipment Furnished by the Operator** Equipment located on the Joint Property owned by the Operator shall be charged to the Joint Account at the	**II. 6. Equipment Furnished by the Operator** Equipment and facilities owned by the Operator shall be charged to the Joint Account at the average prevailing commercial rate for such equipment or at

	average prevailing commercial rate for such equipment or at the Operator's actual cost not to exceed prevailing rates. **IV. Facilities (off the Joint Property)** **B. Other facilities (such as shore bases, field offices, telecommunication equipment and computer equipment.**		the Operator's actual cost not to exceed the average prevailing commercial rate. ***Interpretative Section*** lists Communications and CPC equipment as examples and refers to COPAS MFI-44.
COMMUNICATIONS	**III. Costs incurred on the Joint Property** **10. Communications** Cost of acquiring, leasing, installing, operating, repairing and maintaining communications systems on the Joint Property. **IV. Costs incurred off the Joint Property** **1.B. Other Facilities** The operator shall charge the Joint Account for the use of other facilities... (such as telecommunication equipment and computing equipment)		**II.12. Communications** Cost of acquiring, leasing, installing, operating, repairing and maintaining communications systems, including radio and microwave facilities, between the Joint Property and the Operator's office directly responsible for field operations. ***Interpretative Section*** Joint Account charges are limited to equipment and associated expenses on the Joint Property and between the Joint Property and the Operator's offices directly responsible for field operations. Systems serving multiple properties with various ownerships would normally be charged to properties served on an equitable basis such as established rates, direct usage and allocation. Refers to COPAS MFI-44.
COMPUTERS	**IV.1.B. Other Facilities** Includes a computer in the example of a facility located off the Joint Property that may be charged to the Joint Account.		See Equipment and Communications Sections comments above.

EXHIBIT B
COMPARISON MATRIX
COPAS MODEL FORM ACCOUNTING PROCEDURES

DIRECT CHARGES FOR FIELD COMPUTER AND COMMUNICATION SYSTEMS

	SUMMARY OF VARIATIONS	INTERPRETATION CONCLUSIONS
LABOR	All COPAS model form accounting procedures recognize it is sometimes feasible to allocate the field labor charges to all properties served on an equitable basis. Operator's technical employees on the joint property are chargeable under the COPAS 1962 and 1995 Model Forms. All other model forms contain options that determine if chargeable. Operator's offsite technical employees may be directly charged under the COPAS 1968, 1984, 1986 Offshore and 1998 Project Team Model Forms if the parties choose that option. Onsite contract technical personnel are directly chargeable under the COPAS 1995 Model Form and are not chargeable under the COPAS 1968 Model Form; options determine if chargeable under the COPAS 1974, 1976 Offshore, 1984, 1986 Offshore and 1998 Project Team Model Forms. Offsite contract technical personnel are not directly chargeable under the COPAS 1968, 1974, 1976 Offshore, and 1984 Model Forms. An option	Field labor engaged in the installation, maintenance, and operations of field computing and communication equipment is directly chargeable. The cost of engineers and systems analysts involved in designing, installing, configuring, and maintaining field operating computing and communications software may be allocated to the properties served. Offsite supervisory and administrative personnel are not directly chargeable.

	determines if chargeable under the COPAS 1986 Offshore and 1998 Project Team Model Forms. The COPAS 1962 Model Form is silent concerning contract technical personnel. The COPAS 1995 Model Form permits offsite labor (operator or contract) only for approved offsite facilities.		
SERVICES	The COPAS 1962 and 1968 Model Form Accounting Procedures allow the cost of contract services and utilities provided by outside sources. All other COPAS model form accounting procedures allow the cost of services, equipment and utilities provided by outside sources.		Third-party computing and communication services may be directly charged.
EQUIPMENT	All COPAS model form accounting procedures permit charges for operator owned equipment and facilities. The COPAS 1984, 1986 Offshore, 1995 and 1998 Project Team Model Forms include references to Computer Production Control or computer equipment.		Computing and communications equipment located in the field may be charged to the leases served. Equipment supporting field operations that is located above the field level may be allocated to the properties based on the pro rata share of benefit received.
COMMUNICATIONS	Communications is not specifically addressed in the COPAS 1962, 1968 and 1974 Model Forms. The COPAS 1976 Offshore and 1986 Offshore Model Forms limit communication costs to facilities between the joint Property and shore base. COPAS MFI-21, *Overhead Principles,* indicates communication charges should		Communication systems for field personnel may be charged. Communications for "district" or overhead functions should not be charged.

	reflect the benefit received by the property.		
COMPUTERS	Computer Production Control systems were not specifically addressed in the COPAS model form accounting procedures until the COPAS 1984 Model Form Accounting Procedure. However, in 1975, COPAS MFI-44 noted the rapid evolutionary growth in automated operating systems. It recognized that most COPAS model form accounting procedures did not specifically address the accounting for these expenditures. It was recommended that COPAS MFI-44 serve as the basis for billing such costs.		Computers and software that provide measurement and control functions for field personnel in an operating function may be directly charged.

Council of Petroleum Accountants Societies

Turning Energy Into Synergy

Offshore Marine and Aircraft Allocations

MODEL FORM INTERPRETATION 45

Publication Date - April 2000

Council Approved

Joint Interest/Audit Conditionally Approved April 24, 2025

COPAS MODEL FORM INTERPRETATION 45

Offshore Marine and Aircraft Allocations

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FOREWORD

COPAS model form accounting procedures identify transportation costs as charges to be billed directly to the joint account. The 1962, 1968, 1974, 1976 Offshore, 1984, and 1986 Offshore Model Form Accounting Procedures each contain language in the Transportation paragraph under Section II that provides as a direct charge, the "Transportation of employees and Materials necessary for the Joint Operations…." The COPAS 1995 Model Form Accounting Procedure provides in Section III, paragraph 4 a direct charge for "Transportation of company labor, contract personnel and Material necessary for the Joint Operations…." The COPAS 1998 Project Team Model Form Accounting Procedure provides in Section III, paragraph 5 a direct charge for "Transportation of Operator's, Non-Operator's, Affiliate's or contractor's personnel, and Materials necessary for the Joint Operations…." However, none of the model form provisions or related model form interpretations discuss methods of allocating marine, aviation, and diesel fuel expenses to the joint properties served.

Over the years, the distribution of marine, aviation and diesel fuel expenses has been handled differently by almost every operator in offshore operations. It can be extremely difficult for an operator to determine how best to efficiently make equitable distribution of transportation expenses to the properties receiving the benefits.

Previous editions of the COPAS publications formally known as Bulletin No. 18, *Distribution of Boat and Fuel Expenses, Offshore Operations*, and Bulletin No.19, *Distribution of Helicopter Expenses, Offshore Operations*, were similar enough to allow them to be combined into a single document for offshore transportation. This Model Form Interpretation ("MFI") 45 replaces the two previous COPAS publications.

The purpose of this document is to set forth industry guidelines for the distribution of marine, aviation and diesel fuel expenses that are equitable and relatively simple to administer. These guidelines are written to assist parties involved with offshore transportation in making decisions concerning equitable allocation of transportation expenses and to contain several allocation methods currently used in the industry.

Since the last COPAS publications were written, there have been many industry operational changes that were considered in the writing of this document. Some of the operational changes prompting a rewrite included increased scrutiny of transportation charges by internal and external company personnel, development of boat sharing and supplier/operator alliances and the transportation support of deepwater operations. Additionally, the results of an industry survey, conducted concurrently with the rewrite of this document, indicated that few operators were applying the previously recommended COPAS methodology for boat and Helicopter allocations.

COPAS recommends that operators consider the allocation methods contained in this document prior to choosing a method to allocate their transportation expenses. However, it should be understood that these methods are only recommended and should not be regarded as the only methods that will yield an equitable distribution of offshore transportation costs.

I. MARINE, AVIATION AND DIESEL FUEL ALLOCATION CONCEPTS

This section of the document is intended to address several concepts that are critical to the proper accounting of marine, aviation and diesel fuel expenses. The concepts discussed are:

A. Equitable allocation of marine, aviation, and diesel fuel expenses
B. Consistent handling of marine, aviation, and diesel fuel expenses
C. Specific Use charges vs. Allocated charges
D. Ease of administration of marine, aviation, and diesel fuel expenses

A. Equitable Allocation of Marine, Aviation, and Diesel Fuel Expenses

Considering the millions of dollars expended annually for boats and Helicopters, it is very important that these expenses are distributed as equitably as possible. Equitably means that the charges made to the joint account reasonably reflect the benefit received by the properties served. In order to verify that the charges reasonably reflect the benefit received, periodic reviews should be made.

In cases where invoices are charged exclusively to a platform, drilling well, or other single location there will be a lesser chance of questionable equity. However, when charges are allocated to various properties from a single source, such as an invoice or allocation account, equity will be more of a concern.

There are three areas that operators and non-operators should be concerned with when considering the concept of equity:

- the charges to the allocation account
- the pool or grouping of locations
- the method chosen to allocate marine, aviation, and diesel fuel expenses to properties

An allocation account is simply an account which captures vessel, aircraft, and diesel fuel expenses for further allocation to properties served. The operator should ensure that all charges to the allocation account are associated with the transportation source assigned to the account. Section II of this MFI provides guidelines as to the types of charges that should be made to the allocation account.

Another area of utmost importance in determining an equitable allocation is the creation of a pool or grouping of locations/platforms. The operator should make sure that the pool represents the locations served and operational reality. Section I.C of this MFI provides more detailed guidelines for developing equitable pools.

The final area of concern is the allocation method chosen for distribution of expenses to the properties served. The operator should ensure that the charges match the benefit received by those properties. This should be done through a periodic review of the activity logs for the transportation service used. Over time, the charges allocated to the properties should be reasonably close to what the properties would have received if the services were charged directly to the locations. Section II of this MFI provides several allocation methods to consider in making a final choice of methods to use.

B. Consistent Handling of Marine, Aviation, and Diesel Fuel Expenses

An important concept that must be a part of an operator's allocation procedure is that of consistency. Consistency refers to allocating costs attributable to similar situations in a similar manner each time the situation occurs. While allocation procedures should not be so rigid as to exclude the operator's use of judgment in allocating costs, the procedures should not be so flexible as to allow inconsistent handling of similar uses of vessels and aircraft. Virtually all allocation procedures will result in subtle inequities in a given month or a given situation, but these should be acceptable to all parties if the procedures are equitable and are consistently applied over a period of time to all locations. Conversely, inconsistent allocation procedures highlight subtle inequities and may cause the non-operators to question the allocation procedures used by the operator. Listed below are situations which help illustrate this concept.

- A Helicopter used for crew changes should not be directly charged in one month based on the number of flights or flight minutes to each location and in a general allocation pool the next month. If the operator's method of directly charging crew change flights results in an equitable allocation of costs, the operator should continue to use that methodology and not switch to an allocation pool methodology the following month. The operator should not, as a matter of practice, continually switch back and forth between allocation methodologies.

- If platforms with no active completions are assigned a certain weight in allocation pools, it would be expected that all such platforms be assigned that weight across all allocation pools. The operator should not periodically switch between including these platforms in allocation pools and directly charging shut-in platforms for specific flights to those locations.

- One of the difficulties in allocating marine, aviation, and diesel fuel costs based on usage time is the handling of "common" time to and from the shore base for Trips where multiple locations are served. The operator should determine a methodology to equitably allocate these "common" costs and continue to use that methodology unless a more equitable methodology is devised. The operator should not change the allocation of these "common" costs on a monthly basis or strictly because of specific locations served.

Consistency itself should not be used as a substitute or justification for keeping an inequitable allocation procedure. Consistent use of a given allocation methodology does not in and of itself mean the procedures are correct or equitable. The chosen methodology must also conform to the concepts of equity discussed in the Equitable Allocations section of this and other relevant documents.

The establishment of written procedures is recommended to document the chosen allocation procedures and help ensure they are being consistently applied to given situations over a period of time.

C. Specific Use vs. Allocated Charges

1. Specific Use

Specific Use includes charges that can be directly related to or directly benefit the production of oil or gas, drilling activity, or construction project AFE work. These charges are largely controlled at the lease operating level, allowing the operations foreman to know the exact amount to incur for this type of transportation service. A Specific Use charge is the total direct charge of a marine or aviation transportation service that can be applied to a single location that receives all of the benefit of that service. The total costs associated with the transportation can be charged "directly" to the receiving location's joint account. This **one-to-one relationship** between the vessel/aircraft providing the transportation service and the location it serves is common in drilling, workover, and construction project operations.

Example: *A vessel is hired exclusively to support a drilling rig as a work boat during the month. All of the vessel's cost of operation and related expenses would be charged to the AFE or cost center established to capture the drilling costs for that particular well. The entire cost of this vessel would be charged as a direct charge to the drilling location's joint account. In some cases, an opportunity exists to share the use of the vessel's Standby time. In such cases where costs are being shared among more than one location, an allocation would be necessary to prorate the costs of one vessel to the locations.*

2. Allocations

Allocations are a pro-ration of monthly transportation costs for more than one location. Allocations are used when one or more offshore transportation vessels/aircraft are assigned to serve or benefit multiple locations. To administer an allocation of transportation costs, one practice is to establish a "pool" of such costs that contain the selected locations benefiting from the transportation service(s). To allocate pooled costs, the operator should select a fair and equitable method of allocation to distribute the costs consistently to the operator defined group of "pooled" locations. If a platform or project is served on a regular basis it should be considered a candidate for the pool group. On the other hand, if a boat or Helicopter in the allocation account is not likely to service a platform routinely, that platform should not be included in the pool, regardless of the location proximity to those served. A project cost center can also be included in a pool if the boats or Helicopters routinely serve it.

