

COPAS National Spring 2025 Emerging Issues Discussion Topics

Topic 1: Carbon Capture & Storage

Guest Presentation by: **Mr. Brad Pearson**, with ExxonMobil



Brad Pearson is the ExxonMobil Low Carbon Solutions Financial Reporting Manager. He and his team are responsible for advising the business on accounting and reporting implications for business decisions, overseeing the monthly / quarterly reporting, and assisting in many year-end financial activities.

ExxonMobil Low Carbon Solutions was formed in 2021 and is working to bring lower-emission technologies to market, focusing on carbon capture and storage, hydrogen and Mobil™ Lithium. During his 14 years with ExxonMobil, Brad has worked in Audit, Corporate Reporting, Financial Reporting, Risk & Controls, and Corporate Projects within ExxonMobil's Product Solutions, Upstream, and various Centralized Organizations. Brad received a BSBA from the University of Nebraska and an MBA from Duke University.

Topic 1: Carbon Capture & Storage – Case Study

Facts Set

- Company CleanCo is interested in entering the CCS business and has the cash on hand to invest. CleanCo has acquired rights from various landowners to sequester CO₂ and will pay those landowners as CO₂ is injected.
- Company CaptureCo owns a manufacturing plant with CO₂ capture equipment already installed that qualifies for income tax credits.
- Company PipelineCo owns decommissioned pipelines that previously transported CO₂ for different purposes and is conveniently located near CaptureCo's facilities and runs near the storage sites in which CleanCo has acquired rights.
- CleanCo is willing to drill appraisal and injection wells and shoot seismic in support of developing CO₂ storage. CleanCo has reached an agreement with Capture Co to enter into an agreement 50-50% ownership of a future CCS project that would include capturing CO₂ from CaptureCo's facilities and sequestering it in sites CleanCo in which has rights.
- CleanCo is willing to purchase the decommissioned CO₂ pipelines from PipelineCo either as part of the joint agreement with CaptureCo or individually.

Discussion Questions

1. If CleanCo purchases the pipeline system from PipelineCo individually, what issues could there be from a joint interest billing perspective?
2. Will CleanCo and CaptureCo share the costs to bring the decommissioned pipelines into service? Or should CleanCo pay upfront since they have not yet incurred costs?
3. What type of overhead charges can Company CleanCo charge to the joint account to recover their costs? Can it include any profit?
4. Are the future drilling costs chargeable to joint account? Or can CaptureCo decline to participate?
5. Are drilling and seismic costs expensed or capitalized? If CleanCo and CaptureCo created a JV would language stating "the JV is subject to normal accounting procedure..." be helpful? And if so, which entity would be the authority for normal accounting procedures?
6. Will tax credits be shared? Are there best practices to account for credit sharing?
7. Are payments to landowners categorized as COGS or opex? And, what methodology should be used to calculate these payments? (e.g., a flat injection fee, percentage of tax credits, "net proceeds", "royalty rate", what costs are (un)reasonable, etc.)

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Topic 2: Member Suggestions for the COPAS Library

- At the COPAS National Winter 2025 meeting, members suggested several topics for which COPAS should consider adding or improving guidance.
- Today we will identify concerns, risks, and/or uncertainties with these topics and provide this information to the Audit & JI committees for further discussion and consideration of developing and/or improving COPAS guidance.
- The topics are categorized in two groups: those that are addressed at least in part in current COPAS guidance and those that do not seem to be addressed in current COPAS guidance.
- For each topic, we will work together to answer the questions below. This information will then be provided to the Audit & JI committees for further discussion:
 - Why was this suggested as a topic that needs COPAS guidance?
 - What audit risk or uncertainty is there around this topic?
 - What “holes” do we have in our current COPAS guidance on this topic?
 - Is an Accounting Guideline or AG needed?
 - What points should the Audit and/or JI committees consider?

Not Addressed in Current Guidance

1. Water (Produced, SWD, Recycled)
2. Artificial Intelligence (use? Cost? Privacy?)
3. AG on wells with no operating agreements: force pooled, risk fee, etc.
4. Midstream JV audits
5. Cybersecurity
6. Identify any new legal cases or regulations
7. Audit rights of defaulting parties
8. Offset Well Costs
9. P&A costs: Advanced billing, financial assurance requirements, decommissioning

Addressed in Current Guidance

1. Allocations & methodology
2. Material Reconciliations (parts/materials on wells)
3. Non-operator Data Requests (scope, limits, materiality, audit vs non audit request)

Topic 3: Operator Owned Facility Considerations

Scenario 1

- Operator A built and owns a water treatment facility for collecting produced water, recycling it, and then holding it for re-use. The produced water can be treated and sold for re-use in frac ops.
- Avg commercial rates: \$0.40/bbl fresh water purchase; \$0.60/bbl trucking.
- There is no commercial rate in the immediate area for a comparable water treatment facility that sells recycled water.
- Operator's actual costs to pipe produced water to facility and treat it is \$1.20/bbl. Operator charges \$1.00/bbl for recycled produced water, which includes transporting the water via pipe.
- Non-op Z takes exception to \$1.00/bbl frac rate, saying market rate should be based on water supplied by pipe and not by truck.

