The SEC Reserve Reporting Standards

Proved Undeveloped Reserves Revisited
Facts and Circumstances to Consider

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Presentation Topics

- 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

- **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

- 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”

<table>
<thead>
<tr>
<th>Reserve Rpt Period</th>
<th>Year of Initial Disclosure</th>
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</thead>
<tbody>
<tr>
<td>FYE 12/31/10</td>
<td>Planned Drilling Schedule (Number of PUD Locations)</td>
</tr>
<tr>
<td>FYE 12/31/10</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
</tr>
</tbody>
</table>
Development Plans and PUDs

➤ 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

SEC First-Day-of-the-Month Prices

- WTI Cushing Spot Price Oil
- Henry Hub Cash Market Price Gas
- 12-Mo Avg FDOM Price

<table>
<thead>
<tr>
<th>Year</th>
<th>Price</th>
</tr>
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<tbody>
<tr>
<td>Jan-09</td>
<td>$100.00</td>
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<tr>
<td>Jan-10</td>
<td>$61.18</td>
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<tr>
<td>Jan-11</td>
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<td>May-15</td>
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<tr>
<td>Dec-14</td>
<td>$69.00</td>
</tr>
<tr>
<td>Jan-15</td>
<td>$53.27</td>
</tr>
</tbody>
</table>

- $/MMBtu / $/bbl
Impact of Current Prices on PUDs

- **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

- Development Plan
- Development Schedule
- Project Approvals
- Project Funding
Disclosures Relating to Current Commodity Prices

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


Acknowledgements

- Clipart
  - Obtained from PresenterMedia
  - [http://www.presentermedia.com](http://www.presentermedia.com)

- Commodity Prices
  - SEC first-day-of-the-month and 12-month average prices
    - Obtained from Ryder Scott Company
  - North American Crude Oil Price History and Forecast
    - Obtained from GLJ Petroleum Consultants
    - [https://www.gljpc.com/commodity-price-forecasts](https://www.gljpc.com/commodity-price-forecasts)