To aid an operator or non-operator in determining whether the allocation method is acceptable, the following litmus test should be applied in which **all of the following four questions must be answered in the affirmative.**

Litmus Test for Allocation Methodologies

A. Does the allocation method reflect the operational dynamics in place during the allocation period?
B. Is the allocation method reviewed periodically with operations personnel?
C. Is the allocation method equitable over the audit period?
D. Is the allocation method systematically and consistently applied?

The goal of allocating costs is to charge the properties being served as though the operator were able to Specific Use charge the properties. The parties should recognize that the use of allocations

has a certain cost/benefit balance. The costs associated with reviewing every minute of a boat log must be balanced against the efficiencies realized in the administration and auditing processes. This balance can be maintained and still result in the appropriate properties being charged correctly over time as if every minute of the boat were Specific Use charged. In order to achieve this, it is necessary for the operator to review the pools periodically to ensure they reflect the operational dynamics prevailing at that time.

a. Pools

In general, pooled costs are a combination of the costs of one or more transportation craft, vessel, or aircraft of a common type or size that are associated with multiple locations receiving the services. Establishing a "pool" of costs to include specific vessels/aircraft and selected locations can be very difficult and requires the experience and cooperation of the operator's transportation coordinators and field foreman to identify which locations shall share in the costs through the allocation process. The critical yet essential factor in the implementation of a successful allocation to a pool of locations is arriving at a fair, equitable, and consistent allocation basis (i.e., number of producing wells, frequency of use, volume of service rendered, volume of production, or some other reasonable basis). The rationale for the establishment of a pool should also be based on the operational realities during any given time period.

Pool types defined:

The term "pools," as used in the offshore transportation area, can be further categorized into two types: as a group of multiple locations served, referred to here as a "location pool," and one or more offshore transportation vessels/aircraft used to service those particular locations' transportation needs known as a "vessel/aircraft pool."

(1) Location Pool

An Operator may form a "location pool" by combining several property locations together. A location pool may represent a number of properties being served by one or more vessels or aircraft. An example of how a location pool may be used is as follows:

Example: *An Operator has three platforms (A, B, and C) offshore the coast of Louisiana. The vessels servicing this area make a large number of stops daily to these platforms. The operator has concluded that an extensive amount of administrative effort would be necessary to account for each stop on a specific charge method of accounting. These three platforms are also fairly close to each other and typically share the same vessels. The operator has checked all four conditions of the litmus test (as referenced in the Allocation Section, I.C.2.) and has chosen to combine these platforms to form a "location pool" for purposes of simplifying the allocation of associated transportation costs.*

(2) Vessel/Aircraft Pool

The operator may elect to form a "vessel/aircraft pool" by combining multiple vessels or aircraft and allocating their costs to the locations served. Vessel/aircraft pools are accounting tools to combine the costs of one or more transportation craft, vessels, or aircraft of a common type or size. A vessel/aircraft pool may consist of a number of vessels/aircraft assigned to servicing a single property or assigned with a location pool of many properties.

When to use Pools:
It is not always possible or practical to Specific Use charge offshore transportation costs to a particular location. Quite frequently, a vessel or aircraft is chartered to serve more than one property during the time period of the charter. In these types of situations, "pools" are created for the purpose of allocating the associated costs to the properties served. If a vessel has been chartered for less than a full month, or if a vessel has been chartered to serve more than one property, the use of an allocation may be appropriate.

If a vessel is chartered to service one property for an entire month, it should not be included in a pool.

b. Basis

An allocation basis that is selected should best reflect the actual usage of the transportation service. Common bases (methodologies) include distance, hours, Bumps, Trip miles, per passenger miles, drilling days, active completions, etc. See the "Allocation Methods" and "Examples" section of this MFI for additional detail.

Example: *If a pool of marine vessels carrying equipment, supplies, and production crew workers to five locations travels farther to visit two of the five locations, the operator may want to select an allocation method which incorporates a mileage or distance factor within its basis. The operator may, for purposes of establishing more control and accuracy of an allocation, select an allocation method which requires additional breakdown of the transportation service into sub-categories and establish an individual basis for each of the sub-categories.*

c. Out-of-Pool Service

During the course of the charter or allocation time period, if the offshore transportation vessel/aircraft is utilized (non-routine basis) for other than the benefit of the pool locations, the out-of-pool (out of field) location served should be charged for the amount of time the vessel was out of its pool area. The amount associated with the Specific Use charge resulting from the out-of-pool service will reduce the pool of costs to be allocated to the remaining locations.

Example: *A marine vessel is chartered to serve an offshore "location pool" that is made up of platforms A, B, and C. During the month, the vessel makes a ten-hour non-routine round trip to platform D for platform D's sole benefit and is not intended to be routinely serviced. The ten-hour round trip time should be charged to platform "D" and the total cost to the pool (A,B,C) is reduced by the amount charged to platform "D."*

d. Third Party Service

Periodically, circumstances may arise that provide an operator the opportunity to maximize the efficiencies of services being charged to the joint account by entering into third party service usage agreements. These opportunities for efficiency also extend to marine and aircraft that are in service for use in offshore transportation. By subcontracting a vessel or aircraft's idle usage time, the operator may be able to distribute the transportation expenses to more locations and reduce the transportation expenses per location served.

It is recognized that the reimbursements/fees received from the third parties may represent an amount more or less than the costs which would have been allocated to this location if this property had been included in the operator's normal allocation procedure. While these variations are expected to occur due to operational considerations, level of use, market or competitive conditions, etc., the operator should maintain for the non-operator's review adequate documentation supporting the basis and the calculation or determination of the fees charged.

The allocation of the offshore transportation costs, applicable to the third party along with the fees received from the third party, can be handled in two manners, depending upon the ownership commitment of the vessels or aircraft involved.

(1) Leased or Chartered by the Operator

For vessels and aircraft that are leased or chartered by the operator, the allocation method should be as follows: the amount(s) received as fees from third parties should be applied as a credit against the total cost of the total lease or charter. All locations in the pool for which the vessel or aircraft was hired should be allocated their proportional share of the actual lease or Charter Cost, less any reimbursements/fees received from third-party users.

Example: *A marine vessel is chartered to serve an offshore "location pool" that is made up of locations A, B, and C. A third-party operator of platform X, located nearby, enters into an agreement with the operator of the location pool to use the chartered vessel. The agreement stipulates that the vessel is to be used by the third-party operator of platform X on the first, tenth, and twentieth days of each month for grocery and mail runs. The full amount that the operator receives from the third-party transaction is credited proportionately to the joint accounts associated with the location pool.*

(2) Owned by the Operator

For vessels and aircraft that are owned by the operator, the allocation method should be as follows: the amount(s) received as fees from third parties should be retained by the operator and owner of the vessel or aircraft. The monthly cost of operation for the vessel or aircraft should be allocated in accordance with the Operator's procedures and to all the locations served in the pool, including a cost center to represent the third-party location(s). An operator should handle the allocation of the costs of operational expenses incurred to support the third-party property, as shown in the Out-of-Pool Service example (in section I.C.2.c. of this MFI).

e. Standby Time

There are a variety of reasons why a vessel or aircraft would incur idle or Standby Time (see the list of common Standby Activity Types in the Marine and Aviation Allocation Methods and Example, Section II.). Consideration should be given to the particular reason why a vessel or aircraft is on Standby. The operator may choose to allocate a vessel's Standby Time differently, depending on the circumstances surrounding the vessel's specific inactivity. The operator may choose to segregate the Job Specific from the Non-Job Specific Standby Time. Job Specific Standby Time should be charged to specific properties or AFEs. Non-Job Specific Standby Time relates to the "availability concept"; when a vessel is chartered to be on call, available for use and physically located within the physical boundaries of the location pool. The vessel's log may show this time as WOO (waiting on orders) or WOW (waiting on weather). This Non-Job Specific

Standby Time should be allocated to all properties served by that charter by whichever method the operator chooses so long as it meets all four conditions of the litmus test in this MFI.

Example of Job Specific:

A *vessel incurs ten hours Standby time at a vendor's dock loading supplies to be delivered to platform A. The vessel leaves the vendor's dock en route to platform A and offloads the supplies received from the vendor. The ten hours of Standby time, as well as the run time to the platform, are charged to platform A's AFE or location cost center.*

Example of Non-Job Specific:

A *vessel is waiting on orders for three days (72 hours) at a buoy offshore. The boat is serving three platforms that the operator has chosen to "location pool." The operator may choose to allocate the charges for the three days (72 hours) of Standby Time equally to the three platforms served or by using any other acceptable allocation method.*

D. Ease of Administration

The ease of administering an allocation system, or, more appropriately, the cost of administering a system, should be weighed against the benefits gained from using such a system. The goal of an allocation system is to equitably match "costs" with "usage" over time, while minimizing administrative burden in the process. Ease of administration should be judged in this same context. Undue administrative effort should be avoided if it is only necessary to avoid short term insignificant variances that would be mitigated over time. With this in mind, care should be given to choosing an allocation system that balances the administrative effort to perform the process with the value received from that process.

II. MARINE AND AVIATION ALLOCATION METHODS AND EXAMPLES

A. Costs and Activities

1. Marine

a. Allocable Marine Costs

- Charter fees (including crew labor and/or credits from third-party services)
- Diesel fuel used
- Lube oil used
- Voice and data communication equipment
- Navigation and weather monitoring equipment
- Potable water
- Subsistence provisions
- Permits and certifications
- Cost of ownership

Marine transportation costs to support oil production, drilling, and related facilities are typically incurred in two ways, depending upon the ownership of the marine vessels utilized. The operator may elect to hire charter companies to provide transportation service or may own the vessels and operate with company or contract labor.

(1) Charter Marine Service Company

Charter Cost and other operating costs should be included in the amount to be allocated. Charter fees generally include crew labor. Depending on service company practices, there may be other allocable costs incurred and invoiced with or separately from the charter fees.

(2) Operator-Owned Vessels

The cost of operation, maintenance, and ownership of the vessel should be considered in determining the amount of vessel charges. This amount should not exceed the prevailing commercial rates in the area for comparable service and should be calculated in accordance with the applicable model form accounting procedure.

b. Marine Vessel Activity Components

Marine vessel activity is generally categorized into two components, Run Time and Standby Time. The identification of marine costs into these components allows the operator to select an allocation method that may use a different allocation basis for each component. This may result in a more equitable allocation of marine costs. Below are descriptions and examples of Run Time and Standby Time as used in the industry and in the context of this MFI.

(1) Run Time

Includes the amounts of actual usage time as recorded on the vessel log. This would include time in which the vessel is moving from one offshore location to another, the time spent loading or unloading identified cargo or personnel for benefit of a service location, the time traveling from the base to the first location visited, and the time from the last location visited back to the base.

(2) Standby Time

The remainder of all other paid allocable vessel activity time is referred to as Standby Time, which can be further identified by each activity type. Standby Time may be kept as a whole unit and allocated using a single basis, or an operator may choose to select or develop an allocation method that utilizes a different basis for selected Standby activity types. Below is a list of some common Standby Time activity types.

- Waiting on orders
- Waiting on weather
- Loading or unloading unidentified cargo or personnel at shore base location
- Fueling
- Maintenance
- Tank cleaning
- Paid downtime, including government mandated inspections, e.g., United States Coast Guard (U.S.C.G.)

2. Aviation

a. Allocable Aviation Costs

- Charter fees
- Crew labor
- Aviation fuel used
- Maintenance
- Hangar fees
- Cost of ownership
- Voice and data communication equipment
- Navigation and weather monitoring equipment
- Subsistence provisions
- Aircraft support services

Aviation transportation costs to support oil production, drilling, and related facilities are typically incurred in two ways, depending upon the ownership of the aircraft utilized. The operator may elect to hire an outside service company to provide Helicopter and/or fixed wing transportation or may own the aircraft used to provide the transportation service.

(1) Charter Aircraft Service Company

The total Charter Cost or invoiced charges should be included in the costs to be allocated, which generally include the cost of crew labor and fuel consumed by the aircraft. If any additional costs were incurred to support the aviation service beyond the initial charter fees, such as additional fuel, pilot costs, or other necessary costs of operating the aircraft, these costs would also be included in the total amount to be allocated. This method allows for an easier identification of costs than the operator-owned method since most costs are captured in the charter company's aggregate charge or usage rate.

(2) Operator-Owned Aircraft

The cost of operation, maintenance, and ownership of the aircraft should be considered in determining the amount of aviation charges. This amount should not exceed the prevailing commercial rates in the area for comparable service and should be calculated in accordance with the applicable model form accounting procedure.

To minimize the fluctuations of actual aviation expenses each month, an operator may employ an average rate developed by analyzing the historical or anticipated trend of aircraft operating expense. It is recommended that at least 12 months of operating expenses be used to perform a trend analysis to better represent an average rate. By developing and using an average rate, the operator-owned aviation costs can then be applied in a similar format as that charged by a charter company (e.g., per-hour usage, per-seat-mile, per-month) and permit use of the standard allocation methods.

B. Allocation Methods

1. Specific Use Method

The Specific Use Method of allocation matches the offshore transportation costs directly to the specific location being served. In this method, it is assumed the transportation service is hired directly for the benefit of a single location or specific project. No further allocation is necessary as the service hired or deployed directly benefits only a single location.

Specific Use Method
Location Served Charged 100% of costs

Total Cost	$72,000
Total Hours	720

Cost Allocation	Hours	Usage %	Charge
AFE #1	720	100%	$72,000

2. Flexible Pool Method

The Flexible Pool Method allocates the cost of offshore transportation to locations based upon actual service received during the month. This allocation method is appropriate in cases where offshore transportation service is provided to more than one location and the desired outcome is to charge only those properties that actually used the service during the month. The locations served form a flexible pool that may expand during the allocation period as operational needs dictate. This approach is preferred where the establishment of a fixed allocation pool may not be suitable or equitable because locations are not receiving consistent service each month.

