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# SEC Comments Summary 2013



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# Purpose



**BRIEF insight to the SEC Reporting and Disclosure Concerns as indicated by comment letter questions.**

**Presented data is limited to filing year 2012 to ascertain recent trends.**



**Download all petroleum company SEC comment letters using the Ryder Scott “SEC Seeker” tool on our website.**

**Read all of the comment letters.**

**Group all reserve related comments into categories and compile statistics.**

- Each comment placed in only one category
- Each comment series counted only once

**Examine question details for additional insight.**

# Multi-year Questions



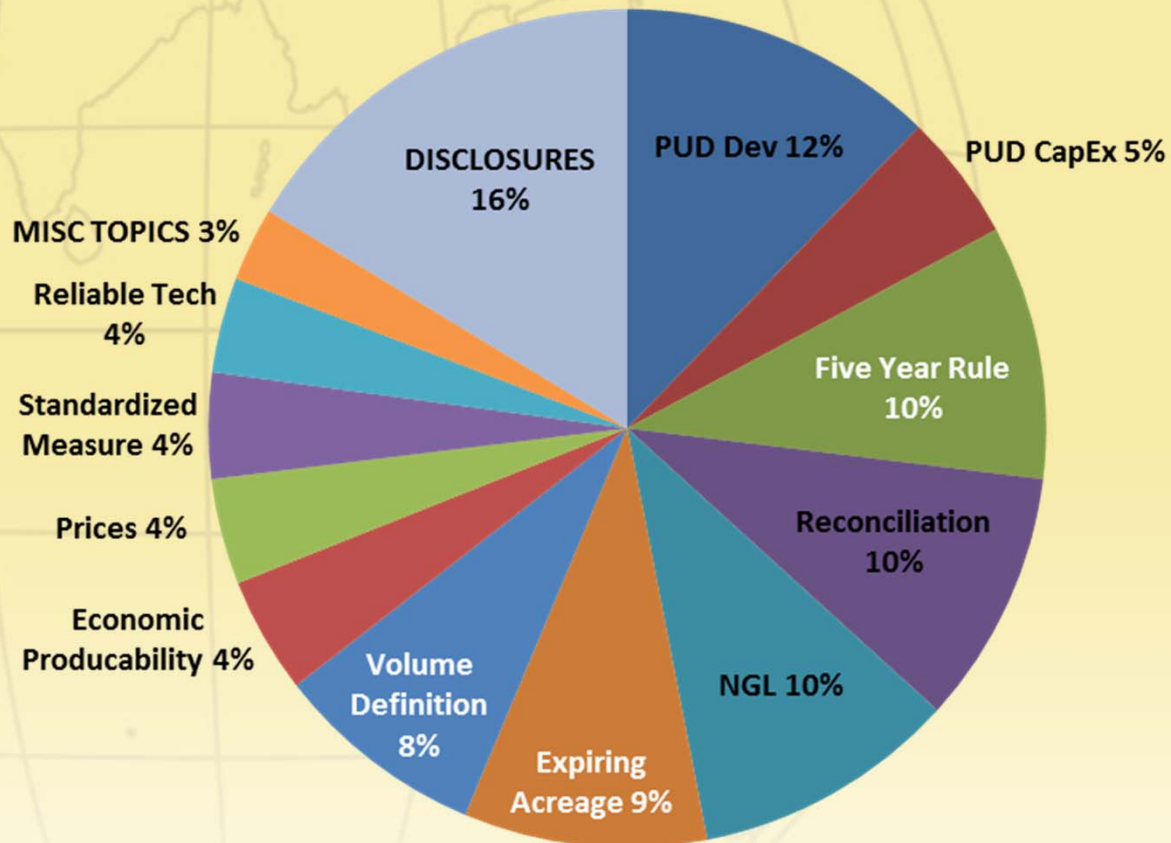
**Questions often cite information from multiple filing years**

