SPEE Recommended Evaluation Practice #3 - Inclusion of Revenue from Non-Hydrocarbon Sources in Reserve Reports

Issue:
Preparers of reserve reports[1] sometimes include income from sources other than hydrocarbon reserves, i.e. oil, gas, condensate, natural gas liquids. Examples of such non-hydrocarbons commonly encountered include: sulfur, carbon dioxide, helium, income from operation of third party facilities, income from disposal of salt water from third parties, income from compression, transportation, cogeneration, steam, or marketing of production from partners or third parties.

U.S. Securities and Exchange Commission (SEC) reserve guidelines specify that only hydrocarbon reserves be included in SEC reports.

SPEE Recommended Evaluation Practice:
Preparers of reserve reports that include revenues from non-hydrocarbon sources should prepare separate cash flow forecasts for such revenue sources. These non-hydrocarbon revenue forecasts should be clearly labeled as such. Further, non-hydrocarbon revenue sources should additionally be labeled "not for inclusion in SEC reserve reports". If there is more than one type of non-hydrocarbon revenue source, reserve preparers are urged to present the information in sufficient detail to allow the user of the reserve report to identify each non-hydrocarbon revenue source. If the report is prepared for SEC purposes, summary level information should be presented both without and with any non-hydrocarbon revenue source cash flow forecasts included, and those summaries that include any non-hydrocarbon revenue sources should be clearly labeled as "not for inclusion in SEC reserve reports". The cover letter accompanying the cash flow forecasts should reveal the presence and discuss the treatment of non-hydrocarbon revenue sources in a manner that leaves the user of the report with a clear understanding of the issue.

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[1] The terms "Preparers of Reserve Reports" or "Preparer" are used herein to signify the person(s) responsible for the contents of the report.

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