COUNCIL OF PETROLEUM ACCOUNTANTS SOCIETIES

ACCOUNTS

SUMMER 2020

ISSUE FEATURES

Sales Tax Refunds and Savings When Cash Is King

Current Economic Impact

COPAS Meetings: A Look to the Future

copas

Council of Petroleum Accountants Societies

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copas Council of Petroleum Accountants Societies

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President's Message

TAMMY MILLER-DAVISON

Wow, it's been a crazy ride the last couple of months. I've been on a few ups and downs of the rollercoaster ride of the oil and gas industry, but this may be the worse so far. We've gone from $40-$50 oil to negative oil prices and now we are lucky if the oil prices stay above $15/bbl. The COVID-19 pandemic and the OPEC and non-OPEC members production war created an unprecedented double-whammy to the industry. I hope you, your family, and friends are doing well and weathering this "storm."

Unfortunately, I couldn't see everyone in Washington, D.C. I was looking forward to the cherry blossoms, meetings, networking and seeing everyone. COPAS didn't skip a beat and went virtual! Overall, it was a positive experience. The Joint Interest and Audit meetings had a great turn-out with the society voting representatives. All economic factors were approved, and we were able to have some discussion on some of the items.

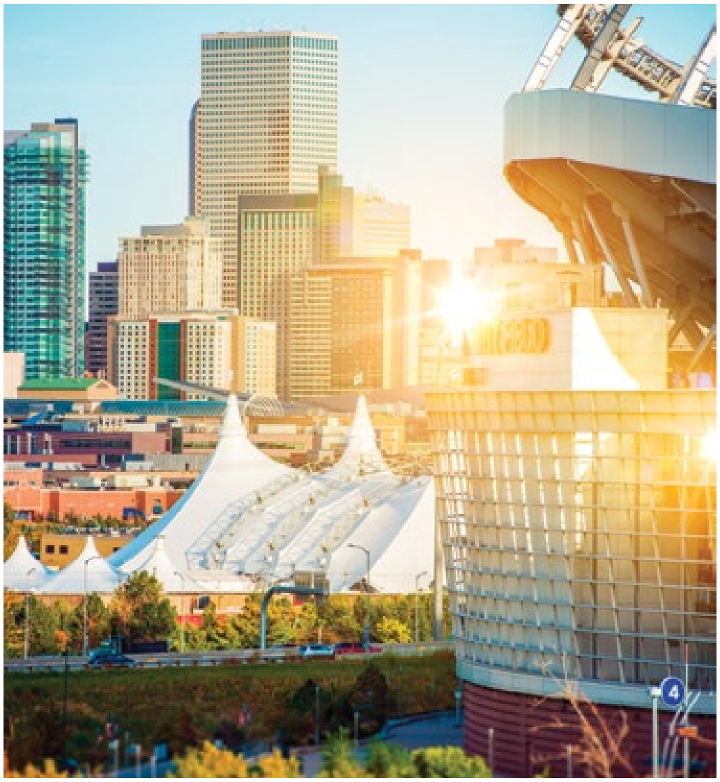
I never thought my first General Council meeting would be sitting at my dining room table with slippers and headphones on. It was definitely a first! Again, we had great turn-out with 23 of the 25 society's voting representatives present. The technology used for all meetings was Adobe Connect. It allows individuals to comment in the Chat Box, raise their hand to speak and vote electronically. All voting items were approved. Thank you, Angie Knipe for all your work getting the meetings set up and running smoothly.

The Petroleum Accountants' Society of Austin was approved as a Participating Society! Welcome Austin! I hope we will be able to meet some of Austin's members soon.

The Leadership Conference was held the following week. Melissa Gruenewald sent a survey prior to meeting regarding meetings and meeting formats. We had a great discussion on virtual vs. in-person meetings and the length of the meetings. The board presented a 2 ½ day meeting format to get some feedback. It provides time for all the committee meetings, a leadership conference and reception, hospitality suite and a member reception. The main items eliminated are golfing and excursions. The General Council meeting would be early afternoon of the last day to not require another hotel night in order to attend the council meeting and still allows most individuals to get home the same day. The format allows for networking, discussing emerging issues and working on documents. The board has a lot to discuss based on the comments received during the Leadership Conference. I would love to hear your thoughts on the format and having virtual meetings occasionally while still ensuring documents keep moving forward. Email or call me with your thoughts.

I want to thank Trey Thee. He is leaving the industry and stepped down from the COPAS board. I didn't really know Trey well until he joined the board but I'm glad I did get to know him. He has been a great member and would speak up and question what the board was doing at times. His ideas were refreshing and sometimes out of the box, but they were exactly what we needed at the time. The board will not be appointing a replacement since his term only has about seven months left. He will be missed but we wish him well as he starts a new career and hopefully will have more time for tornado chasing! Enjoy!

One of my goals that I discussed in my last ACCOUNTS President's letter was creating a membership toolkit. With the downturn in the industry, this goal has become a top priority for COPAS. COPAS developed a group of about six to eight members to meet and discuss what they envision for this toolkit that will help their



societies retain members and recruit new members. The team met in May with RSM, our marketing consultants. It was a great discussion with a lot of ideas and suggestions. Watch for more information as we begin creating the Membership Toolkit.

The Permian Basin is excited to host the Fall 2020 meeting at Sirata Beach Resort in St. Petersburg, Florida in September. They are working closely with the hotel to see what options or changes they can make to reduce the length of the meeting or determine what changes will be needed knowing social distancing may still be warranted. It is scheduled for the week of September 21, 2020. Watch for more information via email or ACCOUNTS. I hope to see you there!

WINE TOUR-PALISADE CO

ICELAND

PORTO

EDINBURG SCOTLAND

HOME OFFICE MESSAGE

Tom Wierman, COPAS Executive Director
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What an interesting time we are living in. The news cycle is all about COVID-19, "the pandemic," and the many changes we have been faced with. New terms have come into play such as WFH (work from home), social distancing, furlough, flattening the curve, stay at home, essential and non-essential businesses, self-quarantine, and the new normal. Websters Dictionary added new words in September to include escape room, Pickleball, Deep state and pain point. On March 18 new words were added specifically related to the pandemic. They followed in April with another 535 new words, again many of those dealing with the unfolding of events around COVID-19. It is not that they do not add new words periodically, it just seems like there has been an explosion of new words that almost match what is taking place in the world with the virus. I guess maybe I stopped long enough this time to realize that happened.

You may be getting tired of "Zoom" meetings or working in Microsoft Teams. "Continuous Learning" with your children while staying at home has brought new challenges. But "We Got This" all while being agile and "reshaping the norm." (I think I just dropped a few more words of the day.)

I read a few stories where some older Americans (100+ age) died of the virus. They lived through a lot, including losing a sibling or parent to the Spanish Flu (1918). I cannot imagine, in a lifetime, that they would have seen both pandemics unfold. Again, who would have thought that finding toilet paper, paper towels, Clorox wipes, or anything else that was hoarded in the days of late March and April would be problematic? Now it is the ability to find fresh beef, pork, and chicken in stores because the virus has spread like wildfire through processing plants. The disruption of the supply chain and even a negative oil price may will be some of the things that we remember in our lifetime.

I use the phrase "the genie is out the bottle now" or "it's going to be hard to get the genie back in the bottle." My family is tired of me saying that, but just about everybody understands what that means. It will be hard to undo some of the changes everyone was forced to deal with. Some things were probably due for a correction, like allowing employees to work from home. People ask me "how is working from home going?" I have worked from home since I took this job, so nothing really changed for me. "Stay at home." Working from home does not require me to leave the house much, so again, not a big deal. I will be honest and say I did not much care for the idea of being told when and where I could go, and I can think of a couple times where I went on a non-essential errand, just because. At night, while I was out walking, I probably judged a few people driving down the street. "I can't believe everyone one of those cars are getting serviced, driving to the grocery store, or are going to the doctor." (My Mom would tell me to remember to keep my own doorstep clean.) Attending church sitting on my living room couch was probably the most difficult to wrap my head around. No Palm Sunday, Holy Week, or Easter with fellow parishioners, rather being at home with just the family, watching on TV.

It is hard to say what the new normal will really look like, but I think most of us are pretty resolved to make the best of the situation. COPAS has held 117 Council Meetings in person since 1961. I think there may have been a couple special meetings called in recent years, mostly dealing with hiring an Executive Director between Council meeting dates, but it has been a very regular schedule. The board had been discussing meeting format, length, and frequency. I did not anticipate that the 118th meeting would be our first test of any of those concepts. Still, I think it came off well. We missed the ability to be together and network, but that makes the Fall 2020 meeting something to look forward to. Ideas of what future meetings might look like are highlighted on page 44.

While on the topic of cancelled and/or virtual meetings, the Summer meeting planned for July 16 has been changed. There will be a series of virtual meetings on July 21 & 22. See page 46 for more details.

Even this issue of ACCOUNTS was impacted by COVID-19. With no Spring meeting, there are no photo pages or Standing Committee Reports. With no society meetings being held, there is no Society News. I think we have made up for the lack of those items with the feature articles included. Brent Watson provides some great strategies as it relates to sales tax and oilfield purchases (see pages 12-13. Diane Kirk provides us with accounting and financial reporting considerations given the current economic situation (see pages 40-43). The look of the magazine will be obvious to you as well. We are just under the number of pages that allows a "perfect binding" option. In other words, this issue has been stapled. I much prefer that stiff spine, but maybe stapling is a new norm. Who knows?

I congratulate two long-time COPAS members, Wade Hopper and Debra Retzloff, for being named honorary members of the Houston Society. It is always nice to see those recognitions given. Read more about this on page 46.

I also want to thank Rebecca Paris who has been the Revenue Standing Committee Chair. She stepped down from that role at the end of April. We did not get to recognize her publicly but will at the Fall meeting. Pam Akpotaire has been named the committee chair. Jeremy Norton will assume the Vice Chair position.

Likewise, a big thank you to Trey Thee who had been serving on the Board of Directors. Trey is leaving the industry and moving to Oklahoma City to work in the financial services area. Thank you, Trey, for your many contributions.

Two communications have been sent regarding ePub subscriptions. These are now past due, but we would greatly appreciate you taking care of these as soon as you can. Product sales are a big part of our operating budget.

Lastly, a reminder that April 24, 2021 is our 60th anniversary. Houston hosted the 50th Anniversary meeting and will again host us for the 60th Anniversary. Stay tuned for more details about this meeting.

Hope to see you in St. Petersburg, September 21-25.

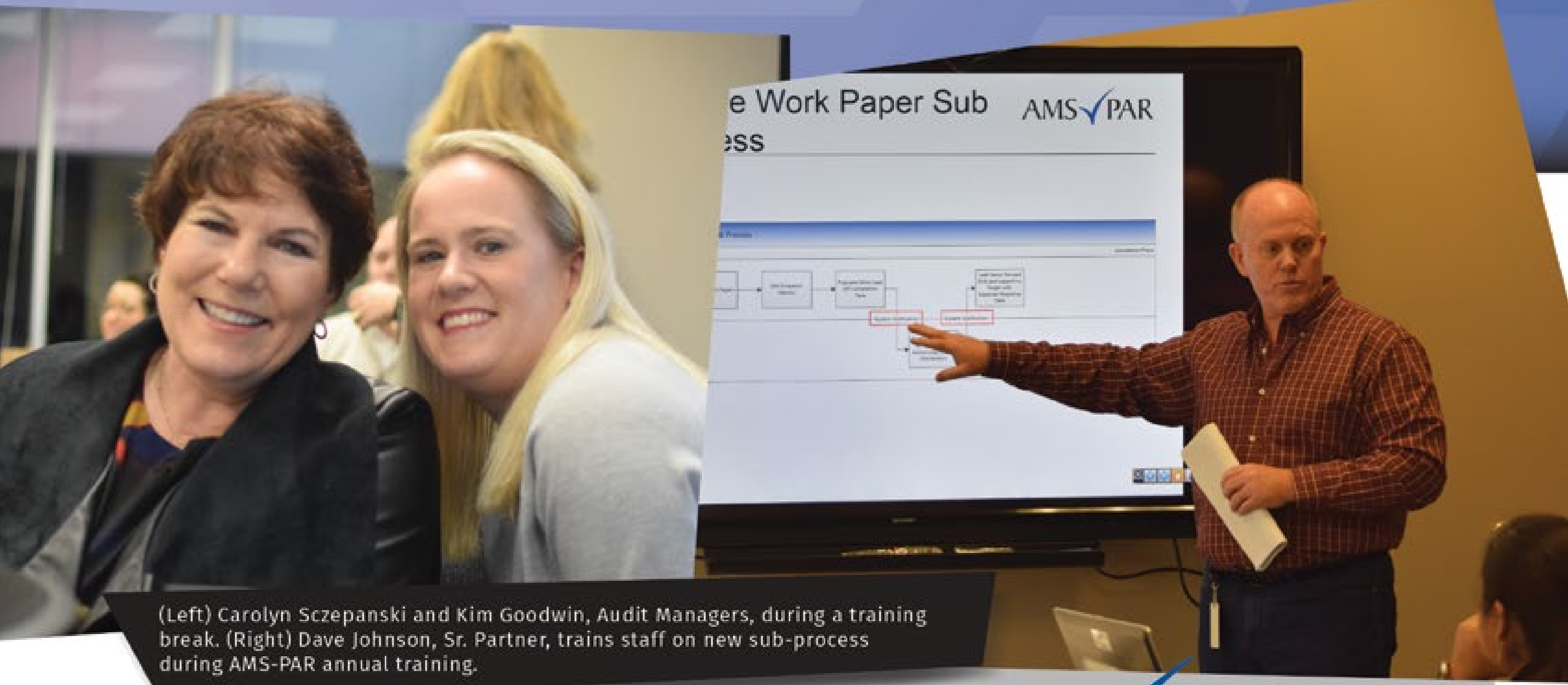
MEETING SCHEDULE

EVENT	DATES	HOST	LOCATION
2020			
Fall	September 21-25	Permian Basin	**Sirata Beach Resort** St. Petersburg, Florida
2021			
Spring	April 19-23	Houston	**COPAS 60th Anniversary Meeting** San Luis Resort Galveston, Texas
Fall	October 18-22	Dallas	**Westin Irving Convention Center at Las Colinas** Irving, Texas
2022			
Spring	TBD	COPAS Office	**TBD**
Fall	TBD	Colorado	**TBD**
2023			
Spring	TBD	COPAS Office	**TBD**
Fall	TBD	Rocky Mountain	**TBD**

ROCKY MOUNTAIN

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

JOINT VENTURE AUDIT



(Left) Carolyn Sczepanski and Kim Goodwin, Audit Managers, during a training break. (Right) Dave Johnson, Sr. Partner, trains staff on new sub-process during AMS-PAR annual training.

