

COPAS National Spring 2024 Emerging Issues Discussion Topics

Topic 2: Waste Emissions Charge - Discussion

EPA is proposing methodologies for calculating the amount by which a facility's reported methane emissions are below or in exceedance of the waste emissions threshold, and the total Waste Emission Charge ("WEC") owed by a facility owner or operator.

EPA is proposing an approach for allowing the netting of emissions across different facilities owned by the same owner or operator, as required by Congress. Netting would mean that if an owner or operator has multiple applicable facilities reporting more than 25,000 metric tons of carbon dioxide, the emissions above and below the waste emissions thresholds from all applicable facilities can be summed to calculate net emissions. If net emissions are positive, this value would be multiplied by the annual \$/metric-ton value to calculate the total WEC owed. If net emissions are less than or equal to zero, no WEC would be owed.

As required by Congress, the WEC would first apply to emissions that occur in the 2024 calendar year. EPA is proposing that owners or operators of applicable facilities would be required to submit a WEC filing for the 2024 reporting year by March 31, 2025.

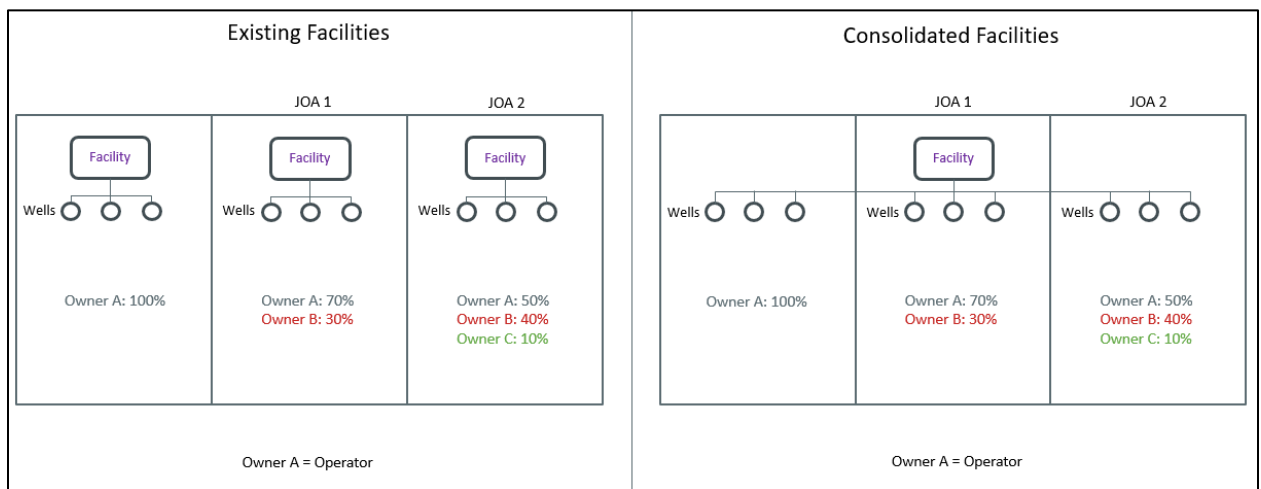
Questions:

- 1) How many are aware of the Waste Emissions Charge ("WEC") requirements?
- 2) How many have been invited to meetings as the COPAS expert for guidance on billing WEC to partners? Consultants, have you been asked for guidance?
- 3) How many have already developed internal solutions for billing and allocating WEC?
- 4) Is it fair and equitable to bill out the WEC based on producing well count or a key statistical figure in the basin (like a facility allocation)?
- 5) How should an Operator differentiate emissions reported at a basin level versus individual sites that may have already mitigated those emissions at a well level?
- 6) Could an Operator use gas quality data and volumes (that feeds in to the WEC calculation) to use as an allocation basis? What problems might there be (especially with the net emissions piece of it)?
- 7) Should operators bill out a monthly accrual for the WEC like property tax? Or wait until fee is paid in 2025 for 2024? If wait until fee is paid, how can non-ops determine how much to accrue for charges that will be coming on JIBs from Operators (use CO₂e to backout potential methane fees, e.g.)?
- 8) Are there any other points that should be considered regarding allocating and billing the WEC?

