



Technical Session Agenda 2016 SPEE Annual Meeting

Monday, June 6, 2016

2016 SPEE Technical Session I

Salon I/II

8:30 AM The SEC Reserve Reporting Standards: Challenges of a Lower-for-Longer Price Environment, Facts and Circumstances to Consider

John Hodgkin

This presentation will examine the implications of the continuing low-price environment on a company's ability to obtain financing and the impact that access to capital has on the classification and disclosure of a company's undeveloped reserves.

As part of this discussion, we will review the relevant definitions and disclosure requirements related to undeveloped reserves with a particular focus on the issues relating to a company's ability to fund its projects under Rule 4-10(a)(26) of Regulation S-X.

BIOGRAPHY

John Hodgkin – Petroleum Engineer – SEC

John E. Hodgkin is a Petroleum Engineer in the Office of Natural Resources, Division of Corporation Finance of the United States Securities and Exchange Commission in Washington, D.C.

Prior to joining the SEC in July 2012, Mr. Hodgkin held a number of positions with Ryder Scott Company Petroleum Consultants in Houston, Texas. He served as the Managing Senior Vice President of the Geoscience Group, Corporate Executive Vice President and was elected President of Ryder Scott in 2005. John started his career with Gulf Oil Corporation where he was a development geologist in the New Orleans Division.

Mr. Hodgkin earned a BS degree in Geology from Texas A&M University and is a licensed Professional Geologist and a licensed Professional Engineer in the State of Texas.



John has authored or co-authored a number of SPE, AAPG and Offshore Technology Conference (OTC) papers and has been published in *Accounts*, a publication of the Council of Petroleum Accounting Societies (COPAS), the *Landman*, a publication of the American Association of Professional Landmen (AAPL) and in the *E-Section Report*, a publication of the Oil, Gas & Energy Resources Law Section of the State Bar of Texas, on reserves related topics.

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The SEC Reserve Reporting Standards

Challenges of a Lower-for-Longer Price Environment Facts and Circumstances to Consider

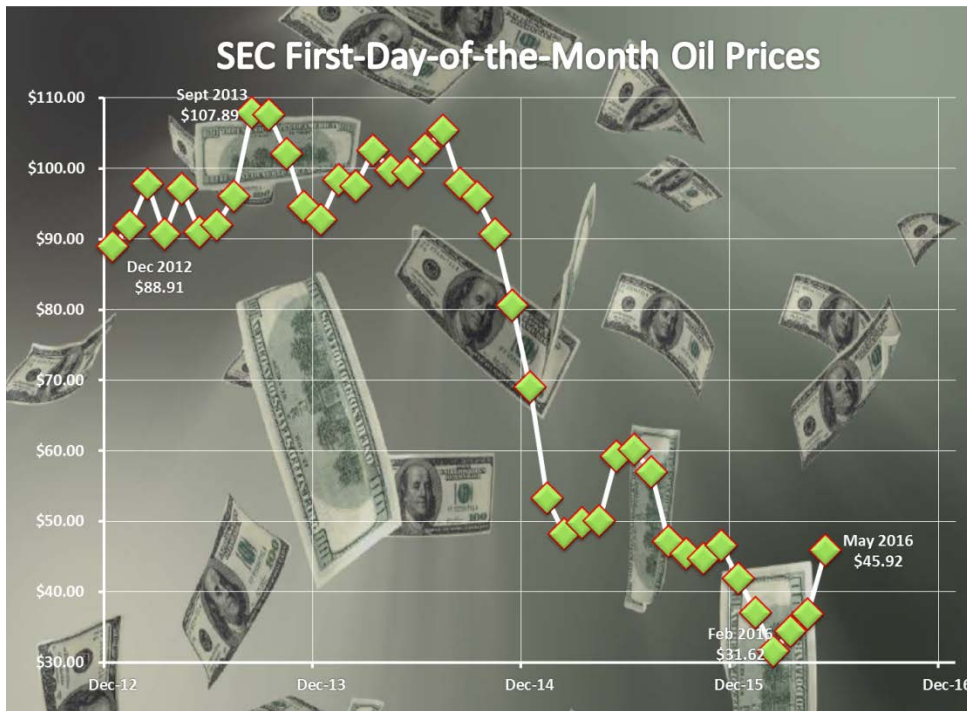
Presented By
John Hodgkin
June 6, 2016

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Challenges of a Lower-for-Longer Price Environment