**References to prior 2 years was common**

# SEC Comment Categories



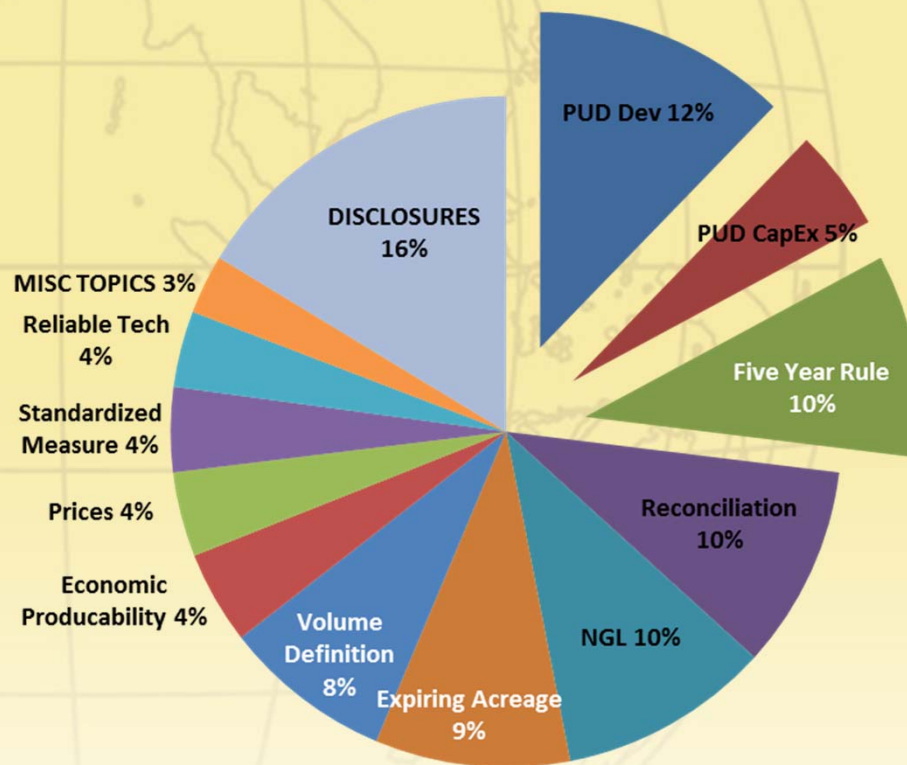
## SEC Comment Letter Topics - 2012 Filings



# SEC Comment Categories



PUD questions constitute 27% of all reserve related questions





# PUD Development



This is the most common type of SEC comment in 2013 (30).

PUD Development, PUD Capital Expenditures and Five Year Rule are closely related. Comments often combine all three aspects of PUDs.

The essence of these questions is, in general, the SEC's tracking of proved undeveloped volumes to proved developed.

Several comments included calculation tables showing insight into how the SEC tracks bookings and reserves progression.

Questions often cite information from multiple filing years.

**PUDs Booked -> Capital Spent -> PUDs migrate to PDP**

# PUD Development Example #1



*"We note your disclosure that you incurred \$83.5 million, \$40.5 million, and \$80.1 million of costs related to the development of proved undeveloped reserves for the three years ended December 31, 2012, December 31, 2011, and December 31, 2010, respectively. Refer to Item 1203 of Regulation S-K and disclose the related quantities of proved undeveloped reserves converted into proved developed reserves for each of the three years ended December 31, 2012. In addition, please clarify if you have any proved undeveloped reserves that remain undeveloped for five years or more after disclosure as proved undeveloped reserves."*

- SEC Comment Letter - Atlas Resource Partners, July 12, 2013

# PUD Development Example #2



*“...Our table below illustrates your PUD figures for YE2011 and YE2012 and those for the projects that you presented or referenced in your response:*

PUD Reserves Reconciliation	MMBOE
FYE 12/31/2011	4998
To Proved Developed	-394
Hebron Extension/Discovery	101
Gorgon Revision	60
Gorgon Extension/Discovery	124
Sub-Total	4889
FYE 12/31/2012	5181 (183 MMBOE net increase from FYE 12/31/2011)
Unexplained Difference: Subtotal less the FYE 12/31/2012 PUD Reserves	-292 (160% of the year-to-year change in PUDs )

*Our calculations indicate a discrepancy of 292 MMBOE between the change in your year-end PUD reserves from December 31, 2011 to December 31, 2012 when compared to changes (the Sub-Total above) as presented or referenced in your response...”*

- SEC Comment Letter - Chevron, October 1, 2013

# PUD Capital Expenditures



These comments are specific to PUD related capital expenditures only.

They exhibit the depth of the SEC's cross-checking of PUD volumes and capital expenditure disclosures.