Topic 3: Shared Facilities Across Multiple JOAs

Scenario 1

- Operator has multiple operated properties in an area which each have single-well or multi-well (under the same JOA) gas lift/compression.
- Operator wishes to consolidate the gas lift and compressors into a "network" shared across their operated properties in the area, which are under several different JOAs with diverse ownership.
- The consolidation would consist of removal of certain gas lift/compressors which would necessitate the wells that previously tied into them ("Satellite Wells") to tie into gas lift/compressors that were constructed and are owned under a different JOA ("Host JOA"), in some cases by different parties. Some JOAs/COPAS are '82/'84 and some are '89/'05, respectively.



Scenario 1 Questions:

- 1) Can Operator propose consolidation or shared use of jointly-owned equipment or facilities across multiple JOAs?
- 2) If so, what provision of the JOAs or COPAS allows this cross-JOA sharing and provides parameters as to how the operation is to be proposed and executed, as well as provides for treatments on a monthly basis forward?
 - o (i.e. what is OH? What is OPEX for Host JOA/Satellite JOAs? What is fee for use of Host JOA facility by Satellite Wells? How to address when Satellite Wells are P&A'D prior to facility decommissioning?)
- 3) If not, would it require amending JOA(s) or entering into a separate facilities agreement with all affected parties?

Topic 3: Shared Facilities Across Multiple JOAs (continued)

Scenario 1A – Operator Ballots

- Operator proposes the consolidation project by identifying the wells affected and loosely referencing the multiple JOAs that govern them in a single ballot with a single election/signature line.
- Non-Operator, whom has an interest in some Satellite Wells, but not all (and not uniform), sends communication back that this is not a valid proposal due to lack of governance by any of the JOAs and would additionally require further written agreement between, at least, the Host JOA parties for the allocation/accounting across the JOAs for shared equipment owned under their Host JOA.

Scenario 1A Questions:

- 1) Is Non-Operator correct regarding the validity of the proposal? What is wrong/right about it?

Scenario 1B – Operator Ballots/Notifies

- Operator sends a combination of notices and new proposals across the multiple JOAs. They allocated the project cost across all affected wells. They communicate in the notice letters that the (VII.D.3 – '82 / VI.D – '89) JOA Single Expenditure Limit ("SEL") was not met therefore balloting was not required, and they could move forward with the project as to those segments. The segments that did not exceed the SEL have individual ballots for election per JOA.
- Non-Operator sends communication back that (i) Operator mis-allocated the project resulting in certain items being "below SEL" regardless of contract application inapplicability, and (ii) these are not valid notices/proposals and would additionally require further written agreement between the parties for the allocation/accounting across the JOAs and shared equipment.

