COPAS Update

OCS Advisory Board Workshop
June 19, 2014
Disclaimer

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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

- 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
• After 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