# PUD Capital Example



*"We also note the Company does not appear to provide disclosure under Item 1203(b) of the net quantities converted from proved undeveloped to proved developed or the capital expenditures associated with converting such reserves to proved developed during the year as required under Item 1203(c) of Regulation S-K. Please advise or revise Form 10-K to include the required disclosures under Item 1203(b) and Item 1203(c) of Regulation S-K."*

- SEC Comment Letter – Contango Oil & Gas Co, July 11, 2013

*"You developed approximately 73 MBOE PUD reserves with the expenditure of \$18 million for a unit cost of \$247/BOE. If our calculations are correct, please explain to us the causes for this apparently high cost."*

- SEC Comment Letter – Gulfport Energy, July 17, 2013

# PUD Five Year Rule Example



*"We note the Company states on page 7 that "as of December 31, 2012, we had no estimated proved undeveloped reserves that have remained undeveloped for more than five years, and we expect to develop all estimated proved undeveloped reserves within the next five years." For purposes of determining the five year period for development to occur in estimating proved undeveloped reserves, Item 1203(d) of Regulation S-K requires that you use the date of the initial disclosure as the starting reference date. Please tell us the extent to which any of the proved undeveloped reserves disclosed as of December 31, 2012 will not be developed within five years since your initial disclosure of these reserves. Please also clarify in your disclosure." (Emphasis added by Ryder Scott)*

- SEC Comment Letter – Breit Burn Energy, March 27, 2013

# NGL



- Second most common SEC comment in 2013 (25)
- SEC clearly wants NGL volumes and related pricing disclosed separately from oil and gas.

*“We note the Company does not provide disclosure of natural gas liquid (NGL) reserves or production quantities or the average sales price per unit of NGL produced. The staff considers natural gas liquids to be a separate product type under Item 1202(a)(4) and 1204 of Regulation S-K. Please expand the tables on pages 7, 54 and F-39 to provide that information either by providing a separate column or by providing footnote disclosure.”*

- SEC Comment Letter – Breit Burn Energy, March 27, 2013

# Reconciliation



Significant new SEC topic in 2013

Previously included as “Disclosure” comments, though much less numerous

Now tied for 3<sup>rd</sup> most common comment as a separate category



# Reconciliation Example



*"Item 1203(b) of Regulation S-K requests that registrants "[d]isclose material changes in proved undeveloped reserves that occurred during the year, including proved undeveloped reserves converted into proved developed reserves." The disclosure on page 7 of the various changes in proved undeveloped reserve quantities during the year appears to be limited to the amounts converted to developed and added as extensions/discoveries. Please expand your disclosure to provide a quantitative reconciliation in tabular format of the overall change in your proved undeveloped reserves including such additional changes as revisions, acquisition/divestiture and improved recovery."*

- SEC Comment Letter – Southwestern Energy, September 25, 2013

# Expiring Acreage



Significant new SEC topic in 2013 (23)

Implies this is a new focus area for the SEC

*“You disclose that a significant amount of your net undeveloped acreage will expire in 2013, 2014 and 2015. Please tell us the net amounts of your December 31, 2012 proved undeveloped reserves assigned to locations on acreage scheduled to expire in 2013, 2014 and 2015. Also tell us if all such proved undeveloped locations are included in a development plan adopted by management as of December 31, 2012 indicating that these locations are scheduled to be drilled prior to lease expiration.”*

- SEC Comment Letter – Cabot Oil & Gas, August 29, 2013

# Volume Definitions



Significant new SEC topic in 2013

Implies renewed focus on proper application of reserves definitions

Multiple checks on various volume disclosures with ambiguous reserve references (i.e. “potential reserves” or other unspecified volumes)

*“You disclose net and gross quantities of “potential reserves”. Explain your basis for concluding that disclosure of these quantities in your 10-K is permissible. See Instruction to Item 1202 of Regulation S-K.”*

- SEC Comment Letter – Unit, September 9, 2013

# Volume Definitions Examples



*“We note the reserves report states PDNP reserves are included at Eugene Island 10 for compression. We also note compression is scheduled for June 2013 at a total capital cost of \$18,032,000. Please refer to the definition of developed oil and gas reserves set forth in Rule 4-10(a)(6) of Regulation S-X and tell us why the volumes attributable to the installation of compression are disclosed as proved developed (non-producing) rather than proved undeveloped.” (Emphasis added by Ryder Scott)*

