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SPRING 2022



**How Bitcoin is Disrupting
Traditional Oil and Gas Markets**



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HOW BITCOIN IS DISRUPTING
TRADITIONAL OIL AND GAS MARKETS

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PRESIDENT'S MESSAGE

Dalin Error,
COPAS President

"Cause everything old is new again."
-Peter Allen

The words in the quote from Peter Allen are hopeful words after the challenges we've all faced these last few years. But what a difference a year makes! After living our lives behind computer screens, I'm excited for the long-delayed return to in-person COPAS meetings, right around the corner. PASH has worked tirelessly to ensure that the Spring meeting will not only be an amalgam of educational opportunity and face-to-face interaction, but also a delayed celebration of COPAS's 60th anniversary. They say that as you get older, time speeds up. Maybe that's true. Despite the last two years, it also seems like yesterday that PASH was hosting COPAS's 50th anniversary celebration in 2011. Everything old is new again.

So I'm incredibly honored and excited to be the President of COPAS in 2022, but I feel the weight of responsibility from those who came before me. Sixty years! What an amazing achievement that is for a volunteer organization comprised of professionals in one of the most volatile industries. The dedicated efforts and focused commitment necessary to weather that volatility is inspiring and humbling...particularly considering my own, untraditional roots in the industry.

I came to the profession later in life; my roots were not in oil and gas. My father was in Federal Health for his entire career, and my mother was a portrait photographer who ended up marketing for a company that produced educational telecourses. What I knew about oil and gas was limited to the local gas station and a handful of pump jacks in rural areas outside of Garland, Texas. I graduated from Sam Houston State University in 1991, with a liberal arts degree and teaching certification. I taught middle school for five years, mostly so that I could marry my beautiful fiancé, Kimberly. We've been together for more than thirty years now, so that part worked out. Teaching...not so much. While parts were rewarding, and I have worlds of respect for those who teach, I left the profession in the summer of 1996.

The next two years were an experiment for what would come next, as I moved from position to position in the business world. Eventually, I landed with a small CPA practice specializing in oil and gas operations, accounting and auditing. The owner, Bill Davis, saw something worthwhile in me, sending me back to college to continue my education in Accounting, while providing on-the-job training project-by-project. The opportunity was a blessing that helped me find my career niche, and one for which I am truly grateful.

I worked there ten years, as the CPA practice transitioned to a corporate consulting firm, Petroleum Comptroller Services, Inc., or PCS. In 2008, the birth of my son corresponded with a new opportunity. I accepted an offer with one of PCS's clients, Plains Exploration & Production, later Freeport-McMoRan Oil & Gas, to serve as an Audit Manager. Shortly after, in 2010, my daughter was born, providing my wife and I with new changes, challenges and opportunities.

Fortunately, my employer was supportive of my continued involvement with COPAS. Although I joined PASH and COPAS in 2001, my involvement in the organization actually increased in my corporate years. I joined the CEPS panel, drafted questions for the new APA® exam, helped to draft the MFI-38, *Materials Manual*, and offered comments and assistance on several other documents and projects. I also accepted leadership roles on the Audit Standing Committee, culminating in a two-year tenure as the Audit Committee Chair.

These experiences and opportunities within COPAS enhanced my industry knowledge and created a network of friends, associates, and mentors that I truly value. I learned that nothing from COPAS is created in a vacuum; output requires effort. My participation became more than a professional obligation; it was a personal investment in something of which I was proud to be a part.



Life changed once more, and in the summer of 2016, I returned to consulting, rejoining PCS as its President. Despite the change in roles, my involvement in COPAS continued. I was elected to the COPAS Board of Directors in 2019, where I served as the COPAS Treasurer in 2020 and as COPAS Vice President in 2021. During this time, I continued to serve on the CEPS panel, taught courses as an instructor for COPAS Energy Education, and joined the drafting team for the MFI-57, *Remote Technology Centers* document. Most recently, I became the 2022 COPAS President.

So here we are. Another new year opens a door to something resembling “normalcy” again, but the only thing constant is change. With new challenges and new opportunities on the COPAS horizon, I’d like to take a moment to reflect on both.

Our industry and organization have taken hits in recent years. Price volatility, economic and political uncertainty, and a global pandemic all raised the stakes for survival. When companies tighten purse strings and individuals leave the industry, we are challenged by decreasing membership. Volatility is the norm in the energy sector, but these new challenges have exacerbated things, increasing volatility. Further, many of our longest-standing members are leaving to enjoy well-earned retirements. While some remain active in COPAS, we cannot rely on these stalwarts to keep the train rolling down the track. These unprecedented times require reenergized veterans and new blood, dedicated to the focus, principles and can-do spirit that started COPAS over sixty years ago. Without rekindling that fire, lethargy and attrition will grow, and COPAS will fade away. We cannot let that happen.

But I’m incredibly optimistic about our future. As I write this, oil prices stand around \$85 per barrel, and natural gas is over \$4 per MMBTU. While these are far from the highs of a decade ago, they are vast improvements over a year ago. Financial analysts are bullish on petroleum, as demand increases towards

pre-pandemic levels. Supply must increase to meet that demand. Meanwhile, technical improvements in both onshore and offshore operations continue to enhance the efficiency, safety and productivity of operators. Companies are looking to hire again. New accountants and accounting students hope to build their careers in this sector. The need for structure, education, mentoring and the industry guidance that COPAS provides has never been greater.

Every year, the incoming COPAS President develops goals for his or her term. The 2022 goals aim at ensuring the continued relevance, growth, and adaptation of COPAS. They mix achievable milestones and stretch targets, emphasizing membership increases through enhanced recruitment efforts, helping struggling societies to re-engage and reenergize, continuing development of new educational opportunities, and increasing access to and usage of our paid offerings (CEE, E-Publications, CEPS, APA® program). One goal is to further enhance the value of your COPAS membership, by introducing new and/or increased discounts for COPAS offerings, benefitting the members and the companies they represent. Finally, we will identify “what comes next” for COPAS -- next on the emerging issues front, next in the document pipeline, next on the leadership front. A full list of these 2022 goals appears later in this issue; please take the time to read through them. Hopefully they will inspire, challenge, and excite you.

Always remember: COPAS is a service organization.

We serve our industry, the companies that employ us, and each other. Individually, each member has much to offer.

Collectively, we are extraordinary. In that collective spirit, I thank you for the opportunity to help lead our organization in 2022.

Everything old is new again, and as my grandfather used to say: “The best time for new is now.” Cheers to sixty years, indeed! And a toast to the next sixty, and the next, and the next...



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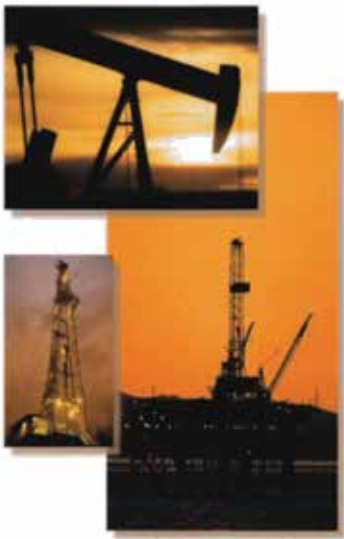
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COPAS Project Status Report



COPAS MODEL FORMS

Committee	Project	Status	Comments	Council Vote
Joint Interest	Accounting Procedure	Voting Draft expected mid-March with Committee vote in April.	N/A	Fall 2022

COPAS MODEL FORMS - MODIFICATIONS and INTERPRETATIONS

Committee	Project	Status	Comments	Council Vote
Joint Interest	MFI to accompany new model form Accounting Procedure	Voting Draft expected mid-March with Committee vote in April.	N/A	Fall 2022
Joint Interest	MFI-40, 24-Month Adjustment Period for Joint Account Adjustments	Project temporarily on hold	TBD	TBD

COPAS ACCOUNTING GUIDELINES

Committee	Project	Status	Comments	Council Vote
	No Projects to report			

COPAS TRAINING & REFERENCE

Committee	Project	Status	Comments	Council Vote
Revenue	No Projects to report			



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FROM THE HOME OFFICE

Tom Wierman, COPAS Executive Director
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Happy New Year everyone. I'm hoping that now that we are past our holiday gatherings and the COVID Omicron variant is playing out, we can continue to work on becoming normal again. At least I hope everything holds for us to continue the plans to hold the first in-person meeting in a couple of years. Thank you to Houston for the extra efforts they have put forth to keep the planning wheels turning and for hosting this upcoming Spring meeting. Even though the 60th Anniversary has closed, Houston will still provide a nod to COPAS history in their planning.

Congratulations to our COPAS leadership team for 2022. COPAS President Dalin Error introduces himself on pages 2 and 3. Other COPAS officers are Vice President Craig Buck, Treasurer Kim Peyton and Secretary Kevin Launchbaugh. Rebecca Paris, Tom Batsche, Carolyn Sczepanski, Kirk Foreman, and Melissa Gruenewald are serving as directors.

If you are interested in becoming part of the COPAS leadership team, consider becoming a candidate for the board of directors, or even filling the open position on the nominating committee. Please contact me to discuss the requirements for the various leadership positions and how you might approach your supervisor or company leadership in order to take that next step.

It's a big work anniversary year for me. I was approved as the Eighth Executive Director at a special Council teleconference on February 29, 2012. I have now served the longest of any Executive Director, and I plan to be around for a few more years. Where has the last decade gone?

My interview took place on a snowy, snowy Saturday in Denver. There were two other finalists for this role, both of whom I knew and greatly respected. The interview was specific, yet relaxed. I remember calling

my wife from the airport, telling her good I felt despite the competition I faced. Within a couple days I had the call offering me the role and the rest is history. Perhaps you can blame Mike Cougevan for this. He was serving as COPAS President in 2012.

The time between then and now has flown by. Commodity prices have been up and down. Membership has fluctuated. We hired a marketing company. We've revamped the APA® program. We expanded the education portfolio and hired dedicated education staff. Three new societies have been admitted to Council (Arkansas, East Texas and Austin). We moved to a virtual office before it became popular (or necessary!) to do so. We went through an overall cost-cutting effort as the industry continued to face challenges and opportunities presented themselves. We looked at Bylaw changes that will help take us into the future. As one of my predecessors used to say, "we have been



busy in the national office.” I can concur that is a true statement.