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PROJECT STATUS REPORT

COPAS MODEL FORMS

COMMITTEE	PROJECT	STATUS	COMMENTS BY	ANTICIPATED COUNCIL VOTE
Joint Interest	Accounting Procedure	Anticipate releasing draft 3 this summer.	TBD	

COPAS MODEL FORMS MODIFICATIONS AND INTERPRETATIONS

COMMITTEE	PROJECT	STATUS	COMMENTS BY	ANTICIPATED COUNCIL VOTE
Joint Interest	Remote Technology Centers	Voting draft distributed in Feb. Awaiting vote by JI and Audit Committees.		TBD
Joint Interest	MFI to accompany new model form Accounting Procedure	Anticipate releasing draft1 this summer, along with draft 3 of the AP	TBD	
Joint Interest	MFI-40, 24-Month Adjustment Period for Joint Account Adjustments	Project paused. Team plans to resume work later this year.		

COPAS ACCOUNTING GUIDELINES

COMMITTEE	PROJECT	STATUS	COMMENTS BY	ANTICIPATED COUNCIL VOTE
	No projects to report at this time.			

COPAS TRAINING & REFERENCE

COMMITTEE	PROJECT	STATUS	COMMENTS BY	ANTICIPATED COUNCIL VOTE
Revenue	TR-7, Severance Tax Guide	2019 Severance Tax Guide is available for sale. Volunteers needed for 2020 updates – contact Revenue Committee Chair.		

FEATURE

Sales Tax Refunds and Savings When CASH is King

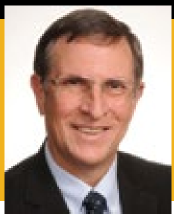
In these days of unprecedented hardship for exploration and production companies, everyone is looking for ways to preserve cash. Non-payroll sources of cash, including sales and use tax refunds, can reduce the need to lay off valuable skilled employees who will be sorely needed when the economy recovers. This article is designed to help operators both recognize significant refund opportunities and strategize to minimize these costs prospectively. Articles in previous editions of *ACCOUNTS* have explained that potential for significant tax overpayments exist in states like Kansas, North Dakota, Pennsylvania, Texas, and West Virginia because of complicated tax laws combined with some generous exemptions in those states. When the market was "hot", many companies were sharply focused on drilling and completing as many wells as possible with little thought to issues like sales tax. Because sales tax laws are complex, vendors defensively collect sales tax on invoicing for goods and services, thus creating potential for significant overpayments of tax in many states. In contrast little opportunity to save or recover tax exists in other states like Oklahoma and New Mexico.

Typically, smaller operators do not have the benefit of a tax professional in house, so they either hire a consultant to review their purchases and recover overpaid taxes, sometimes on a repetitive basis, or they simply never recover the tax. We suggest for your consideration a third alternative: using the services of sales tax professionals as an outsourced tax department during ongoing operations.

RECOVERING OVERPAID TAXES VIA REFUND REVIEWS

In these arrangements, consultants will review purchases for a 3- or 4-year period (depending on the state's statute of limitations law) and are compensated based on a share (typically at rates of 25% to 33%) of the refunds found. Main determinants of significant overpayments are the state in which the property is located and drilling and completion activity. In many states, the services of drilling, completing, recompleting or "stimulating" a well are not taxable while repair type work is taxable. For example:

- Colorado – exempts equipment if the well is located in an Enterprise Zone (covers most of the state); Exemption is limited to $150,000 annually as applicable to used equipment
- Kansas - exempts services associated with the drilling and completion of a well up to the date of completion; exempts drilling mud, fracking materials, and other materials used while drilling wells; exempts equipment used to produce oil and gas, as well as services related to that equipment
- Louisiana – does not tax services to "immovable" (real) property. Often, vendors wrongly tax services performed on the well itself
- New York – exempts machinery and equipment used directly and predominantly in extracting oil and gas
- Pennsylvania – exempts equipment and materials used to complete and operate wells, including tubulars, lifts, tanks, separators, dehydrators, etc.



BRENT WATSON

Brent Watson, CPA, is the principal at SALTA, PLLC in Tulsa, OK. Brent is an active member of the Oklahoma Society of Certified Public Accountants (serving on their Oil & Gas Committee) and of the Institute for Professionals in Taxation. His 30 years of experience in sales and use taxes have focused in the oil and gas, manufacturing, multi-state contracting and retailing industries.

- Texas – exempts drilling, completing, recompleting, and "stimulating" wells – including new and existing wells. Additionally, certain equipment used to treat or separate raw crude and gas to make them marketable is exempted
- West Virginia - exempts equipment and materials used to complete wells, including tubulars, lifts, tanks, separators, dehydrators, etc. Utilizing the exemption requires holding a direct payment permit or applying for a refund after the invoices are paid including tax charged by the vendor
- Wyoming – exempts services that are completed prior to the setting of production casing, including work to deepen an existing well

In everyday operations of wells, various expenses (LOE) are not taxed in certain states as well. For example:

- Kansas - exempts oil soluble chemicals or chemicals used to treat oil or gas; exempts gas or electricity used to operate wells; exempts repair parts and services for well equipment
- North Dakota – exempts oil soluble chemicals; local taxes are rebatable if they exceed maximums per invoice
- New York – exempts utilities, supplies consumed in operations, and repair parts and services for machinery and equipment used to extract oil and gas
- Pennsylvania – provides a general exemption of goods used to construct or operate wells
- Texas – exempts chemicals used to treat or separate crude and gas to make them marketable, oil soluble chemicals, and electricity and propane to operate wells. Plugging and abandoning wells is exempted. Many roustabout services fall outside the imposition of tax. Local taxes can be reduced utilizing a direct payment permit. NOTE: Recently the Comptroller has been contesting exemption of gas treatment chemicals, but this author believes that this is an incorrect position and that this will be reversed. Additionally, the Comptroller is now taking the position that all field compressors are taxable. This may be challenged as well, but the outcome appears to be uncertain.
- West Virginia – like Pennsylvania, provides a general exemption of goods used to construct or operate wells; however as explained previously, the exemption can only be claimed at the time of purchase if a direct payment is held

ALTERNATIVE SALES TAX STRATEGIES

Rather than hiring consultants to perform periodic refund reviews, larger operators may choose to try to manage exemptions and tax accruals themselves. However, that is not practical for smaller operators. For those operators, another possible strategy is to hire a firm that specializes in sales taxes pertaining to oil and gas to process payables on an ongoing basis for sales tax management. Such services should include issuance of exemption certificates to eliminate overpayments on a timely basis rather than seeking refunds of tax years later. Additionally, accruals of tax can be made on taxable purchases on which the vendor does not collect tax. Depending on the pricing, effectiveness, and experience level of the service provider, this approach can be less costly than conventional refund reviews and produce potentially greater identification of savings that will occur in real time rather than years later.

In one recent engagement, a small start-up producer based in Texas utilized such an arrangement from the inception of their business though the sale of their assets over a period of about two years. During that time, they drilled and completed three horizontal wells. Savings of about $90,000 per well was achieved.

SUMMARY

In these lean times for exploration and production operations, every opportunity to save or recover cash can be critical to maintaining liquidity and retaining employees. Recovering and reducing sales taxes incurred in operations is a significant opportunity to do just that.

INDUSTRY NEWS

A COLLECTION OF PUBLISHED NEWS ARTICLES

Widespread stay-at-home orders drove down physical demand for crude as storage space dwindled. On April 20, WTI oil futures fell below zero for the first time in history, with the price of a WTI barrel for May delivery closing at negative $37.63, after reaching negative $40.32

The **Texas Railroad Commission** heard arguments from dozens of energy executives about whether a supply cap should be implemented due to COVID-19 and stunted crude prices. **Parsley Energy,** one of the operators who filed the TRRC motion, has existing production capacities to cover debt without new drilling; Parsley cut capital expenditure spending by 66% and favored a prorate, or production reduction. The plan would have been the first time Texas cut production in nearly five decades. Ultimately, the plan was scrapped. "The Texas Railroad Commission had an opportunity to lead and bring a level of stability to the market chaos and it chose not to act," said Matt Gallagher, chief executive of Parsley Energy. **Chevron**, **Exxon Mobil** and **Occidental Petroleum** planned to cut hundreds of thousands of barrels per day of shale, pointing to a self-correction without the need for regulatory intervention. Exxon and Chevron, the top two U.S. producers, said they plan combined global shut-ins of 800,000 bpd in response to plunging crude prices and fuel demand. **ConocoPhillips**, the world's largest independent oil and gas company, planned to cut output in North America to 460,000 bpd, the largest cut by any producer. **Cimarex** also plans to curtail their domestic oil production

OK Governor Kevin Stitt asked President Trump to declare the Covid-19 pandemic a force majeure event so oil producers could curtail output without fear of having their leases cancelled. Citing a "near total disappearance of demand for oil and gas products as well as the imminent lack of available storage," the governor suggested that declaring the outbreak an act of God "a necessary step to encourage and support those operators who choose to stop production until demand returns and storage becomes readily available"

With the extreme demand shock, COVID-19 has caused onshore and offshore storage space to quickly fill up. The U.S.'s main storage delivery point in Cushing, OK was reported to be 77% full as of mid-April pointing to a stock-out soon. The API said Cushing inventories rose by 4.9 million barrels, putting total stocks at 59.5 million barrels, leaving space for about 16 million barrels. It is estimated that a record 160 million barrels is now held in floating storage on ships. The U.S. DOE planned to lease 77 million barrels of storage space in the Strategic Petroleum Reserve

Canada, **Iraq**, **Venezuela**, and other producers around the world have started shutting in production amounting to a 2 million bpd wave of shut ins. ND reported a production reduction of 260,000 bpd at the beginning of April.

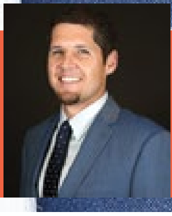
COMMODITY SPOT PRICING COMPARISON

	CRUDE OIL WTI (CUSHING) PER BBL				HENRY HUB NATURAL GAS SPOT PRICE DOLLARS PER MILLION BTU			
MONTH	**2017**	**2018**	**2019**	**2020**	**2017**	**2018**	**2019**	**2020**
January	52.50	63.70	51.38	57.68	3.30	3.87	3.11	2.02
February	53.47	62.23	54.95	50.54	2.85	2.67	2.69	1.91
March	49.33	62.72	58.15	29.21	2.88	2.69	2.95	1.79
April	51.06	66.25	63.86	16.55	3.10	2.80	2.65	1.74
May	48.48	69.98	60.83		3.15	2.80	2.64	
June	45.18	67.87	54.66		2.97	2.97	2.40	
July	46.63	70.98	57.35		2.98	2.83	2.37	
August	48.04	68.06	54.81		2.90	2.96	2.22	
September	49.82	70.23	56.95		2.98	3.00	2.56	
October	51.58	70.75	53.96		2.88	3.28	2.33	
November	56.64	56.96	57.03		3.01	4.09	2.65	
December	57.88	49.52	59.88		2.81	4.04	2.22	
YTD Average	50.88	64.94	56.98	38.46	2.98	3.17	2.57	1.87

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.