- SEC Comment Letter – Contango Oil & Gas, July 11, 2013

*“You disclose downward revisions of 362 Bcf due to well performance in the Fayetteville Shale as of December 31, 2012. Please clarify for us the reasons for the performance revisions. As part of your explanation, please tell us if the downward revisions were concentrated in a few wells or spread across all of your proved reserves. Also tell us why you believe your proved reserves as of December 31, 2012 are reasonably certain. Refer to Rule 4-10(a)(24) of Regulation S-X.” (Emphasis added by Ryder Scott)*

- SEC Comment Letter - Southwestern Energy, September 25, 2013



# Reliable Technology



Only 9 comments regarding reliable technology

166 10-Ks include a reference to “reliable technology”

Several comments requesting the specific technology used where reliable technology was previously disclosed

# Reliable Technology Example



*“You disclose significant additions in proved undeveloped reserves as of December 31, 2012 relating to extensions and discoveries and have stated that “approximately 33 gross (20.1 net) PUD locations were booked based on reliable technology.” If these proved undeveloped (PUD) locations represent a material addition to your reserves, please expand your disclosure to provide a general discussion of the technologies used to establish the reasonable certainty for the reserves assigned to these locations as required under Item 1202(a)(6) of Regulation S-K.”*

- SEC Comment Letter – Rex Energy, December 30, 2013

# Reliable Technology Example



*“You disclose significant additions in proved reserves as of December 31, 2012 relating to extensions and discoveries and have stated that “reliable technologies were used to determine areas where proved undeveloped (PUD) locations were more than one offset away from a producing well.” With a view to expand the disclosure of the material additions in your reserves as required under Item 1202(a)(6) of Regulation S-K, please quantify for us the number of proved undeveloped locations and associated proved net reserves added that are more than one offset away from an existing proved producing well. Also tell us if any of the wells drilled to date that were more than one offset away from a producing well at the time of their drilling were not determined to be economically producible.” (Emphasis added by Ryder Scott)*

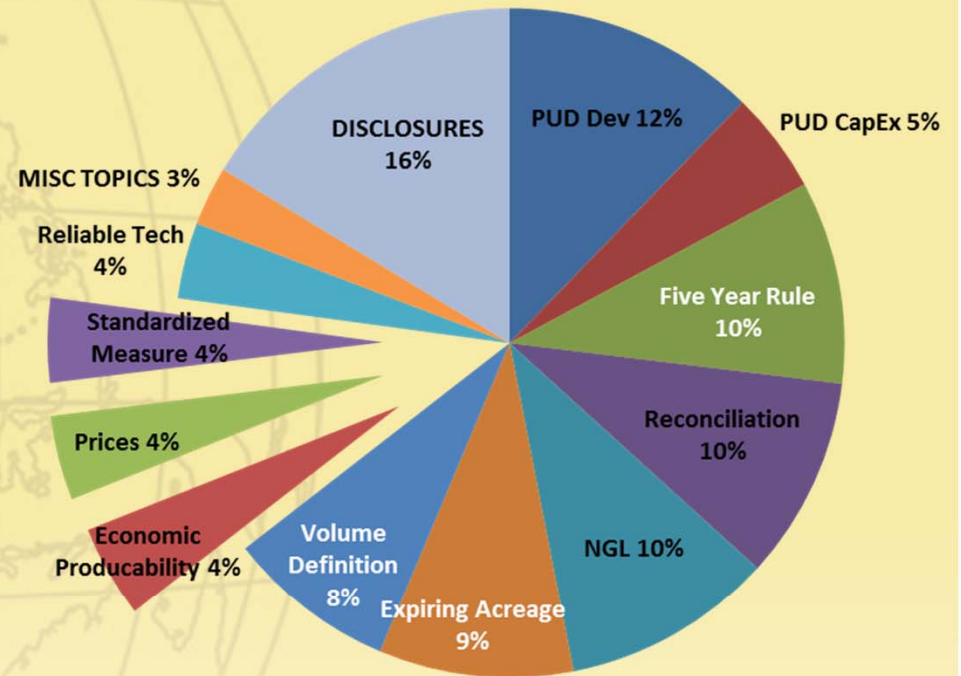
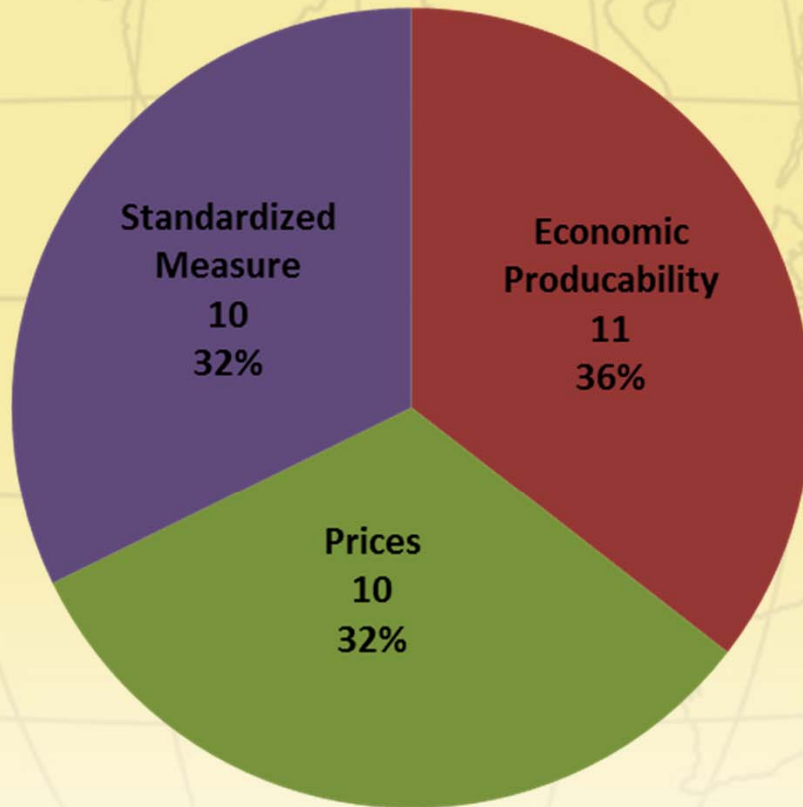
- SEC Comment Letter – Halcon Resources, December 30, 2013