Thank you for allowing me to visit your society, take part in your education day, or offer you assistance as you’ve worked through a society or committee issue. I thank the officers and the board of directors over all those years for the efforts they put forth. Thank you as well to their companies for footing the bill and allowing them the time to serve. It’s been my honor and privilege to serve in this role. Thank you for your support.

Most of you know that Angie Knipe took a new role in the health care industry. Her last day with COPAS was December 31. Angie is doing well in her new role, but I know she greatly misses working with many of you. Vanessa and I also miss our regular conversations with Angie. We are still working together with her to finish a new education course, Revenue Audit. We hope to debut the course very soon.

We just completed a second pilot run of an APA® review course. The first pilot group provided some excellent feedback. We’ll collect some feedback from the current pilot group as well, then proceed with releasing an APA® review course. I expect by mid-year we will have a finished product, but feel free to contact the COPAS Office with any questions you might have.

Please refer to pages 34 and 35 for the schedule of APA® registration dates and testing windows as you consider using the review course to complete your APA® certification.

Current and retired APA®s should be completing the renewal process, submitting the CPE documentation and paying the annual fee. Late fees will be assessed beginning on March 31 if we do not have your renewal. Renewals can be completed online. If you have difficulty or questions, please contact Vanessa Galindo for assistance.

ePub subscriptions renew during March. A new ePub process was rolled out in 2020, just as COVID hit and offices started working

remotely. Just a reminder that we moved away from the annual link or CD in favor of an online application. Automatic renewal was also implemented. If you have any questions about your subscription, or about adding an employee to a corporate subscription, please contact the COPAS office.

During 2022 we will be working with our marketing company to make website homepage modifications. We think we can fine tune our website to key audiences and provide better access and improved user experiences. As this project moves forward, we’ll keep you updated by email.

Economic factors will be approved in the relevant standing committee at the Spring meeting. Shortly after the meeting concludes, we will be updating those factors on the website.

The 202X Accounting Procedure and companion Model Form Interpretation are moving toward final voting drafts. The affected committees (Joint Interest, Audit and Revenue) will all be voting on the final draft in April. If approved by the committees, the Council will vote in October. To view the drafts, please sign into your member portal and navigate to the voting draft folder. If you have questions or need assistance, please contact the COPAS office.

I’m looking forward to seeing so many of you in Houston, April 25-29!



MEETING SCHEDULE

	EVENT	DATES	HOST	LOCATION	
	2022				
	Spring	April 25-29	Houston	San Luis Resort Galveston, Texas	HOUSTON
	Fall	October 17-21	Dallas	Westin Irving Convention Center at Las Colinas Irving, Texas	DALLAS
	2023				
	Spring	April 17-21	COPAS Office	Virtual Meeting	COLORADO
	Fall	September 18-22	Colorado	Greater Denver Area	
	2024				
	Spring	TBD	COPAS Office	Virtual Meeting	
	Fall	TBD	TBD	TBD	

Dates beyond 2023 are available. Please contact the COPAS Office to volunteer.

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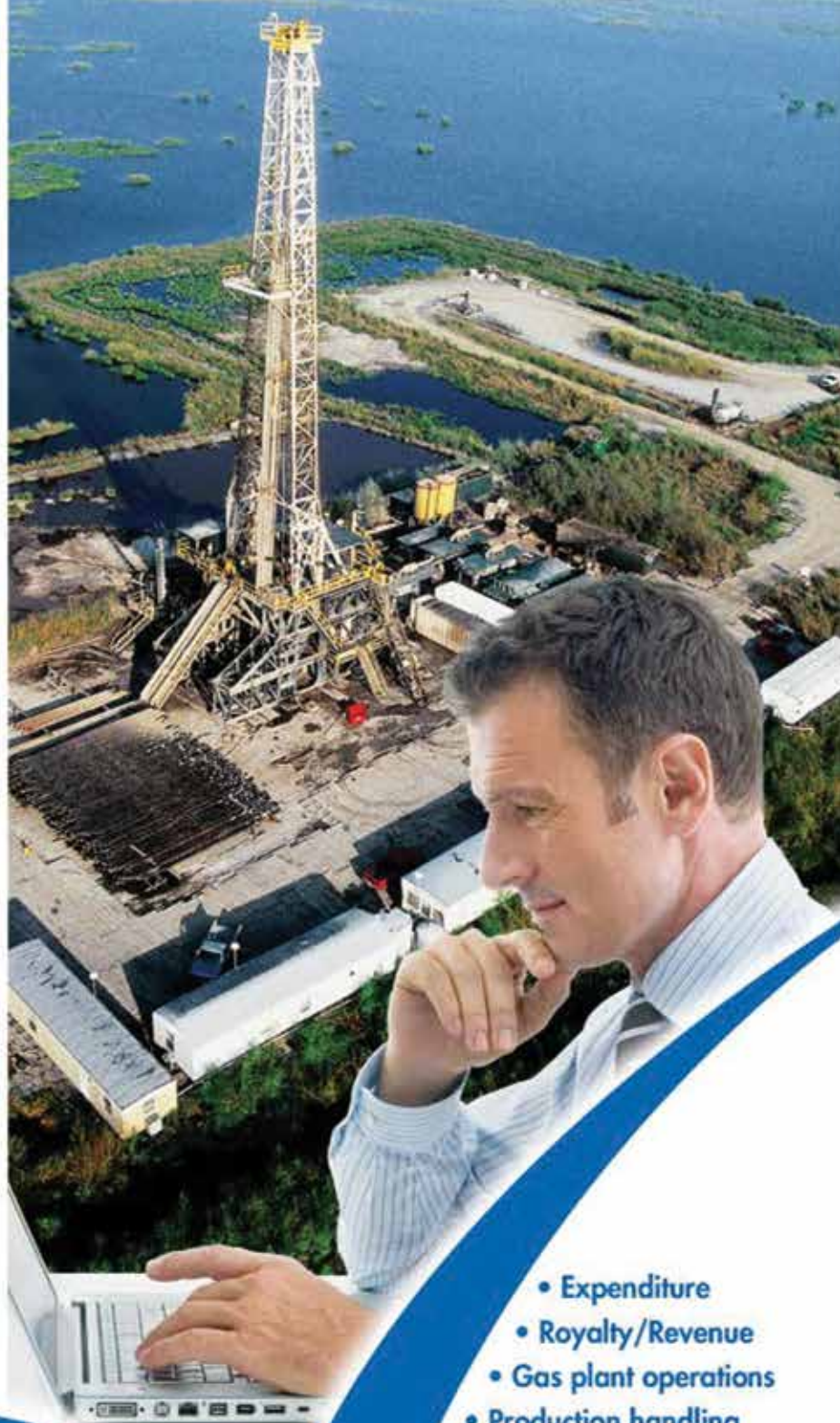
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Digital Midstream

HOW BITCOIN IS DISRUPTING TRADITIONAL OIL AND GAS MARKETS



Over the past few years, an unlikely partnership between global commodities has been brewing. This partnership has the potential to help the Oil and Gas industry reduce carbon emissions and maximize shareholder returns by bypassing expensive and inflexible midstream arrangements. From an outsider's perspective, Natural Gas and Bitcoin may seem to share little in common, but the synergies between these commodities is revolutionizing traditional gas markets by helping to solve issues that face each industry. Oil and Gas Accountants are intricately familiar with the properties and uses of natural gas, but Bitcoin is a relatively new technology that remains foreign and vague to most of us. What is Bitcoin, where does it come from, why is it valuable, and how are producers and midstream companies implementing this technology to solve issues that have plagued the industry for decades?

Bitcoin was created in 2009 as a response to the Great Financial Crisis which exposed the dangers of the financial world's reliance on banks as intermediaries involved with all financial transactions. It was designed to be a decentralized, peer-to-peer digital currency that allows users to buy, sell and exchange goods and services without the need or involvement of a 3rd party intermediary such as a bank. In a world full of

quantitative easing, Bitcoin is a quantitative tightening asset. When governments authorize quantitative easing and increase the money supply, the underlying fiat currency depreciates in value and inflation occurs. In contrast, Bitcoin is an asset that experiences quantitative tightening, which is a reduction in the new supply of currency to the market over time. Not only does the new Bitcoin supply decline over time, but there is a finite number of Bitcoins that will be created. The maximum number of Bitcoins that will ever be in circulation is 21 million coins, which guarantees scarcity and makes Bitcoin a deflationary, store of value asset.

Bitcoin is a form of cryptocurrency, which means it is created, issued, traded, and stored digitally by using blockchain technology. In simple terms, a blockchain is a public digital ledger that is distributed among multiple nodes of a computer network. The Bitcoin blockchain seals accounting entries with cryptography, which helps maintain a secure and decentralized record of every transaction on the network and provides a natural deterrent to financial fraud and ledger manipulations. This advanced form of digital accounting is made possible by the process known as Bitcoin mining.

The mining process verifies transactions and provides security to the Bitcoin network; it is also the process by which new Bitcoin supply enters the market. A miner is simply an advanced computer, called an Application Specific Integrated Circuit (ASIC), that is designed to solve a mathematical algorithm, i.e., the Bitcoin cryptography code. The process begins by pooling Bitcoin transactions together in a "block" and encrypting the block with a complex mathematical puzzle. Once a block is created, miners compete against each other to solve the puzzle and unlock the block. The puzzle is difficult to solve up front yet easy to be verified afterwards, think of a Sudoku puzzle. Once solved, the miners then work together to verify that all the transactions in the block are legitimate. This new block of verified transactions is then attached to a chain of prior blocks, hence the term "blockchain." For solving this puzzle, miners are rewarded with a new supply of Bitcoin. Currently, the amount of new Bitcoin released with each block is 6.25 Bitcoin, and new blocks are unlocked and added to the blockchain more or less every 10 minutes.