Today's Presentation Will Focus on Rule 4-10(a)(26):
"financing required to implement the project"

Introduction



This presentation will examine the implications of the continuing low-price environment on a company's ability to obtain financing and the impact that access to capital has on the classification and disclosure of a company's undeveloped reserves.

As part of this discussion, we will review the relevant definitions and disclosure requirements related to undeveloped reserves with a particular focus on the issues relating to a company's ability to fund its projects under Rule 4-10(a)(26) of Regulation S-X.

To facilitate our discussion, we present two hypothetical scenarios reconciling the changes in a company's undeveloped locations from one reporting period to the next.

Our first illustration describes a hypothetical scenario in which our example company proposes to revise the development plan used in the reserve report as of December 31, 2014 to reschedule undrilled 2015 proved undeveloped locations to new dates. Our example begins with an examination of the proved undeveloped locations scheduled in the reserve report as of December 31, 2014, reconciles the number of previously scheduled locations to the number of locations actually drilled during the year, analyzes the company's liquidity and capital resources, and reviews the relevant definitions and disclosure requirements leading to adoption of a revised development plan and schedule for use in the reserve report as of December 31, 2015.

Our second illustration describes a hypothetical scenario in which our example company proposes to revise the development plan and schedule used in the reserve report as of December 31, 2014 and reclassify the undrilled 2015 proved undeveloped locations to probable undeveloped. Our example incorporates a review of the company's liquidity, capital resources and the relevant definitions and disclosure requirements leading to adoption of a revised development plan and schedule for use in the reserve report as of December 31, 2015.

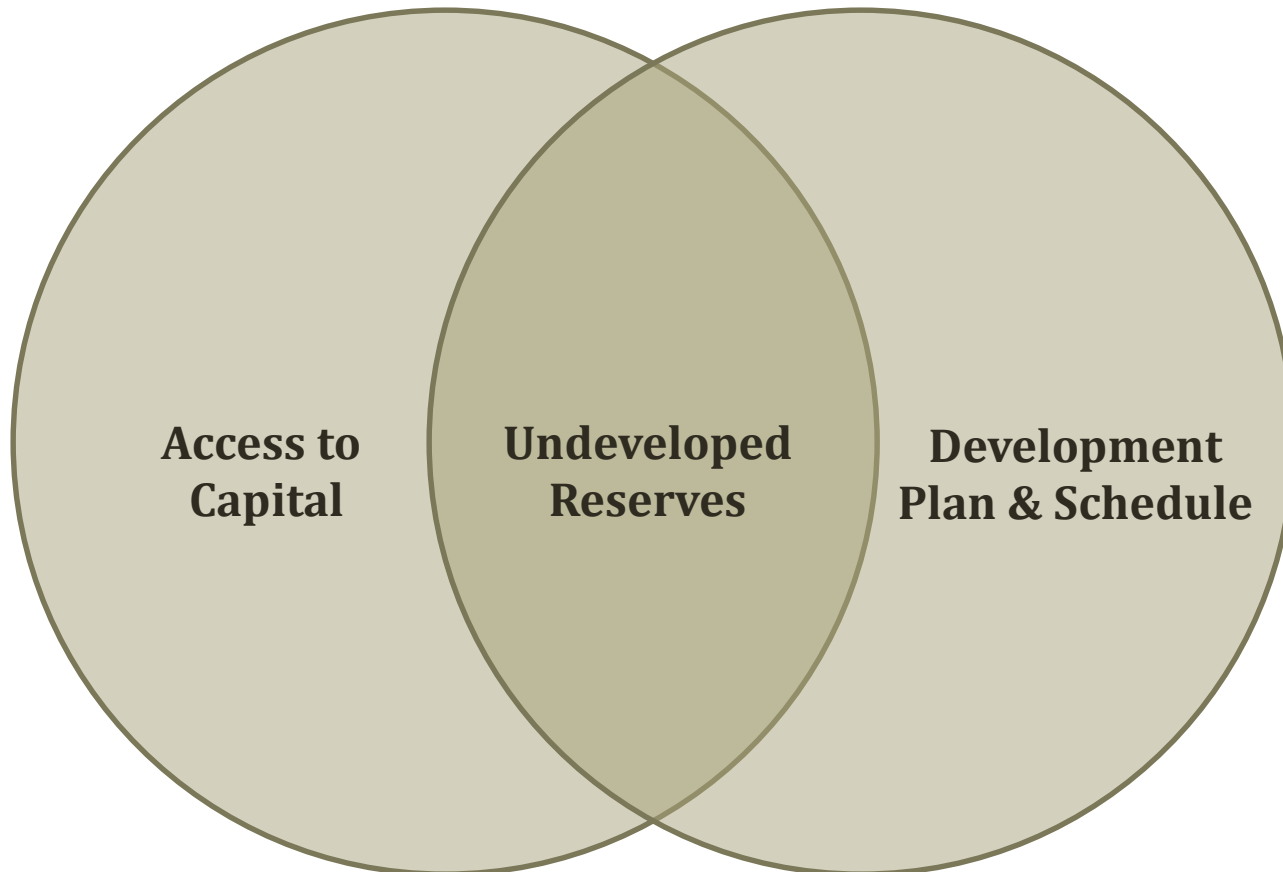
Our examples present a limited set of hypothetical scenarios for illustration purposes. Each company's particular facts and circumstances will impact its estimation and disclosure of undeveloped reserves from one reporting period to the next.