Landlocked Canadian producers saw prices for heavy crude fall far into negative territory. The scale and pricing structure of their products mean they can usually afford to produce in a low oil price environment, but negative oil prices forced **ConocoPhillips**, **Suncor**, **Husky Energy**, **Cenovus**, and **Murphy** to shut-in production as the added cost of blending the bitumen with ultra-light oil makes the operation 100% uneconomical. Total Canadian shut-ins could reach 960,000 bpd in mid-2020

Equinor found 200 feet of net oil pay with good reservoir characteristics in Paleogene sandstone in its Monument exploration well in



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 standard set by Mike Cougevan providing newsworthy industry updates to COPAS members.

the GOM, drilled to 33,348 feet TD; it is Equinor's first operated exploration well in the GOM since 2015. Equinor holds a 50 percent operated interest in the Monument exploration well. **Progress Resources USA** and **Repsol** are non-operators

Pantheon Resources made a discovery of potentially 1.8 billion barrels on Alaska's North Slope along the Dalton Highway and Trans-Alaska Pipeline System corridor. The discovery was made after an updated evaluation of an old exploration well and information collected from recent nearby drilling. The Talitha prospect could be the latest in a series of significant North Slope oil discoveries within the past five years and has potential to produce 500 million barrels of oil with peak production of 90,000 bpd

Apache and **Total** made their second significant oil discovery off the coast of South America's Suriname. The Sapakara West-1 well was drilled in Block 58, which comprises 1.4 million acres in 3,000 feet of water and encountered 240 feet of net oil pay

Continental Resources cut oil production in ND by 30% due to the OPEC/Russia price war and the continuing Covid-19 pandemic. In March, Continental cut capital expenditures by 55%, dropping its capital budget to $1.2 billion

Marathon revised its capital spending budget to $1.3 billion or less, a reduction of $1.1 billion from initial 2020 guidance - 50% below its 2019 spending. The revision represents a 30% reduction in its planned spending, completely cutting its drilling and completion activity in OK

Cheniere Energy sought permission from US regulators for its estimated 1.4 bcfpd Midcontinent Supply Header Interstate Pipeline to be placed into commercial service to meet shipper needs. It will move gas to Gulf Coast markets from OK's Anadarko Basin. About 925 mmcfpd of the pipeline's capacity has been contracted for firm service. The pipeline will augment Cheniere's feed gas supplies at its LNG export terminals and provide another outlet for SCOOP and STACK production to reach downstream markets

The slide in oil prices is threatening the sector's most extensive divestment program—**Exxon's** plan to raise $25 billion from asset sales by 2025. The company has indefinitely postponed the sale of $2 billion in oil and gas assets in the North Sea.

Occidental's $8.8 billion deal to sell **Anadarko's** assets in Africa to **Total** is facing obstacles in some countries, placing at risk its ability to raise the full proceeds. Its sale of oil and gas operations in Mozambique and South Africa have closed, but the Algerian government has withheld approval of the asset sale there

Total's plan to divest $5 billion through 2019 and 2020 has also hit snags. In July, **Petrogas NEO U.K.** agreed to purchase Total's oil fields in the North Sea for $635 million. Now the deal looks uncertain as Petrogas has had difficulty financing the purchase

Shell said it remains committed to selling more than $10 billion of assets by the end of this year but indicated it will be difficult. **Seneca Resources** purchased Shell's Appalachia shale gas position for $541 million. The transaction includes the transfer of 450,000 net leasehold acres across Pennsylvania, with approximately 350 producing Marcellus and Utica wells. The

RIG COUNTS

LOCATION	WEEK OF:							
	2.9.18	5.11.18	7.27.18	2.15.19	5.10.19	7.19.19	2.14.20	5.8.20
Gulf of Mexico	16	20	15	21	20	25	23	15
Canada	325	79	223	224	63	118	255	26
North America	1300	1124	1271	1275	1051	1072	1045	400
Oil	791	844	861	857	805	779	678	292
Gas	184	199	186	194	183	174	110	80
Directional	73	72	64	70	71	69	47	27
Horizontal	832	918	922	915	872	829	713	338
Vertical	70	55	62	66	45	56	30	9
Major State								
Alaska	5	8	6	12	9	10	9	3
Arkansas	0	1	1	0	0	0	0	0
California	14	15	15	11	15	17	14	5
Colorado	33	30	32	35	33	31	22	8
Louisiana	61	62	52	66	61	66	52	38
New Mexico	88	89	104	109	102	107	113	70
North Dakota	49	56	57	57	56	55	52	20
Oklahoma	118	138	137	119	105	95	50	13
Pennsylvania	37	39	39	44	43	37	24	23
Texas	479	523	524	509	485	454	397	173
West Virgiana	19	17	17	18	21	21	14	7
Wyoming	30	26	28	37	30	32	22	4

Source: Baker Hughes at www.bakerhughes.com

MORE INDUSTRY NEWS

current net production is 250 million standard cubic feet per day. The transaction also includes the transfer of Shell owned and operated midstream infrastructure

Whiting Petroleum filed for bankruptcy, concluding that a financial restructuring was its best path forward. The bankruptcy will provide a de-leveraged capital structure by $2.2 billion, payment or refinancing of its revolving credit facility, payment of all other secured lenders and employees, and for existing stockholders to receive 3% of the new equity in the reorganized company

Creditors agreed to sell **Alta Mesa** to a joint venture between **Bayou City Energy Management** and **Mach Resources**. Alta Mesa filed Chapter 11 bankruptcy in September 2019 with more than $1 billion in debt

Yuma Energy filed for Chapter 11 bankruptcy, saying its cash position deteriorated in the first quarter of 2020 and its cash flow from operations was no longer enough to cover its operating costs

Diamond Offshore, which had 15 rigs working for **Hess**, **Occidental**, **Petróleo Brasileiro**, and **BP**, filed for bankruptcy protection on April 27

Approach Resources received a $192.5mm stalking-horse bid for its entire asset portfolio from **Alpine Energy Capital**, a new partnership of investors Sam Zell and Tom Barrack. Approach, which filed for Chapter 11 bankruptcy protection in November 2019, holds 113,000 net acres (100% WI) in Crockett and Schleicher Counties, TX

Sanchez Energy's top-ranking lenders reached a tentative deal to take majority control after Sanchez acknowledged it could not repay $200mm in bankruptcy loans that have kept it afloat during its Chapter 11 proceedings

Kimbell Royalty Partners bought a diversified package from private equity sponsored Springbok Energy I and II for $175mm

BP confirmed its commitment to complete the sale of its Alaska business to **Hilcorp** but said the financial terms of the deal had been renegotiated "to respond to the current environment". Under the revised agreement, the total consideration for the sale will remain at $5.6 billion but the structure of the consideration and phasing of payments has been modified. The original agreement provided for Hilcorp, which paid BP a $500mm deposit in 2019, to pay $4 billion near-term and $1.6 billion through an earnout thereafter.

ConocoPhillips completed two transactions to sell its Niobrara and Waddell Ranch assets. The Niobrara assets in the southern Denver-

Julesburg Basin had 11,000 boepd in 2019. The transaction for the Permian Basin Waddell Ranch assets produced 4,000 boepd

Since 2008, the shale revolution has increased **U.S.** crude production by 160% to 13mmbpd and **Canada's** production rose 70% to 5.3mmbpd. **Mexico** has lagged; since 2005, industry and regulatory stagnation has sliced the country's production in half to 1.8mmbpd. The 2013 Energy Reforms that were aimed at bringing in new outside investment, expertise, and competition for national oil company **Pemex** are being pulled back by the AMLO administration. For example, all new E&P auctions have been suspended, and contracts signed since the reforms are under review. This is bad news because Pemex is over $105 billion in debt and will require outside help for a production rebound

Since 2008, U.S. natural gas production has increased 60% to 95 bcfpd. Gas is nearing being 50% of capacity and will generate 40% of U.S. electricity in 2020, double its share from 2010. Gas currently supplies 70% of power in Massachusetts, 50% in California, and 40% in New York. For power, the U.S. now uses about 10.8 tcf of gas per year, a 30% jump in just five years. The U.S. therefore faces a very obvious energy reality: the U.S. must continue to produce gas here, or it will be forced to turn to the increasingly precarious global supply chain

In the **Permian Basin**, flaring and venting totaled about 293.2 bcf in 2019, up 7% from 2018. In the Bakken, the volume was just over 200 bcf, up 36% from 2018. TX, NM, and ND represented 90% of the national total

North Dakota will work with the **Standing Rock Sioux Tribe** to help develop a response plan for a potential spill of the Dakota Access pipeline. Tribal leaders recently requested a response plan and resources to prepare for a spill near the Standing Rock Sioux Reservation in the south-central part of the state. The state also would work with the tribe to obtain federal grant money for planning and equipment. The cooperation comes as Texas-based **Energy Transfer** wants to double the capacity of the line to as much as 1.1 mmbopd to meet growing demand for oil shipments from North Dakota


Energy Trading —
Assessment of
Factors Impacting
Energy Price
and Volatility
DTN

AVAILABLE ACTIVITIES:

- Kayak Eco Tour
- Dolphin Tour
- Golf

THINGS TO DO:

- Beach
- Museums Galore: Salvador Dali Museum, Morean Arts Center, Imagaine Museum, and many more.
- Fort De Soto Park
- Sunken & Botanical Gardens
- Clearwater Marine Aquarium
- Pier 60: street performers and evening entertainment
- Downtown shopping, restaurants, and bars
- Locale Market (20,000 Sq Ft market)

The sun almost always shines on St. Petersburg, the "Sunshine City" that enjoys an average of 361 days of clear skies per year. Combine that with 244 miles of glimmering coastline along Tampa Bay, the Gulf of Mexico, Boca Ciega Bay and the intra-coastal waterways and you have one hot beach destination. Catch the sun, surf and sand at Ft. De Soto Park, or take a hike up the 37-mile Pinellas Trail. Enjoy a Devil Rays game during baseball season or escape to the shady oasis of the Sunken Gardens.

Live Entertainment

WEDNESDAY & THURSDAY NIGHTS AT SIRATA BEACH RESORT

Beach Party

WEDNESDAY EVENING

SERIES

MICROSOFT EXCEL TIME SAVERS

Part 2

MASTERING AD HOC REPORTING

Most accounting systems provide the monthly standardized reports, but what about the time when the need arises for a non-standard or other ad hoc reporting request? Excel has been a quick tool for many to master those kinds of requests.

Using sales tax data extracted from a general ledger, let's look at how we might manipulate the data in Excel to answer some basic questions regarding this account. Here is a look at the first 35 rows of the extracted data (of the total 2,086 rows).

Account	Type	Date	Accounting Period	Reference	Name	Memo	Amount
2020 · Sales Tax Payable							
	Invoice	01/02/2019	201901	36222	Texas State Comptroller	Texas Sales Tax	(300.00)
	Invoice	01/02/2019	201901	36223	Louisiana Department of Revenue	Louisiana Sales Tax	(300.00)
	Invoice	01/02/2019	201901	36225	Kansas Dept of Revenue	Kansas Sales Tax	(20.00)
	Invoice	01/02/2019	201901	36226	Colorado Department of Revenue	Colorado Sales Tax	(15.00)
	Invoice	01/04/2019	201901	36231	Texas State Comptroller	Texas Sales Tax	(20.00)
	Invoice	01/04/2019	201901	36232	Texas State Comptroller	Texas Sales Tax	(15.00)
	Invoice	01/04/2019	201901	36233	Louisiana Department of Revenue	Louisiana Sales Tax	(350.00)
	Invoice	01/04/2019	201901	36234	Kansas Dept of Revenue	Kansas Sales Tax	(15.00)
	Invoice	01/04/2019	201901	36235	Texas State Comptroller	Texas Sales Tax	(12.00)
	Invoice	01/04/2019	201901	36236	Texas State Comptroller	Texas Sales Tax	(125.00)
	Credit Memo	01/04/2019	201901	36237	Texas State Comptroller	Texas Sales Tax	125.00
	Invoice	01/07/2019	201901	36238	Kansas Dept of Revenue	Kansas Sales Tax	(20.00)
	Invoice	01/07/2019	201901	36239	Kansas Dept of Revenue	Kansas Sales Tax	(15.00)
	Invoice	01/07/2019	201901	36240	Kansas Dept of Revenue	Kansas Sales Tax	(12.00)
	Invoice	01/07/2019	201901	36241	Louisiana Department of Revenue	Louisiana Sales Tax	(7.00)
	Invoice	01/07/2019	201901	36242	Texas State Comptroller	Texas Sales Tax	(15.00)
	Invoice	01/07/2019	201901	36243	Texas State Comptroller	Texas Sales Tax	(300.00)
	Invoice	01/07/2019	201901	36244	Kansas Dept of Revenue	Kansas Sales Tax	(7.00)
	Invoice	01/07/2019	201901	36245	Louisiana Department of Revenue	Louisiana Sales Tax	(15.00)
	Invoice	01/07/2019	201901	36246	Louisiana Department of Revenue	Louisiana Sales Tax	(20.00)
	Invoice	01/07/2019	201901	36247	City of Beaverhead Revenue Division	Municipal Sales Tax	(12.00)
	Invoice	01/07/2019	201901	36247	Colorado Department of Revenue	Colorado Sales Tax	(15.00)
	Invoice	01/07/2019	201901	36248	Texas State Comptroller	Texas Sales Tax	(7.00)
	Invoice	01/07/2019	201901	36249	Texas State Comptroller	Texas Sales Tax	(15.00)
	Invoice	01/07/2019	201901	36250	Kansas Dept of Revenue	Kansas Sales Tax	(15.00)
	Invoice	01/07/2019	201901	36251	Texas State Comptroller	Texas Sales Tax	(7.00)
	Invoice	01/07/2019	201901	36252	Texas State Comptroller	Texas Sales Tax	(350.00)
	Invoice	01/07/2019	201901	36253	Texas State Comptroller	Texas Sales Tax	(12.00)
	Invoice	01/07/2019	201901	36254	Texas State Comptroller	Texas Sales Tax	(15.00)
	Invoice	01/07/2019	201901	36255	Texas State Comptroller	Texas Sales Tax	(20.00)
	Invoice	01/07/2019	201901	36256	Texas State Comptroller	Texas Sales Tax	(350.00)
	Invoice	01/07/2019	201901	36257	Kansas Dept of Revenue	Kansas Sales Tax	(7.00)
	Invoice	01/07/2019	201901	36258	State Comptroller	Texas Sales Tax	(125.00)

First, notice the data set only has the account number and title in one cell (A2). For this example, we want to include the account number and title on each data line. There are several ways to accomplish this. The first obvious way to achieve that is to use the mouse and fill that information to the end of the data set. (Remember the fill techniques explored in the Spring *ACCOUNTS*?) What if we could do the same thing in just a few keystrokes, never using the mouse?