The Flexible Pool Method can be applied in various ways. Below are three versions which illustrate its use:

- Standby to All Locations
- Standby to Selected Locations
- Selected Standby to Selected Locations

These versions differ based on the type of costs to be allocated, Run Time costs or Standby costs, and/or the type of operation being serviced, e.g., production, drilling, construction. In all versions, Run Time costs are distributed to each location based upon Run Time usage and Standby costs are allocated according to predetermined criteria. Some of the criteria on which Standby costs can be allocated include percentage of Run Time, actual Standby Time benefiting specific properties, or other reasonable method.

In the Flexible Pool Method, the determination of total Run Time for a specific location should include Actual Run Time and Common Run Time.

Actual Run Time
The time a vessel is moving to a location plus the time a vessel spends loading and unloading identified cargo or personnel for the benefit of a location.

Common Run Time
The time a vessel leaves from the base to the first location visited and the time from the last location visited back to the base. The total amount of common Run Time is allocated equally among all locations served.

a. Flexible Pool - Standby to All Locations

In the Standby to All Locations version, all locations receiving service during the allocation period receive Run Time charges and Standby charges based on each location's pro-rata share of total Run Time recorded in the monthly log. Since the allocation basis of both Run Time charges and Standby charges are the same, it is not necessary for the operator to separately identify the total charges into these categories. For illustrative purposes, they are shown separately in the example below. In this version, all locations share the Standby Time costs in the same proportions as the Run Time costs.

Flexible Pool - Standby Time Allocated to All Locations

Description	Amount	Hours	Hourly Rate
Total Costs	$72,000	720	$100
Third-party Service - Negotiated Amount	(3,400)	(20)	
Total Allocable Costs	$68,600	700	$98

Total Allocable Costs	Hours	Costs
Run Time	280	$27,440
Standby	420	41,160
Totals	700	$68,600

Allocation of Costs (Net of Third-Party Costs)

Activity	Run Time Hours	Common Run Time	Total Run Time	Run Time Percentage	Standby Percentage	Run Time Charge	Standby Charge	Total Charge
Lease #1	40	10	50	17.86%	17.86%	$4,900	$7,350	$12,250
Lease #2	30	10	40	14.29%	14.29%	3,920	5,880	9,800
Lease #3	20	10	30	10.71%	10.71%	2,940	4,410	7,350
AFE #1	90	10	100	35.71%	35.71%	9,800	14,700	24,500
AFE #2	50	10	60	21.43%	21.43%	5,880	8,820	14,700
Totals	230	50	280	100.00%	100.00%	$27,440	$41,160	$68,600

b. Flexible Pool - Standby to Selected Locations

In the Standby to Selected Locations version, the locations receiving service during the allocation period will receive Run Time charges based upon total Run Time (Actual Run Time and Common Run Time); however, the Standby charges will be allocated to selected locations. Locations are selected to receive Standby charges based upon the reason for which the transportation service was primarily hired or for some other supportable operational reasons. This version works well for transportation needs hired for a specific location, but periodically may be used on an exception basis at surrounding locations. Illustrated in the example below is a situation in which a vessel was hired to provide service to the AFE projects but also serviced two nearby lease locations, which was an out of field location and a third-party location during the allocation period.

Flexible Pool - Standby Time Allocated to Selected Locations

Description	Amount	Hours	Hourly Rate
Total costs	$72,000	720	$100
Third-party Service - Negotiated Amount	(3,400)	(20)	
Total Allocable Costs	$68,600	700	$98

Total Allocable Costs	Hours	Costs
Run Time	280	$27,440
Standby Hours	420	41,160
Totals	700	$68,600

Allocation of Costs (Net of Third-Party Costs)

Activity	Run Time Hours	Common Run Time	Total Run Time	Run Time Percentage	Standby Percentage	Run Time Charge	Standby Charge	Total Charge
Lease #1	40	12.5	52.5	18.75%	0.00%	$5,145	$0	$5,145
Lease #2	30	12.5	42.5	15.18%	0.00%	4,165	0	4,165
Out of Field	20	0.0	20.0	7.14%	0.00%	1,960	0	1,960
AFE #1	90	12.5	102.5	36.61%	62.12%	10,045	25,569	35,614
AFE #2	50	12.5	62.5	22.32%	37.88%	6,125	15,591	21,716
Totals	230	50	280	100.00%	100.00%	$27,440	$41,160	$68,600

c. Flexible Pool– Selected Standby to Selected Locations

In the Selected Standby to Selected Locations version, all locations receiving service during the allocation period will receive Run Time charges based on total Run Time recorded. However, this version permits Standby costs to be divided into two or more activity types, Regular Standby and Selected Standby, with each type allocated separately based on differing factors.

An operator may choose this version to more accurately allocate a Selected Standby activity to the locations driving or causing such Standby Time. In the example below, the total Run Time is used as the basis for the allocation of Regular Standby and another type of allocation basis is used for the Selected Standby. For example, the activity of vessel fueling may be considered Selected Standby Time and the basis chosen for allocation could be the number of gallons of fuel consumed or delivered to the benefiting location. This method may require a more detailed administrative effort but can result in more accurately assigning Standby costs to the locations that truly cause the Standby Time.

Flexible Pool – Selected Standby Time Allocated to Selected Locations

Description	Amount	Hours	Hourly Rate
Total costs	$72,000	720	$100
Third party service - negotiated amount	(3,400)	(20)	
Total allocable costs	$68,600	700	$98

Total Allocable Costs	Hours	Costs
Run time	280	$27,440
Third Party Service Hours	20	0
Standby Hours - Regular	250	24,500
Standby Hours - Select	170	16,660
Totals	720	$68,600
Less: Third Party Service Hours	(20)	
Total Allocable Hours	700	

Allocation of Costs (Net of Third-Party Costs)

Activity	Run Time Hours	Common Run Time	Total Run Time	Regular Standby Percentage	Select Standby Percentage	Run Time Charge	Regular Standby Charge	Select Standby Charge	Total Charge
Lease #1	40	12.50	52.50	18.75%	0.00%	$5,145	$4,594	$0	$9,739
Lease #2	30	12.50	42.50	15.18%	0.00%	4,165	3,719	0	7,884
Out of Field	20	0.00	20.00	7.14%	0.00%	1,960	1,749	0	3,710
AFE #1	90	12.50	102.50	36.61%	62.12%	10,045	8,969	10,349	29,363
AFE #2	50	12.50	62.50	22.32%	37.88%	6,125	5,469	6,311	17,904
Totals	230	50.00	280.00	100.00%	100.00%	$27,440	$24,500	$16,660	$68,600

3. Fixed Pool Method

The Fixed Pool Method results in allocating costs to the same fixed locations each month. The basis of allocation to the fixed locations is a combination of active completions and distance, with locations outside the fixed pool receiving an allocation based on actual use. The Fixed Pool method assumes that the offshore transportation service benefits all locations in the fixed pool on a consistent basis over time.

This allocation method is appropriate in cases where a group of locations can be identified as likely to be served by the same individual or group of vessels or aircraft. This method eases the administrative effort of the accountant since each movement of a vessel or aircraft does not require actual-use monitoring. Variations of this method include,

- Equivalent Active Completion Method
- Combined Pool and Actual Use

The charges applied to the fixed pool are further allocated to the locations in the pool using a predetermined allocation basis, applied singularly or in combination. Some of the common criteria on which fixed pool allocations can be based are monthly drilling days, number of producing wells, distance from base, frequency of service, and volume of production.

a. Fixed Pool – Equivalent Active Completion Method

The Equivalent Active Completion Method uses a fixed pool of locations consisting of either production, drilling, or a combination of both. The allocation basis used in this method is number of active completions (or equivalent active completions when involving drilling days) and distance of the pool locations from the supporting base location.

This method is easy to administer since the fixed pool only requires a periodic review. The allocation basis of active completions is readily available in the industry for applying most overhead calculations and the mileage factor for each location will remain constant month after month. However, this method may not provide sufficient accuracy required by the operator to satisfy all offshore transportation needs.

Fixed Pool Allocation
Equivalent Active Completions

Total Cost	$72,000
Total Hours	720
Hourly Rate	$100

Cost Allocations	Drilling Days	Active Completions	Equivalent Active Completions	Equivalent Active Completions Percentage	Miles From Shore Base	Mileage Percentage	Composite Percentage	Allocated Costs
Well #1	3	NA	1	3.85%	50	25.00%	14.42%	$10,385
Well #2	30	NA	10	38.46%	40	20.00%	29.23%	21,046
Platform A	NA	5	5	19.23%	60	30.00%	24.62%	17,723
Platform B	NA	10	10	38.46%	50	25.00%	31.73%	22,846
Totals	33	15	26	100.00%	200	100.00%	100.00%	$72,000

Equivalent Active Completions is calculated as (Drilling Days in month x 10) divided by the number of days in the month.

Composite Percentage is calculated as the simple average of the Equivalent Active Completions Percentage and the Mileage Percentage.

The Allocated Costs are calculated as total costs times the Composite Percentage.

b. Fixed Pool - Combined Pool and Actual Use

The Combined Pool and Actual Use method is a fixed pool allocation whereby the fixed pool group receives allocated charges based on some predetermined criteria and other locations served during the same allocation period receive charges based on actual use.

This method works well in cases where a vessel is hired to be shared between the locations in the fixed pool and other locations outside the pool.

Fixed Pool Allocation
Combined Pool and Actual Use

Total Cost	$72,000
Total Hours	720
Hourly Rate	$100

Vessel Activity	Hours	Cost	Pool Components: Properties	Wells	Mile From Shore Base
Run Time	300	$30,000	Field #1	10	20
Standby - Regular	250	25,000	Field #2	20	30
Standby - Select	170	17,000			
Totals	720	$72,000		30	50

Allocation of Costs to Fixed Pool and Actual Use AFE

Item	Hours	Run Time Percentage	Run Time Charge	Standby Percentage	Standby Charge	Total Charge
Fixed Pool Field #1 Field #2	200	66.67%	$20,000	66.67%	$28,000	$48,000
AFE	100	33.33%	10,000	33.33%	14,000	24,000
Totals	300	100.00%	$30,000	100.00%	$42,000	$72,000

The Fixed Pool consists of two fields.

Allocation of Fixed Pool Costs

Item	Wells	Wells Percentage	Mile From Shore Base	Distance Percentage	Average Percentage	Pool Charge
Fixed Pool Field #1	10	33.33%	20	40.00%	36.67%	$17,600

Field #2 AFE	20	66.67%	30	60.00%	63.33%	30,400
Totals	30	100.00%	50	100.00%	100.00%	$48,000

4. Trip / Mile Method

The Trip / Mile Allocation Method uses the frequency of service Trips or visits to a location combined with the location's distance from the shore base or other predetermined location to determine transportation charges.

Monthly allocation charges are calculated by first multiplying the number of times a location is visited by a vessel or aircraft during a month by the distance the location is from the base of operation. The resulting product is then measured relative to the other locations receiving service during the month to obtain an allocation percentage.

Trip / Mile Method

Total Cost	$72,000
Total Hours	720
Hourly Rate	$100

Properties	Trips	Miles From Shore Base	Trips x Miles	Trips x Miles Percentage	Allocated Costs
Lease #1	5	15	75	6.76%	$4,865
Lease #2	4	25	100	9.01%	6,487
Lease #3	2	30	60	5.40%	3,892
AFE #1	10	50	500	45.05%	32.432
AFE #2	5	75	375	33.78%	24,324
Totals	26	195	1,110	100.00%	$72,000

5. Per Passenger Mile Method (Aviation only)

The Per Passenger Mile method uses miles traveled and a rate per mile to determine allocable transportation costs. To accomplish this allocation, the operator should determine total costs incurred and passenger miles traveled to develop a mileage rate. This rate is then applied to the total passenger miles attributable to each service location to determine charges.

To minimize monthly rate fluctuations when aircraft expenses vary widely each month, the operator may employ an average rate developed using an historical or anticipated trend of operating expense over a period of months divided by the total miles traveled over the same period. Although the example below uses only three months of data to calculate an average rate, it is recommended that in practice at least 12 months of expenses be used to better represent the average rate. This average rate can be calculated using a 12-month rolling average of expense.

This method is primarily designed for situations where personnel rather than cargo are being moved, an example being aviation crew changes. It closely resembles the ticket price issued by a commercial air carrier offering transportation from one airport to another. If large- sized tools or cargo are transported while using this method, it is recommended that a passenger equivalent be established, such as determining that every 250 pounds of cargo is considered equal to a passenger.

Per Passenger Mile Method
Allocation basis = passenger miles

Period	Costs	Total Passenger Miles	Rate per Mile
Month 1	$50,000	25,000	$2.00
Month 2	60,000	27,500	2.18
Month 3	75,000	30,000	2.50
Totals	$185,000	82,500	
		Average Rate	$2.24

Properties	Miles From Shore Base	Passengers	Passenger Miles	Average Rate Per Mile	Allocated Costs
Well #1	50	100	5,000	$2.24	$11,200
Well #2	40	150	6,000	2.24	13,440
Platform A	60	200	12,000	2.24	26,800
Platform B	50	50	2,500	2.24	5,600
Totals	200	500	25,500		$57,120

III. HANDLING OF DIESEL FUEL EXPENSES

Allocation of Diesel Fuel Expenses

The allocation of diesel fuel expenses incurred in actual vessel operations should follow, as closely as possible, the distribution of expenses for the vessel in which the fuel was used.

Since it may be two or three months before diesel fuel invoices arrive, special attention should be given to assure that the appropriate month's percentages are applied. Fuel purchased in a given month may not be used in the month it was purchased; therefore, the amount of fuel to be allocated must be determined. One suggested method to ensure that fuel expenses are allocated to the appropriate month in which the fuel was used is to maintain the following procedure:

Beginning Inventory
Plus: Purchases
Less: Fuel Offloaded
Less: Ending Inventory
Allocable Fuel Expense

The "Allocable Fuel Expense" should then be distributed using either the same method used to distribute the vessel charges, or some other equitable method.