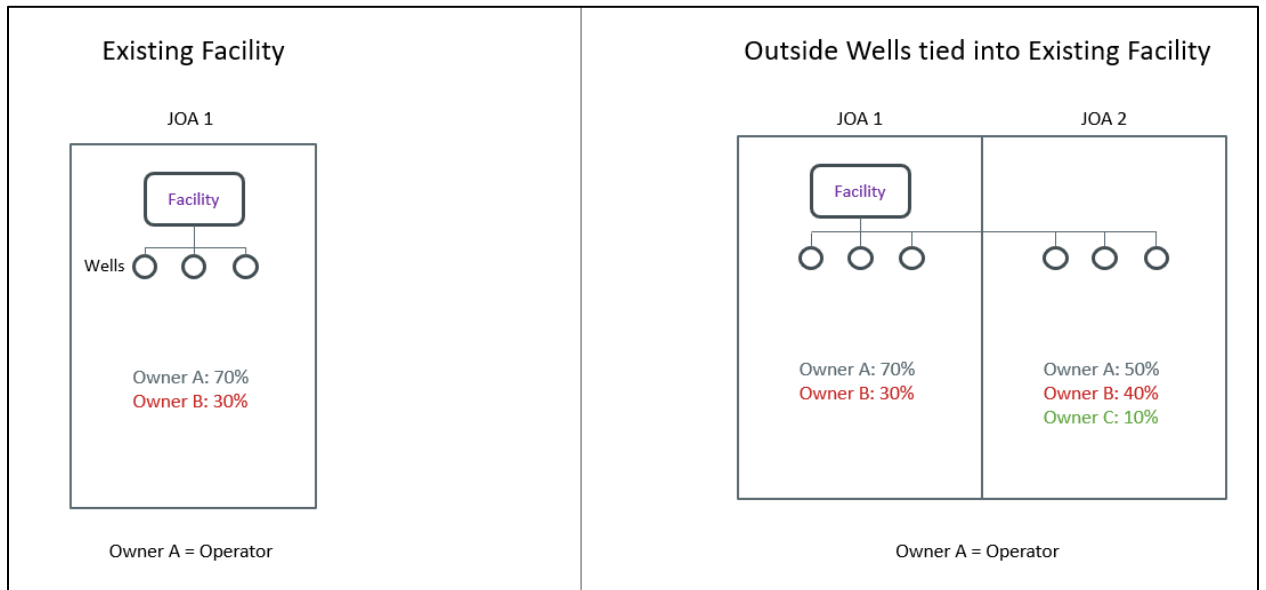
Scenario 1B Questions:

- 1) *Straw Poll:* Consider that some JOAs (diverse owners) may have 2-3 wells while others may have 4-7 wells governed by them.
 - 1) Should the project allocations be divided by well?
 - 2) Should the project allocations be divided by JOA and then by well?
 - 3) What else could make sense?
- 2) With proper facility cost allocations to the well and with separate election lines per JOA, would this be a valid proposal?

Topic 3: Shared Facilities Across Multiple JOAs (continued)

Scenario 2:

- Operator has an existing jointly-owned facility (“Host Facility”) neighboring planned new development wells that it also would operate, which are jointly-owned, but by different Non-Ops/interests than the Host Facility under a different JOA (“Satellite JOA”).
- Operator wishes to propose the new wells to be tied into the Host Facility, which requires an expansion to accommodate the new production.



Scenario 2 Questions:

- 1) *Straw Poll:* Can Operator propose tie-in to the Host Facility to the Satellite JOA Non-Ops?
- 2) Who should pay for that tie-in?
- 3) *Straw Poll:* Can Operator tie into the Host Facility its own 100% owned wells or otherwise jointly-owned wells without the consent of the parties that own the facility?
- 4) Is a further agreement required between just the Host Facility parties, or is it required among all parties?
- 5) What parties should pay for the expansion? How should this be allocated across the parties that should pay? Should the underlying ownership of the Host Facility change? Or should the base Host Facility have an ownership base, and the expansion itself have an ownership base? If different bases – how to reconcile joint costs?

Topic 3: Shared Facilities Across Multiple JOAs (continued)

Alternative Approach 1 Questions:

- 1) *Straw Poll:* Can the Host JOA parties, rather than entering into a side agreement with ALL Satellite-Well-owning parties, agree via Host JOA amendment, to use the Satellite Wells' COPAS (2005) Section II.6.A or B as a basis for charges for use of the Host JOA facility, and an allocation of the fee revenue back proportionately to the owners of the facility under the Host JOA?
- 2) If yes, how would you treat non-consent parties of the well(s) for which the equipment is originally constructed and owned? Would they be entitled to their proportionate share of fee revenue generated from Satellite Wells, and would it be attributable to their payout balance?
- 3) If no, is there another way to handle this?