This complex method of transaction verification is known as proof of work, or PoW, because miners must demonstrate to the network that they have completed the work

FEATURE

of solving the complex algorithm to be rewarded with the subsidy of Bitcoin that is released. Technically, anyone with a computer can participate in this Bitcoin mining process, but mining has become a very competitive industry over the years, and this has led to expensive computer hardware and a need for low-cost electricity to make a profit. ASIC computers consume a great deal of power, with electricity constituting roughly 90 percent of the operating cost to mine a Bitcoin. As the price of Bitcoin continues to appreciate, the competition or difficulty to mine new Bitcoin will rise in proportion. This has led miners around the world to search for the lowest possible sources of energy to gain a competitive advantage.

Bitcoin miners have been deploying these advanced computers into the oil field because they have found a unique way to acquire cheap energy by capturing flared natural gas. The shale boom over the last 15 years has led to an increased flaring of natural gas, due in large part to the rise in associated gas production, natural gas that is produced as a byproduct of an oil well. The primary reason that the gas is wasted and flared instead of transported to a sales destination is because oil companies have been drilling wells faster than the pipeline companies can move the energy away from a basin. Oil does not need a sophisticated takeaway infrastructure as it can be produced, pumped into a tank, and then hauled away by trucks. Gas on the other hand, requires a

pipeline to move the product from a well to a sale destination. This takeaway capacity issue for associated gas has been prevalent in the Bakken and Permian basins. There is no economic benefit to flaring natural gas and doing so directly creates unnecessary carbon dioxide emissions. Oil companies have been facing increasing pressures from both shareholders and government agencies to reduce emissions, and the lowest hanging fruit to remedy this situation is to stop flaring natural gas. The only solution for this issue is to spend capital to lay new pipeline infrastructure or find a way to use stranded gas at the wellhead.

Miners have perfected an energy digitization process that is taking stranded energy at the source and using it to generate low-cost electricity for their mining operations. Miners will pay producers sub-market prices for stranded, wasted, or under-valued natural gas production at the wellhead and re-direct it from a flare stack into a turbine or reciprocating engine. This turbine or engine generates power by driving an electric generator which creates electricity. The electricity is then consumed by modular and portable data centers on location that are full of Bitcoin ASIC computers. The computers are connected to the Bitcoin network via Wi-Fi, cellular signal, or satellite and are running continuously to solve the complex algorithm to be rewarded with new Bitcoin supply. This has become a profound solution for the industry because producers are finally able

to monetize stranded gas at the wellhead while simultaneously lowering carbon emissions to meet investor ESG initiatives.

Producers are not limited to only selling gas to Bitcoin miners for a lower than market sales price. If they are so inclined, they can put up the capital themselves to mine for Bitcoin with their stranded energy. Bitcoin mining is capital intensive, but the ability to convert low value natural gas into Bitcoin produces profit margins that are multiples higher than the current Henry Hub market gas prices. It is not uncommon to realize greater than \$20/mcf of gross profit while using the most advanced ASIC computers currently on the market. As this energy digitization process continues to gain industry acceptance, there will be a broad array of suitable applications available.

"...they have found a unique way to acquire cheap energy by capturing flared natural gas".

Traditional midstream is where gas is produced from a well into gathering lines, compressed if it has low pressure, sent to a processing plant to remove impurities and/or strip out liquids, then transported via pipeline to downstream markets. A producer must take their gas molecule, process it, and then transport it to a market. This pro-



FEATURE

cess can lead to several deductions from a producer's gross gas sales price. Bitcoin mining is a new digital midstream concept that gives producers the ability to bring a market directly to their gas molecule. By doing so, producers will be able to realize higher profit margins for their gas and will no longer be at the mercy of a small number of midstream companies that can be slow or unwilling to deploy capital to buildout pipeline infrastructure.

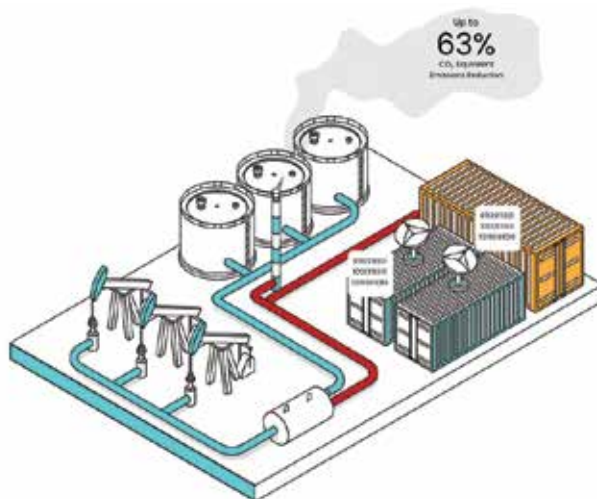
Another potential application for Bitcoin mining in the oil industry is to deploy this process on low producing or shut-in gas wells. There are instances where processing plants can charge low-volume fees on wells that are no longer producing at the contracted volume rate. Depending on the other fees associated with processing the gas, there are scenarios where a producer may have to pay more in fees than the gas is worth. Over time, this can lead producers to shut-in wells that are no longer economically viable to operate. Depending on the lease agreements, shut-in wells need to eventually be plugged and abandoned by the producer. These P&A liabilities lead to significant cash expenditures for wells that will no longer generate revenue. The mining process enables producers to delay P&A liabilities by extending expenditures several years down the road since Bitcoin mining can be done on wells producing as low as 15 - 20 mcf/day.

Midstream companies can also get in on the action by deploying mining infrastructure at central delivery points, gas processing plants, and LNG facilities where vapors and other sources of hydrocarbons are flared for safety or operational reasons. Midstream

companies that have percent of proceed contracts are entitled to a portion of a producer's gas that they process through their facilities. These midstream companies have the discretion to then sell the gas molecules via their own downstream transportation pipelines. Those that are so inclined to gain Bitcoin exposure or create a gas market hedge, can use this gas at the tailgate of their plants to mine Bitcoin.

The unlikely partnership between the oil industry and Bitcoin mining is still in the infancy stage. Bitcoin miners have found a seemingly endless supply of cheap, stranded gas that they are able to use for low-cost power generation. Oil and gas producers now have a solution to reduce their carbon footprint by minimizing flaring with a new revenue stream at the wellhead. As the industry struggles with raising capital, this process may help attract new investors with an ESG focus while simultaneously increasing shareholder returns. Flare gas capture projects are some of the most effective and attractive decarbonization investments available. With strong negative abatement

costs, flare investments create value, reduce emissions, and accelerate the energy transition. Do not be surprised when most oil and gas producers and midstream companies have at least one Bitcoin mining operation within the next five years.



Anthony Cash



Anthony recently graduated from TCU's Energy MBA program, where he presented his capstone field study "CryptoEnergy – Monetizing Natural Gas with Bitcoin" to dozens of energy executives on the TCU Energy Institute Board. Anthony is currently a Financial Marketing Analyst at EOG Resources. He has over 10 years of industry experience in Revenue, Production, and Regulatory Accounting with his previous roles at EP Energy and Newfield Exploration.

Petroleum Accounting Principles, Procedures and Issues

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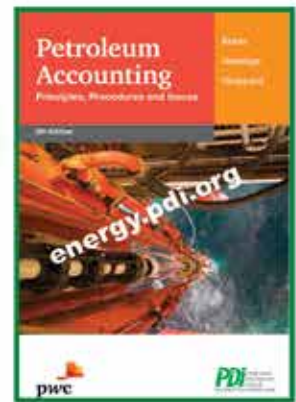
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IN THE NEWS

Upstream M&A slowed in fourth-quarter 2021 but overall finished the year strong with a 25% increase in deal value soaring to \$66 billion. The volume of deals remained depressed with 172 transactions in 2020 and 179 transactions in 2021 versus an average of nearly 400 deals per year before COVID.

Noble Corporation and **Maersk Drilling** have merged in a \$3.4 billion deal. The combined company boasts a rig fleet of 20 floating units and 19 jackup rigs.

Northern Oil and Gas acquired **Veritas Energy's** Non-op interests in 6,000 net acres in the Delaware and Midland basins for \$406.5mm. Northern now produces more than 70,000 BOEPD.

Kimbell Royalty acquired royalty assets for \$57mm from an undisclosed seller. The assets produced 700 BOEPD with over 26,000 gross producing wells concentrated in the Permian (39%), Midcontinent (31%) and Haynesville (14%) basins. The acquisition will increase Kimbell's daily net production to 14,783 BOEPD.

Xfuels purchased **Jubilee Exploration**, adding 516 wells in Oklahoma and Kansas. The transaction includes a 2.5% gross ORRI capped at \$1.5mm payable on all petroleum, natural gas liquids and natural gas mineral interests produced by the wells purchased.

Goodrich Petroleum merged with a **Paloma Resources** affiliate for \$480mm. Goodrich is now privately held with 70mm net acres in the Haynesville Shale in North LA and East TX, the Tuscaloosa Marine Shale in Eastern LA and Southwestern MI and the Eagle Ford Shale in South TX.

BCE-Mach closed out 2021 with a pair of acquisitions expanding its footprint in the Midcontinent, which already stretches 678,000 net acres. The two recent acquisitions were executed through purchase and sale agreements totaling \$66.5mm.

Rockdale Marcellus sold oil and gas assets to Spain's **Repsol** for \$222mm as part of a Chapter 11. The assets are in PA where Repsol already operates. Rockdale Marcellus operated producing wells on a contiguous acreage position of 48,000 gross acres with almost 100% working interest.

Lime Rock Resources acquired assets worth \$358.5mm including **Abraxas Petroleum Corp.'s** Williston Basin position in ND and Austin Chalk and Eagle Ford in TX properties from an undisclosed private seller. The Williston acquisition consists of 3,500 acres and brings Lime Rock's net production to 19,400 BOEPD in ND. The Austin Chalk and Eagle Ford acquisition includes producing properties on 46,000 contiguous net acres in Burleson, Milam, and Robertson counties.

UGI Energy Services acquired **Stonehenge Appalachia's natural gas gathering system** for \$190mm, including more than 47 miles of pipeline in Butler County, PA including associated compression assets, and has gathering capacity of 130 MMCFPD.

Energy Transfer was ordered to pay a \$410mm break-up fee for scuttling a \$33 billion merger with rival **Williams**. The proposed tie-up stands as one of the largest deals undone by a collapse in oil prices. The merger was aimed at creating the nation's largest natural-gas transporter.

