



# The SEC Reserve Reporting Standards

## Proved Undeveloped Reserves Revisited Facts and Circumstances to Consider

Presented By  
John Hodgkin  
June 8, 2015

# Disclaimer

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# Presentation Topics

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- ❑ 5 Year Clock for Proved Undeveloped Reserves
- ❑ Reconciling the 5-Year Limitation on PUDs
- ❑ Converting Proved Undeveloped Reserves to Developed
- ❑ Development Plans and PUDs
- ❑ Current Commodity Pricing and PUDs
- ❑ Disclosures Relating to Current Commodity Prices

# The 5 Year Clock for PUD Reserves



## ➤ Rule 4-10(a)(31)(ii) of Regulation S-X



- “scheduled to be drilled within five years”

## ➤ Item 1203(d) of Regulation S-K

- “remain undeveloped for five years or more after disclosure as proved undeveloped reserves”



# PUDs Affected by the 5-Year Limitation

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## ➤ C&DI 131.03

- Summarizes “what “specific circumstances” would justify a time period longer than five years to begin development”

## ➤ Item 1203(d) of Regulation S-K

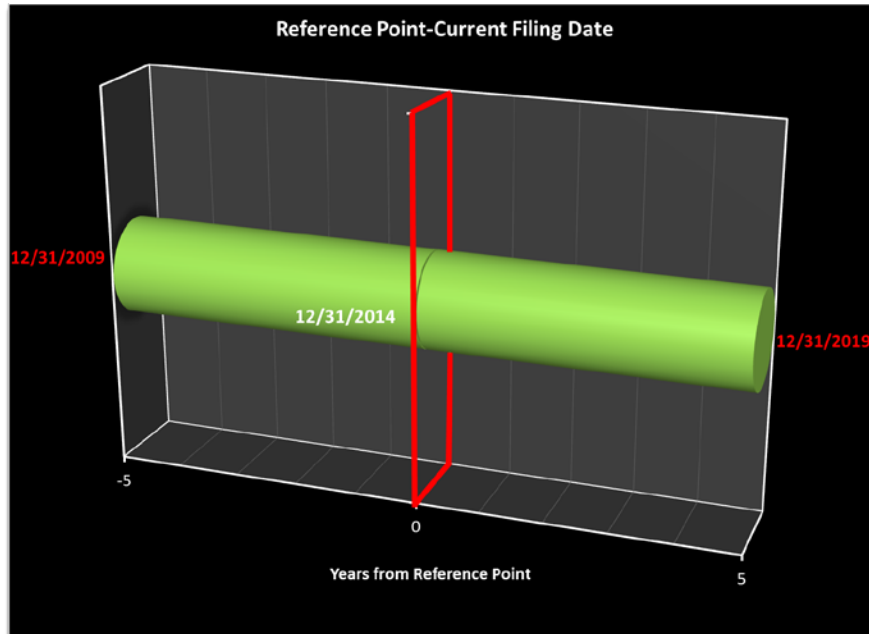
- “explain the reasons” pursuant to C&DI 131.03

# Identifying PUDs Affected by the 5-Year Limitation



## ➤ Item 1203(d) of Regulation S-K

- “explain the reasons why material amounts of proved undeveloped reserves in individual fields or countries remain undeveloped for five years or more”



Filing as of 12/31/2014 Example:

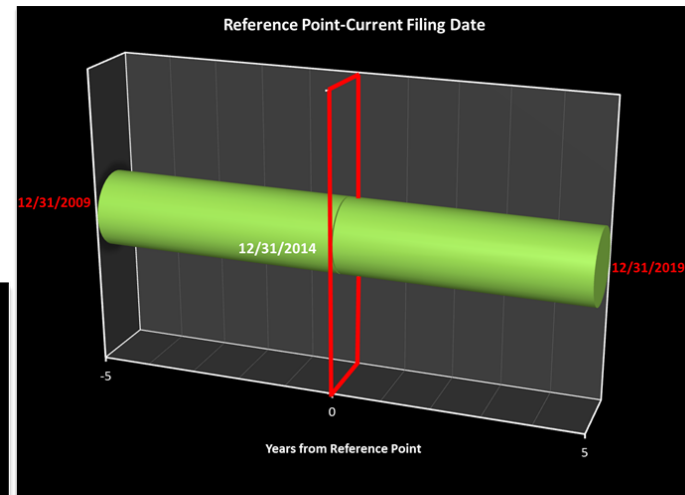
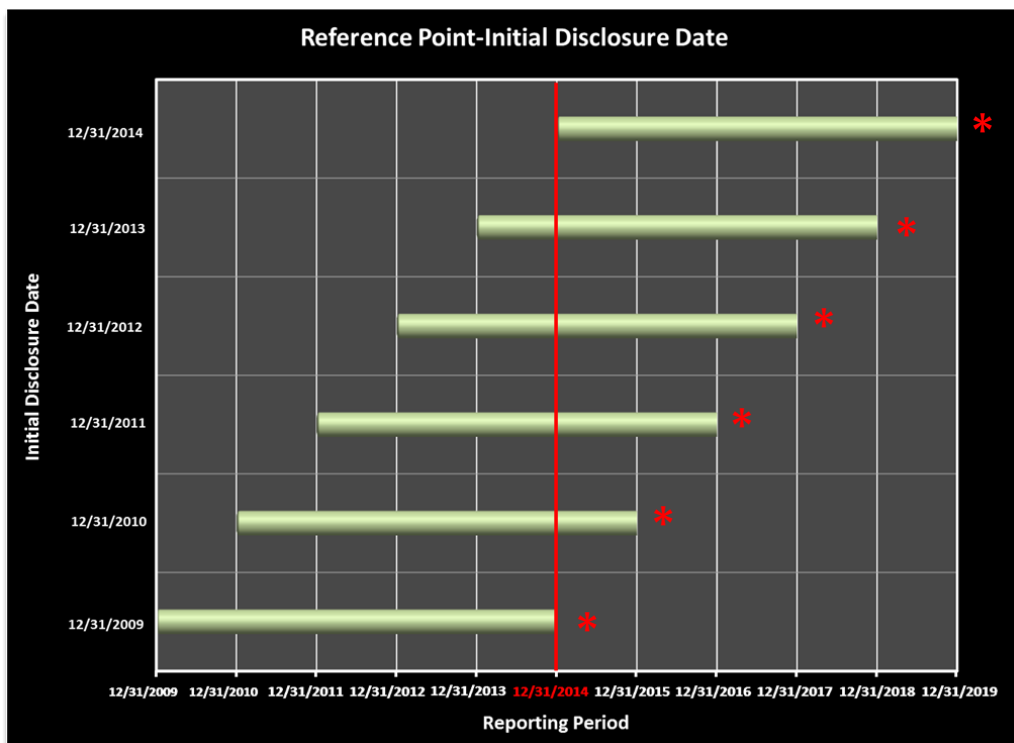
1. Determine all volumes which have remained undeveloped for 5 years or more since an initial disclosure, e.g. 12/31/2009 or earlier
2. Determine all volumes which will remain undeveloped for 5 years, e.g. 12/31/2014 or later

# Identifying PUDs Affected by the 5-Year Limitation



## ➤ Item 1203(d) of Regulation S-K

- Consider all projects with proved undeveloped reserves that will take longer than 5 years to develop from the time of their initial disclosure\*



# Identifying PUDs Affected by the 5-Year Limitation

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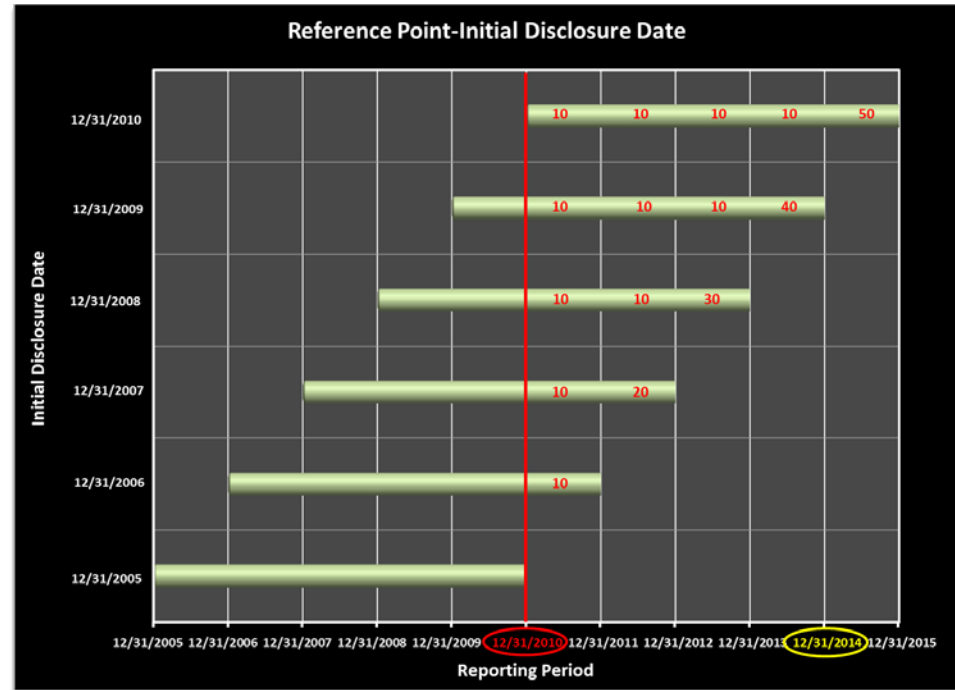
- Item 1203(b) of Regulation S-K
  - “disclose material changes in proved undeveloped reserves that occurred during the year”
  - Also refer to FASB ASC 932-235-50-4 and 50-5 which describe the periods (beginning and end of the fiscal year), type and description of changes relating to an entity’s total proved reserves