Pricing of Diesel Fuel

Diesel fuel should be charged to the joint account based on the weighted average price during the month. Weighted average prices can be calculated for each vessel or at some other equitable level. In order to calculate a weighted average price, records must be kept of individual fuel purchases and beginning fuel inventories. To determine a per-gallon rate, total diesel fuel costs for the month should be divided by the total number of gallons purchased during the month. The beginning inventory should be included in the calculation at the previous month's calculated weighted average price. For example, if a boat took on fuel three times during the month, and had a beginning inventory, the weighted average price would be calculated as follows.

Item	Gallons	Price	Value
Beginning Inventory	5,000	$1.50	$7,500
First Purchase	30,000	1.75	52,500
Second Purchase	15,000	1.60	24,000
Third Purchase	20,000	1.80	36,000
Totals	70,000		$120,000

Weighted Average Price $1.71

Diesel Fuel Offloaded for Platform or Rig Use

Accurate records should be kept of the diesel fuel offloaded to particular platforms or drilling rigs and deducted from total vessel fuel cost for the month before allocating it to the properties served. The value of the fuel should be the calculated weighted average price for the month.

IV. AUDIT EXCEPTIONS RELATED TO MARINE AND AIRCRAFT EXPENSES

Disagreement between an operator and non-operator(s) concerning the perceived equity or correctness of marine and aviation allocations to the joint account is a common source of audit exceptions. Many times, these differences of opinion can be resolved through discussions during or after the audit; other times, an audit resolution conference is necessary for agreement to be reached. In all situations where there is disagreement, the parties should be flexible and strive to understand each other's position to minimize time and effort in resolving differences.

The following are examples of typical problems/situations that often result in audit exceptions of marine and aviation allocations, along with the perceived source of the problem and suggested solutions.

	Issue	Potential Solution(s)
1.	"Special Situation" usage not extracted from allocation (e.g. ,out-of-pool service)	Operator should extract and charge non-pool usage directly to benefiting location(s).
2.	Determining if an allocation pool is too large or too small	Operator should not determine a pool's size only for administrative ease; the locations comprising the pool should reflect the normal, ongoing, activities of the vessels and aircraft. While non-operators would expect to see monthly usage variances among locations in the pool, the pools should be designed such that all locations, over time, are charged an amount, which closely approximates the actual service rendered to each location.
3.	Location charged for non-use for one or more months	Operator must review pools on a regular basis to ensure they contain the appropriate properties and allocations. Non-operator(s) must realize that short-term charges/usage anomalies may exist.
4.	Allocations dictated by operations personnel can result in inconsistency and inequity across operational areas and boundaries.	Operator must ensure that whichever allocation methodology is used, equity and consistency are maintained within and between operational areas.

	Issue	Potential Solution(s)
5.	Use of allocations in the now-retired COPAS Bulletins 18 and 19 that may be inequitable or outdated could result in inequitable allocations	Operational and logistical changes since the retirement of COPAS Bulletins 18 and 19 now require close review to assure the cost allocations are equitable. Operator should ensure that procedures are current and appropriate for each operation and comply with the latest COPAS guidance.
6.	Inflexible or inappropriate allocation system	Operator should not employ an allocation system that, over a period of time, is clearly not equitable to all locations in a pool.
7.	Unwillingness to modify allocation procedures	Operator should be willing to modify allocation procedures when it can be demonstrated that, over a period of time, the procedures result in inequitable allocations to one or more locations.
8.	Unwillingness to accept operator's allocation procedures	Non-Operator(s) must be reasonable in accepting operator's allocation system if the charge to its location appears reasonable, even though a different allocation methodology would result in a moderately different charge.
9.	No charges for incidental Out of Pool use	All locations using a vessel or aircraft should be charged for incidental use applicable to those locations, either through a direct charge or allocation.
10.	Excessive "Out of Pool" charges	It should not be expected that "Special Situations" for vessels or aircraft use would occur as much or as regularly as for locations in the pool. If so, the operator should include those locations in the pool. "Special Situations" charges should be limited to incidental use. Regular or patterned use indicates the location should be included in the pool.
11.	Lack of written allocation procedures	Operator should maintain and provide non-operator(s) with written procedures and explanations of its allocation system. Procedures would greatly facilitate a sense of consistency and the non-operator's understanding of the operator's reasoning for its selected methodology.

	Issue	Potential Solution(s)
12.	Inconsistent "start" and "stop" dates in allocations	It is acknowledged that vessels, and occasionally Helicopters, will serve a location prior to spud or the rig moving onto location, and again after the rig is released or off location. For consistency and ease of audit, rather than adding days to the allocation to each location, the operator may want to consider the "days" count used in charging drilling overhead.
13.	Misallocation of crew change Helicopter service	Frequently, when a specific Helicopter is utilized for crew change operations, it is easily discernable which location(s) received those services on a given day. In these cases, it is more equitable to consider each location as a direct-charge location than to allocate on a pool basis. This eliminates distortion caused by using drilling days or mileage of each location. If Specific Use can be easily determined, the charge should be made directly.
14.	Distinct or block usage charged through pool	Locations using a vessel or aircraft for distinct periods of time should not be included in pool allocations. Example: one location (construction, drilling, etc.) used a boat for the first ten days of the month and another location used the boat for the remainder of the month. It is appropriate and more equitable to directly charge the cost of the first ten days to the first location, with the remainder of the charter charged to the second location.
15.	Allocation of downtime	Downtime should be shared by all locations utilizing the vessel or aircraft during the month or specific allocation period because each location benefited from having the vessel / aircraft available for its use. In addition, the per-day monthly charter rate is less expensive than ad hoc Charter Costs.
16.	Allocation of hurricane downtime	Downtime costs for periods during which a hurricane or other act of God results in temporary suspension of vessel and Helicopter service should be allocated to locations which would have shared in the downtime had the reason for such downtime not been a hurricane or other act of God.

	Issue	Potential Solution(s)
17.	Inequitable multipliers in allocation procedure	If the operator uses an allocation procedure utilizing mileage figures for each location, this mileage must be multiplied by an appropriate factor such as drilling days or the number of visits to each location. Mileage figures only do not give an indication of usage. More distant locations will pay a higher percentage of costs only because they are more remote. A factor must be applied to consider how frequently the location used the vessel or aircraft.
18.	Allocations to deepwater locations	While deepwater locations are generally expected to be charged more per Trip for vessel and Helicopter service due to their remoteness, the allocation procedures should not unfairly penalize remote locations. The operator should review its allocation methodology to ensure deepwater locations do not pay disproportionately for service.

V. GLOSSARY OF OFFSHORE TRANSPORTATION TERMS

AVIATION - HELICOPTER

CARGO AIRCRAFT	Used to transport cargo exclusively without engaging in carrying passengers
CHARTER COSTS	Rental cost of aircraft per hour, day or month. For purposes of this document, the term charter shall include: The contractual agreement for services for utilizing vessels/aircraft and the allocation time period for operator owned vessels/aircraft, as well.
CONTRACT AIRCRAFT	Aircraft not owned by the company receiving service
DOWNTIME FOR AVIATION	1800 hours or sunset if prior to 1800 hours
EMERGENCY FLOATS	Emergency flotation device deployed for emergency landings on water
EN ROUTE	Traveling between two points
EXCLUSION ZONE	A restricted or prohibited flight area
FAA PART 135 AIR FOR HIRE	Federal Aviation Administration regulations pertaining to non-scheduled revenue flights
FIXED WING	Another term for an airplane (e.g., Cessna 206)
FLIGHT LOG	Pilot's documented flight time log
FLIGHT MAINTENANCE	Required maintenance to aircraft, documented on log
FLIGHT MANIFEST	List of personnel and material on flight
FLIGHT PLAN	Schedule of aircraft stops for purpose of tracking aircraft flight
FLIGHT TIME	Time from takeoff to landing
FLOAT PLANE	A fixed wing aircraft capable of landing on water
FUEL COSTS	The total cost of fuel required for the designated flight
GOVERNMENT MANDATED TRAINING	The minimum licensing requirements to remain current with the FAA regulations (differs by type of aircraft)

GROUNDED Aircraft restricted from flight by FAA for mechanical, legal, or weather conditions

HELICOPTER A kind of aircraft lifted vertically and moved horizontally in any direction, or kept hovering, by large, motor-driven rotary blades mounted horizontally

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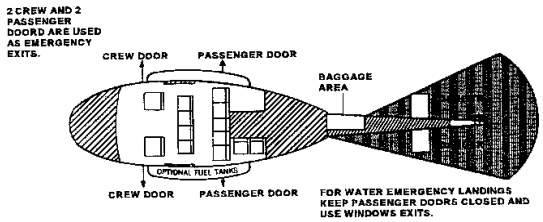

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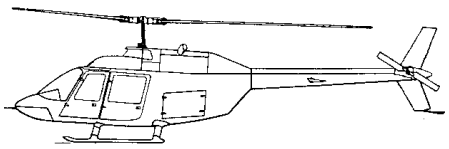

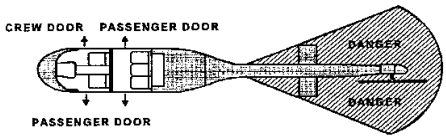

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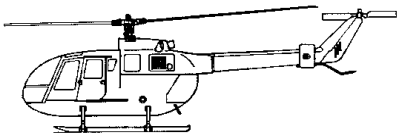

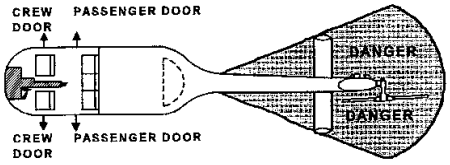

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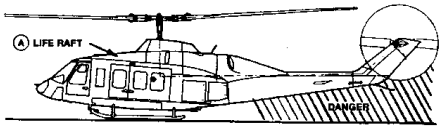
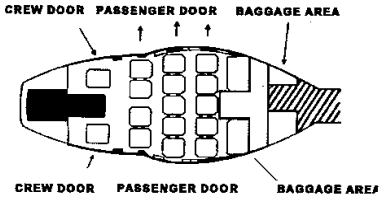
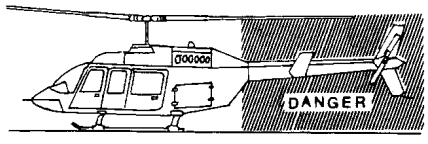
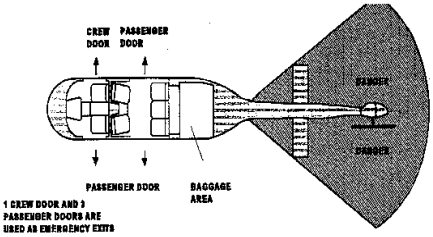


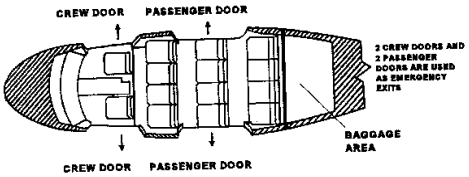


HELICOPTER (Cont'd)

BELL 206 L







HELIPAD	A landing area for Helicopter; typically, a designated and marked cement pad on shore or a flat landing structure on a platform or large vessel
JET "A" FUEL	Fuel used by Helicopters (jet turbine fuel)
JP5	Jet turbine fuel with icing and bacteria inhibitor
LANDINGS	Any time skid or wheel of landing gear touches landing area
LEAD PILOT/SR. PILOT	Person in charge of aircraft operations at shore base
PASSENGER AIRCRAFT	Aircraft that transports people only, restricted from carrying hazardous cargo
PEC = PASSENGER EQUILAVENT CARGO	Weight of cargo equivalent to weight of one passenger
PILOT	Licensed person designated to operate aircraft
PILOT IN COMMAND	Person responsible for flight safety and mission completion
RADAR FLIGHT TRACKING (FLITE TRAK)	An air traffic control operational system that tracks aircraft in flight over a large area
RAPID RE-FUEL OR FAST GAS / HOT FUEL	Refueling of aircraft with engine running and rotors turning
SEA PLANE	Fixed wing aircraft capable of landing in water (no external floats, body of aircraft floats)
SINGLE ENGINE	Aircraft with only one engine to support flight
SWING BY UNPLANNED FLT	Diversion from original flight plan
TWIN ENGINE	Aircraft utilizing two engines to support flight
WEATHER MINIMUMS	Minimal weather conditions for a safe flight

MARINE - BOATS

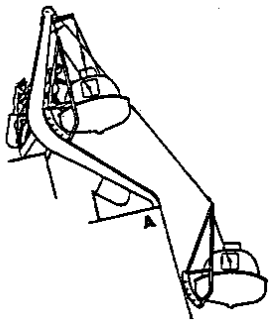
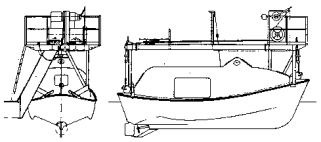
AIR BOATS	Vessel utilizing engine with airplane propeller for propulsion
ANCHOR BOATS	Vessels utilized to set back down Standby buoy systems
BOAT BASE	The most commonly used departure station
BOTTOMSIDE INSPECTION 5-DAY	U.S.C.G. inspection, requiring vessel dry docking to inspect hull
CASUAL HIRE	Temporary use vessel not committed long term for routine production operations
CHARTER COSTS	Rental cost of vessel per hour, day, or month. For purposes of this document, the term ***charter*** shall include the contractual agreement for services for utilizing vessels/aircraft and the allocation time period for operator-owned vessels/aircraft as well.
CLEANING TANKS	Vessel is cleaning internal fuel tanks
COMPANY OWNED	Vessel is owned by the company receiving service
CREW BOATING	A method of offloading and loading at a facility without securing vessel
DAVIT[11]	Used to hold the TEMPSC secure in a location that allows all personnel to board the TEMPSC before launching, and used to hoist or lower TEMPSCs
DAY RATE = COST OF VESSEL DAILY/HOURLY	Charter Cost of a vessel per day
DECK BARGES	Barges utilized to transport equipment
DERRICK BARGE	Large barge with crane, to handle heavy lifts
DP = DYNAMIC POSITIONING	Electronic system used to automatically hold a vessel in position