COMMODITY SPOT PRICING COMPARISON

CRUDE OIL WTI (CUSHING) PER BBL					HENRY HUB NATURAL GAS SPOT PRICE DOLLARS PER MILLION BTU			
MONTH	2018	2019	2020	2021	2018	2019	2020	2021
January	63.70	51.38	57.52	52.00	3.87	3.11	2.02	2.71
February	62.23	54.95	50.54	59.04	2.67	2.69	1.91	5.35
March	62.72	58.15	29.21	62.33	2.69	2.95	1.79	2.62
April	66.25	63.86	16.55	61.72	2.80	2.65	1.74	2.66
May	69.98	60.83	28.56	65.17	2.80	2.64	1.75	2.91
June	67.87	54.66	38.31	71.38	29.97	2.40	1.63	3.26
July	70.98	57.35	40.71	72.49	2.83	2.37	1.77	3.84
August	68.06	54.81	42.34	67.73	2.96	2.22	2.30	4.07
September	70.23	56.95	39.63	71.65	3.00	2.56	1.92	5.16
October	70.75	53.96	39.40	81.48	3.28	2.33	2.39	5.51
November	56.96	57.03	40.94	79.15	4.09	2.65	2.61	5.05
December	49.52	59.88	47.02	71.71	4.04	2.22	2.59	3.76
YTD Average	64.94	56.98	39.23	67.99	3.17	2.57	2.04	3.91

Information obtained from the U.S. Department of Energy, EIA Website eia.doe.gov. These prices should not be utilized as an indication of market pricing, but are provided for comparison purposes only.

Third-party gas certification took off in 2021, particularly in the Haynesville Shale in LA and East TX and could lead to the first certified gas US LNG export cargo in 2022. Flaring is less common in the Haynesville, a dry play, than in more liquids-rich basins, and that, combined with the basin's naturally lower emissions profile, has made certification an attractive proposition. The Haynesville's proximity to LNG export infrastructure raises the possibility of buying tracked certified gas molecules.

Falcon Minerals merged with **Desert Peak Minerals**, the largest independent Permian Basin pure-play mineral and royalty company valued at \$1.9 billion. The combined company will own over 139,000 net royalty acres, over 105,000 of which are in the Permian Basin and is projected to produce 13,500-14,500 BOEPD in the first-half of 2022. †



← KODY IMPSON

Kody joined Martindale Consultants in 2008 and has been an integral part of Martindale's management team, seeking new opportunities to fuel growth and develop a talented staff to better serve clients. Kody holds bachelor's degrees in finance and accounting and a MBA. He is also a Certified Fraud Examiner. Kody is excited to continue the standart set by Mike Cougevan providing newsworthy industry updates to COPAS members.

Lucid Energy will develop the largest carbon capture and storage project in the Permian Basin. Lucid is the largest privately held natural gas processor in the Permian Basin and received EPA approval for the company's monitoring, reporting, and verification plan for the sequestering of CO2 from its Red Hills gas processing complex in Lea County, TX (I thought Lea County was in New Mexico?) which processes production from more than 50 producers in NM and West TX.

Global oil and gas investment will increase by \$26 billion in 2022 as the industry continues its recovery from the worst of the pandemic and the hurdles imposed by the Omicron variant. A significant contributor is a 14% increase in upstream gas and LNG investments.

Continental Resources acquired 85,000 acres in Wyoming's Powder River Basin at an undisclosed price. Continental also acquired 172,000 acres in the Powder River Basin from **Chesapeake** for \$450mm. The Chesapeake acquisition includes 350 operated wells producing 19,000 BOEPD.

Schlumberger will boost spending by as much as 18% to \$2 billion. The contractor that helps explorers map pockets of underground crude and drill in water two miles deep expects North American clients both on land and at sea to boost spending by at least 20% this year.

Chesapeake Energy acquired **Chief** and associated non-operated interests held by affiliates of **Tug Hill** for \$2.6 billion. The transaction bulks up Chesapeake's position in the Marcellus Shale in northeast PA by adding 500 new drilling locations and increases Chesapeake's Marcellus Shale gas production capacity by 200,000 MCFPD.

A McKinsey & Co. study estimates that new infrastructure and systems investment needed to meet international climate goals could be \$9.2 trillion a year annually through 2050. That's at least \$3.5 trillion more a year than the world currently lays out for both low-carbon and fossil-fuel infrastructure. To slash the impact of greenhouse gas pollution to zero by 2050, in alignment with scientific guidance and the Paris Agreement, the study suggests that coal use

RIG COUNTS

LOCATION	WEEK OF:										
	5.10.19	7.19.19	2.14.20	5.8.20	7.31.20	10.30.20	2.5.21	4.30.21	8.20.21	10.29.21	1.28.22
Gulf of Mexico	20	25	23	15	12	13	16	13	14	13	18
Canada	63	118	255	26	45	86	171	51	156	166	217
North America	1051	1072	1045	400	296	382	563	491	659	710	827
Oil	805	678	678	292	180	221	299	342	405	444	495
Gas	183	110	110	80	69	72	92	96	97	100	115
Directional	71	69	47	27	22	22	18	23	30	32	36
Horizontal	872	829	713	338	216	254	354	398	454	483	553
Vertical	45	56	30	9	13	20	20	19	19	29	21
Major State											
Alaska	9	10	9	3	3	3	4	3	4	6	6
Arkansas	0	0	0	0	0	0	0	0	0	0	0
California	15	17	14	5	4	4	7	7	6	10	8
Colorado	33	31	22	8	5	4	8	10	11	12	12
Louisiana	61	66	52	38	29	37	47	49	49	47	57
New Mexico	102	107	113	70	49	47	61	70	80	87	94
North Dakota	56	55	52	20	11	11	12	15	22	23	27
Oklahoma	105	95	50	13	11	14	18	21	30	43	51
Pennsylvania	43	37	24	23	20	18	18	18	19	17	23
Texas	485	454	397	173	104	133	189	212	231	250	284
West Virginia	21	21	14	7	5	8	12	11	9	11	11
Wyoming	30	32	22	4	1	3	5	4	16	15	15

Source: Baker Hughes at www.bakerhughes.com

would be virtually eliminated globally by 2050, oil and gas production would drop 55% and 70%, respectively, and power-sector investment could raise electricity prices by a quarter until 2040 and would remain 20% higher than today through 2050.

Maverick Natural Resources purchased Permian Basin properties from **ConocoPhillips** for \$440mm. The properties average more than 11,000 BOEPD (50% oil) from the Central Basin Platform and Northwest Shelf of the Permian Basin. The position spans about 144,500 net acres across Andrews and Ector counties, TX and Eddy and Lea counties, NM.

U.S. District Judge Rudolph Contreras canceled the sale of over 80mm acres of **GOM leases**, ordering regulators to take a harder look at the impact on climate change. The decision throws into doubt the November 2021 sale of 308 tracts spanning 1.7 million acres. Thirty-three oil companies spent about \$192mm buying the drilling rights in the auction.

Exxon Mobil is relocating its corporate headquarters from Irving, TX to its campus north of Houston. Exxon is on track to exceed \$6 billion in structural cost savings by 2023 compared to 2019, a major focus after suffering a historic, \$22.4 billion loss in 2020.

Civitas Resources acquired Denver-Julesburg Basin operator **Bison Oil & Gas II** for \$346mm. The deal enhances Civitas 2022 production by about 9,000 BOEPD.

The **White House** sent \$1.15 billion to states to clean up thousands of orphaned oil and gas wells. The Biden administration also outlined plans to enforce requirements for pipeline operators to minimize methane leaks, undertake research to reduce methane emissions from beef and dairy systems, and form an interagency working group to measure and report greenhouse gases around the nation.

Bighorn Permian Resources sold assets to **Earthstone Energy** for \$860mm that include 110,600 net acres in the Midland Basin that produced 42,400 BOEPD. Formerly known as **Sable Permian Resources**, Bighorn was part of the late shale pioneer Aubrey McClendon's empire. The deal is the latest in a string of acquisitions for Earthstone. In December, it purchased Permian driller **Chisholm Energy** for \$604mm which includes 36,100 net acres in the Delaware Basin in Eddy and Lea counties, NM.

Bankruptcies for producers were down significantly in 2021 to just 20 compared to the annual average of 39. The aggregate debt for producers that filed in 2021 was \$2.1 billion, the lowest yearly total since \$8.5 billion in 2017. The peak year for cases filed was in 2016, which included 70 cases. Texas accounted for nearly half of the total producer filings in 2021.

American Industrial Partners purchased **Strike LLC**, a full-service pipeline, facilities, and energy infrastructure solutions provider, in bankruptcy proceedings that included \$426mm total debt.

Exterran will combine with **Enerflex** to create a global provider of energy infrastructure worth \$1.5 billion. Enerflex is a single-source supplier of natural gas compression, oil and gas processing, refrigeration systems, and electric power generation.

UGI Energy Services purchased the **Stonehenge Appalachia** natural gas gathering system in Butler County, PA, for \$190mm, comprised of more than 47 miles of pipeline and associated compression assets and gathering capacity of 130 MMCFPD.

Colgate Energy Partners sold 6,000 net acres in Ward County, TX to an undisclosed buyer for \$230mm. Colgate also purchased 22,000 net acres in Eddy and Lea counties, NM from an undisclosed buyer for \$190mm.

The **Biden administration** is considering raising the 2022 royalty rate that companies must pay on oil and gas production. The royalty rate for leases offered in the first quarter 2022 would be 18.75%, up from the 12.5% current rate.. If the higher rate is finalized, the move would be in keeping with the President's pledge to reform oil and gas leasing on federal lands as part of his climate change agenda.

Evolution Petroleum purchased non-operated Williston Basin assets from **Foundation Energy Management** for \$25.9mm. The acquisition of 50% of certain interests equates to 39% in 73 producing wells along with 47,500 net acres (85% HBP) with associated interest in over 400 gross potential drilling opportunities in the Williston Basin.