6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

In the absence of a separately negotiated agreement, equipment and facilities furnished by the Operator will be charged as follows:

- A. Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not limited to production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with the costs of ownership and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide direct service to personnel who are chargeable pursuant to Section II.2.A (*Labor*). Such rates may include labor, maintenance, repairs, other operating expense, insurance, taxes, depreciation using straight line depreciation method, and interest on gross investment less accumulated depreciation not to exceed _____ percent (___%) per annum; provided, however, depreciation shall not be charged when the equipment and facilities investment have been fully depreciated. The rate may include an element of the estimated cost for abandonment, reclamation, and dismantlement. Such rates shall not exceed the average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Section II.6.A above, the Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property, less twenty percent (20%). If equipment and facilities are charged under this Section II.6.B, the Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation. For automotive equipment, the Operator may elect to use rates published by the Petroleum Motor Transport Association (PMTA) or such other organization recognized by COPAS as the official source of rates.

COPAS National Spring 2024 Emerging Issues Discussion Topics

Topic 3: Shared Facilities Across Multiple JOAs (continued)

Alternative Approach 2 Questions:

- 1) *Straw Poll:* Is it fair to say that this would be a lot less complicated if the Operator just owned all of the equipment 100%?
- 2) *Straw Poll:* Is it fair to say that the negotiated rate in ('84) II.8.A or ('05/'22) II.6.A is often too low to compete for Operator's well capital within its portfolio to justify a disproportionate ownership to their well interests? Is this reluctance further compounded by lesser operated WI like 60% vs. 95%?
- 3) *Straw Poll:* Is it worth a conversation around "acceptably higher" percentages to be agreed upon by JOA parties so that the Operator is more greatly incentivized, within reason, to own facilities and other equipment/materials 100%?
- 4) If yes to Straw Poll #3, what is an acceptable rate to accomplish this without breaking the Non-Operator's banks?

COPAS National Spring 2024 Emerging Issues Discussion Topics

Topic 4: Overhead Rate & Terms When No JOA or Accounting Procedure – Discussion

- Situations exist where there are multiple owners in a well operation, but there is no JOA or Accounting Procedure to provide the guidelines for how costs should be shared amongst the owners.
- These situations can occur in Texas, Louisiana, New Mexico, Oklahoma, North Dakota, Pennsylvania, or any other state where oil & gas operations occur.

Questions:

In these situations when no JOA or AP exists, we would like to answer the questions below for each state:

- 1) Who shares in the costs?
- 2) What guidelines, or Accounting Procedure terms, should be followed?
- 3) What drilling and producing overhead rates should be used?
- 4) Who approves all of the above?

Take ten minutes with your group to discuss and answer these questions for the states listed above and for any other state in which you have experience.

COPAS National Spring 2024 Emerging Issues Discussion Topics

Topic 5: Boat Allocations

- Operator A charters a boat for use at a platform in the Gulf of Mexico (which has multiple partners). Operator A realizes the boat could also be used by a Operator B at a nearby platform (also with multiple partners) in order to create efficiencies and reduce costs.
- Operator A directs the chartered boat to make runs to the two different platforms. The boat company submits one invoice to Operator A for all services provided.

Questions:

- 1) What costs should be split between the operators (diesel, standby, shorebase, etc.)?
- 2) Are there any costs that would not be shared between the two operators?
- 3) How would “waiting on weather” events be shared? Assigned to the platform where the event occurred? Assigned to both platforms evenly? Some other way?
- 4) If one platform has night operations and the other one does not, this could result in “waiting” charges. Should both platforms share in these types of charges?
- 5) Are there certain instances where only one platform would get the costs?

COPAS National Spring 2024 Emerging Issues Discussion Topics

Topic 6: Project Management Charges on Invoices

- A vendor constructs an offshore location for Operator A. The vendor provides all services necessary to prepare the location and manage the overall project.
- Operator A receives a detailed invoice from the vendor, which includes labor, equipment, material, and 3rd party charges. The labor charges detailed on the invoice include administrative services in the form of project manager, administrative assistant, document control, and scheduler hours.
- Operator A charges the vendor's invoice to the Joint Account, which is governed by a 1986 Offshore Model Form Accounting Procedure.