The presentation also examines the relevant definitions and disclosure requirements related to the disclosure of drilled uncompleted wells and the internal controls relating to the undeveloped reserves.

Implications of the Continuing Low-Price Environment on a Company's Financial Condition



- What is the company's particular "story?"

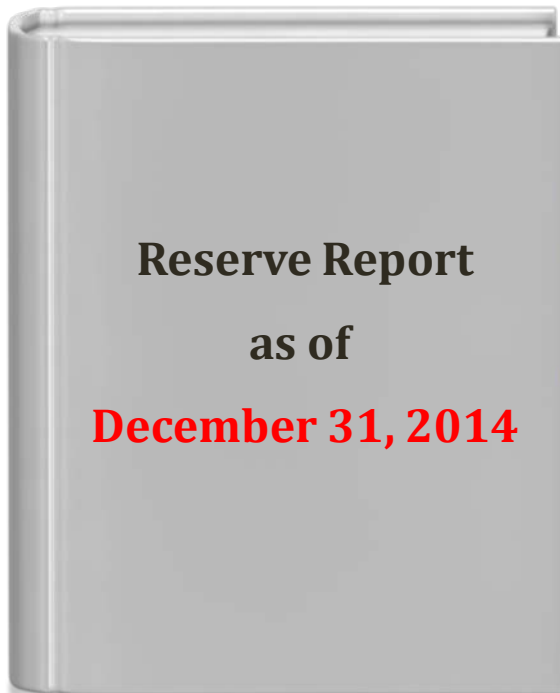




Challenges of a Lower-for-Longer Price Environment Facts and Circumstances to Consider

Illustration One

Reconcile the Previously Disclosed PUDs



Scheduled
Locations

Proved Undeveloped
Grand Summary
As of
December 31, 2014

	No. of Loc
2015	10
2016	10
2017	10
2018	10
2019	10



2015 **Actually Drilled** PUD Locations



What about the 6 undrilled PUD locations?