Targa Resources bought back the interests in its development company from **Stonepeak Partners** for \$925mm, including a 20% interest in Grand Prix NGL Pipeline, a 25% interest in Gulf Coast Express Pipeline, and a 100% interest in Train 6 fractionator in Mont Belvieu, TX.

W&T Offshore acquired producing properties in the GOM Shelf from **ANKOR E&P** and **KOA Energy** for \$47mm. The transaction increases W&T's federal GOM shallow-water acreage by 57,500 gross (46,000 net) acres and adds over 50 producing wells in three shallow-water fields: the Ship Shoal 230, South Marsh Island 27/Vermilion 191 and South Marsh Island 73 fields.

Enterprise Products acquired **Navitas Midstream's** Midland Basin assets for \$3.25 billion, including 1,750 miles of pipelines and over 1 BCFPD of cryogenic natural gas processing capacity with the completion of the Leiker plant. The Navitas system is anchored by long-term contracts and acreage dedications with a diverse group of over 40 independent and publicly owned producers.

Appalachia is producing record levels of natural gas and producers should be able to maintain or grow that output without the significant investment in wells required in past years. Total U.S. gas production is expected to return to pre-COVID levels in 2022.



SAVE *the* DATE

FALL 2022 MEETING | OCTOBER 17-21, 2022 | IRVING, TX

HOTEL: Westin Irving Convention Center at Las Colinas

HOSTED BY COPAS OF DALLAS





ABOUT THE CREDENTIAL

The APA® certification is a unique credential among other accounting certifications. While the Petroleum Accountant needs the basic concepts and understanding of all accounting matters, the petroleum industry operates under unique guidelines and principles. In preparing for and earning the APA® credential, the accountant will be exposed to all facets of the petroleum industry and achieve or exceed the knowledge required for competent practice as a petroleum accountant. The APA® certified professional is equipped with knowledge and understanding of the industry and petroleum accounting sufficient to excel in job performance and provide a heightened level of accuracy and ethics in the performance of tasks. The APA® designation should be a required element in employee selection, promotion, and retention in the petroleum industry.

ELIGIBILITY

To be eligible for the credential, a candidate must possess a four-year degree with 12 hours of Accounting, plus one year of petroleum accounting experience, OR have five years of petroleum accounting experience. Eligibility will be verified upon receipt of the exam registration.

GENERAL TESTING INFORMATION

The APA® exam is a single exam consisting of 175 questions. The exam is offered in the odd calendar months, except January. Registration is required no later than 45 days prior to the exam window and is available on the COPAS website. Exams are administered by Scantron using their extensive testing center and online proctoring network. You decide what day of the month to take the exam during the selected exam month, subject to testing facility and proctor availability. International testing options are available for a slightly higher fee.

For more information, contact Vanessa Galindo, APA® Administrator, by calling (303) 300-1131 or emailing Vanessa.Galindo@copas.org.

TESTING DATES

MONTH	REGISTRATION
July 2022	April 1, 2022 – May 13, 2022
September 2022	June 1, 2022 – July 15, 2022
November 2022	August 1, 2022 – September 16, 2022

2022 WEBINAR SCHEDULE

Principles of Revenue Accounting

10 AM Central Time

2 CPE	Mon Apr 11	IV: Oil Off-lease Sales Accounting
1.5 CPE	Mon May 16	V: Gas Operations Production Accounting
2.5 CPE	Mon Jun 13	VI: Gas On-Lease and Off Lease Sales Accounting
1.5 CPE	Mon Jul 11	VII: Gas Plant Accounting I - Introduction to Processed Gas
1.5 CPE	Mon Aug 15	VIII: Gas Plant Accounting II - Principles of Gas Plant Accounting
1.5 CPE	Mon Sep 12	IX: Producer and Pipeline Imbalances
1 CPE	Mon Oct 10	X: Production and Severance Taxes
1 CPE	Mon Nov 14	XI: Private and State Federal Royalties
1 CPE	Mon Dec 5	XII: Check Stub Processing

Principles of Joint interest Accounting

12 AM Central Time

1.5 CPE	Wed Apr 13	IV: Dissecting a COPAS Accounting Procedure I
1.5 CPE	Wed May 18	V: Dissecting a COPAS Accounting Procedure II
1.5 CPE	Wed Jun 15	VI: Direct vs Indirect Costs
1.5 CPE	Wed Jul 13	VII: Overhead
1.5 CPE	Wed Aug 17	VIII: Materials
1 CPE	Wed Sep 14	IX: Special Joint Venture Adjustments
1 CPE	Wed Oct 12	X: Allocations
1 CPE	Mon Nov 14	XI: Private and State Federal Royalties
1 CPE	Wed Nov 16	XI: Joint Interest Billings
1 CPE	Wed Dec 7	XII: Accounting for Joint Venture Costs



Knowing Your COPAS Documents

9 AM Central Time

1.5 CPE	Thu Apr 14	IV: An Overhead Primer
1.5 CPE	Thu May 19	V: Revenue Audit Protocols and Practice
1.5 CPE	Thu Jun 16	VI: How Do I Allocate That?
1.5 CPE	Thu Jul 14	VII: COPAS 2005 and its Embedded Interpretations
1.5 CPE	Thu Aug 18	VIII: Expense Audit Protocols and Practice
1.5 CPE	Thu Sep 15	IX: Building Joint Account Payroll Charges
1.5 CPE	Thu Oct 13	X: Building Overhead Charges to the Joint Account
1.5 CPE	Thu Nov 17	XI: Help me Process These Invoices
1.5 CPE	Wed Dec 8	XII: COPAS Economic Factors - Behind the Numbers

The Petroleum Industry 101

Date To Be Determined

Petroleum Geology
History of Oil and Gas
Upstream
Midstream and Downstream
Petroleum Accounting

2022 WEBINAR SCHEDULE CONTINUED

Introduction to Oil and Gas Transactions: Tax Considerations Boot Camp Date To Be Determined

The Basics

- Oil and Gas Interests
- Leasing Transaction
- Sublease
- Economic Interest
- Pool of Capital Doctrine
- Payment Forms

Joint Interest Audit Boot Camp Date To Be Determined

Audit Rights

Audit Preparation – Auditor

Audit Preparation – Audit Host

COPAS Publication References on the Audit Trail

Auditing Tools and Tips of the Trade

Practical Side of Reconciliations

Industry Trends

Understanding Landman Boot Camp

8 Hours CPE. June (Date to be Announced)

Introduction and overview of Oil & Gas Landman Operations

What is a Landman & Why you need to know!

Minerals and Ownership

History of Land and Leasing

Law and Landman

"Land" Departments in Oil and Gas

Landman

Division Orders

Lease Analysts

Your Relationship

Royalty and Working Interest

Royalty

- Defined
- Documents Used

Working Interest

- Defined
- Documents Used

Net Revenue and Overriding Interest

Carried Interest & Farm-out

Law of the Land

- Conservation Laws
- Common Laws



2022

LEGISLATIVE & REGULATORY UPDATE



Information provided by Jeremy Norton and Nate Wolf, subcommittee chairs for the National COPAS Revenue Committee. Questions may be e-mailed to Jeremy at JeremyNorton@copas.org or Nate at NateWolf@copas.org. The update is based on legislative and regulatory information available at the time of publication and is not intended as legal, tax or accounting advice. It may also include items listed in the previous issue of ACCOUNTS, as well as new items.

● Limitations of Onshore and Offshore Drilling and Development

Several states in 2022 continue their efforts to limit or restrict oil and gas development on lands within state jurisdiction. **Massachusetts SD1707** will protect its coasts from offshore drilling while **Massachusetts HD1373** will only allow natural gas compressors in industrial zoning districts. **New York S1421** and **A4242** prohibit the leasing of state forests and wildlife areas for gas production. **South Carolina S119** prohibits approving a plan, license, or permit application for infrastructure used to facilitate the transportation of crude oil or natural gas from the Atlantic Ocean into the state and prohibits the exploration, development, or production of offshore crude or natural gas. **US HR455** and **US S28** provide additional restrictions on developments in the Gulf of Mexico and off the coast of California. **US HR4696** and **US**

HR5707 propose to continue the moratorium on offshore drilling in Florida, Georgia, and South Carolina. **US HR286**, **US HR3048**, **US HR479**, **US HR455** and **US HR3053** all prohibit OCS leasing in specific locations.

● Hydraulic Fracturing Restrictions and Prohibitions

Hydraulic fracturing remains the subject of legislative scrutiny at both the state and federal level. In 2022, many bills carried over from the 2021 legislative sessions and new bills are being proposed, California (SB25, SB467), Florida (SB208), Massachusetts (S518, S519, H927, H921, and S605), Michigan (HB4169 and HB4518), New Jersey (A656, S1517), New York (A1332, S4480, A1404, A4027, A4918, and A6899), and North Carolina (HB635) are all considering bills to either prohibit, further regulate, or further study hydraulic fracturing. Pennsylvania (HB353, HB838) proposes to require fluid tracers in hydraulic fracturing fluids

and to require additional disclosures on the chemical content of fracturing fluids. The United States Congress is also considering HR6168, Future Generations Protection Act, that would eliminate hydraulic fracturing and ban oil and natural gas exports.

● INDIANA

Indiana began its legislative session on January 4 and is set to conclude on March 7. **HB1103** revises multiple oil and gas provisions, but the most impactful is creating the authority for the Commission to establish a fee to fund the regulation of underground petroleum storage.

● MISSISSIPPI

Mississippi opened its legislative session on January 4, and it will close on April 3. The Mississippi legislature is focusing on the relationship between the surface owner and the subsurface owner during this legislative session. **HB501** and **HB721** both provide for the mineral





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Get Plugged In

If you are interested in receiving free legislative updates as they occur, please e-mail Jeremy Norton at JeremyNorton@copas.org or Nate Wolf at NateWolf@copas.org. Specify whether you want to receive updates on state severance taxes and/or state/federal royalties and volumetric reporting. Please note that these Bills only represent what has been filed or proposed at the time of this article. Some may not progress while others may get vetoed, amended and/or passed. There are some oil and gas producing states that do not hold regular legislative sessions in the even years. These states include Montana, North Dakota, and Texas.

estate to revert to the surface owner after twenty years and ten years, respectively. **HB1386** grants the authority to the Governor to terminate the State of Oil and gas Supervisor appointed by the board. **HB500 and HB401** provide that the owner of the surface rights in real estate under which oil, gas or other mineral interests are owned or held separately may be exempt from paying 25% of the ad valorem taxes otherwise due on the real estate. However, the owner or holder of any **nonproducing** oil, gas or other mineral interest owned or held separately from the rights owned in the surface estate shall pay a prorated portion of 25% of the ad valorem taxes due on the land. Please note that this language is written in the ad valorem tax regulation (§27-31).