Questions:

- 1) Is the vendor providing a service that is directly chargeable to the joint account per section II.6, *Services*, of the AP?
- 2) Is the vendor providing a service that is indirectly chargeable to the Joint Account and covered by the overhead rates per section III, *Overhead*?
- 3) Does it matter if the vendor's invoice did not include discreet lines for administrative charges, and instead included them within the dayrate or as some kind of "project fee?"
- 4) Does section III, *Overhead*, apply only to administrative functions benefitting the Operator, or does it also apply to a vendor's administrative functions that may be required for the vendor to complete a directly chargeable project?

6. **Services**
The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraphs i and ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel directly engaged in the operation of the Joint Property shall be charged to the Joint Account if such charges are excluded from the overhead rates.

9. **Legal Expense**
Expense of handling, investigating and settling litigation or claims, discharging of liens, payments of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the Agreement or necessary to protect or recover the Joint Property. except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

III. OVERHEAD

As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge the Joint Account in accordance with this Section III.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- i. Except as otherwise provided in Paragraph 2 of this Section III, the salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:
 - () shall be covered by the overhead rates.
 - () shall not be covered by the overhead rates.
- ii. Except as otherwise provided in Paragraph 2 of this Section III, the salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:
 - () shall be covered by the overhead rates.
 - () shall not be covered by the overhead rates.

COPAS National Spring 2024 Emerging Issues Discussion Topics

Topic 6: Project Management Charges on Invoices (continued)

- The labor charges detailed on the invoice include administrative services in the form of project manager, administrative assistant, document control, and scheduler hours
- Operator A charges the vendor's invoice to the Joint Account, which is governed by a 1986 Offshore Model Form Accounting Procedure.
- The Operating Agreement includes a provision to clarify Section III, Overhead, of the AP. This provision states,
 - “The Major Construction rates shall provide for all personnel above the Project Manager level and all other administrative functions and associated cost indirectly serving the project including, but not limited to, cost for accounting, services personnel, treasury, administrative, senior management, and other support services provided by the Operator.”

Questions:

- 1) If the vendor's service is part of a Major Construction project, are the administrative services included on the invoice directly chargeable or covered by the overhead rates?
- 2) If covered by the overhead rates, would costs for the vendor's "project manager" be directly chargeable to the Joint Account?

COPAS National Spring 2024 Emerging Issues Discussion Topics

Topic 8: Abandonment Costs – Technical Services

- Vendor provides offsite engineering service to Operator A during P&A operation.
- Operator A charges the vendor's invoice to the Joint Account, which is governed by a 1998 PTAP Accounting Procedure.
- Section III, *Overhead*, indicates the costs for technical personnel assigned to or employed in the operation of the Joint Property shall be covered by the overhead rates.
- Section II.14, *Abandonment And Reclamation*, indicates costs incurred for abandonment and reclamation are directly chargeable to the Joint Account.

Questions:

- 1) Is the invoice for offsite engineering service correctly charged to the Joint Account? Why or why not?
- 2) MFI-39, *1998 Project Team Model Form Accounting Procedure Interpretation*, indicates all well abandonment costs incurred in meeting regulatory requirements are directly chargeable to the Joint Account.
 - a) Does this literally mean ALL abandonment costs (if necessary to satisfy regulatory)?
 - b) Does section 14 supersede the selections made in section III?
 - c) Would offsite technical service costs be chargeable under this section II.14 if they are related to P&A work?

ii. Except as otherwise provided in Paragraphs 1 and 3 of this Section III, the salaries, wages, related payroll burden and Personal Expenses of Technical Employees, and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property

- shall be covered by the overhead rates
- shall not be covered by the overhead rates

14. ABANDONMENT AND RECLAMATION

Costs incurred for abandonment and reclamation of the Joint Property, including costs required by governmental, regulatory, or judicial authority

All well abandonment costs incurred in meeting regulatory and lease requirements in the abandonment of the Joint Property are proper charges to the Joint Account. These costs include, but are not limited to, the costs to abandon platforms and other offshore structures and the costs to abandon wells and onshore facilities including surface restoration costs.