1. Copy the contents in cell A2 by using the <alt> E C keys
2. Move the cursor to B2 and press <ctrl> This will move you to the last row in the data set, or B2086 in this example.
3. Move the cursor to A2086 and press <crtl> <shift> This highlights the rows from A2086 to A3.
4. Press enter. The data is now entered on each row of the spreadsheet.

	A	B	C	D	E	F	G	H
1	Account	Type	Date	Accounting Peri	Reference	Name	Memo	Amour
2	2020 · Sales Tax Payable							
3	2020 · Sales Tax Payable	Invoice	09/02/2019	201901	36222	Texas State Comptroller	Texas Sales Tax	(300.00)
4	2020 · Sales Tax Payable	Invoice	09/02/2019	201901	36223	Louisiana Department of Revenue	Louisiana Sales Tax	(300.00)
5	2020 · Sales Tax Payable	Invoice	09/02/2019	201901	36225	Kansas Dept of Revenue	Kansas Sales Tax	(20.00)
6	2020 · Sales Tax Payable	Invoice	09/02/2019	201901	36226	Colorado Department of Revenue	Colorado Sales Tax	(15.00)
7	2020 · Sales Tax Payable	Invoice	09/04/2019	201901	36231	Texas State Comptroller	Texas Sales Tax	(20.00)
8	2020 · Sales Tax Payable	Invoice	09/04/2019	201901	36232	Texas State Comptroller	Texas Sales Tax	(15.00)
9	2020 · Sales Tax Payable	Invoice	09/04/2019	201901	36230	Louisiana Department of Revenue	Louisiana Sales Tax	(350.00)
10	2020 · Sales Tax Payable	Invoice	09/04/2019	201901	36234	Kansas Dept of Revenue	Kansas Sales Tax	(15.00)
11	2020 · Sales Tax Payable	Invoice	09/04/2019	201901	36235	Texas State Comptroller	Texas Sales Tax	(12.00)
12	2020 · Sales Tax Payable	Invoice	09/04/2019	201901	36236	Texas State Comptroller	Texas Sales Tax	(125.00)
13	2020 · Sales Tax Payable	Credit Memo	09/04/2019	201901	36237	Texas State Comptroller	Texas Sales Tax	125.00
14	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36238	Kansas Dept of Revenue	Kansas Sales Tax	(20.00)
15	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36239	Kansas Dept of Revenue	Kansas Sales Tax	(15.00)
16	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36240	Kansas Dept of Revenue	Kansas Sales Tax	(12.00)
17	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36241	Louisiana Department of Revenue	Louisiana Sales Tax	(7.00)
18	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36242	Texas State Comptroller	Texas Sales Tax	(15.00)
19	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36243	Texas State Comptroller	Texas Sales Tax	(300.00)
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22	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36246	Louisiana Department of Revenue	Louisiana Sales Tax	(20.00)
23	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36247	City of Beaverhead Revenue Division	Municipal Sales Tax	(12.00)
24	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36247	Colorado Department of Revenue	Colorado Sales Tax	(15.00)
25	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36248	Texas State Comptroller	Texas Sales Tax	(7.00)
26	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36249	Texas State Comptroller	Texas Sales Tax	(15.00)
27	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36250	Kansas Dept of Revenue	Kansas Sales Tax	(15.00)
28	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36251	Texas State Comptroller	Texas Sales Tax	(7.00)
29	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36252	Texas State Comptroller	Texas Sales Tax	(350.00)
30	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36253	Texas State Comptroller	Texas Sales Tax	(12.00)
31	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36254	Texas State Comptroller	Texas Sales Tax	(15.00)
32	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36255	Texas State Comptroller	Texas Sales Tax	(20.00)
33	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36256	Texas State Comptroller	Texas Sales Tax	(350.00)
34	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36257	Kansas Dept of Revenue	Kansas Sales Tax	(7.00)
35	2020 · Sales Tax Payable	Invoice	09/07/2019	201901	36258	State Comptroller	Texas Sales Tax	(125.00)

It might seem a little cumbersome at first, but once these steps are done a few times, it becomes second nature, and your hands don't go back and forth between the keyboard and the mouse.

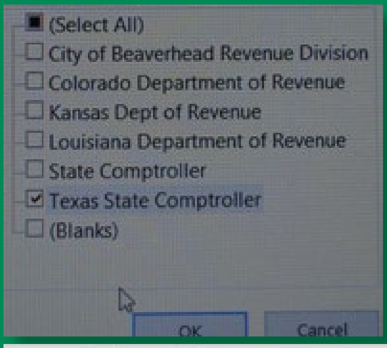
The data is now ready for manipulation to answer the question originally posed. (The first row, with only the account number and title, could be deleted if you wish.)

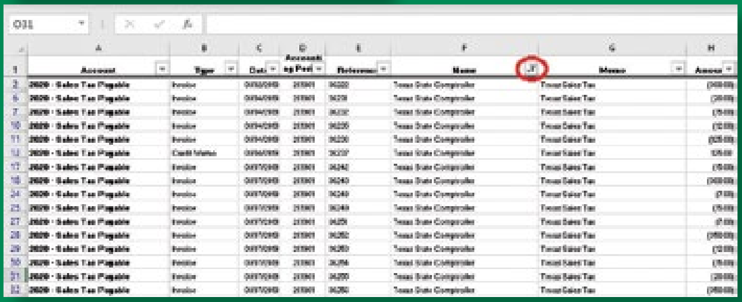
FILTERS & SUBTOTALS

Filtering the data displays only the data rows that meet the specific criteria. For this example, we want to only see the items in the Name column that are "Texas State Comptroller."

To filter data:

1. Select the Data tab, then locate the Sort & Filter group.
2. Click the Filter command (look for the funnel icon).
3. Drop-down arrows will appear in the first row of each column. (To remove the filter, click the funnel again). (Have a column where the filter arrow doesn't display? Make sure each column has a heading. Those without headings won't display the filter arrow. If this happens, undo the filter, add the heading, and retry).
4. Select cell F1 and click the filter arrow.



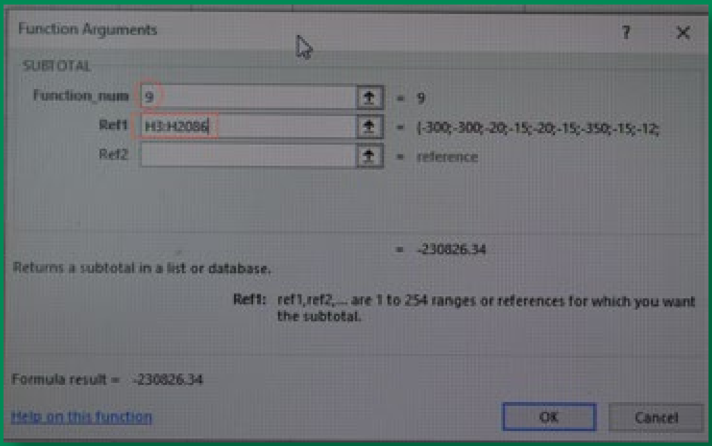


Let's add some totals in the amount column, so as the filtered data changes we can see a total by category.

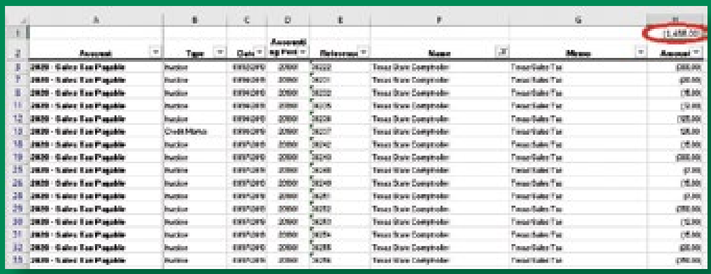
1. Insert a new row above Row 1. (Highlight the row, right click, insert row.)
2. In column H, insert a subtotal formula in the row just added. (Click the Formulas tab. Click the Math & Trig tab. Scroll down, find, and click the Subtotal function.
3. Eleven different functions can be used in the subtotal function. We'll use "9", or the "SUM" function, all rows, including those hidden in the function number space. (See table for other options.)

Function_num Includes hidden values	Function_num ignores hidden values	Function
1	101	AVERAGE
2	102	COUNT
3	103	COUNTA
4	104	MAX
5	105	MIN
6	106	PRODUCT
7	107	STDEV
8	108	STDEVP
9	109	SUM
10	110	VAR
11	111	VARP

4. Select the data to be subtotaled, in this case H3:H2086. This can be selected or manually entered depending on your level of confidence.



5. Click the column filter of your choice. The total for that selection appears in cell H1.



6. Continue to change the filter criteria as desired. The subtotal in cell H1 will adjust as the criteria changes..

Pivot tables may be a better option depending on the project, but this is another ad hoc option for ad hoc projects you may face.

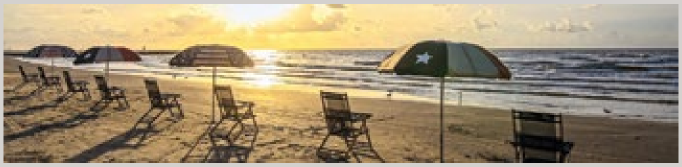
SAVE the DATE

2021 SPRING MEETING | APRIL 18 – 25, 2021 IN GALVESTON, TEXAS
HOSTED BY PASH

JOIN US TO CELEBRATE COPAS 60TH ANNIVERSARY

THE SAN LUIS RESORT, SPA & CONFERENCE CENTER

5222 SEAWALL BLVD
GALVESTON, GALVESTON COUNTY 77551, US

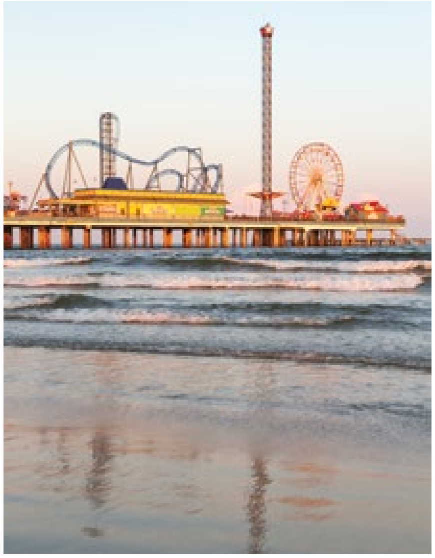


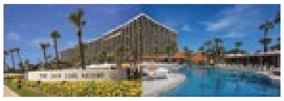
ABOUT THE HOTEL & LOCATION:

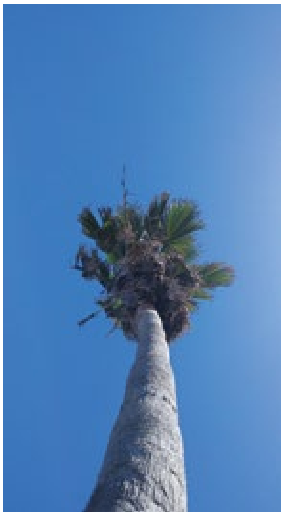
Located in Galveston, The San Luis Resort, Spa & Conference Center is on the Strip and minutes from Fort Crockett and Galveston Island Convention Center. This 4-star resort is within close proximity of NOAA Fisheries Galveston Laboratory and 61st Street Fishing Pier.

Pamper yourself with a visit to the spa, which offers massages, body treatments, and facials. You're sure to appreciate the recreational amenities, which include 2 outdoor swimming pools, outdoor tennis courts, and a fitness center.

A few of the island attractions that do not want to miss: 32 plus miles of beach, Moody Gardens three pyramids, shark fishing and crabbing, Pleasure Pier amusement park, tree sculpture tour from uprooted trees due to Hurricane Ike in 2008, tons of bars and clubs across from the water, shopping, historic houses from the 1800s, birding and bird watching and kayaking.







NEW!

ANNUAL RENEWAL PROCEDURE CHANGE

For your convenience, the annual APA® renewal process will now be completed online via the COPAS website at **copas.org/shop/maintaining-apa-certification**. You will have the option to pay by check or credit card during checkout.

Annual renewals were extended until April 30. A late fee of $25 has been assessed for all outstanding renewals. If your renewal has not been completed by June 30 an additional $50 late fee will be added. Assessments and late fees not received by September 30 will result in accreditation revocation.

If there is an issue or hardship that we should know about, please contact Vanessa Galindo so we can work with you. Email APAAdministrator@copas.org or call (303) 300-1131.

GENERAL TEST INFORMATION

The APA® exam is a single exam consisting of 175 questions. It is offered in the odd calendar months, except January. Registration is required no later than 45 days prior to the exam window. Please refer to the exam registration information below.

Exams are administered by Scantron using their extensive testing center network. Exams are taken on any day during that month that the testing centers are open. Test results are provided to the candidate between four and six weeks following the examination or as soon as they are released by the testing partner. International 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. The office is open from 8 a.m. to 5 p.m., Mountain Time, Monday through Friday.

TESTING DATES

EXAM MONTH	REGISTRATION DATES
September 2020	June 1, 2020 - July 15, 2020
November 2020	August 3, 2020 - September 15, 2020
March 2021	December 1, 2020 - January 15, 2021
May 2021	February 1, 2021 - March 19, 2021
July 2021	April 1, 2021 - May 17, 2021

CANDIDATE HANDBOOK

All information regarding the APA® certification program can be found in the Candidate Handbook. This guidebook provides information on study resource materials, costs and responsibilities.