# Converting PUDs to Developed



- Item 1203(b) of Regulation S-K
  - “disclose...proved undeveloped reserves converted into proved developed reserves”



**Look Back at the Actual Disposition of PUDs as of Fiscal Year End ("FYE") 12/31/2014**

Reserve Rpt Period	Scheduled Conversion Yr	Planned Drilling Schedule (Number of PUD Locations)					Total
		Year of Initial Disclosure					
		FYE 2006	FYE 2007	FYE 2008	FYE 2009	FYE 2010	
<b>FYE 12/31/10</b>	2011	10	10	10	10	10	50
	2012		20	10	10	10	50
	2013			30	10	10	50
	2014				40	10	50
	2015					50	50
	<b>Total</b>	10	30	50	70	90	250

# Development Plans and PUDs

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- Rule 4-10(a)(31)(ii) of Regulation S-X
  - “development plan has been adopted”
- C&DI 131.04
  - “mere intent to develop”
- C&DI 131.03
  - “if a company has changed its development plan several times without taking significant steps to implement any of those plans, recognizing proved undeveloped reserves typically would not be appropriate”

# Internal Controls Relating to PUDs

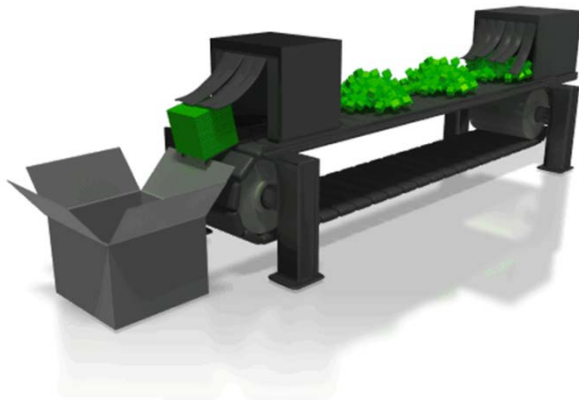


## ➤ Item 1202(a)(7) of Regulation S-K

- “internal controls the registrant uses in its reserves estimation effort”

