Agenda

- Project Background
- Key Concepts and Changes
- Q&A
Background
Objective

• Conform agreement to current industry practice
• Align Accounting Procedure & deepwater JOA
• Adopt 2005 AP language where appropriate
• Ensure non-operator protections
• Simplify technical labor & overhead provisions
• Rely less on overhead, more on direct charges (leaning towards international agreements)
Drivers

• 1998 Project Team Accounting Procedure outdated
• Deepwater operations more complex, greater regulation
• Need to simplify accounting rules (tech labor & overhead)
• Need for better integration of AP & DW JOA
Timeline

- Start – June 2009
- Draft 1 – June 2010
- Draft 2 – April 2011
- Draft 3 – July 2011
- Draft 4 – November 2011
- Approved by COPAS JI & Audit Committees – January 2012
- Council vote – April 2012
Team Members

- Phil Fischer
  Silver Hilton Consulting
- Karla Bower
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- Jeff Alcott
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- Ed Erwin
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- Roger Gann
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- Rachel Lee
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- Bruce Lincoln
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- Tom Longmire
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- Tom Loughlin
  Hess
- Terry McMurray
  Marathon
- Deb Retzloff
  ExxonMobil
- Traci Sirmon
  Shell
Key Concepts
Highlights of Major Changes

• Technical services directly chargeable
  – Eliminated overhead option

• Overhead simplified – only 2 percentage rates (Project and Operating)

• Added provisions for charging:
  – Operations Offices
  – Remote Technology Centers
  – Warehouses
  – Rig-Related Costs
JOA – Accounting Procedure

Key Interfaces

- Definitions
- Governing document – 3.1
- Affiliate equipment – 5.3
- Non-Participating Party audit rights – 5.9
- Disposal – JOA 6.2.4, 18.3
- Voting – JOA 8.2
- Project Team Costs – 12.3, Exhibit G
- Exhibit F – Payment disputes
New Definitions

• Critical Spare
• Feasibility Team
• Operations Office
• Remote Technology Center
• Rig-Related Costs
Critical Spare – I.1

• “Material (i) owned by the Joint Account and held in inventory for emergency requirements because the lack of availability would have a major impact on operations…..”

• Definitive list not possible
  – Varies by property
  – Equipment category (e.g., compressors) not a delineator
  – Technology, manufacturing changes

• Authority to acquire stems from JOA

• AP addresses how to account for equipment, but cannot authorize purchase
Joint Operations – I.1

- Operations necessary to explore, appraise, develop, produce....
  - Operations generally are billable
  - Many activities supporting operations are overhead
  - Accounting Procedure delineates between operations and activities – direct versus overhead
Payment Terms

• “Pay now, audit later,” with several industry-accepted exceptions:
  – Incorrect interest
  – Unauthorized project
  – Transfer of ownership interest, properly documented to operator
  – Items past the 24-month limitation

• Conflict with Exhibit F
Accounting Procedure Voting – I.6

• Any party can propose AP exception or other item needing approval
  – Examples: Affiliate rates, bill overhead item, material disposal

• Parties excluded from vote:
  – Proposing party
  – Affiliate of proposing party
  – Defaulting party
Company Labor

• Feasibility/Project Team – II.2.A.(1)
  – Assigned full- or part-time
  – Can include non-technical if assigned
  – Not assigned to team – only technical

• Other (not Feasibility/Project Team) – II.2.A.(2)
  – Field operations
  – First Level Supervision
  – Technical Services (On- & Off-site)
  – Other On-site operations not in facility rate or OH
First Level Supervision

• Definition establishes scope
  – Field operations
  – Maintenance & storage of joint material
  – RTC supervisors excluded
  – Technical supervisors excluded

• Function, not location
  – Technology allows off-site supervision
Contract Services – II.5

• Applies to 3rd party services, but not:
  – Affiliates
  – Overhead functions

• Training chargeable if operational, technical, HSE, govt.-mandated

• Awards chargeable
Equipment & Facilities – II.6

• Furnished by any Party or Affiliate
• Includes wholly or partially owned communication systems, computers used in operations
• Includes Rig-Related costs, Operations Offices, Remote Technology Centers
• Charge basis:
  – Rate commensurate with actual costs, or
  – Commercial rates for deepwater GOM
Rig-Related Costs

• Costs for a rig provided by any Party or Affiliate
• Rig modification, commissioning, mobilization
• Labor to oversee construction, modification, commissioning, mobilization
  – Excludes overhead functions
• Rig repairs
• Demobilization cost
Affiliate Services – II.7

A. Projects
– Assigned to Feasibility or Project Team
– Not assigned, but providing Technical Service to Team
– Activities/operations requiring AFE or would if not for emergency; excludes OH functions

B. Non-Projects
– Affiliate costs > $__/yr. require approval
– No approval if below threshold
Affiliate Charges – II.7.A

• Cost Basis
  – “Actual cost” as billed by Affiliate

• Negotiated Rate Basis
  – Parties set rate, adjustment method, duration
  – Defaults to Cost basis if can’t agree
  – Adjustment mechanism default – COPAS factor

• Charge basis can vary by Party/Affiliate

• Emergency – Cost basis if no negotiated rate
Affiliate Costs

- Affiliate awards & training chargeable
  - Billable Affiliate employees only

- Affiliate equipment & facilities charged under II.6

- No surcharge for Affiliate procurement
Affiliate Cost Controls

• Advance notice
• Third party attestation if Affiliate won’t allow audits of its records
  – No profit
  – Consistently applied
  – Industry standards
• “JV” audit – proper application of rates, work authorized
• Commercial rate limit
Legal Costs – II.9

• Non-attorney costs billable (recording fees, fines, penalties, settlement, etc., subject to JOA indemnity, liability provisions)
• Collection costs – defaulting Party pays
• Indemnities – per the JOA
• Dispute resolution costs – per Exhibit H
• Negotiations w/ Parties – each Party pays
• No charge for in-house legal staff
• Approval of third party legal (Claims – JOA Article 22.4, Non-Claims – AP Section I.6)
Other Direct Charges

• Easements, rights of use
• Import duties, licenses, bonds, permit fees
• Pollution control, well containment equipment, and control, clean-up, subject to JOA indemnities
• Storage, preservation, maintenance of jointly owned materials
Overhead – III

Two Percentage Rates:

• **Project rate** – operations/activities that:
  – Require approval of parties (expend. limit)
  – Would require approval if not for operator emergency authority

• **Operating rate** – all other operations
Overhead Exclusions

- Salvage credits
- Insurance recoveries
- Costs under II.1 (Rentals & Royalties)
- Costs under II.9 (Legal)
- Value of injected substances
- Settlement of claims
- Tax assessments on property, minerals
- Production handling payments
- Deferred production payments
- Quality bank adjustments
- Insurance other than WC&EL
JOA Article 6.2 & Acctg. Procedure

• “The Operator shall not undertake and activity or operation whose Costs are ______ dollars ($____) or more, unless an AFE has been approved ….”

• Affect on Accounting Procedure:
  – Affiliates – Section II.7.A or B
  – OH vs. Project rate
Special Materials Situations

• Critical Spares, Contingency Purchases, Long Lead Items
  – JOA grants authority to purchase
  – Special pricing provisions not needed in the Accounting Procedure
  – Disposal rules require approval, but could overlap with JOA
Questions?