[1] Terms from Marine Survival Training Center

DRILL SHIP	A ship that is constructed with the capacity to drill at an offshore location and is capable of drilling exploratory wells in deepwater
DRILLING BARGE	A complete drilling rig, including quarters for the drilling crew
DROP DOWN THRUSTERS	Telescopic, propulsion system in the bow or stern of a marine vessel to assist with vessel positioning
E/R RUN FIELD	Pool vessel en route within its assigned area
E/R TO SHIPYARD	Vessel en route to shipyard for repairs
E/R WITH EMPTY DECK	Vessel en route to/from dock without material/personnel
E/R WITH FULL DECK	Vessel en route to dispatched location with material/personnel
EPIRB = EMERGENCY POSITION INDICATING RADIO BEACON [1]	A dual frequency radio transmitter (UHF, VHF) designed for use on marine vessels, fixed installations, and personnel survival equipment
ER = EN ROUTE	Traveling from one point to another
FIELD BOATS	Operate between a departure station (e.g., quarters platform, shore base, etc.) and platforms; used for transporting work crews, generally Trips less than eight hours in duration
FLAT BOATS	Marine vessel with a flat bottom
FWB VESSEL = FUEL, WATER, BARITE	Marine vessel supplying fuel, water, and barite to operations
GMDSS = GLOBAL MARITIME DISTRESS AND SAFETY SYSTEM[1]	Used as an aid in search and rescue; the basic concept of the GMDSS is that search and rescue authorities on shore, and ships near the vessel in distress, can be rapidly alerted to a distress incident
GOVERNMENT MANDATED TRAINING	Training required by the government

[1] Terms from Marine Survival Training Center

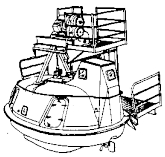
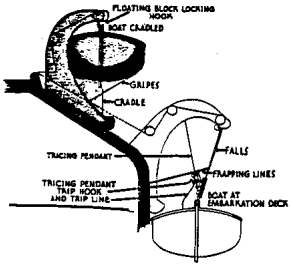
[1] Terms from Marine Survival Training Center

H_2S SYSTEMS	Systems utilized to monitor hydrogen sulfide gas
HOPPER BARGES	Designed for efficient transport of commodities in bulk (ex. grain, coal, ore, steel, aggregates)
IDLE TIME	When the vessel has no cargo onboard and is usually sitting at a location waiting for orders, typically not engaged or in service to any project
JACKING UP / DOWN	The act of a marine vessel using a hydraulic system to lift or lower the vessel above the surface water
JO BOATS	Small vessel used as a runabout
LAY BARGE	Utilized to lay pipelines in open water
LIFT BOATS	Utilized in open water as a work deck with a crane, hydraulic system is used to lift work area up to platform or facility
LOAD TIME	Time the vessel spends to offload or backload either materials or personnel
LONG-TERM	Vessel on hire on for a designated period of time
MARINE LOG	A daily report on which operating data is recorded
MARINE MANIFEST	List of cargo being transported by marine vessel
MIRANDA GRAVITY DAVIT[1]	Comprised of fixed ramp arms, a motor, a launch and a recovery cradle. The TEMPSC is stowed at the loading deck in its cradle. The cradle with its rollers provides protection for the TEMPSC when it is being lowered. 
MODU	Mobile Offshore Drilling Unit
OUTRIGGER DAVIT SYSTEM[1]	A welded fixed structure that supports the winch and the TEMPSC. Keeps 

[1] Terms from Marine Survival Training Center

	the TEMPSC suspended over the water at all times.
PAID DOWNTIME FOR MAINTENANCE	Downtime accumulated (for example, the contract may allow 12 hours per month) if the vessel was in service for entire month. Vessel may use accumulated downtime to avoid downtime without pay
PERMIT	Written permission to operate
INSPECTIONS	Check by government personnel to verify company is operating by the regulations of the permit
PLATFORM DRILLING RIG	Drilling rig set directly on platform to drill for oil & gas
QUARTER BOATS	Large marine vessel used to house personnel
RUN/TRIP	From the time a vessel is loaded at a departure station, to the time the vessel returns after offloading at its destination
RUNNING TIME	Time required to move from point A to point B
SARSAT = SEARCH AND RESCUE SATELLITE AIDED TRACKING[1]	An interagency, internationally sponsored system of low altitude, near polar orbiting satellites and ground receiving stations designed to provide the approximate position of distress beacon signals from EPIRBs.
SART = SEARCH AND RESCUE TRANSPONDER [1]	Provide the main means for locating survival craft, these are required to be carried aboard vessels
SHORT-TERM	Temporary use of Vessel for a specific purpose or minimum contract commitment with vendor
SPUD BARGES	A closed top barge used as a work deck. Barge has two hydraulic controlled legs used to spud down holding barge in position without the use of mooring lines
STANDBY	When a vessel is not loading/offloading/running

[1] Terms from Marine Survival Training Center

STANDBY AT DOCK WAITING ON ORDERS	Vessel is empty at the dock waiting on orders; may also be shown abbreviated on the log sheets as WOO
STANDBY AT DOCK WAITING TO LOAD/OFFLOAD	Standby time when vessel is at dock, shore base or staging area waiting while cargo is being loaded/offloaded
STANDBY AT LOCATION TO LOAD/OFFLOAD	Standby at location waiting while cargo is being loaded/offloaded for a producing location (platform, structure, rig, etc.)
STANDBY WAITING ON WEATHER	Vessel cannot load/offload/run due to weather conditions – may also be shown abbreviated on log sheet as WOW
SUPPLY BOATS	Operate exclusively between a shore base and a central facility from which supplies and other services are then dispatched to outlying platforms
THIRD PARTY CONTRACT - CHARTER	Agreement made with vendor to operate company's transportation needs
THIRD PARTY CONTRACT - FUEL ETC.	Fuel required by vendor to operate company's transportation needs
TOPSIDE INOPERATION (USE) 1-DAY	United States Coast Guard("U.S.C.G.") topside inspection - normally requires one day
TEMPSC = TOTALLY ENCLOSED MOTOR PROPELLED SURVIVAL CRAFT [1]	Means of evacuating personnel from a fixed platform or MODU 
TRACKWAY GRAVITY DAVIT[1]	The most commonly used davit aboard vessels and drill ships. These davits move from an inboard to an outboard position by the force of gravity alone and without applying any external force such as mechanical, electrical or hydraulic power. 

[1] Terms from Marine Survival Training Center

TUG BOAT	Utilized to move a marine vessel that is not self-propelled (e.g., barges and rigs)
UTILITY VESSELS	Steel hull vessel, utilized to Standby for production, construction, or drilling operations
VENDOR ALLIANCE	Vessels involved in a special working agreement between vendor and company
VESSELS	
* **FIXED RATE VESSEL**	**Fixed rate** - cost of vessel per day may not be adjusted
* **FLOATING RATE VESSEL**	**Floating rate** - cost of vessel per day may be adjusted
VESSEL RIGGERS	Personnel utilized to connect and disconnect equipment being transferred to and from a marine vessel
WOO = WAITING ON ORDERS	Standing by waiting on a run
WOW = WAITING ON WEATHER	Standing by waiting on weather conditions to improve
WATER BARGES	Utilized to transport potable and drill water to areas of operation
WORK BARGES	Closed top barge used for work deck. Barge has Crane, Spud Legs and is self-propelled

MARINE - FUEL

BULK TANK	Below deck tanks on a marine vessel capable of transporting cement, barite and gel
CARGO TANKS	Fuel is stored in vessel cargo tanks, then transferred from cargo tanks to day tanks
DAYTANKS	Tanks which hold the daily fuel consumed by the vessel
DISCHARGED	Fuel or lube discharged or transferred to any other vessel or site

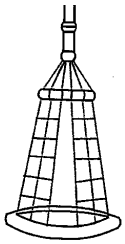
DYED DIESEL	Color coded fuel
FUEL ADDITIVES	Chemical additives used to enhance the combustion of the fuel
FUEL METERS	Used to measure amount of fuel transferred
FUEL OFFLOAD	Fuel taken from vessel and used at a particular location
FUEL ONLOAD/RECEIVING FUEL	Taking on fuel at dock
FUEL TRANSFER (DISCHARGED)	Movement of fuel from vessel to facility or facility to vessel
HYDRAULIC FUEL	Used in hydraulic systems on marine vessels
LUBE OIL	Oil used in main engines of marine vessels
NUMBER 2 FUEL	Fuel utilized by marine vessels
RECEIVED	Any fuel or lube received (total for the day). Notation should be made if fuel or lube was received from another vessel or site other than the shore base
START OF DAY	Fuel and lube readings for the start of day from previous day's end of day figures
USED/CONSUMED FUEL	Under normal operating circumstances, a vessel will burn or use XX number of gallons in a day. A used ticket should be created to correspond with the used amount entered on the log. "Used" refers only to what is consumed by the vessel itself.

OTHER

BREAK TOUR	To begin operating 24 hours per day (from 0001 hours to 2400 hours). When the rig is ready for operation on a location, crews break tour and start operating 24 hours per day.
BUMP	A term for when a vessel docks or connects to a platform, well location site

BUMP OFF	A vessel disconnects from a platform or well location site
DRILL WATER	Water utilized in drilling operations
FIRE MONITOR	Stationary firefighting equipment
GREASE	Used to lubricant utilized for moving parts on equipment
LIGHTED SOUND BUOY	Lighted buoy, designates an obstruction below surface of water
PERSONNEL TRANS:	
* **CAT WALK**	Walkway between platforms or structures
* **PERSONNEL RAMP**	Approved ramp for personnel transfer

PERSONNEL TRANSFER:

* **BASKETS**	Approved personnel lift (attaches to crane) 
* **SWING**	Rope used to transfer personnel from vessel to structure without the use of a crane
POTABLE WATER	Fresh water used for drinking, cooking & bathing
SEVERE WEATHER	Weather which may affect the operations and safety of marine vessels
SHALLOW WATER SKIMMERS	Spill recovery equipment, designed for shallow water use
SOUNDING	A manual method of measurement of fuel tanks on a marine vessel
USED / BURNT OIL	Used oil returned to shore base for recycling
WATER MAKER	Equipment used to convert sea water into potable water
WATER PROCESSING	Process used to convert sea water into a usable water

Council of Petroleum Accountants Societies

Turning Energy Into Synergy

Shore Base Facilities and Offshore Staging Areas

MODEL FORM INTERPRETATION 46

Publication Date - April 2000

Council Approved

Joint Interest and Audit Conditionally Approved April 24, 2025

COPAS Model Form Interpretation 46

Shore Base Facilities and Offshore Staging Areas

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FOREWORD

COPAS model form accounting procedures identify the costs of "Equipment and Facilities Furnished by Operator" as charges to be billed to the joint account. The specific section and paragraph of each Model Form Accounting Procedure is listed below.

COPAS 1962 and 1968 Model Form Accounting Procedures provide in Section IV.5:
COPAS 1974 Model Form Accounting Procedure provides in Section II.7:
COPAS 1984 Model Form Accounting Procedure provides in Section II.8:

> Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation.

COPAS 1976 Offshore and 1986 Offshore Model Form Accounting Procedures provide in Section II.7:

> Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including Shore Base and/or Offshore Facilities, at rates commensurate with costs of ownership and operation.

COPAS 1995 Model Form Accounting Procedure provides in Section IV.1.B:

> Operator shall charge the Joint Account for use of other facilities not covered by Section IV, Paragraph 1.A. (such as shore bases, field offices, telecommunications equipment, computer equipment, etc.) as listed below or if subsequently approved by the Parties.

COPAS 1998 Project Team Model Form Accounting Procedure provides in Section II.6.A:

> Equipment and facilities owned by the Operator shall be charged to the Joint Account at the average prevailing rate…

None of the model form provisions or related model form interpretations discuss methods of allocating shore base expenses to the joint properties served nor clarify specific expenses to be included as costs of ownership and operations, except the COPAS 1995 Model Form Accounting Procedure. To the extent any recommended accounting or allocation methods contained herein conflict with provisions of a COPAS model form accounting procedure, the model form accounting procedure will take precedence.

In 1984 COPAS recognized the need for a separate publication for handling the allocation of shore base expenses and produced the COPAS publication formerly known as COPAS Bulletin 20. This document remained unchanged since 1984, while the petroleum industry has seen many changes.

Business conditions and operational changes have caused companies to streamline many duties, combining jobs that were previously determined to be chargeable to the joint account with those that were administrative.

Exploration companies stepped off the Outer Continental Shelf, with the increased distances from land making it necessary to create offshore staging areas. The chargeability of these offshore staging areas has not been discussed in previous COPAS publications.

At the same time, federal, state, and local governments have enacted laws increasing the burden upon companies to track certain chemicals used in offshore operations and to clean and dispose of items containing naturally occurring radioactive material ("NORM"). In a few cases, remediation costs for shore bases that have been in service for decades have cost the operator millions of dollars.

These examples above and many other changes in the way companies are now operating have led to many questions regarding the chargeability of shore base expenses.

The purpose of this publication is to clarify which expenses are chargeable under the operator-owned facilities and equipment paragraph of the standard COPAS model form accounting procedures. As in the original document known as COPAS Bulletin 20, this publication will include recommended procedures to define, account for, accumulate, and distribute costs to properties served by shore base installations.