● NEW MEXICO

New Mexico's legislative session ran from January 18 through February 18. **HB4** is known as the Hydrogen Hub Development Act. This Bill was introduced January 24 and is in the

beginning stages. This Bill proposes hydrogen hub projects, meaning an infrastructure relating to the generation of power and the production, storage, transport, and consumption of hydrogen, including the conversion of methane, natural gas, or water, and the sequestration of carbon dioxide. Within a hydrogen hub project, clean hydrogen electric generation facilities would be considered an electric power generation facility located in New Mexico that uses 100% hydrogen to generate electricity, whose electrical output can be controlled to aid in balancing electric supply and demand and emits no more than 375 pounds of carbon dioxide equivalent per megawatt hour. Also, tax credits and deduction are created such as the Hydrogen Production and Energy Generation Income Tax Credit, the Hydrogen Production and Energy Generation Corporate Income Tax Credit, and the Gross Receipts and Compensating Tax Deduction for hydrogen related Sales and Use.

● NEW YORK

New York opened the legislative session on January 5 and is scheduled to end June 2. **A95** and **A331** require that gas produced, sold, purchased, acquired, stored, or injected in the State of New York be tested to determine the radon level of the gas. Gas with a radon level greater than 2 pCi/L (picocuries per litre) cannot enter a gas distribution system in the state after January 1, 2022. **A225** requires the governor's tax expenditure reporting include an enumeration of all fossil fuel related tax expenditures and imposes a five-year expiration upon any fossil fuel related tax expenditures. **A313** and **S2834** express the legislative intent for the State of New York to transition away from fossil fuels to clean renewable energy. They set a goal of achieving one hundred percent clean renewable energy for the generation of electricity by the year 2030. **A4304** repeals provisions related to compulsory integration and utilization in oil and natural

OFFICE OF NATURAL RESOURCES (ONRR)

The Office of Natural Resources Revenue published its annual inflation increases to Civil Penalties at 87 FR 1671. Below is a summary of the increases.

30 CFR citation	Current Maximum penalty	2022 Inflation adjustment factor	2022 Adjusted maximum penalty
1241.52(a)(2)	\$1,288	1.06222	\$1,368
1241.52(b)	\$12,891	1.06222	\$13,693
1241.60(b)(1)	\$25,780	1.06222	\$27,384
1241.60(b)(2)	\$64,452	1.06222	\$68,462



gas pools and fields. **A5303** promulgates rules related to gas measurement and the use of electronic flow meters. None of these bills passed in this legislative session, but New York allows them to be carried over to 2022. New bills filed this legislative session include **A5294** that allows counties to lease lands for oil and gas exploration, and **S3336** that provides for a Carbon Tax not to be less than \$35 per ton of CO₂ equivalent escalating at \$15 annually up to \$185.

● OKLAHOMA

Oklahoma opened its legislative session on February 7 and will end on May 27. **SB467** and **HB1833** are proposed rules to prohibit nuisance actions for oil and gas activities lawfully in operations for two years or more prior to the date of bringing the action. **SB476** rescinds the transfer of a well or wells that were done for improper or fraudulent purposes and in those instances specifies that the liability for plugging costs and any additional liability shall remain with the transferor. **HB1003** modifies to nine months (vs. the previous six months) the date by which initial royalties from new wells must be paid from the date of first sales. **HB1237** provides for the review of presidential executive orders by the Attorney General as directed by the Legislature. None of these bills passed in this legislative session, but Oklahoma allows them to be carried over to 2022. **SB1524** requires submission of a properly executed division order for payment of funds and sets the interest rate for late payment at 12%. **HB3568** was prefiled on January 20. On or after July 1, 2022, any

incremental production from secondary recovery projects will be exempt from the gross production tax for a period not to exceed 5 years from the initial project start date or for a period ending upon the termination of the secondary recovery process, whichever occurs first. On or after July 1, 2022, any incremental production from tertiary recovery projects will be exempt from the gross production tax from the project start date until project payback is achieved, but not to exceed a period of 10 years. Payback refers to recovery of capital expenses and operating expenses, excluding administrative expenses. Secondary recovery and tertiary recovery exemptions will not apply when the recovery project uses fresh water as the primary injectant, except when using steam.

On or after July 1, 2022, any incremental production from a production enhancement project will be exempt from the gross production tax for a period of 28 months from the date of first sale after project completion. For all such production, a refund against gross production taxes will be issued. Please note, "production enhancement project" means any workover, recompletion, reentry of plugged and abandoned wellbores, or an addition of a well or field compression. A refund cannot be claimed until after the end of the fiscal year, which is July 1 through June 30 of the subsequent calendar year. Unless otherwise specified, no claims for refunds can be filed more than 18 months after the first day of the fiscal year in which the refund is first available.

● PENNSYLVANIA

Pennsylvania began its legislative session on January 4 and is scheduled to end November 30. **HB1144** and **SB534** reintroduce the Conventional Oil and Gas Well Act. This is an act relating to conventional wells and the development of oil, gas, and coal. It imposes powers and duties on the Department of Environmental Protections and attempts to permit the optimal development of oil and gas resources consistent with the property rights of owners, to protect the safety of personnel and facilities employed in the exploration, development, storage of natural gas or oil or the mining of coal and to protect the safety and property rights of persons residing in areas where exploration, development, storage, or production occurs. **SB806** was referred to the Environmental Resources and Energy committee on June 25. This bill calls for changes to the payment information provided to interest owners for proceeds from production (check stub). **HB1144** also proposes a 200 feet setback from a building or water well and **SB650** increases setbacks from schools and hospitals to 5,000 feet. None of these bills passed in this legislative session, but Pennsylvania allows them to be carried over to 2022.

● WEST VIRGINIA

West Virginia's legislative session runs from January 12 through March 12. **HB2081** proposes to implement an income withholding tax on royalties paid to any nonresident lessor. **HB2132** and **HB2975** seek to implement the recommendations required by the Natural Gas Horizontal Well

Control Act related to the continuous monitoring of air, noise, dust, and particulates. These Bills also change the set back from horizontal well work activity to be 1,500 and 2,500 feet, respectively from a residence. **HB2725** and **SB480** add a \$100 per year fee per well to fund the Office of Oil and Gas of the Department of Environmental Protection. **HB3051** directs the Secretary of the Department of Environmental Protection to adopt rules with respect to the standardization of leases, deeds or contracts relating to oil and gas. **SB56** and **HB4054** seek to address and prevent orphan wells by creating bonding requirements, plugging assurances, and limiting well transfers. **HB2583** establishes standards for shallow horizontal wells. A shallow horizontal well means a horizontal well other than a coalbed methane well, drilled no deeper than 100 feet below the top of the "Onondaga Group": Provided, That in no even may the "Onondaga Group" formation or any formation below the "Onondaga Group" be produced or stimulated in any manner. **HB2853** establishes standards for shallow horizontal drilling units. The following Bills are being considered in their respective chambers. **SB106** proposes a 1/10 increase to the taxes already imposed for the privilege of severing, extracting, reducing to possession, and producing for sale, profit or commercial use, coal, natural gas, or oil, or for the generation of electricity by wind or solar devices. The additional revenue generated by these taxes will be deposited into the "State Black Lung Fund". **HB2844** The purpose of this Bill is to reduce the 40% limitation of the qualified manufacturing investment credit to 25%. The credit may be used to offset severance tax, business franchise tax, and the corporation net income tax, in that order. **HB2979** Eligible manufacturing businesses that has purchased natural resources: (A) From a seller that has paid the severance tax and (B) that uses the natural resources in West Virginia in its manufacturing process or electric generation process in West Virginia are allowed a credit against the severance tax. The amount of credit allowed to the eligible taxpayer is the amount of the severance tax imposed in the taxable year attributable to natural resources that were sold to and used by the eligible manufacturer in the taxable

year. Tax attributable to natural resources that were sold to a person related to an eligible taxpayer do not qualify for the credit. However, the Tax Commissioner may waive this related person sales restriction, if the Tax Commissioner determines that the natural resources that were sold to a related person were sold in an arm's length transaction at prices reflective of current market prices at the time of sale for the natural resource sold. The amount of severance tax imposed that is attributable to natural resources that were sold to an eligible manufacturer by a seller that is not the natural resource producer that paid the severance tax on the natural resources sold, does not qualify for the credit. **HB3147** The severance tax is proposed to

increase from 5% to 10% of the gross value of the natural gas or oil produced by the producer. For all natural gas produced from any well, excluding wells utilizing horizontal drilling techniques, which produced an average between 5,000 cubic feet of natural gas per day and 60,000 cubic feet of natural gas per day during the calendar year immediately preceding the beginning date of a given taxable year, and for oil produced from any well, excluding wells utilizing horizontal drilling techniques, which produced an average between one-half barrel per day and 10 barrels per day, during the calendar year immediately preceding the beginning date of a given taxable year, the rate of tax is proposed to increase from 2.5%





to 5% of the gross value of the natural gas or oil produced. For all natural gas produced from wells utilizing horizontal drilling techniques, which produced an average between 5,000 cubic feet of natural gas per day and 60,000 cubic feet of natural gas per day during the calendar year immediately preceding the beginning date of a given taxable year, and for oil produced from wells utilizing horizontal drilling techniques, which produced an average between one-half barrel per day and 10 barrels per day, during the calendar year immediately preceding the beginning date of a given taxable year, the rate of tax is proposed to increase from 5% to 10% of the gross value of the natural gas or oil produced as shown by the gross proceeds. **HB4054** relates to the creation of the Orphan Oil and Gas Well Prevention Act of 2022 which aims at preventing oil and gas wells from being orphaned on the surface owner's land without a responsible driller or operator with the resources to plug the well, produces procedures for the prevention of orphaned wells; and requiring

plugging money set aside as escrow in the office of the State Treasurer.