Visit **copas.org/apa-program**

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.

NEW ADDITIONS TO OUR ONLINE APA® CONTENT

Our library of online content around the APA® exam has been expanded to include even more helpful information for applicants. New to COPAS.org is an FAQ page, a Taking the Exam page and a Code of Ethics page. To enhance the search engine optimization (SEO) around the APA® program, we've also added more content from the APA® handbook to several existing pages. These SEO updates will help connect those searching for information on the APA® exam with the most relevant content and bring more traffic to COPAS.org.

ACCREDITED PETROLEUM APA® ACCOUNTANT

TEST PREPARATION

After pilot testing review course options during recent test windows, we are moving ahead with a review course. The review course will evolve over time and is not currently in a final form. Enhancements will be part of the future.

Initially the new study material bundles will include retired exam questions. If you have the study materials offered in a previous bundle, the retired questions will be offered for an additional fee. As the review course moves forward, more content will be added and suggested COPAS Energy Education courses will be announced.

Not every candidate who had the test questions was successful, but the evidence has pointed to more than just casual success with everyone who participated in the pilot program. It should be noted that there is never any guarantee of passing. Every candidate in the pilot test has indicated some additional time to review the full study material has been required.

Contact the APA® Administrator for additional information at APAAdministrator@copas.org.

COPAS ENERGY EDUCATION

Classroom courses currently discounted 25% off through the end of July!
Please visit the CEE Store under the Education menu of COPAS.org to learn more about courses.

Stay Up-to-Date on Education Offerings
Subscribe to our CEE Education Bulletin by completing the "Get Updates" form on the CEE Store page. Then, look out for new webinar series offerings later in the year in Calculating Payout, Revenue Audit, Tax Considerations In Oil And Gas Transactions, and standalone APA® review topics.

WEBINAR SCHEDULE

Registration for COPAS Energy Education Webinars is open at COPAS.org!
Take advantage of your COPAS Membership 20% discount on regular webinar pricing.

PRINCIPLES OF REVENUE ACCOUNTING (REVBC) SERIES
Presented by Salomon Tristan

Gas On and Off-lease Sales Accounting (120 mins CPE: 2.5)	June 16	10AM CT
Gas Plant Accounting I: Intro to Processed Gas (60 Mins CPE: 1)	July 14	10AM CT
Gas Plant Accounting II: Principles of Gas Plant Accounting (90 Mins CPE: 1.5)	August 11	10AM CT
Producer and Pipeline Imbalances (90 mins CPE: 1.5)	September 15	10AM CT
Production and Severance Taxes (60 Mins CPE: 1)	October 13	10AM CT
Private State and Federal Royalties (60 Mins CPE: 1)	November 17	10AM CT
Checkstub Processing (60 Mins CPE: 1)	December 8	10AM CT

All class and CPE information, COPAS policies, and course registration are provided in the CEE Store under the Education menu on COPAS.org

OIL AND GAS MARKETING AND SALES
Presented by Salomon Tristan

The Value Chain and Marketing Roles (90 mins CPE: 1.5)	August 12	10AM CT
Scheduling & Contract Administration (75 mins CPE: 1.5)	September 14	10AM CT
Teamwork & Challenges (60 mins 1 CPE)	October 5	10AM CT
Crude Oil Upstream & Downstream (90 mins 1.5 CPE)	November 16	10AM CT
Natural Gas Upstream and Downstream (90 mins CPE: 1.5)	December 5	10AM CT

GAS BALANCING SERIES
Presented by Salomon Tristan

Make Up Gas (60 mins CPE: 1)	June 15	10AM CT
Settlement & Imbalance Reporting (60 mins CPE: 1)	July 15	10AM CT

JOINT INTEREST AUDIT (JIA) SERIES
Presented by Dalin Error

Practical Side of Reconciliations (125 mins CPE: 2.5)	June 15	10AM CT

All class and CPE information, COPAS policies, and course registration are provided in the CEE Store under the Education menu on COPAS.org

PRINCIPLES OF JOINT INTEREST ACCOUNTING (JIBC) SERIES

Presented by Phil Fischer and Jeff Wright

Direct vs Indirect Costs (90 mins CPE: 1.5)	June 12	12PM CT
Overhead (90 Mins CPE: 1.5)	July 15	12PM CT
Materials (90 Mins CPE: 1.5)	August 12	12PM CT
Special Joint Venture Adjustments (60 mins CPE: 1)	September 16	12PM CT
Allocations (60 Mins CPE: 1)	October 14	12PM CT
Joint Interest Billings (60 Mins CPE: 1)	November 18	12PM CT
Accounting for Joint Venture Costs (50 Mins CPE: 1)	December 9	12PM CT

KNOWING YOUR COPAS DOCUMENTS (KYCD) SERIES

Presented by Roger Gann

How Do I Allocate That? (60 mins CPE: 1)	June 28	9AM CT
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Building Joint Account Payroll Charges (60 mins CPE: 1)	September 17	9AM CT
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Help Me Process These Invoices (60 Mins CPE: 1)	November 19	9AM CT
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INTRODUCTION TO THE PETROLEUM INDUSTRY PRESENTED

Presented by Jeff Wright

Petroleum Geology (75 mins CPE: 1.5)	August 13	12PM CT
History of Oil and Gas Industry (60 mins CPE: 1)	September 17	12PM CT
Upstream (125 mins CPE: 2.5)	October 15	12PM CT
Midstream & Downstream (80 mins CPE: 1.5)	November 11	12PM CT
Petroleum Accounting (60 mins CPE: 1)	December 10	12PM CT

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LEGISLATIVE & REGULATIVE

Update | 2020

Limitations of Onshore and Offshore Drilling

States continue to consider restricting onshore or state-controlled offshore leasing, including South Carolina (S870 to prohibit crude or natural gas produced offshore from being transported onshore) and Massachusetts (H2852 to protect our coasts from offshore drilling). Additionally, the U.S. Congress continues to explore restricting leasing and development in the Arctic areas, along both coasts and in portions of the Gulf of Mexico (see HR309, HR1146, S13, HR286, HR205, HR3585, S1296, HR287, HR291, S1304, HR341, HR337, HR279, S1318, HR310, and HR1335). In March, Virginia enacted (SB795, HB1016, HB706 to prohibit leasing on waters of the Commonwealth and to place a moratorium on offshore oil and gas development). Washington failed to enact SB6432 which would have placed further restrictions on offshore drilling and infrastructure development). As a reminder, four states passed legislation last year to restrict oil and gas leasing and development including, California (AB342 prohibiting leasing on public lands), Maine (LD9555 prohibiting offshore oil and gas drilling and exploration), New Hampshire (SB76 prohibiting offshore oil and gas exploration) and New York (A2572 prohibiting offshore oil and gas development).

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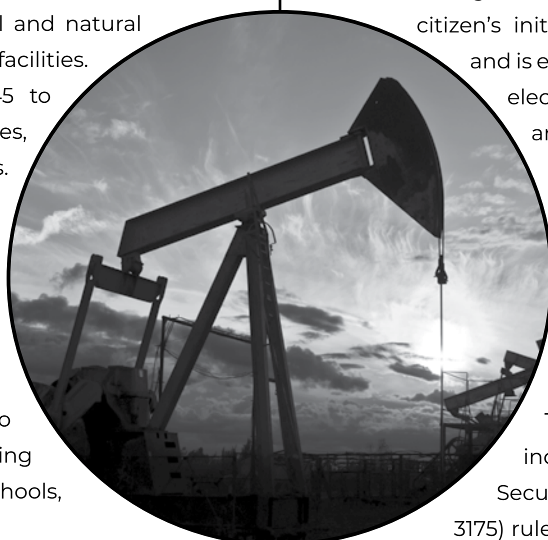
Information provided by Mike Foster and Nate Wolf, subcommittee chairs for the National COPAS Revenue Committee. Questions may be e-mailed to Mike at MikeFoster@copas.org. or Nate at NateWolf@copas.org. The update is based on legislative and regulatory information available at the time of publication 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.

Hydraulic Fracturing Restrictions and Prohibitions

Hydraulic Fracturing (HF) remains the subject of legislative scrutiny at both the state and federal level. Connecticut (SB753), Oregon (HB2623) and Washington SB5145) all passed legislation last year to ban or restrict this practice. In 2020, Arizona (HB2574), Massachusetts (SD1991), New Jersey (A656), New York (11 different bills), and Oklahoma (HB3609, SB1435) are all considering bills to either prohibit, further regulate or further study hydraulic fracturing. Virginia enacted SB106 on April 6 to prohibit fracturing in the Eastern Virginia Groundwater Management Area. Meanwhile, Florida (HB547, SB200) and New Mexico (SB104) had proposed fracking ban legislation die sine die. The U.S. Congress continues to consider HR484 to amend the Mineral Leasing Act to direct the Secretary of the Interior, acting through the Director of the Bureau of Land Management, to regulate HF operations on federal lands. Congress is also considering the Fracking Disclosure and Safety Act (HR436). Under this act the designated operator of the oil and gas lease will be required to conduct baseline water testing prior to commencing HF operations and to fully disclose to the public the chemicals used for HF under such lease on an appropriate internet website. Two bills (S3247 and HR5857) sponsored respectively by Sen. Bernie Sanders and Rep. Ocasio-Cortez propose a complete ban on any federal permits for the expansion of hydraulic fracturing including new infrastructure projects. HR6112 requires operators to take certain measures to protect drinking water.

Well Setback Requirements

In 2019, the Colorado Oil and Gas Conservation Commission increased the setback requirements for oil and natural gas wells to at least 1,000 feet from school facilities. This year, California is considering AB345 to require a 2,500 ft. setback from residences, schools, child-care facilities and playgrounds. West Virginia failed to pass HB 2102 and HB 2073 to require 250 ft. spacing from water wells and 1,500 ft. well setback from dwellings. Oklahoma has proposed SB 1736 to direct the Corporation Commission to promulgate well setback requirements. The U.S. House continues to consider HB1333 ('No Drilling in Our Backyards Act) to set spacing of federal wells at 1,500 ft. from homes, schools, businesses, or other buildings.



Alaska

The Alaska Legislature is currently in recess, to a date uncertain. If necessary, the Legislature could reconvene to address any COVID-19 issues on or before May 20 when the regular session would constitutionally expire. Beyond that date, a special session would need to be called either by the Governor or by the Legislature itself.

In the course of the regular session four substantive oil and gas tax related Bills were introduced. However due to the abbreviated nature of the session, due to the COVID-19 pandemic, none of the Bills were ever heard in committee or addressed in any way. The Bills are as follows: **SB129** mirrors the current citizen's initiative on the oil and gas production tax; **SB186** modifies the state's corporate income tax to include oil and gas companies organized as Subchapter S corporations or LLCs; **SB212** increases the state's oil and gas property tax to 30 mills from 20 mills and dedicating the additional 10 mills to the state (rather than being shared with municipalities; and, **SB241** deals with COVID-19 and extending tax deadlines except for Oil & Gas Production and Property Tax which remain as in current statute.

While the legislature did not address any of these Bills, the citizen's initiative (19OGTX) is certified, remains active, and is expected to be on the November 2020 general election ballot. Both the initiative's sponsors and the industry have developed campaign organizations to garner public support for their respective positions. Legal challenges to the signature gathering process have also been filed in state court.

GET PLUGGED IN

If you are interested in receiving free legislative updates as they occur, please e-mail Mike Foster at MikeFoster@copas.org Nate Wolf at NateWolf@copas.org. Specify whether you want to receive updates on just state severance taxes and/or state/federal royalties. Please note that these bills only represent what has been filed or proposed at the time of this article. Several of them may never go anywhere, while others may get voted down, vetoed, amended and/or passed.

BLM

Security and Measurement Rules

There has been much confusion throughout industry as to the effective date of the Site Security & Measurement (CFR 3173, CFR 3174, CFR 3175) rules revised by the BLM in 2016. This confusion has been further complicated by the BLM's announced 2019 re-write of these 2016 Rules. We are still awaiting the formal publication of the 2019 revisions and anticipate the BLM seeking public comment before finalizing the 2019 changes. Industry's deadline for complying with the revised rules (including the application for Facility Measurement Points) **should** commence when the 2019 Re-write Rules are final.

California

AB3214 requires the well owner or operator to keep a history of the maintenance and repair of the well in addition to the history of the drilling of the well.

Colorado

As anticipated, there has been continued local regulatory activity in the State of Colorado this year as a result of **SB181** "Protect Public Welfare Oil and Gas Operations (aka Omnibus Oil and Gas Bill)" implemented last year. A key provision of this bill allows local governments to regulate oil and gas operations above and beyond the regulations of the State. On January 14, the Broomfield City Council unanimously approved an emergency noise ordinance prohibiting industrial operations from 10 pm to 7 am unless the equipment is in a fully enclosed building or unless the operator can prove the work will not exceed certain decibel levels. On April 6 the Larimer Board of County Commissioners approved new Oil and Gas Land Use regulations requiring a 1,000 foot well setback from residential and commercial buildings, the inclusion of baseline air quality data for new facilities and the requirement that operators notify neighbors within a half-mile radius of proposed new development. On April 13 the Board of Trustees of the Town of Superior approved an ordinance to require 1,500 feet well setbacks from a specified list of residences and facilities. These actions follow 2019 actions by the Town of Erie and the City of Louisville to place temporary moratoriums on oil and gas development within their jurisdictions. Additionally, Boulder, Adams and Weld Counties have all taken actions to further regulate oil and gas permitting and development.