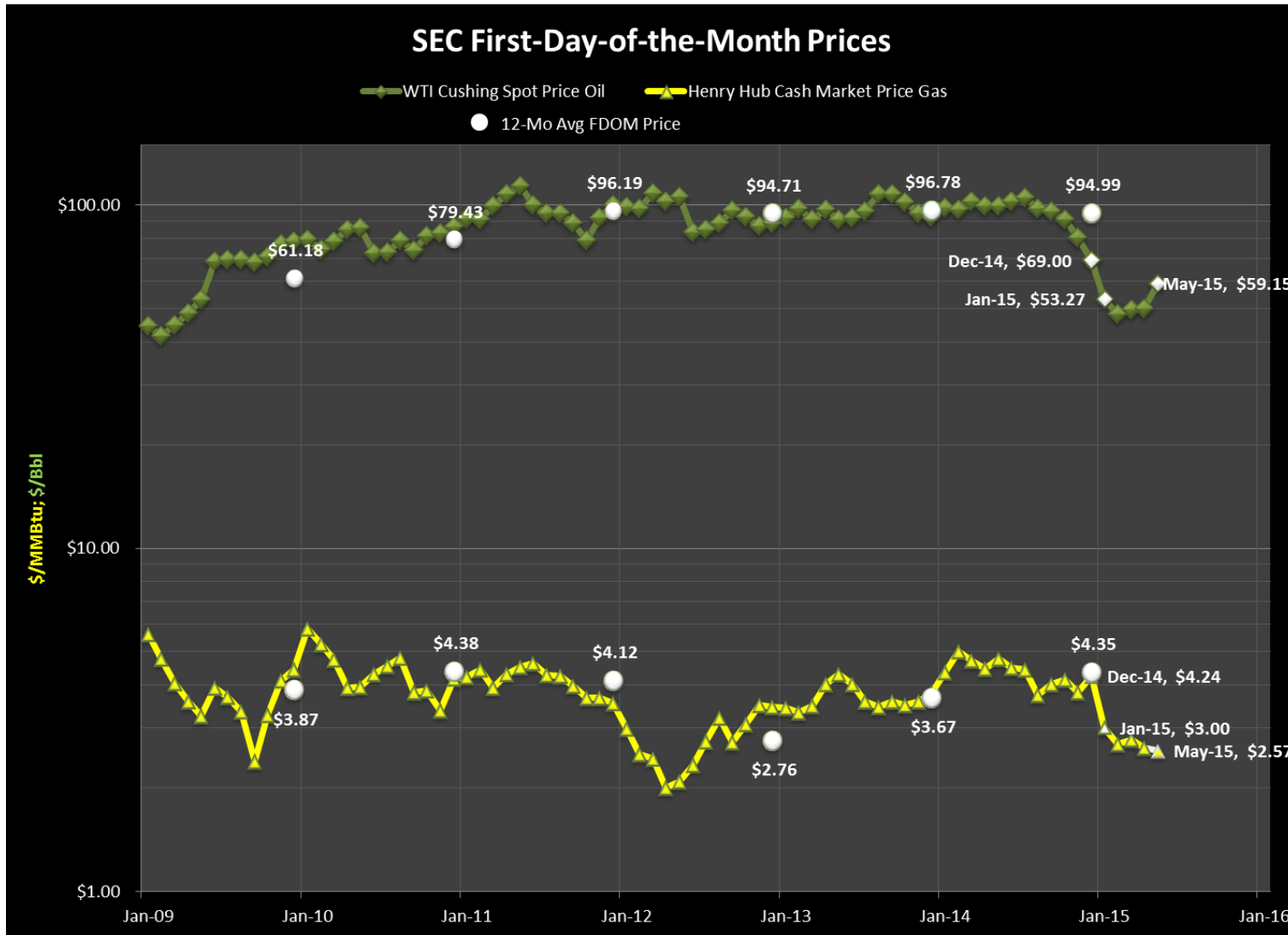


## ➤ C&DI 131.03



- “the extent to which the company has followed a previously adopted development plan”
- “internal factors (for example, shifting resources to develop properties with higher priority)”

# Prices Used to Determine PUDs



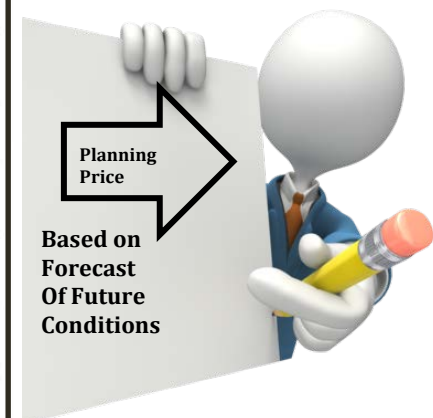
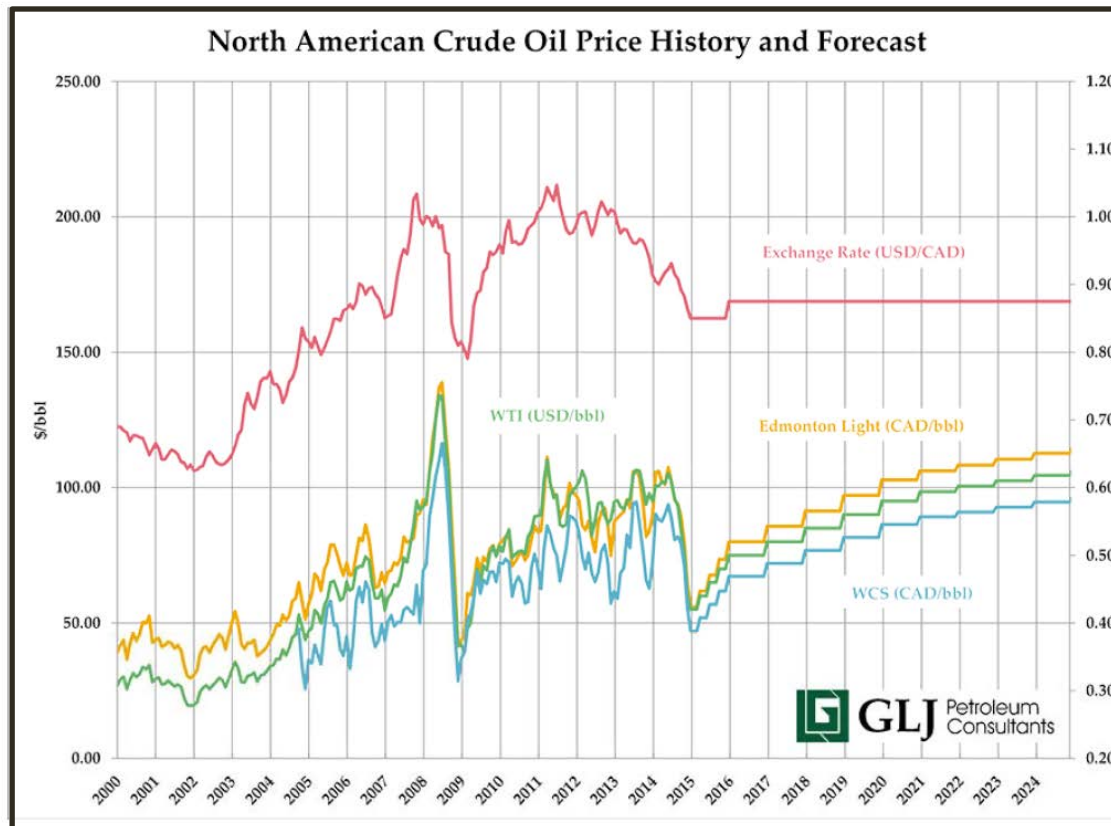
# Impact of Current Prices on PUDs