Perform an Analysis of the Liquidity and Capital Resources Relating to Funding



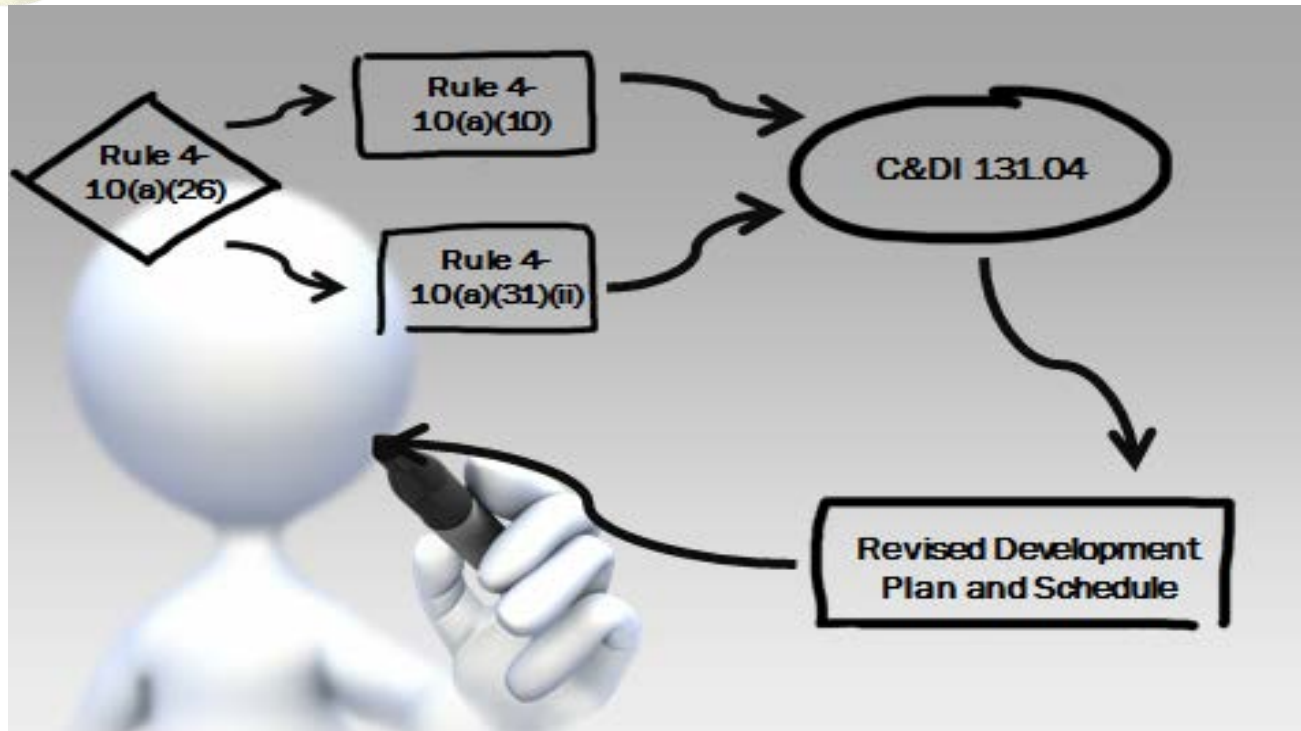
- **Does the company have enough capital/liquidity available to do the things they say they will do?**
 - Capex
 - Debt servicing
 - Dividends or cash distributions

- **What is the status of the company's credit facilities/debt?**
 - Fully drawn or remaining availability?
 - Risk of borrowing base redetermination?
 - Compliance with covenants at risk?

If Funding Is Available, Conduct a Review of the Relevant Definitions and Disclosure Requirements