In November 2019, the Colorado Oil and Gas Conservation Commission, as directed by SB181, adopted **New Flowline Rules** effective January 14. These rules require the creation of a map of the actual paths of all oil and gas flowlines in the State of Colorado. The Rules also ensure that the flowlines are abandoned in a manner that is least impactful upon public health, safety, welfare, the environment and wildlife.

The Colorado Legislature has postponed indefinitely **HB20-1126** to require the Oil and Gas Conservation Commission to approve an oil and gas application if previously approved by a local government and **HB20-1070** which provided compensation to a mineral lessee for loss of value due to local government banning hydraulic fracturing or placing a moratorium on oil and gas activities.

On April 15, the following initiative petitions were titled by the Colorado Title Board and must now gather and certify the required 124,632 signatures in order to be placed on the 2020 general election ballot. There are five initiatives (**#173-#177**) proposing a buffer zone of either 2,000 or 2,500 feet between oil and gas extraction operations and occupied structures. Variations of the proposals allow homeowners to waive the setback requirements on their primary residence if it is a single-family home. Five other initiatives (**#307-#311**) propose to create a new Oil and Gas Board to replace the Colorado Oil and Gas Conservation Commission. Initiatives **#312** and **#313** propose to amend the Colorado constitution to prohibit the Oil and Gas Conservation Commission from repealing or making less stringent, various existing oil and gas operating and emission quality rules. Initiative #178 would require oil and gas operators to provide assurance that they are financially capable of spending $270,000 per well to plug, reclaim and remediate the site, as well as to contribute to a fund that would clean up abandoned wells. Initiative **#300** proposes to amend the Colorado constitution to allow counties and municipalities to assume some or all the Oil and Gas Conservation Commission's regulatory authority over oil and gas operations within their boundaries.

Louisiana

Louisiana opened its legislative session on March 9 and ended on June 1. HB506 proposes to reduce the tax rate on oil over an eight-year period from 12.5% to: (1)beginning July 1, 2021, through June 30, 2022, to 12%; (2) beginning July 1, 2022, through June 30, 2023, to 11.5%; (3) beginning July 1, 2023, through June 30, 2024, to 11%; (4) beginning July 1, 2024, through June 30, 2025, to 10.5%; (5) beginning July 1, 2025, through June 30, 2026, to 10%; (6) beginning July 1, 2026, through June 30, 2027, to 9.5%; (7) beginning July 1, 2027, through June 30, 2028, to 9%; (8) beginning July 1, 2028, and thereafter, to 8.5%. Incapable Oil wells that produce less than 25 barrels/day will be taxed at 6.25% rather than one-half the rate of capable oil. Incapable Oil wells that produce less than 10 barrels/day will be taxed at 3.125% rather than one-fourth of the capable oil. Currently, this Bill resides in the House Ways and Means Committee. **HB227** makes minor wording changes to rules regarding relief for failure to make timely production payments. **SB386** proposes to establish a Commission for Louisiana Energy, Environment and Restoration within the Department of Natural Resources to develop an operational plan and legislative recommendations. SB359 strengthens the enforcement of coastal use permits. **SB353** amends regulations pertaining to CO2 storage and injection.

The February 2020 monthly oil and gas severance tax return, payment, and report is due on April 25, 2020. The filing and payment deadline for this monthly severance tax period is extended to June 25, 2020. This is an automatic extension and no extension request is necessary. No penalties or interest will be assessed provided that the applicable monthly return, payment, and report for this severance tax period is submitted to the Department by the June 25, 2020, extension date. This extension does not apply to severance tax returns, payments, or reports due on any other dates.

Michigan

Michigan has proposed **SB702**, the Natural Resources and Environmental Protection Act. This act requires an operator of an oil or gas well to have a methane control or capture system capable of reducing fugitive methane emissions by ninety-nine percent. Operators that violate these requirements could pay a civil fine and/or lose their well permit. **SB736** would require Michigan utilities generate one hundred percent of the state's energy through renewable resources by the year 2050 and outlines changes to the Renewable Portfolio Standard to implement these changes.

Mississippi

Mississippi opened its legislative session on January 7 and ended on May 10. **HB977** and **SB2761** proposes to revise the dates which taxpayers remit oil severance and gas severance taxes and related reports. The taxes will be due, payable, and reported in monthly installments on or before the 25th day of the second month succeeding the month in which the tax accrues. **SB2761** has passed the Senate and is in the House Energy, and Ways and Means committee. **HB977** has passed the House and is in the Senate waiting to be assigned to a committee. Mississippi considered but failed to pass four bills (**HB253**, **HB332**, **HB835**, **HB586**) related to mineral rights reverting to surface owners after a prescribed period of non-production.

New Jersey

A3223 Proposes that a surface owner of real property may act to terminate a mineral interest if such interest is dormant for a period of 20 or more years.

New Mexico

New Mexico opened its legislative session on January 21 and ended on February 20.

On December 20, 2019, the **New Mexico Methane Advisory Panel** released its draft technical report and after receiving public comments presented final Community Impact Findings on March 19. The Methane Advisory Panel is a 27-member panel comprised of environmental organizations, Tribal nations, tribes and pueblos, small and large independent oil and gas operators and major integrated oil and gas companies. This report was in response to Governor Michelle Lujan Grisham's Executive Order 2019-02 directing the New Mexico Environment Department and the Energy, Minerals and Natural Resources Department to jointly develop a statewide, enforceable regulatory framework to secure reductions in oil and gas sector methane emissions and to prevent waste from new and existing sources and enact such rules as soon as practicable. The report will be used as a resource for formal rulemaking in coming months.

The New Mexico Oil Conservation Commission voted on January 2 to amend the **Enforcement Section** of its Oil and Gas Act to remove the recognition of knowing and willful intent when determining civil penalties.

New York

S6778 Repeals compulsory integration and unitization of oil and gas pools and fields. **A2649** states that bids for oil and gas producing leases are required to include lease payment amounts and royalty payment amounts.

North Dakota

In a letter dated February 11, the North Dakota Department of Trust Lands advised industry that previous deduction of post-production costs from gas royalties paid to the State of North Dakota must be repaid based upon a ruling by the North Dakota Supreme Court in *Newfield Exploration Co. v. State of North Dakota (2019 ND 193)*.

Office Of Natural Resources Revenue (ONRR)

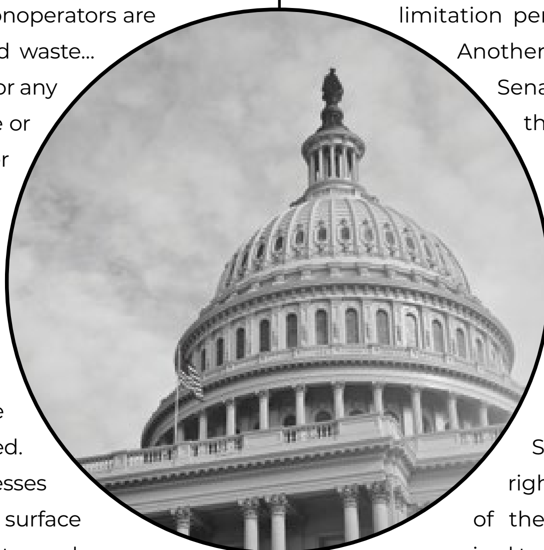
November 20, 2019 Dear Reporter Letter

The ONRR issued a Dear Reporter Letter on November 20, 2019 extending the deadline for industry compliance with reporting oil and gas royalties under the Consolidated Federal Oil and Gas Valuation Reform Rule (the 2016 Valuation Rule). The new deadline for compliance, retroactive to January 2017 is July 1, 2020. Royalties on coal have been stayed compliance with the 2016 Valuation Rule per an October 16, 2019 Dear Reporter Letter and a Preliminary Injunction from the U.S. District Court of Wyoming.

API Refiles Lawsuit Challenging 2016 ONRR Valuation Rule: On June 13, 2019 the American Petroleum Institute refiled its lawsuit in the federal district court for Wyoming (19-CV-121-5) challenging the 2016 ONRR Valuation Rule. The lawsuit claims that the 2016 Rule upends a longstanding valuation system and replaces it with widespread uncertainty and unconstrained agency "discretion". API requests that the Court declare the 2016 Rule to be unlawful and to vacate the Rule. The Wyoming District Court has consolidated the API appeal of the 2016 Valuation Rule with similar appeals made by the following petitioners: Basin Electric Power Cooperative, Tri-State Generation and Transmission Association Inc., Western Fuels-Wyoming Inc., Cloud Peak Energy Inc., National Mining Association, and Wyoming Mining Association. The consolidated suit will be known as Cloud Peak Energy Inc et al v. United States Department of Interior et al, Case 2:19-cv-00120.

Oklahoma

SB1232 Modifies the royalty payment timeline. Proceeds from the sale of oil or gas production shall be paid commencing not later than 12 months after the date of first sales (previous rule was within 6 months) and thereafter not later than the last day of the second succeeding month after the month of oil production nor later than the last day of the third succeeding month after the month of gas production. For time periods after November 1, 2020, interest on late payments will be calculated from the date payment is due vs. previous calculation from the date production is sold. As a condition precedent to the payment process, the party remitting proceeds shall be entitled to receive a signed division order or transfer order from each owner. **SB1241** prescribing that should municipalities, counties or other political subdivisions interfere with the development of minerals it shall be considered a taking pursuant to Sections 23 and 24 of Article II of the Oklahoma Constitution. **SB1334** When onsite waste disposal occurs on private land, the Commission shall require that notice identifying the exact location of the onsite waste disposal, using its legal description, be filed with the county clerk in the county where the onsite disposal occurs. **SB1856** Upon extraction of oil and gas produced water and waste from the ground, the operator and nonoperators are the sole owners of the produced water and waste… they shall have the right to obtain proceeds for any of the uses of the produced water and waste or some portion thereof, including recycled water and treated constituents. **SB1894** Under limited circumstances and conditions, the Corporation Commission is authorized to unitize a targeted reservoir for the drilling of horizontal wells to the end that a greater ultimate recovery of oil and gas may be had therefore, waste is prevented, and the correlative rights of the owners are protected. **SB1557** known as the "Art Platt Act" addresses actions required by well operators to prevent surface or subsurface pollution at or from adjacent, nearby or surrounding oil and gas wells.



Pennsylvania

SB790 it titled the Conventional Oil and Gas Well Act and pertains to conventional wells and the development of oil, gas and coal; imposes powers and duties on the Department of Environmental Protection. **HB247** states that if the operator has the right to drill an oil and gas well on separate leases or units, he/she may drill and produce a well that traverses, by horizontal drilling, more than one lease or unit, provided the operator reasonably allocates production from the well among the leases or units and the traversing well is not expressly prohibited by the terms of the lease.

South Dakota

HB1025 was enacted on March 9 and changes plugging and performance well bonds to $50,000 for all wells.

United States Congress

Congress is considering several Bills with potential impact upon the oil and gas industry. One bill with significant impact is US **HR4364 – the Taxpayer Fairness for Resource Development Act of 2019**. This bill introduced on September 27, 2019 by Utah Congressman McAdams and Florida Congressman Rooney is still under consideration. The bill proposes changes to The Mineral Leasing Act, the Outer Continental Shelf Lands Act, and the Federal Oil and Gas Royalty Management Act of 1982. These changes include, increasing federal royalty rates from 12.5% to 18.75% (onshore) and from 16.67% to 25% (offshore), creating a process to periodically adjust royalty rates to match the production-weighted average of State royalty rates, requiring royalties be paid on volumes produced vs. saved and sold, increasing civil penalty rates, increasing lease rental rates, increasing knowing and willful penalties, and repealing royalty relief for Gulf of Mexico, Offshore Alaska, and the Naval Petroleum Reserve in Alaska. The bill also changes the process for adjusting and for obtaining refunds of previously paid royalties and changes the statute of limitation period for adjustments from six to four years. Another similar, but less intensive bill sponsored by Senator Udall of New Mexico is **S3330** to amend the Mineral Leasing Act to increase certain royalty rates, minimum bid amounts, and rental rates.

Other bills being considered in Congress include: **S218/HR4294** to empower states to manage the development and production of oil and gas on Federal land. **HR998** To amend the Mineral Leasing Act to require the Secretary of the Interior to convey to a State all right, title, and interest in and to a percentage of the amount of royalties and other amounts required to be paid to the state and to delegate to a state, exclusive authority to issue an Application for Permit to Drill on Federal Lands. **HR1391** to provide regulatory relief for conventional marginally producing oil and gas wells from the EPAs "Methane Rule". **S816/HR1836** to amend the Natural Gas Act to expedite the approval of exports of small volumes of natural gas. **S1155/HR2248** to terminate prohibitions on exportation and importation of natural gas.

Additionally, **HR2711** amends the Federal Oil and Gas Royalty Management Act of 1982 to require the Secretary of the Interior to issue regulations to reduce and prevent gas waste and to enhance gas measuring and reporting and to codify a final rule of the Environmental Protection Agency regarding certain emission standards for the oil and natural gas sector. The measure would require oil and gas producers to capture 85% of all gas produced on public lands within 3 years of enactment, and 99% of all gas produced on such lands within 5 years of enactment. It also would ban venting of any natural gas on public lands, and prohibit methane flaring at any new wells established 2 years after the Bill is passed. **HR3225** Restoring Community Input and Public Protections in Oil and Gas Leasing Act of 2019 amends the Mineral Leasing Act regarding leasing on Federal lands for oil and gas drilling. Key provisions include insuring competitive bidding in the leasing process; placing geographic limitation of units of not more than 2,560 acres (5,760 acres in Alaska); limiting state sales to no more than 3 times each year; requiring a royalty rate of not less than 18.5%; establishing a national minimum acceptable bid of $5 per acre; establishing an annual rental of not less than $3.00 per acre during the 2-year period beginning on the date the lease begins then changing to not less than $5 per acre thereafter. **HR4346** to increase the bonds that oil and gas developers must post before being allowed to drill on federal onshore public lands. Single leases increase from $10,000 to $50,000, a set of leases in a single state from $25,000 to $250,000 and multiple leases across multiple states from $150,000 to $1 million.

