## **COPAS Update**

#### OCS Advisory Board Workshop June 19, 2014



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#### Agenda

- Provide an update on COPAS projects, focusing on those pertaining to offshore operations
  - Rig-Related Costs
  - Discounts

## Completed – 2012

- Deepwater AP, Model Form 7
- Deepwater AP Interpretation, MFI-53
- Drilling Overhead, MFI-48
- Oil Accounting Manual, AG-6
- Gas Administrative Issues, AG-8

# Completed – 2013, 2014

- Training Costs, MFI-35
- Well Containment Costs, MFI-54
- Vehicle Costs, MFI-55
- Shared Well Pad Cost Allocations, AG-29
- Petroleum Industry Accounting Training Guide, TR-9

## **Pending Projects**

- Rig-Related Costs, MFI-5x
- Discounts, MFI-23
- Expenditure Audit Protocol, AG-19
- Revenue Audit Protocol. AG-21
- Materials Accounting, MFI-5x
- Processing Agreements Training Guide

## **Rig-Related Costs**

# **Rig Costs Publication**

- COPAS AG-25, Allocation of Rig-Related Expenditures, published April 2002
- Addresses allocation issues, not chargeability
- Undergoing revision as model form interpretation (MFI-5x), to address
  - Chargeability
  - Suspension of operations
  - Onshore operations

# **Rig-Related Costs**

- Mobilization & demobilization
- Program moves, rig moves
- Construction oversight
- Commissioning, inspections
- Rig modification, repairs, major maintenance
- Load-out
- Dead time
- Suspension of operations

## **Other Topics**

- Intervention units & support vessels
- Sub-leasing & rig sharing
- Contract extensions
- Contract cancellation
- Adjustments

## **Dead Time**

- Rig is not assigned to specific property
  - Gaps in drilling schedule due to poor planning or forecasting, lack of drillable prospects, adverse economic conditions
- Different from suspended operations i.e., inactivity due to causes beyond operator's control
- Does not include downtime for moves, maintenance, repairs, etc.
- Not chargeable unless non-operators sanctioned hiring rig for specific property

## **Suspended Operations**

 Rig operations suspended for reason outside operator's control

-Force majeure events

 Operator is expected to be prudent, use good judgment in deciding how long to retain rig, & attempt to mitigate costs

# **Short-Term Suspensions**

- Suspensions up to thirty days
- Costs charged to property using rig when suspension became effective, until suspension ends or rig is released
- If rig is in Dead Time or undergoing mob., commissioning, maintenance, etc. when suspension starts, include s.t. suspension as part of that activity
- <u>After</u> day 30, handle as long-term suspension

# **Long-Term Suspensions**

- Rig-Related costs incurred during first 30 days retain short-term suspension accounting treatment
- Long-term suspension costs begin on day 31 & last for duration of suspension
- Long-term suspension costs are allocated to properties served over remaining rig contract term

#### Allocations

- Costs not specific to a property are collected in an account and allocated to properties served by the rig, with some exceptions
- Typically, allocation is in the form of a daily, monthly or per well rate
- Periodic reviews & adjustments of rate

## **Charged to All Wells**

- Construction oversight
- Mobilization & demobilization
- Commissioning & inspection
- Rig modifications benefitting all wells
- Removal of operator's equipment at end of contract term

# **Charged to Subset of Wells**

- Rig modifications not benefitting all wells
- Major maintenance
- Repairs not attributable to a specific property
- Load-out costs
- Program moves
- Suspension of operations over 30 days

# **Charged to Single Well**

- Rig modifications for the exclusive benefit of a well
- Rig repairs attributable to operations on a specific well
- Rig move
- Load-out benefitting only 1 well
- Suspension of operations up to 30 days

#### Issues

- Timing costs incurred prior to JOA/AFE
- Accounting treatment under APs other than DWAP
- Construction oversight chargeable under all APs?
- Reallocate costs to include wells served during contract extension period?
- Is Operator entitled to interest on Rig-Related costs?

#### **More Issues**

- Suspensions occurring late in contract term result in more costs allocated to fewer wells
- Does force majeure clause in the JOA allow operator to allocate suspension costs to a particular well?
- Some costs are based on estimates demob., removal of equipment
- Competitive rates

## Adjustments

- Does operator have obligation to adjust rates if variance is minor?
- What if adjustment period expired for some properties?
  - Charge entire adjustment only to properties that used the rig w/in allowable adjustment period, or does operator bear the entire cost?
- AFE over-expenditures, dry holes, transfers of interests, closed AFEs

## **Rig Costs Status**

- Draft 3 comments due July 1
- Draft 4 issued August or September
- JI and Audit Committees vote October 2014
- Council vote October 2014 or April 2015

## **Discounts**

#### **Discounts – MFI-23**

- Cash meeting payment terms, e.g., 2% 10 days, net 30
- Trade discount off list price
- Performance future credit for unsatisfactory performance
- Volume based on volume of purchases

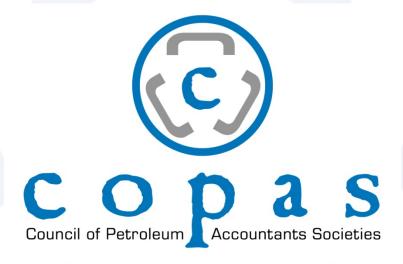
- Cash rebate or future discount

#### Issues

- Clarify whether operator owes credit for discounts offered, but not taken
- APs address discounts on materials, but not services
- Practical aspects administration
  - Applying future credits to prior operations
  - Allocating rebates/credits to numerous properties
- Balance confidentiality & right to audit

#### **Discounts Status**

- Draft 2 issued June July
- Comments due in August
- Draft 3 issued in September
- JI & Audit Committees vote October 2014 or January 2015
- Council vote April 2015



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