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- Rule 4-10(a)(22)(v) of Regulation S-X
  - Specifies prices to be used for reserve determinations
- C&DI 131.04
  - Adoption of a development plan “requires a final investment decision”
- ✓ Planning Price Used in Final Investment Decision
  - The company must be committed to developing its reserves at the price it expects to be in effect at time of development (planning price)

# Prices Used in Final Investment Decision





# Impact of Current Prices on PUDs



# Disclosures Relating to Current Commodity Prices

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## ➤ Item 303(a) of Regulation S-K

- Requires a discussion of trends and uncertainties that have had, or are reasonably likely to have, a material impact on liquidity, capital resources or results of operations
- Disclosure relates to future impact of continued low prices on items such as:
  - Reserve levels,
  - Exploration, development or production activities,
  - Asset impairments





# Questions?

# Reference Documents

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<sup>1</sup> **Division of Corporation Finance: Regulation S-K Subpart 229.1200 [17 CFR Part 229];**

<http://www.sec.gov/divisions/corpfin/ecfrlinks.shtml>

<sup>2</sup> **Financial Accounting Standards Board: Extractive Activities-Oil and Gas (Topic 932), Oil and Gas Reserve Estimation and Disclosures**

<http://www.fasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175820075990&blobheader=application/pdf>

<sup>3</sup> **Securities and Exchange Commission: Modernization of Oil and Gas Reporting; Final Rule [17 CFR Parts 210, 211 et al.]**

<http://www.sec.gov/rules/final/2009/33-8995fr.pdf>

<sup>4</sup> **Division of Corporation Finance: Compliance and Disclosure Interpretations; Issued Oct. 26, 2009; Updated May 16, 2013**

<http://sec.gov/divisions/corpfin/guidance/oilandgas-interp.htm>

<sup>5</sup> **Securities and Exchange Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations**

<https://www.sec.gov/rules/other/33-8056.htm>

<sup>6</sup> **Securities and Exchange Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations**

<https://www.sec.gov/rules/interp/33-8350.htm>

<sup>7</sup> Morales, E., Lee, W.J.: "Undeveloped Reserves and the Five-Year Time Limit: Can Different Interpretations Coexist?", SPE paper 166185 presented at the 2013 SPE Annual Technical Conference and Exhibition, New Orleans, 30 September-2 October and revised for publication in the *SPE Economics & Management*, Volume 7, Issue 1, January 2015

# Acknowledgements

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## ❑ Clipart

- Obtained from PresenterMedia
- <http://www.presentermedia.com>

## ❑ Commodity Prices

- SEC first-day-of-the-month and 12-month average prices
  - Obtained from Ryder Scott Company
  - <http://www.ryderscott.com/wp-content/uploads/RSC-Website-Prices-First-Day-of-Month-Prices-2009-2010-2011-2012-2013-2014-20151.pdf>
- North American Crude Oil Price History and Forecast
  - Obtained from GLJ Petroleum Consultants
  - <https://www.gljpc.com/commodity-price-forecasts>