- Facility Information
 - Consists of a large pit on 80 acres with a capacity to hold 50,000 barrels of water, tanks, and pumps.
 - Facility costs (capital) include cost of the land, location construction including the pit, roads, fences, equipment such as tanks, pumps, and piping. A pipeline system totaling 50 miles was also installed to carry water from the producing wells to the facility and from the facility to area well sites.
 - Monthly operating expenses include power, location and road maintenance, labor, etc.

Scenario 1 Questions:

- 1) Is Operator A charging a correct rate, given it is based on market rates in the area for water and trucking, which is lower than actual cost?
- 2) How should the Operator be determining the rate if there are no comparable facilities in the area that provide the same type of service?
- 3) Should the revenue stream resulting from re-use of produced water be equitably shared with the wells that provided the produced water? If so, what documentation should be provided to show revenue is being shared?
- 4) How can the Non-Operator(s) ensure that there is no embedded duplication of charges associated with the produced water vs. recycled water, or other unidentified revenue streams that should be shared?

Topic 3: Operator Owned Facility Considerations

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Scenario 3:

- In a separate audit, Non-Operator X (different ownership than Non-Op Z) takes the position that owners in the wells producing the flow back water should be reimbursed for the water. Non-operator X's position is that water is becoming a scarce commodity and instead of it being something that must be disposed of it has value.
- Operator B disagrees, stating the only reason to build a water recycling facility is the favorable economics for future wells. If forced to pay for produced water, the project is uneconomical.

Scenario 3 Questions:

- 1) Is Non-operator X's claim of sharing water sales revenue sharing valid? What would make the claim valid or make it invalid?
- 2) If the Operator's cost recovery from the water facility is greater than the cost to operate, should the excess recovery be allocated back to the wells? If so, how should the Operator document efforts to allocate "revenue" from this facility back to the wells that provided the produced water for future re-use?
- 3) If the revenue from the water sales is to be shared with the producing wells, does the Operator's cost to operate the recycling facility have any impact on the amount of revenue shared? In other words, if the Operator is losing money on operating the recycling facility, could that loss be deducted from the water sales revenue?

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Scenario 4:

- Operator A is a 51% owner in an affiliate facility that collects & disposes of produced water and sells produced water for frac operations.
- Avg commercial rates: \$0.40/bbl fresh water; \$0.60/bbl trucking.
- Operator has a contract with the facility to pay \$1.00/bbl to pipe produced water to frac ops.
- Non-op Z takes exception to \$1.00/bbl frac rate, saying market rate should be based on water supplied by pipe and not by truck.

Scenario 4 Questions:

- 1) Is Operator A charging a correct or acceptable rate?
- 2) Does a non-operator have a right to see the details of how a rate charged by an affiliate was calculated, such as depreciation, useful life, CAPEX, OPEX, etc.? Or is the contract with the affiliate adequate support for the rate?
- 3) Should the affiliate revenue from produced water sales be equitably shared with the wells that provided the produced water to the affiliate?

Topic 3: Operator Owned Facility Considerations

“Equipment and Facilities Furnished by Operator” and “Affiliate” language for 3 COPAS Model Form Accounting Procedures: COPAS 1984, COPAS 2005, COPAS 2022:

1984 COPAS Model Form Accounting Procedure

8. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed _____ percent (_____ %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association

2005 COPAS Model Form Accounting Procedure

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.

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6. AFFILIATES

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

- A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the Non-Operators may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate goods and services are specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such Affiliate's goods and services billed to such individual project do not exceed \$ _____. If the total costs for an Affiliate's goods and services charged to such individual project are not specifically detailed in the approved AFE or authorization or exceed such amount, charges for such Affiliate shall require approval of the Parties, pursuant to Section I.6.A (General Matters).
- B. For an Affiliate's goods and /or services used in operations not requiring an AFE or other authorization from the Non-Operators, charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section I.6.A (General Matters), if the charges exceed \$ _____ in a given calendar year.
- C. The cost of the Affiliate's goods or services shall not exceed average commercial rates prevailing in the area of the Joint Property, unless the Operator obtains the Non-Operators' approval of such rates. The Operator shall adequately document and support commercial rates and shall periodically.