I. DEFINITIONS AND TYPES OF SHORE BASES AND OFFSHORE STAGING AREAS

The COPAS 1976 Offshore and 1986 Offshore Model Form Accounting Procedures contain definitions of Shore Base Facilities as follows:

> "Shore Base Facilities" shall mean onshore support facilities that during drilling, development, maintenance and producing operations provide such services to the Joint Property as receiving and transshipment point for supplies, materials and equipment; debarkation point for drilling and production personnel and services; communication, scheduling and dispatching center; other associated functions benefiting the Joint Property.

The COPAS 1998 Project Team Model Form Accounting Procedure has the following definition.

> "Shore Base Facilities" shall mean onshore support facilities that during Joint Operations provide such services to the Joint Property as a receiving and transshipment point for Materials; debarkation point for drilling and production personnel and services; communication, scheduling and dispatching center; and other associated functions benefiting the Joint Property.

These definitions should be referred to when using this document.

The Interpretative section of COPAS MFI-19, *COPAS 1986 Offshore Model Form Accounting Procedure Interpretation,* elaborates on the Shore Base Facilities definition. The language in COPAS MFI-5, *COPAS 1976 Offshore Model Form Accounting Procedure Interpretation*, is essentially the same.

> "Shore Base Facilities" are onshore work sites conveniently located to the offshore operation to provide necessary support facilities and services. It functions to minimize the cost of boat travel time and other transportation and handling costs involved in getting personnel, services, equipment and supplies to and from the offshore work site.

The Interpretive section of COPAS MFI-39, *COPAS 1998 Project Team Model Form Accounting Procedure Interpretation*, has similar language.

> "Shore Base Facilities" are onshore work sites conveniently located to the offshore operation to provide necessary support facilities and services. It functions to minimize the cost of boat travel time and other transportation and handling costs involved in getting personnel, services, and Material to and from the offshore work site.

These referenced definitions apply to the following typical types of shore base facilities depending upon the purpose and scope of operations served by the installation:

Long-term Full-service Base - usually serves drilling and producing properties for multiple offshore fields with various ownerships. It may consist of permanent buildings, Cranes, storage

areas and racks, docks, slips, trucks, loaders, offices, communication centers, fuel and water facilities, parking areas, living quarters, etc. It is normally manned by operator's personnel consisting of first line supervisors, dispatchers, marine transportation specialists, equipment operators, gangpushers, laborers, clerks, etc.; however, manpower requirements may be contracted.

Short-term or Temporary Base - usually serves a remote drilling operation or other special projects. Facility and personnel requirements are usually minimal and limited to serving the basic needs of the particular offshore operation. Facilities may include any of the installations referenced above, at a site convenient to the offshore operation. Manpower requirements may be contracted and /or staffed by operator's personnel.

Offshore Staging Area - usually serves drilling and production properties for fields beyond the Outer Continental Shelf. Facility and personnel requirements are usually minimal and may utilize a company-operated platform as a location. The staging area may include many of the installations described above, at a site convenient to the offshore operation. It may be manned by operator's personnel or manpower requirements may be contracted. It is highly likely that operations of the staging area are not the primary duty of these workers; they may also be responsible for operations in the field in which they are located.

It should be noted that the use of shore base facilities and related costs are not restricted to offshore operations but may also be utilized for inland or onshore properties.

II. DESCRIPTION OF SHORE BASE FACILITIES

The following describes a typical shore base facility. The size and complexity of the facilities depend on the scope of operations served. The expenses allocated to the properties/AFEs should be limited to shore base facility functions.

1. Buildings
   A. Offices and living quarters that house the personnel who perform the duties described in Section III of this document.

   B. Temporary storage of in-transit materials.

2. Slips, mooring clusters, docks, bulkheads, loading ramps and truck ramps, railroad track spurs, etc.

3. Parking area.

4. All material handling equipment such as Cranes, forklifts, trucks, etc.

5. Storage area and racks of in-transit materials.

6. Heliport with waiting room.

7. Fuel and potable water facilities, including tanks.

8. Lighting and electric systems, including emergency generators to support shore base operations.

9. Sewage and garbage disposal.

10. Safety equipment (e.g., fire extinguishers, etc.)

11. Terminal for telephone, microwave, and radio communication.

12. Security installations (e.g., alarm systems, fencing, and guard services, etc.)

13. Certified industrial waste holding area (e.g., NORM, recycled materials.)

14. Pollution control equipment (e.g., booms and related equipment/supplies used in day-to-day shore base operations).

III. TYPES OF SHORE BASE SERVICES/ACTIVITIES PROVIDED

The types of services and activities provided may include, but are not limited to, the following:

1. Receiving and transshipping equipment, materials, and supplies for exploration, drilling, development, maintenance and production, abandonment, and restoration operations of offshore properties. (This includes mail, parts, pipe, rental tool equipment, machinery, groceries, etc.).

    A. Dispatching boats, aircraft, and barges to offshore operations.

    B. Servicing boats and aircraft with fuel or water.

    C. Loading and unloading materials and supplies.

2. Arranging for transportation of personnel to and from offshore properties by aircraft, crew boat, cargo boats, etc.

3. Providing temporary storage space for in-transit materials, including an approved area for industrial waste or NORM.

4. Operating and maintaining a communications terminal.

5. Operating fuel and freshwater facilities.

6. Operating sewage and garbage facilities.

7. Operating lighting, electrical systems, and emergency generators.

8. Maintaining and repairing shore base facilities.

9. Maintaining living quarters and providing catering services for shore base personnel.

10. Providing security for materials, equipment, vehicles, personnel, etc.

IV. COSTS INCLUDED IN SHORE BASE OPERATIONS

Direct operating costs associated with the provisions and operation of the types of facilities and services described in Sections II and III of this document would be included in the shore base facility account. Care should be taken to exclude costs which may occur at a shore base facility location or are allocated to a shore base from a higher organizational level that do not apply to shore base facility operations (e.g., warehouse space, office space, and operating costs for field operating personnel, warehousing personnel, and other charges covered by overhead). Billable costs shall be based upon the provisions of the accounting procedure in effect covering the operations served.

In addition to the above operating costs, the operator should recover cost of investment through a "rate to recover cost of ownership" charge which may be the same as that in the "equipment and facilities furnished by operator" provision in the model form accounting procedure. For this purpose, all investments should be considered, including land, parking lots, etc. It may include construction overhead and on/off-site technical labor according to the provisions of the accounting procedures in effect covering the operations served. The "rate to recover cost of ownership" should consist of the following:

1. Amortization

   A. An equitable method of amortization should be consistently applied over the useful life of the shore base.

   B. Amortizable investment should be historical cost reduced by amortization charged. Such investment shall not be reduced below net salvage value. Amortization charges shall cease when such investment reaches net salvage value, including land.

   C. No adjustments should be made retroactively as new operations/platforms are served by the shore base facility or the estimated life is revised; current net investment balance should be used.

   D. Investment balance should be netted together with property insurance recoveries.

2. Interest

   Interest should be calculated according to the provisions of the model form accounting procedures in effect covering the operations served.

3. Insurance

   Insurance cost should be included as expense. Below are examples of insurance which can be charged to the shore base account, but not limited to these items:

   A. Property Insurance

B. Workers Compensation Insurance, not to exceed the manual rates

4. Taxes

All taxes assessed against the shore base are allocable to the operations served.

V. SHORE BASE ALLOCATION METHODS

All costs attributable to the operation of a shore base facility which are not identifiable to a specific project should be accumulated in a shore base facility account and allocated to all operations served by the shore base facility using an equitable basis.

The results of an industry survey taken concurrently with the rewrite of this publication indicate several methods are used for the allocation of shore base costs. This document does not recommend any single allocation method, recognizing that many methods exist and may be used if equitably and consistently applied.

The following shore base allocation methods are contained and illustrated in this document for consideration:

A. Time Writing Method

B. Crane Usage Method

C. Equivalent Active Completion Method

D. Marine Activity Method

Whichever method is used, the operator should ensure the properties benefiting from the shore base are allocated a portion of the shore base costs. Shore base costs should be proportionally reduced by any third-party revenue received for using the shore base facility.

To aid an operator or non-operator in determining whether the allocation method is acceptable, the following litmus test should be applied in which **all of the following four questions must be answered in the affirmative:**

Litmus Test for Allocation Methodologies

A. Does the allocation method reflect the operational dynamics in place during the allocation period?
B. Is the allocation method reviewed periodically with operations personnel?
C. Is the allocation method equitable over the audit period?
D. Is the allocation method systematically and consistently applied?

A. Time Writing Method

The Time Writing Method of allocating shore base costs uses actual service time as the basis for allocation. Actual usage is an accurate basis for allocation, but it is also the most time consuming to manage.

Shore base service time can be categorized as Designated or Undesignated, depending upon whether or not the service can be identified as benefiting a specific property or location. Designated service time is that which can be attributed to a specific location; Undesignated service time is that which cannot be attributed to a specific location.

In the Time Writing Method of shore base allocation, employees keep a record of time worked for each Designated location. A location's allocation of shore base costs is based upon the percentage of total Designated time recorded for that location to total Designated time.

Shore Base Cost Allocation - Time Writing Method

Shore base costs $500,000

Location	Employee A Hours	Employee B Hours	Employee C Hours	Total Hours	Allocation Percentage	Allocated Cost
Designated Hours						
Lease #1	24	16	10	50	18.52%	$92,593
Lease #2	13	22	25	60	22.22%	111,111
Lease #3	10	37	18	65	24.07%	120,370
AFE #1	6	40	9	55	20.38%	101,852
AFE #2	24	4	12	40	14.81%	74,074
Total Designated Hours	77	119	74	270	100.00%	$500,000
Undesignated Hours	43	1	46	90		
Total Hours	120	120	120	360		

B. Crane Usage Method

The Crane Usage Method of shore base allocation is simple and easy to administer. In this method, the Crane operator records the time spent loading and unloading for each property or location; the allocated charges are based upon each location's percentage of total Crane usage hours.

Shore Base Cost Allocation - Crane Usage Method

Shore base costs $500,000

Location	Crane Usage Hours	Allocation Percentage	Allocated Cost
Lease #1	50	18.52%	$92,593
Lease #2	60	22.22%	111,111
Lease #3	65	24.07%	120,370
AFE #1	55	20.38%	101,852
AFE #2	40	14.81%	74,074
Totals	270	100.00%	$500,000

C. Equivalent Active Completions Method

The Equivalent Active Completions Method of allocating shore base costs recognizes the use of shore base facilities by producing locations, drilling projects, workover projects, construction projects, etc. A conversion ratio of 10:1 is used to convert drilling and other project work to Equivalent Active Completions. This 10:1 ratio applies to drilling and project work for a 30-day period. If the drilling or project work is completed in less than 30 days, the 10:1 ratio must be adjusted as shown in the following examples:

1. If a drilling, construction, installation, or other project utilizes shore base facilities for a period of 15 days during the month, the number of equivalent active completions would equal five, calculated as follows:

   (15 days usage divided by 30 days in the month) x 10 = 5

2. If the project extends into the next month and uses shore base facilities for an additional six days, the number of equivalent active completions would equal two, calculated as follows:

   (Six days usage divided by 30 days in the month) x 10 = 2

Shore Base Cost Allocation - Equivalent Active Completion Method

Shore base costs	$500,000
Number of Days in Month	30

Location	Service Days	Active Completions	Equivalent Active Completions	Allocation Percentage	Allocated Cost
Lease #1	N/A	5	5	12.50%	$62,500
Lease #2	N/A	10	10	25.00%	125,000
Lease #3	N/A	15	15	37.50%	187,500
Drilling AFE	18	N/A	6	15.00%	75,000
Construction AFE	12	N/A	4	10.00%	50.000
Totals			40	100.00%	$500,000

Allocation Percentage = Equivalent Active Completions per Location/Total Equivalent Active Completions

Equivalent Active Completions = (Service Days x 10) / Number of Days in Month

Service Days are days that work is performed on an AFE

D. Marine Activity Method

The Marine Activity Method of shore base allocation uses monthly marine charges for the allocation basis. Each location receiving marine service during a month is allocated a portion of shore base costs based on the percentage of that location's marine charges to total marine charges.