# SEC Finance Comments



## SEC Comment Letter Topics - 2012 Filings

### SEC Financial Topics - 2012 Filings





# Finance Example



*"Your disclosure of the standardized measure of discounted future net cash flows does not appear to include the cost associated with the abandonment of your oil and gas assets as part of the future development costs. Please tell us how you have considered the inclusion of such costs in the preparation of the standardized measure. Refer to the guidance provided by the Division of Corporation Finance at <http://www.sec.gov/divisions/corpfm/guidance/oilgasletter.htm>."*

- SEC Comment Letter – EV Energy Partners, September 11, 2013

# Finance Example



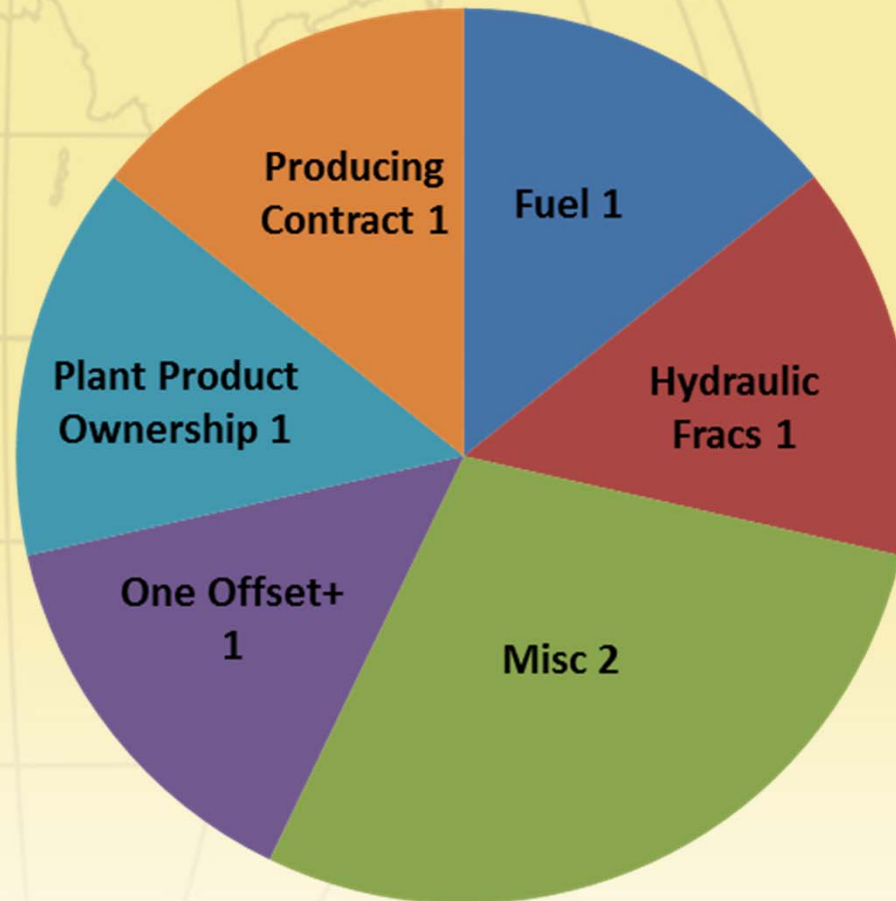
*"We note your statement, "[w]e had a total of 90 gross (38.6 net) proved undeveloped locations on our Northwest Cana acreage as of December 31, 2012. No significant drilling or development plans are expected to take place in the Northwest Cana play in 2013 due to the pricing environment for natural gas." We see a similar statement under "Arkoma Woodford". Please explain to us how you can claim PUD reserves here when you will not drill them under the natural gas pricing in effect. Tell us the PUD reserve figures you have attributed to each of these two areas." (Emphasis added by Ryder Scott)*