2022 COPAS Model Form Accounting Procedure

6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

The Operator shall charge the Joint Account for use of equipment and facilities furnished by Operator, including production facilities, Shore Base Facilities, Offshore Facilities, Field Offices, and Remote Technology Centers. The cost of Field Offices are chargeable only to the extent the Field Offices provide direct service to individuals who are chargeable pursuant to Section II.2.A (*Labor*), Section II.5 (*Services*), or II.7 (*Affiliates*), as applicable.

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

- A. Charges for use of such equipment and facilities will be made at rates commensurate with the cost of ownership and operation. 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 ____ % per annum; provided, however, depreciation shall not be charged when the equipment and facilities investment has been fully depreciated. The rate may include an element of the estimated cost for abandonment, reclamation, and dismantlement. Such rates shall not exceed the commercial rates currently prevailing in the area of the Joint Operations.
- B. In lieu of charges in Section II.6.A, the Operator may elect to use commercial rates prevailing in the area of the Joint Operations, less 20%. If equipment and facilities are

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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 COPAS. If COPAS ceases or fails to publish such rates, Operator may charge vehicle rates based on a method comparable to that most recently used by COPAS.

7. AFFILIATES

All work performed, or materials supplied, by an Affiliate of Operator shall be performed or supplied at competitive rates and terms, and in accordance with customs and standards prevailing in the industry unless otherwise agreed to by the Parties under Section I.6.A (General Matters).

Charges to the Joint Account for goods and services provided by an Affiliate in a Competitive Transaction may be made without approval of the Parties, unless required under the Agreement. Each of the following is considered a Competitive Transaction:

- (i) for an Affiliate that routinely conducts business with unaffiliated customers, the rates and terms charged the Joint Account are representative of rates and terms the Affiliate charges non-affiliated customers;
- (ii) Affiliate labor charged on the same basis as if provided by Operator under Section II.2 (Labor);
- (iii) Affiliate equipment and facilities charged on the same basis as equipment and facilities provided by Operator under Section II.6 (Equipment and Facilities Furnished by Operator);
- (iv) Affiliate equipment, facilities, or Materials charged at rates and terms that are competitive with unaffiliated third parties, in accordance with customs and standards prevailing in the area of Joint Operations;
- (v) charges to the Joint Account for the Affiliate's goods and services used in Joint Operations that are less than or equal to \$. This threshold applies separately to each Affiliate, and it applies separately to each: (x) project or operation requiring an AFE or other authorization from Non-Operators under the Agreement or (y) calendar year, for Joint Operations not requiring an AFE or other authorization under the Agreement.

If the Parties fail to designate a dollar amount in (v), the amount deemed adopted by the Parties is the amount established as the Operator's expenditure limitation in the Agreement. If the Agreement does not contain an Operator's expenditure limitation, the amount deemed adopted by the Parties is \$0.

Charges to the Joint Account for goods and services provided by an Affiliate that are not considered a Competitive Transaction require approval of the Parties under Section I.6.A (General Matters).

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Nothing in this Section II.7 authorizes charges to the Joint Account for services covered by Section II. 9 (Legal Expense) or functions covered by Section III (Overhead).

The Operator may not charge the Joint Account for expediting, purchasing fees, or other mark-up for Affiliate goods and services

Topic 4: Exceptions on Behalf of Others

- Non-Operator “Jim” conducts a JV audit of the “Smith 1-1H” well and takes exception to certain December 2021 costs. “Jim” believes this issue exists on all wells operated by the Operator. “Jim” takes written exception prior to audit rights expiring under the JOA between “Jim” and the Operator.
- “Jim” has a good friend, “Bob”, which is also a non-operator in some of the Operator’s wells, and “Jim” wants to do his friend a favor, and so he takes exception on behalf of “Bob” and requests the Operator credit not only the well audited, but all wells that “Bob” has a non-op interest in also.
- The Operator grants exception and issues credit only to the “Smith 1-1H” well. The Operator does not issue credit to “Bob’s” wells, indicating “Bob” did not take written exception per the JOA between “Bob” and the Operator.

Questions:

- 1) Is it allowable for non-Operator “Jim” to take exception on behalf of non-Operator “Bob”, or does “Bob” need to take written exception themselves? What if “Jim” includes “Bob” as a CC on the audit report?
- 2) Assume “Bob” is a non-op in the “Smith 1-1H” and “Bob” provided written authorization for “Jim” to lead the audit of the “Smith 1-1H.” Could “Jim” take exception on behalf of “Bob” for other wells in which “Bob” has an interest, even if “Jim” does not have interest in the wells? Or does “Bob”’s written authorization only apply to the “Smith 1-1H”?
- 3) Does it matter if “Jim’s” actions will reduce the audit burden on the Operator, as a separate audit of “Bob’s” wells won’t be needed?