● WYOMING

Wyoming's legislative session runs from February 14 through March 11. **SF38** Clarifies the monthly payment of ad valorem tax on gross product of mineral production for a given production month will be reported by the 25 th of the third month following the production month. Each county will invoice each producer on or before the 10 th day of the month following the report date. Payment will be due and payable to the department on or before the 25 th day of the third month following the production month. If the taxpayer's liability for severance tax is annual so will the ad valorem. The taxpayer will report to the department on or before February 25 following the production year. The department will invoice the taxpayer on the 10 th day following the reporting date. The payment will be due on March 25 following the production year. Deferred payments of 8% start December 1, 2023. Each county will track payments and will invoice the taxpayer no later than October 1, 2023. If a taxpayer is subject to deferred payments and divests assets in a certain county, all deferred payments will become due by the 25 th of third month after divestment.

UNITED STATES CONGRESS

● The following bills are all under consideration in the 117 th United States Congress which is in session from 2021 thru 2022. **S624** and **HR4219**, the Fair Returns for Public Lands Act of 2021, proposes to amend the Mineral Leasing Act to increase certain royalty rates, rentals, and minimum bid requirements. **HR1505** will amend the Minerals Leasing Act for surface-disturbing activities and reclamation costs. **HR1612** and **S683** amend the Internal Revenue Service Code of 1986 to clarify those products from tar sands are crude oil. **HR1329**, the Surface Transportation Investment Act of 2021, amends the Internal Revenue Service Code of 1986 to 'repeal loopholes for [major integrated] oil companies', including the foreign tax credit, deductions for intangible drilling and development costs, percentage depletion allowances for oil and gas

wells and tax deductions for tertiary injection expenses. **HR2184** proposes to Amend the Internal Revenue Service Code of 1986 to repeal fossil fuel subsidies for oil companies. **HR575** proposes additional regulation of border crossing facilities used for the import or export of oil and natural gas. **HR1575** proposes to repeal restrictions on the export and import of natural gas. **HR1819** and **S707** require that a percentage of exports be transported on United States flagged vessels. **S1011** and **HR2705** amend the Natural Gas Act to provide for expanded natural gas exports. **HR1600** proposes to reduce methane emissions due to flaring from oil and natural gas drilling and production activities. **S2801** proposes to establish a durable framework for achieving long-term reductions in methane emissions. **S1326** prohibits the Environmental Protection Agency from issuing greenhouse gas emission rules until such time as China, India, and Russia adhere to the same Paris Agreement emission reduction targets as the United States. **S645** proposes that the Secretary of the Treasury levy an \$1,800 per ton fee on oil and gas facility methane emissions. **HR1492**, the Methane Waste Prevention Act of 2021, proposes the creation of new federal waste prevention rules to reduce methane emissions to ninety percent of 2012 levels by the year 2030. This rule would also reinstate the Waste Prevention, Production Subject to Royalties and Resource Conservation rule (the 2016 Final Rule) published on November 18, 2016 (see 81 FR 83008). **HR2132** requires the regulation of oil and gas waste under the Solid Waste Disposal Act. **HR4334** empowers States to manage the development of oil and gas on available Federal land and to distribute OCS revenue to certain coastal States. **HR5619** is the counter to **S645** and, it prohibits the EPA from imposing a fee on certain facilities for methane emissions. **HR2962** proposes to amend the Mineral Leasing Act to remove the Secretary's authority to issue noncompetitive federal leases. **HR6086** directs the Secretary of the Interior to compensate States for the lost revenue or any year during which Federal oil and gas leasing does not occur or otherwise results in lost revenue to that State. **S3167**, the Fossil Free Finance Act, requires banks to assess any nonbank financial company's

share of emissions that the bank is financing and provide specific plans to discontinue new or expanded fossil fuel projects. **S3214**, the SMART Energy Act, promotes domestic energy production by requiring the Secretary to immediately resume oil and gas leasing. **HR6297** limits the President's ability to drawdown the Strategic Petroleum Reserve. **HR6298**, the Make Energy Affordable Act, proposes to require the executive branch to report to Congress on information related to higher energy prices and their impacts on the overall economy. It also requires Federal agencies to report on the actions they are taking to address rising energy prices. **S3353** calls for the Biden Administration to reverse course on some policies related to domestic oil and gas development such as the Keystone XL Pipeline, Paris Climate Agreement, and immediately resume oil and gas lease sales on Federal lands. In addition to the individual bills impacting oil and gas that have been proposed in the United States Congress, they are also working on the 2022 Fiscal Year Budget. **HR5376** (Build Back Better Act) pursuant to **S. Con. Res. 14** (Advancing the Build Back Better Plan) was proposed as a \$3.5 trillion dollar budget and requires revenue raises to pay for the bill. The price tag has since been reduced to just under \$2 trillion. The most recent version can be found under Rules Committee Print 117-17 where many of the administrative provision changes have been removed. Some of the items directly impacting oil and gas reporting discussed and submitted in the most recent proposal include: (1) raising the minimum royalty rate for new federal onshore leases from 12.5% to 18.75%; (2) Repeal of the Arctic National Wildlife Refuge Oil and Gas Program; (3) Increasing the minimum bid five times; (4) Cutting lease terms in half; (5) New annual Inspection and Severance Fees for onshore and offshore leases; (6) Royalties on all gas produced (including gas used on or for the benefit of the lease); (7) Elimination of royalty relief. Many of these provisions are also included in the individual bills that have been proposed. Stay tuned for future updates!



COMMITTEE NEWS



AUDIT STANDING COMMITTEE

MATT PILKINGTON, CHAIR

The Audit Committee met January 20. The meeting included both a combined session with the Joint Interest committee and a separate break-out session for the Audit Committee.

The agenda focused on the Model Form 202X Accounting Procedure. Prior to the meeting, the drafting team published Draft 6 of the document, incorporating many comments received by the committee and items discussed at the Fall 2021 meeting. The drafting team presented the history of the entire project, a summary of all comments received since the previous draft was published, and the changes included in Draft 6 during the combined session. Those changes were discussed in greater detail during an interactive Audit Committee breakout session. The changes included the addition of the audit “death penalty,” modifications to Technical Services, labor for “field agent” functions, Affiliates, Legal, HSE, Other Expenditures, Overhead, and material pricing provisions.

Comments on the latest draft were due by February 24, 2022. All drafts of the Accounting Procedure and accompanying Model Form Interpretation are in the members-only portion of the COPAS website.

Mark your calendars for the Spring Meeting, to be held in-person at the San Luis Resort in Galveston, Texas, on April 25 – 29. The last in-person meeting was just over two years ago. I encourage everyone to attend. A large benefit of COPAS is networking with peers, sharing ideas, and developing professional relationships. We plan to focus a portion of the meeting to the networking aspect and are excited to see everyone there!



JOINT INTEREST STANDING COMMITTEE

PATRICIA ELLINGTON, CHAIR

The Joint Interest and Audit Standing Committees met on January 20. This working session was all about the Model Form Accounting Procedure. The drafting team, represented by Karla Bower and Roger Gann, presented the roadblocks surrounding the Accounting Procedure as written. The presentation covered

the interest and audit forfeiture clauses, the decision to leave Model Form references out of the Model Form Accounting Procedure, the removal of the field agent definition, and changes to the technical services, affiliates, legal, HSE, other expenditures, overhead, and materials sections. There were a couple of great educational areas included in the presentation that explained topics that may have caused confusion. Draft six of the Model Form Accounting Procedure and draft four of the Model Form Interpretation to the Accounting Procedure were emailed to the Society representatives and Chairs prior to our Winter meeting. A final voting draft is anticipated by mid-March and a committee vote on the Model Form Accounting Procedure is expected at the COPAS Spring meeting.

While in joint session, the committees discussed the Workers’ Compensation Manual Insurance Rates that are outlined in MFI-31, Self-Insurance for Workers Compensation and Employers Liability Insurance. These calculations are outsourced to an actuarial firm on an annual basis. COPAS Accounting Procedures provide for an Operator to charge the Joint Account directly for the cost of workers’ compensation and employer’s liability insurance premiums. COPAS has been paying to collect and calculate these manual rates for forty states. Just as companies review expenses, COPAS also reviews expenses. It was unclear how many companies or clients of COPAS members use the rates provided by COPAS. A straw poll was taken at the COPAS Fall 2021 meeting that provided a base state list of Texas, Louisiana, Oklahoma, New Mexico, Colorado, and California. We took another poll at this Winter meeting and found the states requested included: North Dakota, South Dakota, Alaska, Mississippi, Montana, Kansas, Virginia, West Virginia, Pennsylvania, Ohio, Nevada, Michigan, Arkansas, Alabama, Florida, Indiana, Illinois, Utah, Wyoming, Michigan, Tennessee, and Nebraska.

The Joint Interest Committee held a separate session. Dawn Bruno and Phil Braaten from the drafting team were available, as we discussed the Model Form Accounting Procedure topics to ensure everyone understood and questions could be answered. Discussion then turned to the states to include in our Self-Insurance for Workers Compensation and Employers Liability Insurance economic factor. Using the poll response from the combined meeting and adding our base states, the Joint Interest Committee voted to pay collection and data calculation for the states listed here.

Texas, Oklahoma, Louisiana, New Mexico, Colorado, California, North Dakota, South Dakota, Utah, Alaska, Mississippi, Montana, Kansas, Virginia, West Virginia, Wyoming, Pennsylvania, Ohio, Michigan, Arkansas, Alabama, Florida, Indiana, Illinois, Nevada, Tennessee, and Nebraska. Three additional states were added by the COPAS Board to include Kentucky, Idaho, and New York. The actuary will be contracted to provide COPAS with 30 states rather than 40. I look forward to seeing everyone at our next national meeting.