COPAS National Spring 2024 Emerging Issues Discussion Topics

Topic 9: Rig & Material Administrators

- A vendor provided drilling services at an offshore location for Operator A. The vendor includes rig administrators and materials administrators as part of their drilling service. These administrators coordinate all material orders and movements on the drillship.
- Operator A charges the vendor's invoice to the Joint Account, which is governed by a UOA with an Exhibit C 1986 Accounting Procedure.
- Exhibit C states in section III, Overhead, "as compensation for administrative, supervision, office services and warehousing costs, Operator shall charge the Joint Account in accordance with Section III."

Questions:

- 1) Are the rig and material administrator costs included on the drilling invoice directly chargeable to the Joint Account?
- 2) Are the rig and material administrator considered administrative services and should be covered by overhead per section III?
- 3) Does it matter if the rig and material administrators are identified in the drilling contract and are integral to the vendor's drilling services?
- 4) Does section III, Overhead, specifically apply to the Operator's administrative functions?
- 5) Does it matter if the vendor's invoice did not include discreet lines for administrative charges, and instead included them within the dayrate or as some kind of "project fee?"

1986 Accounting Procedure, Section III, *Overhead*

III. OVERHEAD

As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge the Joint Account in accordance with this Section III.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- i. Except as otherwise provided in Paragraph 2 of this Section III, the salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:
 - () shall be covered by the overhead rates.
 - () shall not be covered by the overhead rates.
- ii. Except as otherwise provided in Paragraph 2 of this Section III, the salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:
 - () shall be covered by the overhead rates.
 - () shall not be covered by the overhead rates.

Topic 9: Rig & Material Administrators (continued)

1986 Accounting Procedure, Interpretive

III. OVERHEAD

GENERAL

Overhead is a provision whereby those costs incurred above the lease operating level which generally include administrative costs, supervision, office services and warehousing costs are combined into a single overhead allowance for a given type of operation. This overhead charge shall be in lieu of costs and expense of all offices and salaries or wages plus applicable burden and expenses of all personnel except those directly chargeable under Section II, Paragraph 2A.

Administrative costs for overhead purposes are defined as those general costs attributed to executive and administrative functions incurred by the Operator at the home, divisional, area, regional, or similar administrative office above the operating level serving, indirectly, the development and producing operations. - In the case of the large or "major" companies, the administrative function can be located in more than one office, while in the case of the smaller or "independent" companies the function is usually located at the home office. Administrative costs applicable to development and producing operations include the overhead of the related facility operations, such as gas systems and plants, salt water disposal systems, additional recovery systems, etc., if such other facility operations are administered by a common staff with the development and producing operations. Administrative overhead costs of downstream operations, such as refinery, sales, oil and gas transportation, oil purchases and sales, manufacturing and other operations not directly associated with producing operations should not be included in administrative costs. In determining the apportionment of administrative costs of any particular account, equitable weight should be given to all functions.

Supervision and office services performed at the area, regional or district level which are incurred while **drilling and producing and are of such a general nature that all wells, leases and facilities in the area benefit proportionately**, are recognized as being included in the overhead rate.

These expenses consist of the salaries and expenses of the production superintendent and other employees serving properties in the same operating area whose time is not charged directly to the properties.

Costs of field operated and maintained buildings permanently staffed by field employees responsible for directly operating leases and units, and whose salaries and wages are charged directly to the leases and units served by the building and associated facilities are direct charges to the Joint Properties served by the field employees.

Warehouse operation and maintenance expenses represent Operator's cost of storing and handling that Material for which it is not practical nor feasible to purchase directly from outside sources at the required time of need.

The warehouse operation and maintenance expenses include costs such as: salaries and related payroll burden of warehousemen or clerks receiving and disbursing stock items, depreciation on material storage facilities, loading, unloading and transportation in to stocking point, maintenance and care of stock and storage facilities and any other cost incurred directly for the purpose of warehousing Material.

For further amplification, refer to COPAS Model Form Interpretation 21, *Overhead Principles* on Overhead.