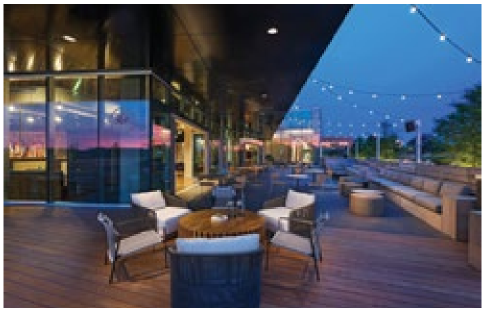
Also, **S2527** to amend the Energy Policy and Conservation Act to reinstate the ban on the export of crude oil and natural gas produced in the United States. **HR5435** American Public Lands and Water Climate Solution Act of 2019 states that the Secretary of the Interior shall not hold new lease sales for coal, oil or gas for one year after the enactment of the act. The act also establishes emission reduction targets thru January 1, 2040 when net-zero emissions are targeted. **HR5636** the Transparency in Energy Production Act of 2020. This act requires new annual reporting of fossil fuel extraction and emissions. **S3202** End Speculative Oil and Gas Leasing Act of 2020 to prohibit the Secretary of the Interior from offering for lease any federal land that has low or no potential for the development of oil and gas resources to discourage speculation in the federal onshore oil and gas leasing program. **HR5186,S2906** the Stop Giving Big Oil Free Money Act of 2019 to prohibit the issuance of new oil or gas leases in the Gulf of Mexico under the OCSLA to a person that does not renegotiate its existing leases in order to require royalty payments greater than or equal to specified price thresholds. **S3488, HR6289** to amend the Mineral Leasing Act to repeal royalty incentives.

West Virginia

West Virginia began it legislative session on January 8 and ended March 7. **HB4090** exempts low volume oil and gas wells from severance tax and provides for a reduced 2.5% severance tax on sales from oil and gas wells which produce on average between 5,000 and 60,000 cubic feet of natural gas per day, or for oil produced from any well which produced an average between ½ and 10 barrels of oil per day. The reduced severance tax will be used by the Secretary of the Department of Environmental Protection to plug abandoned oil and gas wells. This Bill was approved by the Governor on March 23 and will be effective June 3. HB4421 was filed January 27. This Bill establishes an Ad Valorem tax credit. The amount of credit allowed to the taxpayer is the ad valorem property tax paid during the corporate net income tax year, business franchise tax year and/or calendar year, as applicable and is valued on the natural gas liquids equipment used in the production, transportation or storage of NGLs; goods in process; and, finished goods of a natural gas liquids producer, transporter, or storer. The annual credit allowance can be applied to personal income tax or corporate net income tax. Any credit remaining after applying the credit may be carried forward to a subsequent taxable year for up to three taxable years. The credit is transferable to successors. This Bill has been signed by the Governor on March 25 and will become effective on June 3. SB120 was enacted on March 25 and establishes priorities for expenditures for plugging abandoned gas or oil wells. **HB4091** was enacted to allow for expedited oil and gas permits upon the payment of an expediting fee. **HB4088** was enacted March 25 and requires funds due to unknown or unlocatable interest owners be paid to the Oil and Gas Reclamation Fund on or before November 1 of each year. **SB554** was also enacted March 25 and requires a lessee to execute and deliver to a lessor within thirty days and without cost, a recordable release for terminated, expired, or cancelled oil or natural gas leases. West Virginia also considered several other impactful bills that all failed sine die. These included bills to require a second wellhead meter for use by the state in validating well production, significant new fees on producers for using county roads, a non-resident royalty withholding tax, and requiring one hundred percent owner consent for establishing drilling units.

Wyoming

Wyoming began its legislative session February 10 and ended it March 12. **HB0014** was signed by the Governor on March 9 and states that a pooling order shall expire twelve months after issuance if the operator has failed to commence operations. The Governor also signed on March 10 **SF0045** amending the authority of the oil and gas conservation commission to regulate underground disposal wells. **HB159** relates to ad valorem taxation of mineral production on a monthly basis starting January 1, 2020. It provides a process for reporting and payment of the monthly ad valorem tax based on payment schedules provided for calendar years 2019 through 2025. For calendar years 2026 and thereafter payments of 8.33% per month starting March 10, 2027. The Governor signed this Bill on March 24. **HB243** proposes Crude oil and natural gas production resulting from any well that is drilled on or after July 1, 2020 and prior to December 31, 2025, after certification by the oil and gas conservation commission, is exempt from the original 2% severance tax under W.S. 39-14-204(a)(iv). The exemption will be for the full original 2% tax rate for the first 6 months of production and will reduce the rate 1% for the next 6 months of production. However, the exemption will not apply to natural gas production when the 12 month rolling average of the Henry hub spot price for natural gas is $2.95 or more per MCF and will not apply to the production of crude oil when the 12 month rolling average of the West Texas Intermediate spot price of sweet crude oil is $50.00 or more per barrel. This Bill was signed by the Governor on March 26.



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CURRENT ECONOMIC IMPACT on Oil and Gas Industry Accounting and Financial Reporting

OVERVIEW

In early March 2020, crude oil prices declined significantly in response to disruptions in worldwide oil demand due to the economic impacts of COVID-19 and an oversupply in the market. Market uncertainties have also impacted natural gas prices and demand. These trends, including a potential economic downturn, could have an adverse and material impact to companies in the oil and gas industry.

Companies are facing many challenges; forcing changes in business plans including shutting in wells, pushing out drilling and completion programs, stacking rigs, idling frac fleets, laying off personnel, shutting offices, and renegotiating debt, throughput and other agreements. Oilfield service companies are being squeezed on demand as well as prices.

Liquidity issues are common with the exception being the well hedged upstream company. It is difficult to obtain financing for projects and operations, borrowing bases under reserve based loans are being lowered, and M&A activity is halted in most cases. Bankruptcies are increasing and consolidations within the industry are expected.

In light of the current environment, there are many accounting and financial reporting challenges for both public and private companies. The issues discussed here are not all inclusive. Management and governance committees should consider that many of these potential implications may require companies to make significant judgments and estimates which can be challenging in an environment of uncertainty.

RESERVES

Lower prices may result in PDP reserves becoming uneconomic. In order to qualify for inclusion as PUD reserves, the company must have an approved plan to develop the reserves within 5 years. In a period of delayed drilling, difficulty accessing capital and lower prices, many companies are losing PUD reserves.

A reserve reduction impacts both successful efforts and full cost companies through higher DD&A rates as well as potential impairment implications for full cost companies as discussed below.

OIL AND GAS PROPERTY IMPAIRMENTS

Lower prices, delayed drilling, idling of existing wells, and liquidity concerns all impact impairment considerations for proved and unproved oil and gas properties.

SUCCESSFUL EFFORTS – PROVED PROPERTIES

Successful efforts companies will have a triggering event requiring an assessment of proved properties for recoverability under ASC 360. The properties are tested at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets, which is generally the field level. The impairment test contains two steps: first, the undiscounted future cash flows based on management's estimates are compared to the carrying value. If this step implies an impairment, then the fair value of the properties is determined and if this amount is less than the carrying value, an impairment is recorded. As a reminder, hedges cannot be included in the cash flows.

Fair value assumptions used in the reserve report to determine fair value must use market-based assumptions (not company-specific). In some cases, the company-specific assumptions are consistent with those of a market participant, but this determination must be supported. As a result, the fair value reserve report may be different than the company's internal reserve report. In addition, the fair value assumptions should be consistent with other projections such as those used in determining the fair value of acquired properties and budgeting.

FULL COST– PROVED PROPERTIES

Full cost companies are subject to the full cost ceiling test as prescribed in ASC 932 and SEC Regulation S-X, Rule 4-10. The ceiling is based on projected cash flows for proved properties using the preceding first-day-of-the-month, 12-month average price assuming current economic conditions (LOE, capital costs) continue and a 10% discount rate. Pricing based on this formula was not significantly impacted for the first quarter; however, subsequent decreases are expected to yield a lower price for the second quarter.

As a reminder, hedges accounted for as cash flow hedges can be considered in the test; however, hedges not accounted for under cash flow hedge accounting (marked to market) cannot be included.

As discussed earlier, the current economic conditions are causing a reduction in many cases of PDP and PUD reserves. As a result, even if the pricing used in the ceiling test is not significantly impacted, the reduction in reserves may result in a ceiling write-down.

UNPROVED PROPERTIES

Companies are required to assess unproved properties periodically (i.e., at least annually) to determine whether they have been impaired. The assessment of these properties is based mostly on qualitative factors such as intent to drill on the lease, results from other wells drilled in the area, and the remaining term on the lease if there is no intent to renew the lease. Unproved properties should be assessed on a property-by-property basis or, if acquisition costs are not significant, by an appropriate grouping.

Successful efforts companies record an impairment expense and an allowance within unproved properties, whereas full cost companies record the impairment through a reclassification to proved properties where the costs are subject to amortization.

EQUIPMENT AND OTHER LONG-LIVED ASSET IMPAIRMENT

Companies must also determine if there are impairment indicators for long-lived assets such as frac fleets, drilling rigs, midstream assets, other equipment, buildings, or finite-lived intangible assets. Assuming there are triggers in the current environment, then, similar to successful efforts proved property assessments discussed above, the two-step assessment under ASC 360 is required. Note that if the assets meet the held-for-sale criteria, the order of impairment testing differs.

INVENTORY VALUATION

Many upstream companies hold inventories of drilling and lease operating supplies and equipment. These inventories are carried at the lower of cost or net realizable value. Under ASC 330, the allowance for impairment should be assessed to determine if the carrying value should be impaired considering current drilling and operating plans and dropping market values.

GOODWILL AND INDEFINITE - LIVED ASSET IMPAIRMENT

It is not as common in the upstream sector, but goodwill may have been recorded in prior acquisitions. If so, management should assess if there are indications that it is more likely than not that goodwill or an indefinite-lived intangible asset is impaired and if so, an interim impairment test is required under ASC 350.

EQUITY METHOD INVESTMENTS

Many companies account for investments in upstream companies using the proportional consolidation method for joint ventures and certain qualifying equity method investments. For these investments as well as investments accounted under the equity method, management should assess if there are indicators that the carrying amount of the investment might not be recoverable. If so, these investments are required to be reviewed for impairment under ASC 323.

INCOME TAXES

There are many tax implications associated with the current environment. In addition, there are specific implications to companies that have received Paycheck Protection Program (PPP) loans under the CARE Act. This discussion is not all inclusive but addresses some of the more common considerations under ASC 740.

Management should determine if the forecasted future taxable income in the carryback or carryforward period has changed, as this will impact the deferred tax valuation allowance. In addition, interim reporting requirements under ASC 740 should be carefully reviewed.

Companies with foreign earnings face additional considerations related to their indefinite reinvestment assertion and the potential impact under ASC 740 on the deferred tax accounts. Management should ensure that the company can continue to assert its intent and ability to indefinitely reinvest foreign earnings if their operations in such countries have been affected by current market conditions. In addition, there may be U.S. tax consequences related to debt forgiveness and possible Section 382 limitations.

DEBT REDETERMINATIONS, MODIFICATIONS, AND LOAN COVENANTS

Many companies are experiencing reduced borrowing bases upon redetermination, which can impact the classification of debt and the required write off of a portion of any debt issuance costs as a result of the decrease in borrowing capacity in a revolving debt agreement. Also, there may be negative liquidity implications from the related inability to maintain the current drilling budget and PUD support as well as going concern projections and assessment.

As part of the redetermination process or upon the default under covenant requirements, the credit agreement may be amended. In these situations, management should first determine whether the amendment meets the definition of a troubled debt restructuring (TDR) if the lender granted a concession and the company was experiencing financial difficulties. If the amendment is not a TDR, management should then assess the amended debt terms to determine if the amendment should be accounted for as a debt modification or extinguishment under ASC 470.

Management should also consider if there are cross default clauses in other contractual agreements that may be triggered under a default in the credit agreement.

HEDGING

Companies typically enter into derivatives to protect against commodity price volatility, interest rate increase and foreign currency fluctuations. The hedges may be accounted for under hedge accounting, typically as cash flow hedges, or non-hedge accounting (called economic hedges in practice) where the derivative is marked to market in earnings. In all cases, the derivative is recorded at fair value on the balance sheet.

There are several considerations in the current environment of falling commodity prices and interest rates. Counterparty credit risk should be assessed in the current environment both for its impact on the fair value of the instrument as well as collectability concerns if the hedge is in an asset position to the company. Some other specific considerations for commodity and interest rate derivatives include:

COMMODITY DERIVATIVES

Many credit agreements require a certain level of production to be hedged and failure to maintain the required coverage can result in a debt covenant violation. As discussed earlier, covenant violations may result in the waiver being amended in the debt agreement. In the current pricing environment, many companies and lenders may not want to force new derivatives to be entered into to meet the coverage ratio. Management should be in discussions with their lenders to ensure that this issue is considered in a timely manner.