Shore Base Cost Allocation - Marine Activity Method

Shore base costs $500,000

Location	Total Marine Costs	Allocation Percentage	Allocated Cost
Lease #1	$50,000	20.00%	$100,000
Lease #2	25,000	10.00%	50,000
Lease #3	25,000	10.00%	50,000
Drilling AFE	100,000	40.00%	200,000
Construction AFE	50,000	20.00%	100,000
Totals	$250,000	100.00%	$500,000

VI. GLOSSARY OF SHORE BASE TERMS

SHORE BASE

BOAT RAMPS LOADING (SEA PLANES)	Ramps utilized to dock seaplanes
BULK	Portable marine tanks 119 gallons or larger
BUNKHOUSE GALLEY	Kitchen area in bunkhouse
CHERRY PICKER	Motorized/movable (normally on rubber tires) equipment used at shore base to transfer equipment to and from marine vessels
CRANE	Motorized equipment (normally on tracks or pedestal) used to transfer equipment to and from marine vessels
CRANE OPERATOR	Person designated to operate Crane
CREW PUSHERS	Supervisor of materials handling crew
CUTTING BOXES	Sealed metal containers utilized to transport waste
DISPATCHER	Person coordinating material movement from point A to B
DRUM RACKS	Racks used to transport drums
ELECTRONIC LOGS	Marine logs generated by computer
EMERGENCY GENERATORS	Auxiliary power used when electricity is out
EMERGENCY RESPONSE EQUIPMENT	Equipment on location for response to medical, chemical, or oil spills and weather- related emergencies
EMERGENCY SERVICES	Emergency response equipment and personnel
FAST RESPONSE UNIT (FRU)	Spill response equipment placed on a marine vessel to recover product from surface water
FIRST RESPONDERS / MEDICAL PERSONNEL	Personnel with sufficient training to respond until emergency services personnel and equipment arrive at the scene

FM WARS RADIO	Company-controlled radio system
FORKLIFT	Motorized equipment (with rubber tires) with hydraulic lift to move equipment from point A to B
FUEL FARM	Fuel storage area
FUEL STATIONS	Fuel transfer areas
GROCERY BOXES	Metal boxes utilized to transfer groceries from point A to B
HELIPORT FACILITY	Facility utilized by flight operations
JUNK IRON / SCRAP BIN	Container used to transport junk or scrap iron
MAINTENANCE EQUIPMENT STORAGE	Storage area for maintenance equipment
MARINE PORTABLE TANK	Portable tank certified for transport on a marine vessel
MARINE WAITING ROOMS	Area for personnel awaiting departure by marine vessel
NORM STORAGE AREA	Storage area for Naturally Occurring Radioactive Material
OIL SPILL RESPONSE EQUIPMENT	Equipment utilized for chemical and oil spill response
PERSONNEL LIFT	Approved equipment used for lifting personnel
PERSONNEL LOADING RAMP	Approved ramp for personnel boarding a marine vessel
POLLUTION EQUIPMENT	Same as spill response equipment, may include monitoring equipment
RAMPS	Ramps or platforms utilized to transfer personnel and materials from dock to marine vessel
RESTRICTED AREA (NO SMOKING, ETC.)	Area restricted to open flames (ex. fuel stations, Crane, and storage areas)
RIGGER	Person certified to connect and disconnect equipment being transferred to or from a marine vessel

ROUSTABOUT	Person on materials handling crew who assists with material movement at shore base facility
SAFETY PERSONNEL	Person or persons responsible for the safety of all personnel
SANITARY WATER SYSTEMS	Treatment facility for waste water
SENSITIVE MATERIAL BIN	Bins utilized for transport of oily rags, fuel, oil filters, etc.
SHIPPING & RECEIVING PERSONNEL	Personnel responsible for materials movement at shore base
SHORE BASE OFFICE ASSISTANTS	Personnel managing administrative responsibilities at shore base
SHORE BASE SECURITY	Personnel responsible for monitoring personnel, equipment and facilities movement to and from shore base facility
SLINGS	Device for connecting material to be hoisted by Crane
SLIP/DOCK SLIP	Waterfront area where marine vessels are secured for loading/offloading
SPREADER BARS	Device utilized for hoisting large lifts, allowing separation between slings for connection to lift
TANKERMAN - FUELING JOB	Personnel qualified to transfer fuel
TRASH BASKETS	Containers utilized for transport of domestic waste
TRASH BINS	Sealed containers used for transport of domestic waste
TRUCK LOADING RAMP	Ramp utilized by personnel when loading tubulars on trucks
TRUCK TO BARGE RAMP	Ramp utilized to load trucks on barges, for inland water transport.
WAREHOUSE: • **MATERIAL TRANSITION STORAGE**	Storage/holding area for equipment and material awaiting transport to final destination

• **STAGING AREA**	Holding area for equipment prior to project startup
WATER TANKS	Storage tanks for drill and potable water
YARD VEHICLES	Vehicles utilized by shore base personnel

DATE: July 15, 2025

TO: COPAS Board of Directors, Standing and Special Committee Chairpersons, Society Presidents, Council Representatives and COPAS Members

FROM: 2025 COPAS Nominating Committee

RE: **Candidates for the COPAS Board of Directors (2026 – 2028)**

The Council will elect three directors at the Fall Meeting to serve three-year terms beginning January 1, 2026. The Nominating Committee reviewed the qualifications of the following individuals and determined they are in good standing with their societies and meet all other COPAS Bylaws requirements to be members of the COPAS Board of Directors. In addition, the election of any of the candidates will not cause a conflict with Bylaws Article III, Paragraph D, stipulating that no society or company may have more than two directors.

The Nominating Committee is pleased to present a slate of candidates.

Nominee	Company	Society
Wendy Chandler	Sponte Operating	Dallas
Evan Green	Whitley Penn LLP	Permian Basin
Kevin Launchbaugh	Gas Equities	Oklahoma-Tulsa
Jason Poteet	Plante Moran	Colorado

Each candidate's biography, COPAS experience, and ideas and vision for COPAS are included with this notice.

These director positions are currently held by:

- Scott Barrios, New Orleans
- Tom Batsche, Houston
- Kevin Launchbaugh, Oklahoma-Tulsa

COPAS Bylaws Article IV, Paragraph F, allows societies to nominate others for election to the Board of Directors by submitting a nominee's name to Participating Societies and Council Representatives at least 30 days prior to the October 24, 2025, Council Meeting. Please review the Bylaws for details.

Here is a complete list of the current COPAS Board members, their companies, societies, and terms of office.

Director	Company	Society	Term
Scott Barrios	Shell	New Orleans	2023-2025
Tom Batsche	Talos Energy	Houston	2023-2025
Kevin Launchbaugh	Gas Equities	Tulsa	2023-2025
Kirk Foreman	EOG Resources-Retired	San Antonio	2024-2026
Rebecca Paris	Devon Energy Group	Tulsa	2024-2026
Carole Tear	Artisan Security Integration	Oklahoma City	2024-2026
Lisa Collins	W&T Offshore	Houston	2025-2027
Kim Peyton	Peyton & Company	Mississippi	2025-2027
Stephanie Schwindt	INEOS Energy	Colorado	2025-2027

The Nominating Committee members' names and contact information are listed below. Please feel free to contact any of us if you have any questions or need additional information.

Rebecca Paris – Committee Chair
Oklahoma-Tulsa

Vanessa Green
Oklahoma-Tulsa

Robin Tarnowski
Houston

Sincerely,

Rebecca Paris

Rebecca Paris
2025 Nominating Committee Chair
Rebecca.Paris@dvn.com

Meet the Board Candidates

2026-2028 TERM

VOTE for 3

Wendy Chandler
Dallas Society

Evan Green
Permian Basin Society

Kevin Launchbaugh
Tulsa Society

Jason Poteet
Colorado Society

INFORMATION FORM FOR COPAS BOARD OF DIRECTORS NOMINATION

Please consider Wendy Chandler of the Dallas Society as a nominee for the COPAS Board of Directors for the three-year term 2026-2028. The requested information on this nominee is listed below.

Personal History:

Please see attached.

Industry Experience and Affiliation:

Please see attached.

Society Experience and Participation:

Please see attached.

COPAS Experience and Participation:

Please see attached.

One of the challenges facing COPAS is how to improve membership numbers and engagement as we face retirements and a lack of new leadership at the local society level and nationally. Please share your ideas on ways to achieve this initiative successfully.

Please see attached.

Another challenge facing our organization is how to promote and enhance our educational offerings and the APA® program to pass on the institutional knowledge to our industry colleagues. Please provide your ideas on how COPAS can best reach petroleum accountants and provide the right education in the best delivery method possible.

Please see attached.

If elected to the Board of Directors, please share one key initiative you would submit to the Board of Directors for consideration during your term.

Please see attached.

Other Comments: Please see attached.

By: Teresa Garza CPA
Society President

Wendy Chandler, CPA
VP, Accounting & Finance
Sponte Operating, Inc.
700 North Pearl Street, Suite N2150
Dallas, TX 75201

June 25, 2025

To the National Board of Directors of the Council of Petroleum Accountants Societies:

My name is Wendy Chandler, and I am pleased to submit the Board of Directors Nomination Form for the 2026 – 2028 term.

I have worked at upstream oil and gas operating companies for 21 years. During this time, I have worked in hands-on positions in all aspects of operations accounting, as well as financial reporting. In my current role as VP, Accounting & Finance at Sponte Operating, Inc. I am charged with full cycle accounting and financial processes and back-office administration for the entity. I have included a complete resume in the pages that follow with my complete work history and details.

I hold a BS in Accounting and Information Management and MBA from The University of Texas at Dallas and am a licensed CPA in the State of Texas. I am an active member of COPAS of Dallas, Women's Energy Network, and Financial Executives International. I am the current Webmaster for COPAS of Dallas.

I volunteered with Dallas Pets Alive, an all-volunteer, foster based animal rescue from 2013 – 2015. There, I served on the board of directors and as the Canine Vice President, growing the organization from 15 to 135 adoptable dogs in the program over that period. During that time, the organization grew from 50 to over 300 foster host families, and I managed a team of 4 full time and 12 additional part time volunteers. During this time, I was heavily involved in the organization's social media marketing, website, and fundraising efforts.

In 2015, I moved to Kaufman and operated Gober GrassFed Farms in Kaufman, TX with my (now ex) husband until 2021. Farm revenues increased by 200% annually from inception until the business was closed. In that venture, I managed the farm's marketing and social media pages, finances, back-office business, and customer interactions.

I am looking forward to applying my learnings from my personal experiences to COPAS at both the Dallas and National level in the coming years.

Thank you for your time and consideration,

Wendy Chandler, CPA
COPAS of Dallas

WENDY CHANDLER, CPA

KAUFMAN, TX

PHONE 214-274-1388 • E-MAIL wsgober@gmail.com

Sponte Operating, Inc. Dallas, TX 2022 – Current

Responsible for full cycle accounting and financial processes. Process and distribute $100mm+ annual revenues, and deployment of $50mm+ annual capital investment in East Texas Haynesville basin.

VP, Accounting & Finance May 2022 – Current

- Assess risk and establish and monitor accounting processes and financial controls. Monitor relevant areas of performance for improvement.
- Develop system of financial performance reports and related tools and analyses in collaboration with company leadership and private equity sponsor. Prepare cash forecasts, variance analysis, and preliminary budgets for company ownership and private equity sponsor.
- Manage outsourced consulting engagements for SALT and federal tax reporting. Coordinate reporting for tax partnerships with external parties. Restructure SALT engagements resulting in 50% cost reduction.
- Treasury administration and cash management, including cash forecasting and planning for all company entities. Restructure treasury accounts to earn interest on cash balances. Implement functionalities such as positive pay and debit blocking to reduce fraud risk.
- Oversee accounting software conversion from WolfePak to Quorum On Demand Accounting as well as implementing On Demand Production and related production accounting processes.
- Administer corporate back-office functions including outsourced IT engagement, human resources and employee benefits renewal, corporate legal and governance workflows, and company insurance program.

Rockall Energy, LLC Dallas, TX 2019 – 2022

Manage team of 2 accountants and responsible for corporate accounting, financial reporting, audit and tax cycles, and treasury. Direct multiple cross-functional and external projects with department managers, senior leadership, and external stakeholders.

Director, Financial Reporting Oct. 2021 – May 2022

- Supervise technical accounting projects such as conversion from US GAAP to IFRS accounting standards. Performed property accounting conversion from full cost to successful efforts in house, saving the company over $200,000 in consulting costs.
- Coordinate workstreams with key stakeholders including bookrunners, attorneys, auditors, and senior leadership to prepare the company for initial public offering on London AIM market. Lead contributor for accounting workstreams including historical financial due diligence and preparation and audit of historical financial information.
- Treasury management, including bank account administration and preparation of 13-week cash forecast for distribution to senior management. Oversee bank account reconciliations.
- Draft complete financial statement packages with related disclosures. Coordinate annual audit and tax engagements with external consultants. Primary point of contact for client provided data and key audit matters.
- Research technical accounting matters and prepare formal accounting memorandums for non-routine transactions and adoptions of new accounting guidance. Topics include debt modifications, government assistance, and business combinations.
- Primary contributor of financial data to advisory and legal teams through Chapter 11 bankruptcy filing in March 2022. Perform final review and comments on first day motion drafts, and work with bank representatives on all treasury workstreams pre and post filing. Provide data for Statements of Financial Affairs, Schedules of Assets and Liabilities, and Monthly Operating Reports for 16 debtor entities.

Rockall Energy, LLC *(Continued)*
Manager, Financial Reporting Mar. 2019 – Oct. 2021

- Prepare financial reporting packages, debt covenant calculations, and variance analyses for internal leadership, board of directors, and external stakeholders.
- Charged with identifying key inputs and preparing calculations for all significant accounting estimates including accruals, bad debt assessments, asset retirement obligations, and DD&A.
- Review internal controls on an ongoing basis, document areas of weakness, and implement improvements through IT controls or process modifications as needed. Provide mentorship and guidance to other groups as needed to ensure understanding of new controls.
- Lead data migration projects during acquisitions and divestitures. Serve as primary point of contact and perform data migrations in house for acquisitions as large as 750 properties and divestitures up to 1,000 properties, saving the company over $100,000 in consulting costs.

Wynn-Crosby Management, Ltd. Dallas, TX 2004 - 2019

Progressive roles and responsibilities over 15 years with the company. From 2013-2019 reported directly to CFO and performed responsibilities of controller while position remained vacant. Directly manage team of 4 overseeing monthly close process and manage full cycle accounts payable, joint interest billing, and revenue processes.

Manager, Operations Accounting Aug. 2012 – Mar. 2019

- Generate calculations for LOE, capital work in process, and revenue accruals. Maintain master property lists, and responsible for inputs used in ARO and depletion calculations.
- Analyze performance in operational cost data, identify inconsistencies and areas for improvement, and collaborate with field personnel to implement adjustments.
- Work with leadership on key risk mitigation processes such as annual insurance package renewals, master service agreements and new vendor approvals.
- Material participant in A&D processes. Review target company LOS data for accuracy and identify opportunities for improvement. Conduct multiple data migration projects &D in house.
- Actively monitor effectiveness of internal controls and adjust as necessary. Prepare and document policies and procedures and provide training for personnel across all company departments as needed.

Previous Roles at Wynn-Crosby Management, Ltd.