- SEC Comment Letter – Continental Resources, May 10, 2013

# SEC Misc. Comments



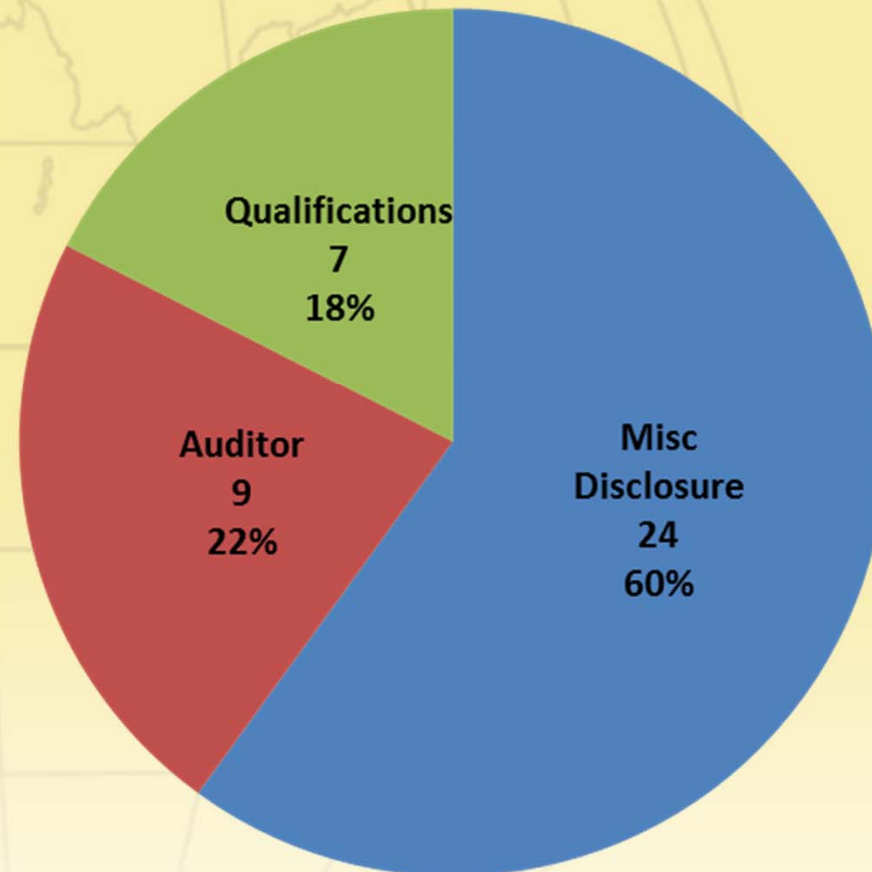
## SEC Miscellaneous Topics - 2012 Filings



# SEC Disclosure Comments



## SEC Disclosure Topics - 2012 Filings





# Summary



PUD Development – Develop what you say you will develop, when you said you would develop, as you spend your capital (for multiple years).

Reconciliation – Make sure you can track all reserve changes and PUD migration to PDP (for multiple years).

NGLs – Have you correctly accounted for and disclosed NGL volumes?

Five Year Rule – Develop reserves within 5 years of initial booking.

Expiring Acreage – Have you correctly accounted for expiring leases in your reserve estimates?

Definitions – Renewed level of scrutiny on adherence to reserve definitions. Be mindful of other volume disclosures.