REVENUE STANDING COMMITTEE

JEREMY NORTON, CHAIR

The Revenue Standing Committee's chair is Jeremy Norton. Jeremy is currently a Consultant in the Regulatory, Royalty & Audit Compliance group of ConocoPhillips Leveraged Services Organization in Bartlesville, Oklahoma. He is responsible for working with Production and Revenue Accounting to ensure compliance with current and evolving Federal and State regulations. He also supports Revenue Accounting by reviewing and interpreting oil and gas sales and service contracts to determine corresponding accounting obligations.

Prior to joining ConocoPhillips in 2021, Jeremy worked for Devon Energy in Oklahoma City and Samson Resources in Tulsa, serving in various accounting roles that covered Joint Venture, AR, AP, Production, Revenue and Regulatory Reporting. He has been involved in COPAS for eight years, most recently serving as the Vice Chairperson of the COPAS Revenue Standing Committee. He lives in Bartlesville, Oklahoma with his wonderful wife and four children. After multiple successful virtual conferences, the Revenue Committee is excited to be returning to in-person meetings with our Spring 2022 conference and have planned to offer multiple hours of CPE. We are meeting the morning of Tuesday, April 26 and all day on Wednesday, April 27. Some of the topics we are covering will include regulatory and legislative updates for royalties and severance taxes, how to conduct a revenue audit, and getting an update from the Office of Natural Resources Revenue. We look forward to seeing everyone in Galveston!

Through retirements and terms ending, we have multiple vacancies on our leadership team. The positions currently open include Vice Chair, BLM/Federal Regulatory Affairs Subcommittee and Non-Regulatory Subcommittee. If you or someone you know is interested in serving in any of these roles, please contact Jeremy at jeremynorton@copas.org. These roles provide a great opportunity to help direct our meetings and lead on revenue issues at a national level.



SOCIETY NEWS



COPAS - OKLAHOMA CITY

CHRIS COPELAND, PRESIDENT

Happy belated New Year! It's still annual goal-setting season, personally and professionally. At COPAS-OKC, we've asked our members to consider volunteering for COPAS-OKC leadership as a goal this year. We have a strong leadership culture in our society and several exciting opportunities for new leaders to step up.

At our December meeting, COPAS-OKC hosted one of my favorite speakers in a while, Dr. Steven Agee – Dean Emeritus and Professor of Economics at Meinders School of Business, Oklahoma City University. In addition to leading the OCU business school, Dr. Agee is an experienced business leader who previously served on Board of the Federal Reserve Bank of Kansas City, among other roles. He spoke from a wealth of knowledge about macro-economic trends in the U.S. and oil & gas industry.

COPAS-OKC hosted an excellent lineup of speakers in February and March. Bill Shanahan (Energy Rogue) spoke on Energy Markets. Kate Henderson (Fellow Environmental Partners) spoke on Oil & Gas Non-Profits. Rick Roybal (Martindale Consultants) will speak in April on Cybersecurity.

Finally, we're getting excited for the Spring meeting in Galveston, TX! It appears the industry outlook is looking up, and this is a great opportunity to invest in professional development and education. I've missed seeing my COPAS colleagues in-person.

A lot has changed the past two years, and I look forward to catching up. Ask me about my family (two kids now), 167th place finish at the New York City Marathon in November 2021 (over 30,000 people ran), and my new data science role at work. You can find me on the beach with a cold drink in my hand.

PETROLEUM ACCOUNTANTS SOCIETY OF OKLAHOMA - TULSA

VANESSA GREEN, PRESIDENT

The Petroleum Accountants Society of Oklahoma - Tulsa (PASO) hosted Brent Watson of SALTA as the February presenter. Brent has thirty-one years of practice in sales tax, property tax, and tax incentive programs. Brent has focused his services for clients in educating personnel, improving sales tax processes, and building rapport with taxing authorities to effectively resolve tax issues on behalf of clients in Arkansas, Oklahoma, and Texas. He is an Avalara sales tax software implementation partner.

In April PASO will welcome back all former Presidents for the Past President's dinner. This was the first time PASO had held the event since 2019. It will be nice to see everyone, and we look forward to keeping this rich tradition in the years to come.

Our society leadership this year is:

Vanessa Green – President
Nate Wolf – 1st Vice President
Bryan Cox – 2nd President- Bryan Cox
Patricia Ellington – Treasurer
Melodee Papke – Secretary
Aric Miller – Director
Erin Webb – Director

Our meetings are typically held on the 3rd Tuesday of the month September through May. Additional information can be found by visiting our website at paso-tulsa.org.

- Reporter: Aric Miller

PETROLEUM ACCOUNTANT SOCIETY OF PERMIAN BASIN

ELIZABETH PACHECO, PRESIDENT

The Petroleum Accountants Society of Permian Basin November luncheon speaker was Casey Yates, Director of Finance of the Permian Strategic Partnership. We also hosted the December Past President Christmas luncheon at Librado, where we were very glad to network and reconnect with our PASPB Past Presidents. During the month of December, PASPB collaborated with Women's Energy Network benefiting the Midland Rape Crisis and Children Advocacy Center. The January luncheon speaker was Greg Ostroff and Ryan Kavanagh, Endeavor Energy Resources, who discussed saltwater disposal from the accounting and operations perspective.



PETROLEUM ACCOUNTANT SOCIETY OF SAN ANTONIO

KIRK FOREMAN, PRESIDENT

PASSA met in person January 25 at the Petroleum Club. We began with a combined Joint Interest and Audit Committee Meeting, discussing the recent draft of the 202X Accounting Procedure and MFI.

The luncheon speaker was COPAS President Dalin Error. The title of Dalin's presentation was "COPAS docs: What are they? What aren't they? Why do we need them?" The presentation provided information and background on COPAS documents, including the different types and classifications, the processes for creating or modifying the documents, and the purpose of the documents in the dynamic oil and gas industry. Areas of focus included accessing the documents through epublication, a list of more recent documents, both approved and in-process, and brief descriptions of several of the most used (and useful) copas documents. Dalin is a fantastic speaker, and the presentation was very informative. I urge other societies to reach out to Dalin and invite him to present this information. PASSA is looking forward to Dalin's leadership during the 2022 COPAS year.

For additional information about PASSA, please see our website www.copassa.net.





SAVE *the* DATE



SPRING 2022 MEETING
APRIL 25-29, 2022
GALVESTON, TEXAS

REGISTRATION: \$350 for members, \$320 for guests
HOTEL: The San Luis Resort, Spa & Conference Center
5222 Seawall Blvd, Galveston, TX 77551 800 - 392 - 5937

COPAS room rate: \$189 per night plus applicable taxes & fees
(**Discount Code:** COPAS22 - book by March 21, 2022 for special rate)

3 days +/- conference eligible for rate and includes parking and resort fees.

*Activities are subject to modification based on COVID-19 protocols and participation at time of event.



Spring 2022 Meeting Schedule of Events:

Monday

- COPAS Board Meeting
- Arrive and get settled

Tuesday

Morning

- Earn 1.5 hours of CPE
Dissecting a COPAS Accounting Procedure
sponsored by COPAS Energy Education

Afternoon

- Leadership Conference

Night Off

- Network in the Hospitality Suite
- Try out a new restaurant
- Hang out at The Strand
- Leadership dinner by invitation

Wednesday

Morning

- Committee meetings

Afternoon activities

- Committee meetings
- Tour options
- Moody Gardens Golf
- Earn 1.5 hours of CPE
Revenue Audit Protocols and Practice
sponsored by COPAS Energy Education

Evening

- 1960's themed party

Thursday

Morning

- Committee meetings

Afternoon

- Committee meetings
- Board of Directors Meeting

Evening

- Moody Gardens Rainforest Pyramid
- IMAX 3D Theatre
- Barbeque Dinner

Friday

Morning

- Council Meeting
- Explore Galveston attractions and say the weekend



COPAS HISTORY

Congratulations to Tom Wierman for completing 10 years as COPAS Executive Director. Tom became the 8th Executive Director on March 1, 2012.



VOTING ITEMS

SPRING 2022

- ✓ Fall 2021 Council Meeting Minutes (majority)
- ✓ Member Assessment, effective January 1, 2023 (majority)
- ✓ Vote to Suspend Abilene Society (2/3)
- ✓ Election to fill vacancy on the 2022 Nominating Committee (majority)

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Networking	Property Tax
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Oil and Gas Education	Vendor Risk Management
Politics in Oil and Gas	General Topics

RECENT PODCAST TOPICS:

- Compliance in a Post-Covid Era
- Must-have Reference Items in Your Oil and Gas Accounting Library
- Retaining Employees and Creating a Positive Work Culture
- Are You a Folder or a Crumpler?
- Surviving Mergers & Acquisitions
- How the Election Results Will Impact the Energy Section
- How Derivatives Can Protect You in a Volatile Market
- And many more!

COPAS has teamed up with SherWare, Inc. to host a weekly Oil and Gas Accounting podcast. COPAS Executive Director Tom Wierman and SherWare CEO, Phil Sherwood, are the co-hosts.

Why an Oil and Gas Accounting Podcast? Because there's so much happening in the world today, especially in oil and gas that affects the accounting function, we want to be a place that you can come to for relevant and timely information on the different accounting issues that you're facing. The weekly podcast will bring valuable accounting information to the folks who deal with oil and gas accounting on a daily basis. If you're a CPA, an accountant, a bookkeeper, an office manager, or if you work for an oil and gas operator doing the accounting yourself, you are who this podcast is for.

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Who Should Attend:

- Accounting and financial management leaders working in upstream and midstream accounting in oil and gas
 - Public accounting and governmental entity personnel
- Tax and audit personnel seeking to gain valuable insight into current regulations, laws and standards
- Those new to the industry seeking overall knowledge of the industry from accounting, financial and technical aspects in upstream and midstream accounting functions

Advanced Prep: None

Prerequisites: A general knowledge of the oil and gas industry as it relates to accounting and auditing standards, financial reporting, tax regulations and policy, and energy economics.

Recommended CPE Credit: Up to 14 hours

Accommodations: The Westin Galleria is offering a special group room rate. Call 888-627-8536 or go online at pdi.org to make your reservation.

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SAVE the DATES

- 17** Fall 2022 /// October 17-21, 2022 /// Irving, TX
- 34** Spring 2022 /// April 25-29, 2022 /// Galveston, TX



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ACCOUNTS
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May 9th, 2022

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