- Supervisor, Joint Interest Billing Apr. 2008 – Aug. 2012
- Systems Specialist, Enertia Software Apr. 2007 – Apr. 2008
- Engineering Technician Jan. 2006 – Apr. 2007
- Accounts Payable Coordinator May 2004 – May 2005

EDUCATION & ORGANIZATIONS

University of Texas at Dallas

- Master of Business Administration
- Bachelor of Science in Accounting and Information Management

Texas State Board of Public Accountancy

- Certified Public Accountant (License ID 118941)

Council of Petroleum Accountants Societies (COPAS) – Dallas Chapter, Executive Board
Women's Energy Network (WEN) – North Texas Chapter, Executive Member, Mentor
Financial Executives International (FEI) – Dallas Chapter, Member

COPAS Board of Directors Nomination form questions:

- One of the challenges facing COPAS is how to improve membership numbers and engagement as we face retirements and a lack of new leadership at the local society level and nationally. Please share your ideas on ways to achieve this initiative successfully.
- Another challenge facing our organization is how to promote and enhance our educational offerings and the APA® program to pass on the institutional knowledge to our industry colleagues. Please provide your ideas on how COPAS can best reach petroleum accountants and provide the right education in the best delivery method possible.
- If elected to the Board of Directors, please share one key initiative you would submit to the Board of Directors for consideration during your term.

Wendy Chandler's Response:

I've observed the organization at both the Dallas and National level and have put a good deal of thought into these topics over the last couple of years.

I feel very strongly that any initiative that I undertake at a national level should represent the collective conscience of the Dallas Society because any efforts being undertaken at a national level must also be undertaken at the local level. I also think that pursuing shared priorities over individual efforts is critical to the overall organizational continuity and growth for COPAS.

I'm happy to support these initiatives and have the backing and support of my current employer, Sponte Operating, Inc. in these efforts as well.

Key initiative(s):

- **Marketing the organization:**
    - **Social media, primarily via LinkedIn.** The younger the demographic, the more they look to these platforms to ingest content. As the importance of developing your professional network increases, documenting and sharing the collective experience enhances engagement for existing members. Social media posts also reach non-members to promote the call to action to attend events and join the organization.
    - **Direct outreach.** I've noticed that some of the larger Dallas area companies don't have representation in COPAS membership, and I would expect that is typical across the spectrum. I think having some direct conversations with company decision makers around what would make COPAS membership appealing to their accounting groups would yield a LOT of information – some helpful, some might be hard to hear but necessary if we're going to resolve some of these issues over the longer term. I reviewed the Dallas membership list and of the 110 members, there are <50 companies

represented. Those missing from the list: Comstock, Petro-Hunt, and Aethon. There are quite a few other larger entities on the membership list with only a few members.

- **Leverage technology. Continue to increase website functionality at the National level.**
    - Add RSVP capability for individual society events.
    - Build in the ability to charge for non-member attendance at events such as the individual society luncheons.
    - Organizations that do not have this functionality available to its membership operate at a competitive disadvantage. I am a member of two other organizations where this functionality is offered. I view this functionality as not just desirable; I see it as a necessity to compete with other organizations in today's landscape.
- **Continued evaluation and update of national meeting structure and frequency.**
    - I think that a very unfortunate but real underlying cause for an individual's inability to attend a national meeting is that a large percentage of the target audience (operations accountants and managers) are not allocated a professional development budget that allows for travel to multiple conferences each year. Those members that do have those budgets experience pressure from a number of organizations vying for our time/attention and often split their conference budgets across multiple organizations.
    - The emerging issues breakout is the most popular event; introduce that segment into the other groups (revenue, small O&G, etc).

Additional initiatives to assess:

- **Strategic partnerships and relationships**
    - **Work with software providers.** There's a pretty short list of software providers that almost all upstream O&G companies use. Working proactively with those software companies to ensure that the software properly captures tax rate changes, performs allocations, etc. benefits everybody.
    - **Event marketing efforts:** Exhibiting at events like NAPAC where members are present should continue, and evaluate additional marketing/exhibition or selective sponsorships at events like NAPE (where it's not cost prohibitive).
- **Expanded membership tiers.**
    - **Student.** A number of the colleges offer energy-focused degrees. Every single hiring manager I know has had a difficult time locating candidates for their open positions for entry, staff, and some manager level positions. I think establishing student level membership and working with colleges to promote student engagement will prime a younger demographic for professional roles in the industry and creates early brand loyalty to the organization (I am personally the proud recipient of a couple of COPAS scholarships from the Dallas chapter in the early days of my career.) I think if a student level membership is offered, that priming the messaging to encourage APA testing becomes a natural progression.

- **Corporate.** In addition to a student level membership, I think it would be worthwhile to talk with some of the larger companies about corporate membership packages and including training activities or X seats for the APA exam per year in those packages. It would definitely need to be something to think through. Eg, if Exxon has offices in 7 states how would you split up the fees for each society under a corporate membership?

- **College curriculum.**
  - This is a thought that's been fermenting in my mind for a while now, but piggybacking off of the note that a number of the colleges have energy focused degrees – I think there's some intrinsic benefit to be had working with educators to incorporating some of the COPAS education into an oil and gas focused accounting course as a part of those degree programs.

Society Experience and Participation:

Evan served on the PASPB board of directors from 2022-2025, serving as Secretary, Treasurer, and President

COPAS Experience and Participation:

Evan has not held a role directly with COPAS, however, was greatly involved in planning and hosting the Spring 2024 national meeting with PASPB

One of the challenges facing COPAS is how to improve membership numbers and engagement as we face retirements and a lack of new leadership at the local society level and nationally. Please share your ideas on ways to achieve this initiative successfully.

This has been an issue across the accounting profession (hiring for our public accounting firm, pushing people to pursue the accounting degree, and to pursue the CPA exam) especially as industry consolidation and retirements reduce the overall number of accountants and positions. As President of PASPB, I've seen this dynamic firsthand. Despite the significant consolidation in our region—particularly Diamondback's acquisition of Endeavor—PASPB has continued to thrive. We've maintained strong membership numbers and high engagement by focusing on visibility and developing younger leadership.

To help COPAS address this challenge nationally, I see two areas we can strengthen:

First, I believe we can do a better job promoting what COPAS delivers—whether that's industry-standard model form updates, committee work that drives regulatory consistency, or education that directly supports professionals' careers. I also believe that highlighting a business development impact and the ability to grow professional networks would benefit these companies. By highlighting these outcomes, we can better articulate the "why" behind membership and involvement. I believe meeting with accounting leaders in our local markets to stress these benefits is the best way to promote the organization, if the CFO/Controller understands and stresses the importance and benefit to their staff, that is where we will see an increase in participation.

Many local societies, including ours, benefit when early-career professionals are given a real seat at the table. Whether it's inviting them to help lead events, serve on committees, or attend national meetings, creating a pipeline of young professionals who feel ownership of COPAS is critical. It is clear that these opportunities exist, I think what is potentially lacking is the advertising and promoting these positions and benefits. Having young talent broadcast these opportunities and highlighting benefits on LinkedIn and other social medias (Instagram, Tik Tok, whatever it might be that the younger generation use more frequently) would help greatly, but this can also be promoted by accounting leaders similar to above. Having staff involved and recognized on national committees or board positions helps promote their company, so it's a win-win for the organization and company if we can get buy-in from the leaders.

Another challenge facing our organization is how to promote and enhance our educational offerings and the APA® program to pass on the institutional knowledge to our industry colleagues. Please provide your ideas on how COPAS can best reach petroleum accountants and provide the right education in the best delivery method possible.

As someone who had not heard about the APA before joining PASPB, even with many years of oil and gas accounting experience in Houston prior, I think it would be beneficial to have people that have passed the APA give their story on what it is and how it has benefitted their career. If this could highlight personal and company benefit that would be ideal as this would help incentivize both the individual accountants and the companies to look into the exam for themselves/their companies as it would be mutually beneficial. This could be done in video or narrative format (or both) and distributed at society meetings and online.

If elected to the Board of Directors, please share one key initiative you would submit to the Board of Directors for consideration during your term.

I believe the single most beneficial initiative, from my experience in the Permian Basin, is to meet with the accounting leaders of the mid to large size upstream and midstream companies and stress the importance of being involved in the COPAS organizations and the APA from an education and business development standpoint. Without encouragement and support from these leaders, the accountants at these companies will not have the motivation to join and put effort into the COPAS organizations. I have worked and lived in Houston, Dallas, Midland, and have many O&G clients in Oklahoma City and Denver so I feel very well connected to gather support and reach out to these leaders to stress how beneficial the COPAS organizations are after experiencing it first hand in the Permian Basin.

I also would like to note that I think it would be extremely beneficial and help modernize and align the local societies if the Presidents of each society would schedule semi-annual calls to discuss how things are going, best practices, how they handle tracking membership, CPE, treasury reports, etc. I know Vanessa usually gets caught up as the middle man with questions from the organizations and this would take work off of her and help establish best practices.

INFORMATION FORM FOR COPAS BOARD OF DIRECTORS NOMINATION

Please consider Kevin Launchbaugh of the PASO-Tulsa Society as a nominee for the COPAS Board of Directors for the three-year term 2025-2027. The requested information on this nominee is listed below.

Personal History:

Licensed CPA in the state of Oklahoma
Bachelor of Science in Accounting from Oklahoma State University
Master of Scient in Accounting Information Systems from Oklahoma State University

Industry Experience and Affiliation:

I began my professional career as a financial statement auditor for a public accounting firm in 2003. During my first two years at the firm, I performed financial statement audits and reviews of companies in the healthcare, oil & gas, manufacturing, and transportation industries. For the next four years, I worked in the consulting department of the public accounting firm performing contract compliance reviews and other accounting-related functions. I joined Gas Equities in 2009 and currently functions as Managing Partner serving as the lead auditor on expenditure audits, revenue audits, gas plant audits, contract/vendor audits, pipeline audits and international audits.

Society Experience and Participation:

I have been an active participant of the Petroleum Accountant Society of Oklahoma – Tulsa since 2009. I served on the PASO-Tulsa board of directors for 4 years, including the roles of Treasurer, Vice-President and President.

COPAS Experience and Participation:

I have been an active member of COPAS since 2009. I was the vice-chair of the Emerging Issues Sub-Committee from January 2012 through October 2014 and chair of the Emerging Issues Sub-Committee from January 2015 through April 2019. I was a member of the rewrite committee for COPAS AG-19 in 2016 and the COPAS Social Media Task Force. I have also served on the COPAS BOD since 2019, including the roles of secretary, treasurer, vice-president, and president-elect.

One of the challenges facing COPAS is how to improve membership numbers and engagement as we face retirements and a lack of new leadership at the local society level and nationally. Please share your ideas on ways to achieve this initiative successfully.

I want to get younger professionals more involved in COPAS as well as develop a college student membership to give them more exposure to COPAS and the oil and gas industry. I

would also like to get more young and/or inexperienced COPAS members involved in the document development and document revision processes.

Another challenge facing our organization is how to promote and enhance our educational offerings and the APA® program to pass on the institutional knowledge to our industry colleagues. Please provide your ideas on how COPAS can best reach petroleum accountants and provide the right education in the best delivery method possible.

I would like to continue to promote the COPAS APA® Review program to both our current membership and to younger/ newer oil and gas industry accountants. I also believe that getting college students involved in COPAS may result in more APA® members.

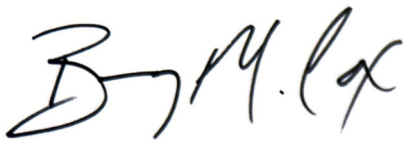
If elected to the Board of Directors, please share one key initiative you would submit to the Board of Directors for consideration during your term.

I would like to get the COPAS Virtual Society up and running as a Participating Society, increase COPAS membership, and increase the APA® membership.

Other Comments:

I have been involved with COPAS since 2009 and would like to see this organization continue to thrive and expand. I believe this organization to be of paramount importance to our industry.

Thank you,

By: 

Society President – PASO Tulsa

INFORMATION FORM FOR COPAS BOARD OF DIRECTORS NOMINATION

Please consider Jason Poteet of the Colorado Society as a nominee for the COPAS Board of Directors for the three-year term 2025-2027. The requested information on this nominee is listed below.

Personal History:

Bachelor of Science in Accounting from Metropolitan State University of Denver. Married with two adult children. Love to travel with my wife.

Industry Experience and Affiliation:

I have worked in Outsourced Oil and Gas accounting since 2009. Throughout my career I have worked in accounts payable, joint interest billing, financial reporting and revenue. I am currently an independent consultant. An APA® since 2019.

Society Experience and Participation:

JI/Audit Chair and Current Board Member

COPAS Experience and Participation:

Previous JI Vice Chair and JI Chair. Attend nearly all national meetings

One of the challenges facing COPAS is how to improve membership numbers and engagement as we face retirements and a lack of new leadership at the local society level and nationally. Please share your ideas on ways to achieve this initiative successfully.

We should start reaching out to college and university accounting departments and business schools to introduce them to COPAS. Another way to reach out to recent graduates and new professionals is to develop a social media presence. We should also continue to meet with operators, both large and small, to discuss how their involvement in COPAS is beneficial to their operations.

Another challenge facing our organization is how to promote and enhance our educational offerings and the APA® program to pass on the institutional knowledge to our industry colleagues. Please provide your ideas on how COPAS can best reach petroleum accountants and provide the right education in the best delivery method possible.

We should be working with individual societies to promote the APA® program. During the National Meetings, the APA® and the benefits are discussed, and the same presentations should be given to the societies. While we are introducing COPAS to colleges and universities, the APA® program can be part of that discussion.

If elected to the Board of Directors, please share one key initiative you would submit to the Board of Directors for consideration during your term.

Recruiting the next generation of oil and gas accountants from colleges and universities will be a key initiative I would like to submit for consideration. When I graduated from school, working at a public accounting firm in tax or audit was the focus. By introducing COPAS to students and recent graduates, we can show that there are other opportunities that can lead to very successful careers.

Other Comments:

By: Stephanie Schwindt 8/19/2025

Society President