Under the ISDA agreements, there may be acceleration or cross default provisions that can be triggered if there are defaults under other agreements. This can even be the case if the counterparty is also the lender under a debt agreement. Careful review of the ISDA provisions should be performed to ensure that the derivative will not be forced to terminate.

Companies with asset hedge positions may decide to terminate certain positions to generate liquidity and fund required debt repayments or operations. There are accounting implications for hedges accounted for under cash flow hedge accounting as unrealized amounts must remain in Other Comprehensive Income (unless it is probable that the forecasted production will not occur by the end of the originally specified time period or within an additional two-month period thereafter, except in rare cases) and be reclassified to earnings as the underling production is sold. Also, management should consider the tax implications of realizing the gains.

Management should also consider the income statement presentation of realized and unrealized gains and losses and possible tax consequences for non-cash exchanges of commodity derivatives.

INTEREST RATE DERIVATIVES

Similar to commodity derivative requirements discussed above, many credit agreements require a certain level of interest payments to be hedged, and if not, companies may have entered into hedges to protect interest rate volatility in variable rate loans. As interest rates have fallen, companies have recorded liabilities for receive variable /pay fixed rate interest rate hedges.

In some cases, lenders as counterparties, are offering “blend and extend” restructuring amendments for swaps whereby the swap’s term is extended, and the negative fair value of the original swap is rolled into the amended swap. This strategy is intended to lower the fixed swap payments in the short term as well as provide interest rate protection for a longer period. There may be accounting implications for both swaps accounted for as cash flow hedges and economic hedges not accounted for under hedge accounting. Careful consideration of the guidance in ASC 815 is required to determine if the restructuring results in the amended swap being accounted for as (1) a debt instrument with an embedded derivative component (which then may be eligible to be accounted for under the fair value option in ASC 825) or (2) a derivative with an other than insignificant financing element requiring cash settlements to be reported as financing cash flows in the statement of cash flows. There are also additional considerations for swaps accounted for as cash flow hedges.

RESTRUCTURING AND OTHER EMPLOYEE RELATED ACCRUALS

Many companies have unfortunately had to reduce their workforce and may contemplate further reductions. There are several potential accounting implications for management to consider:

- Exit or disposal activities should be accounted for under ASC 420.
- Employee benefits changes may require accrual in interim financial statements.
- Employee terminations may result in postemployment benefit obligations being incurred and if so, these costs are accounted for under ASC 420, ASC 712, and ASC 715.
- Employee terminations may impact share-based compensation awards through the exercise of puts or calls under ASC 718.

LEASE MODIFICATIONS

Lease concessions are common in this environment and may result in accounting treatment as a lease modification under ASC 840 and ASC 842 if the concessions are beyond the enforceable rights and obligations in the lease contract. The FASB issued a recent FASB Q&A on accounting for lease concessions related to COVID-19 that provides a reasonable approach in accounting for these lease concessions.

ABILITY TO CONTINUE AS A GOING CONCERN

Management is required to assess whether there is substantial doubt about the company’s ability to continue as a going concern within one year after the financial statements are issued or available to be issued (Assessment Period) considering all the facts and circumstances that exist as of the date the financial statements are issued (or available to be issued) under ASC 205-40. Substantial doubt exists when conditions and events, considered in the aggregate, indicate that it is probable (meaning it is likely to occur) that the company will be unable to meet its obligations as they become due during the Assessment Period.

Obligations should be considered in the broadest sense and include all liabilities that are or will become due and payable within the Assessment Period. This includes debt obligations that are due on demand based on their contractual terms, or that will become callable due to provisions in the debt agreement, such as a failure to meet restrictive covenants as discussed earlier, which requires management to consider debt maturities and covenant compliance for periods after the balance sheet date.

Management should also consider potential cash outflows for off balance sheet commitments under contractual arrangements. Examples include take-or-pay arrangements, minimum volume penalties, obligations for wells consented to but not yet drilled, delay rental payments, shut-in royalties, anticipated employee severance, conditionally puttable equity instruments currently classified as equity (or mezzanine equity). Other considerations midstream companies face in projecting cash needs is the recognition of revenues on volumes that can be applied to future periods when under delivered, and any payments due on easements.

The significant uncertainty in the industry related to commodity or service pricing, production or service levels, and debt covenant compliance, creates difficulties not typically encountered when applying the going concern guidance. The significant uncertainty about future cash flows, will often require management to prepare multiple cash flow projections that reflect different assumptions about when and how multiple possible scenarios may play out.

If management concludes there is substantial doubt, the next step is consideration of management's plans intended to mitigate the adverse conditions or events identified in the initial assessment. When assessing management's plans, events should only be considered to the extent that it is both probable the plans will be effectively implemented and that they will mitigate the conditions or events that raise substantial doubt within the Assessment Period.

CONCLUSION

These are unprecedented times for the industry and will require us to make complex and challenging judgments and assessments to ensure compliant, reliable and informative accounting and financial reporting.

"In three words I can sum up everything I've learned about life. It goes on." – Robert Frost

About the Author

DIANE KIRK, CPA
DIRECTOR - PLANTE MORAN, PLLC

Diane is the technical leader for the energy industry group at Plante Moran. She provides technical accounting and financial reporting expertise and support with an emphasis on complex debt and equity, derivatives, employee compensation, mergers and acquisitions, SEC regulatory compliance and reporting, and risk management. Diane is also actively involved in the training and development of the energy group team.

Diane has over 25 years of experience and focuses on distilling complex accounting topics and financial reporting into easy to understand language so that clients and team members can take appropriate actions. She has enjoyed helping to grow the oil and gas and energy practices while helping these clients address the challenges they face with running their business.

Diane is a member of the AICPA, Colorado Society of CPAs, Colorado Oil and Gas Association, Western Energy Alliance, Women's Energy Network, and the Council of Petroleum Accountants Societies (COPAS). She is also on the planning committee for the AICPA/PDI National Oil and Gas Conference and is a contributing editor to certain industry publications.

She was named a Top Women in Energy by the Denver Business Journal in 2018 and has spoken to client and industry groups and firm-sponsored educational events on such topics as accounting and reporting updates and industry hot topics.

FEATURE

COPAS MEETINGS
A Look to the Future

By Melissa Gruenewald, COPAS Vice President

FOR NEARLY 60 YEARS,

COPAS has led the industry by driving innovation in oil and gas accounting. Part of that innovation comes in the work of our committees and project teams, working at our regular meetings to develop and fine tune the language in our industry-leading publications.

At least twice a year COPAS relies on our 26 societies to host the Spring and Fall meeting. With no society bidding to host the Spring 2022 and Spring 2023 meetings, the COPAS Board of Directors began to research locations and discussed modifying or shortening the current national meeting schedule.

Then, COVID-19 happened, causing the Spring 2020 meeting to collapse. COPAS needed to meet virtually because people were prevented from meeting in person. The first virtual meetings for committees were held. An emergency Council Meeting was held virtually. COPAS was still able to hold votes and complete business, but it brought up questions from leaders and members about how to do meetings over the next several months and how to do meetings in the years to come.

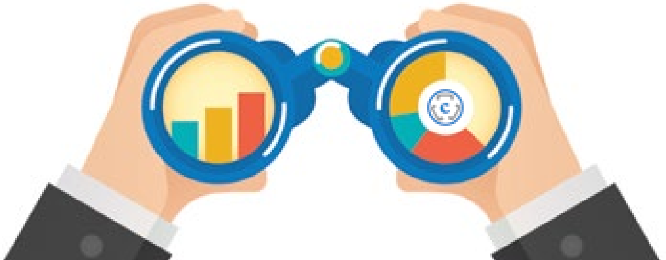
The Board of Directors planned to present a proposed shortened schedule of three days during the Spring meeting Leadership Conference. A shortened meeting option had as the first day the Board of Directors meeting, followed by the Leadership Conference, and Leadership Reception. The second day was the Emerging Issues Subcommittee and Revenue Committee in the morning with the Audit Committee, Joint Interest Committee and Revenue Committees meeting in the afternoon. The evening of the second day has a reception which members can attend and network. The third day was the Small Oil and Gas Committee, Education Committee, and possible continuing meetings for the Revenue Committee, Joint Interest Committee, and Audit Committee. The Board of Examiners for the APA® and the Financial Reporting Committee could meet on any of the days. Although the proposed shortened meeting schedule is open to feedback, the board needs to decide on the Spring 2022 meeting format in order to book a location.

The Board of Directors sent a survey to society presidents, committee chairs, and other COPAS leaders regarding a meeting format. According to the survey, most leaders in COPAS thought that social events, extra-curricular activities, and tours could be eliminated in order to shorten the schedule. Also, most leaders thought that committee meetings and the Council meeting are necessary for a COPAS meeting. Most of the leaders responded that the ideal length of a meeting is about two to three days.

The survey also solicited feedback on COPAS meeting virtually. The biggest challenge faced by the leaders in meeting virtually was staying focused on the meeting and not getting distracted by other people around them or work that is happening. They also indicated that meeting virtually doesn't allow for the type of debate and discussion that occurs in-person, and sometimes, it is difficult to tell who is talking.

COPAS held a virtual leadership conference with leaders to review survey results and further discuss the meeting format topic. During the conference, leaders discussed meeting virtually and meeting in-person. Most leaders were open to a shortened meeting format for in-person meetings. Many liked the idea of meeting virtually and preferred to have short meetings over multiple days. While there was willingness to meet virtually, many also like the idea of having an in-person meeting and offering the ability to watch the meeting virtually. While COPAS does not have the equipment, technology or expertise to webcast current meetings, it is an option that the Board of Directors will discuss and explore.

There is a lot of uncertainty in our industry, in our nation, and in the world. Meetings in the near future and in the years to come will be different than in the past. While no one knows what the future holds, COPAS has amazing, innovative leaders who will propel the organization forward. We look forward to your suggestions and participation as we take these next steps.



COPAS HISTORY

COPAS welcomes the Petroleum Accountants Society of Austin, admitted to Council on April 24, 2020. Austin is now a full Participating Society member.

Congratulations to the Austin leadership, especially Nancy Mann and Heather Jank, for their work in forming the society and planning the required meetings.

COPAS now has 25 Participating Societies, and 1 International Society.

VOTING RESULTS

SPRING 2020

- Minutes of Fall 2019 Meeting (majority) - Approved
- 2021 Membership Assessments (majority) - Approved
- Admission of Austin as a Participating Society (2/3) - Approved
- Audit Per Diem Rate Effective April 1, 2020 (majority) - Approved
- Overhead Adjustment Factor Effective April 1, 2020 (majority) - Approved
- Loading & Unloading Rates Effective April 1, 2020 (majority) - Approved
- Workers Compensation Insurance Manual Rates Effective April 1, 2020 (majority) - Approved
- Excluded Amount Effective April 1, 2020 (majority) - Approved
- Vehicle Rates Effective April 1, 2020 (majority) - Approved

The PASH Board of Directors conferred Honorary membership on two of its long-time members to recognize their significant contribution and commitment to the Society.

Wade Hopper has been involved in the COPAS and PASH organizations for over thirty-five years. He has held positions of leadership at all levels of COPAS and PASH including President of both organizations. In addition to his numerous leadership roles, he can be found volunteering and presenting at the annual PASH Education Day and is a fixture at most COPAS level meetings. He has been the go-to guy advising on issues ranging from PASH procedural issues to COPAS requirements. His commitment and involvement have been extraordinary.

Deb Retzloff has been deeply involved in COPAS and PASH activities for the last 15 to 20 years. Her first five (5) years of COPAS involvement were in the Dallas society and included four years as a committee chair. She continued her leadership role following her move to the Houston Society, where she again was involved as a committee chair followed by a two-term position on the PASH Board of Directors. Deb also held many PASH leadership positions. She also served as PASH and COPAS President. Deb has given freely of her time and effort with participation in several publication re-write teams, most recently her lead role in the development of the RTC MFI.

Congratulations to both Wade and Deb!

Editor's note: We apologize to readers that we were unable to include society and committee news and meeting photos in this issue. Many societies had to cancel their March, April, and May meetings due to the pandemic. As well, with the cancellation of the Spring meeting, standing committees have not been able to meet. We would like to share this announcement from the Petroleum Accountants Society of Houston, however, regarding their naming of two honorary society members.

SUMMER 2020 MEETING UPDATE

Due to covid-19, the summer meeting will now be held in a virtual format.

Registration will be required to attend, but there will not be a fee. Registered attendees will receive meeting details by email about a week prior to the sessions. Contact the copas office with any questions.

A detailed agenda will be emailed to all members when it is finalized. The scheduled dates and times are:

- July 21 – 9:30 A.M. To 11:30 A.M. Central – Emerging Issues
- July 22 – 9:30 A.M. To 11:30 A.M. Central – combined Joint Interest/Audit Committee meeting with a 20xx Accounting Procedure project team working session.
- July 23 – 2:30 P.M. To 4:30 P.M. Central – combined Joint Interest/Audit Committee meeting with working sessions to review the remote technology center publication and MFI-40, 24-*Month Limitation* publication.

The date for the Summer 2021 meeting has been set.

Mark your calendar for July 15, 2021!

ADVERTISING INDEX

SAVE THE DATES

NEXT *ACCOUNTS* DEADLINE

July 31st, 2020

Please send all reports and Advertising to Editor@copas.org

COUNCIL OF PETROLEUM ACCOUNTANTS SOCIETIES

ACCOUNTS

SUMMER 2020

ISSUE FEATURES

Sales Tax Refunds and Savings When Cash Is King

Current Economic Impact

COPAS Meetings: A Look to the Future

copas

Council of Petroleum Accountants Societies