2015 **Undrilled Prior** PUD Locations



Complete the Requirements Check List



2015 **Undrilled Prior** PUD Locations



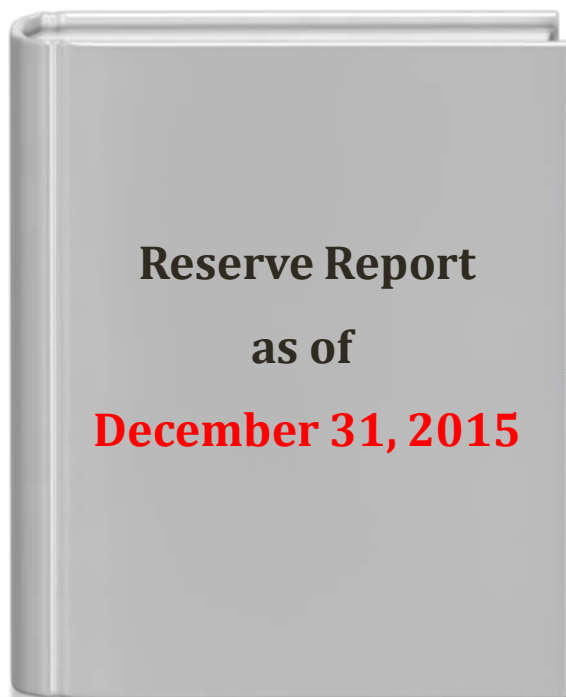
Revise Development Plan
and Reschedule PUDs to **New Date**



Requirements Check List

- ✓ Rule 4-(10)(a)(26)
- ✓ Rule 4-(10)(a)(10)
- ✓ Rule 4-(10)(a)(31)(ii)
- ✓ C&DI 131.04

Revise and Adopt a New Development Plan and Schedule



2015 **Undrilled Prior** PUD Locations



Revise Development Plan
and Reschedule PUDs to **New Date**

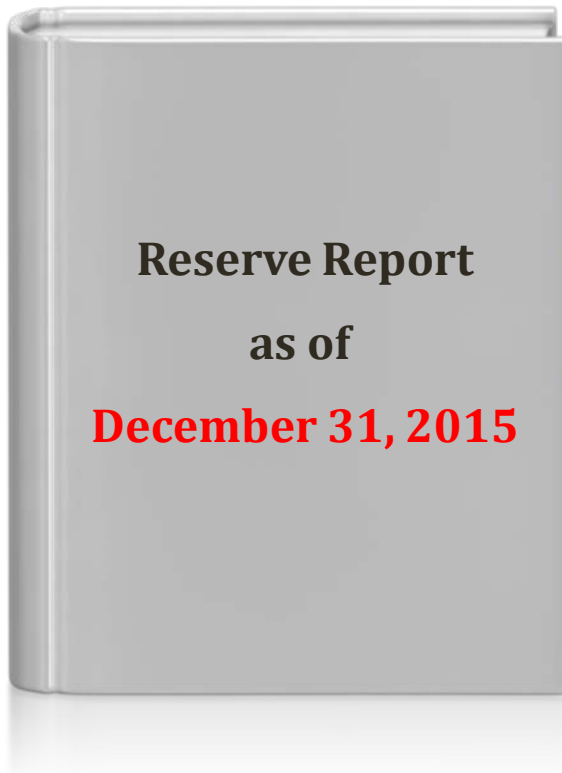




Challenges of a Lower-for-Longer Price Environment Facts and Circumstances to Consider

Illustration Two

What if the Company Proposes to Simply Change the Reserve Category?



2015 **Undrilled Prior** PUD Locations



Revise Development Plan
and Reclassify PUDs to **Probable**



Complete the Requirements Check List



2015 **Undrilled Prior** PUD Locations



Revise Development Plan
and Reschedule PUDs to **Probable**



Requirements Check List

- ✓ Rule 4-(10)(a)(26)
- ✓ Rule 4-(10)(a)(10)
- ✓ Rule 4-(10)(a)(31)(ii)
- ✓ C&DI 131.04



Other Requirements to Consider

2015 **Undrilled Prior** PUD Locations



Prior PUDs Reclassified
to **Probable Undeveloped**



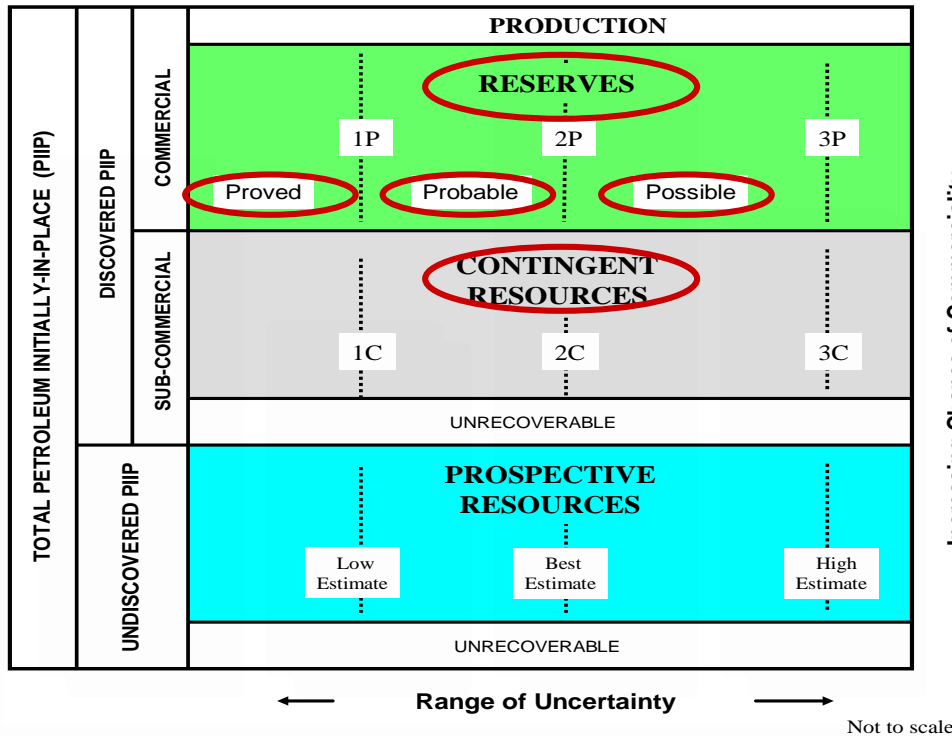
Rule 4-(10)(a)(31)(ii)
“Scheduled to be drilled
within five years”*

***Exceptions for nonproved
considered**



C&DI 131.04

What if Financing Is Not Available?



Rule 4-10(a)(26)
 “financing required
 to implement the
 project”




What About Drilled Uncompleted Wells?



Where are your DUCs?



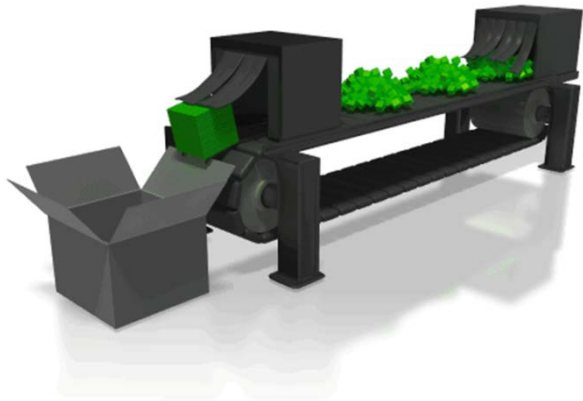
Requirements Check List

- ✓ Rule 4-(10)(a)(26)
- ✓ Rule 4-(10)(a)(10)
- ✓ Rule 4-(10)(a)(31)(ii)
 -  Scheduled within five years of initial disclosure as PUDs
 - Items 1203(c) and 1203(d)
- ✓ C&DI 131.04

Examine the Internal Controls Relating to Your Undeveloped Reserves



➤ 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)”

➤ Item 1202(a)(7) of Regulation S-K

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



Issues Relating to a Lower-for-Longer Price Environment



- What is the company's particular "story?"



- **Rule 4-10(a)(26) of Regulation S-X**
 - "financing required to implement the project"
- **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"

Facts and Circumstances to Consider



Today's Discussion

- Applies to previously disclosed proved, probable and possible reserves, changes therein, and any newly added proved, probable and possible reserves



Questions?

Reference Documents



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

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

² **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>

³ **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>

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

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

⁵ **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>

⁶ **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>

⁷ 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



❑ 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
 - [https://www.ryderscott.com/wp-content/uploads/May 2016 Prices.pdf](https://www.ryderscott.com/wp-content/uploads/May_2016_Prices.pdf)