ASC wants ARO costs – Cont. from page 1

"The (2007) requirement was for both abandonment and reclamation costs, not just abandonment," Burns said recently. "In reality, what we experienced was issuers excluding the reclamation component."

The trigger

The 2015 rule repealed Item 6.4 thus eliminating the financial accounting "bucket" for other separate disclosures of cost items outside the FNR. The old way of bookkeeping took a hit. Industry began estimating cash flows from well production by including ARC for up- and midstream facilities, with some companies all over the board.

The ASC issued further guidance, insisting on full disclosure and recognition of decommissioning costs in both FNR and net present value (NPV) calculations.

"FNRs are net of ARCs by definition," said Burns. "Assumptions on abandonment and reclamation in the reserves report should be consistent with those underlying the full decommissioning obligation."

The 2015 regulation also defined FNR and ARC as applied to reserves and resources for the first time to clear up any misconceptions.

to calculate ARCs can boost undiscounted FNRs.

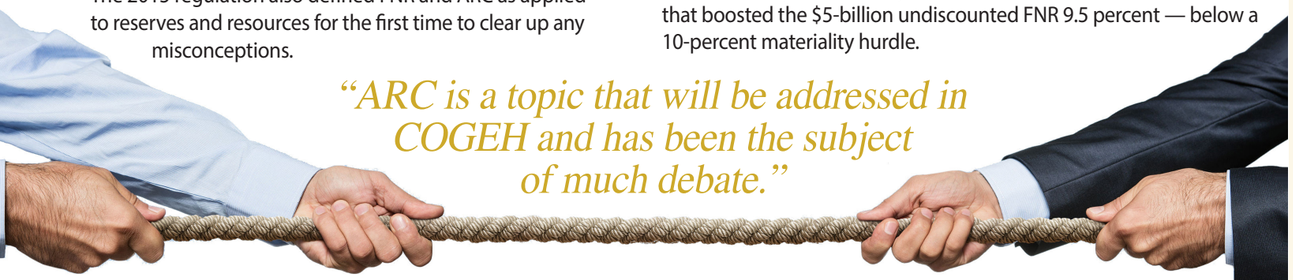
In its reviews of YE 2016 reporting, the ASC compared ARC disclosures in cash flows to present values of asset retirement obligations (AROs) in financial statements and found filings that lacked full disclosure. (ARO liabilities, reported in the audited financials, are equal to the fair value of the estimated costs to dismantle oil and gas production facilities and for site restoration.)

Craig Burns

Latest fallout, dubious impact

Not all ARCs and ARO costs tied in year-end 2016 annual reporting.

For instance, one RI recorded undiscounted estimated cash flow to settle its AROs to be $600 million, but ARCs were considerably lower because the company excluded surface facilities. The RI counted approximately $145 million in abandonment costs for producing and undeveloped wells only. However, over the life of the assets, that boosted the $5-billion undiscounted FNR 9.5 percent — below a 10-percent materiality hurdle.



"ARC is a topic that will be addressed in COGEH and has been the subject of much debate."

As it stands now

RIs are required to return oil and gas properties, both surface and subsurface, to a standard imposed by applicable government or regulatory authorities after disturbances caused by oil and gas activity. The ASC defines "oil and gas activity" relative to the sales point and comports with CSA Staff Notice 51-324, which states that any activity downstream of the point of sale is excluded from being an "oil and gas activity." Conversely, costs to remediate all activity upstream of the sales point have to be factored into the ARC calculation.

The ASC is insisting that ARC in the DCF model, where applicable, should include costs to reclaim and restore all wells, not just producing and planned wells. In addition, the DCF model should include decommissioning costs for surface facilities dedicated to those wells and pipelines upstream of the point of sale.

The ASC, in its 2016 discussion paper, describes the interaction of the reserves report and inputs in an impairment model. A key statement is that "for upstream oil and gas properties, cash flow inputs used in impairment calculations under IAS 36, Impairment of Assets, generally should be consistent with those used in the independent reserves report."

Only counting producing wells and undeveloped locations

So, for instance, at a more granular level, over the 30-year life of an oil or gas field, a hike in undiscounted FNR from lower ARCs may not be that significant.

Add to that, the long-term reliability of estimated ARCs is fraught with pitfalls. Forecasting exact ARO liability costs over many years in the future is fundamentally difficult, requiring management to make judgements, based in part, on best guesses about costs, technology and regulations.

The Society of Petroleum Evaluation Engineers chapter in Calgary has all but finalized its position on the ARC rule after receiving industry feedback and tweaking its new Canadian Oil & Gas Evaluation Handbook (COGEH). NI 51-101 refers to COGEH as "the standard of practice for evaluation and classification."

"Oil and gas companies want clarity on the inclusion of ARCs," **Doug Wright**, a past chapter chairman, said in December. "The chapter is currently updating COGEH and targeting a late Q1 2018 release. ARC is a topic that will be addressed in the handbook and has been the subject of much debate."

Wright was also a speaker at the May conference in Calgary.

Average annual oil and gas prices soar 20 percent

Annual average prices for reporting year-end petroleum reserves to the U.S. Securities and Exchange Commission increased about 20 percent for both oil and gas, using WTI crude and Henry Hub benchmarks, respectively. For 2017, WTI crude averaged $51.34 per BOE, up from $42.75 a year ago. Henry Hub gas averaged $2.98 per MMBtu, up from $2.49.

Other benchmarks and information on using differentials are posted at www.ryderscott.com/wp-content/uploads/FDOM_Benchmark_Prices.pdf.

The prices are based on the unweighted, arithmetic average of the first-day-of-the-month price for each month in the calendar year. E-mail inquiries to fred_ziehe@ryderscott.com.

Hardesty elected to SPEE board

Anna Hardesty, senior vice president at Ryder Scott, was elected to the board of directors for the Society of Petroleum Evaluation Engineers (SPEE). She has been an SPEE member for more than 25 years and was program chairman, secretary-treasurer, vice chairman and chairman for the Houston Chapter from 2011 to 2014.

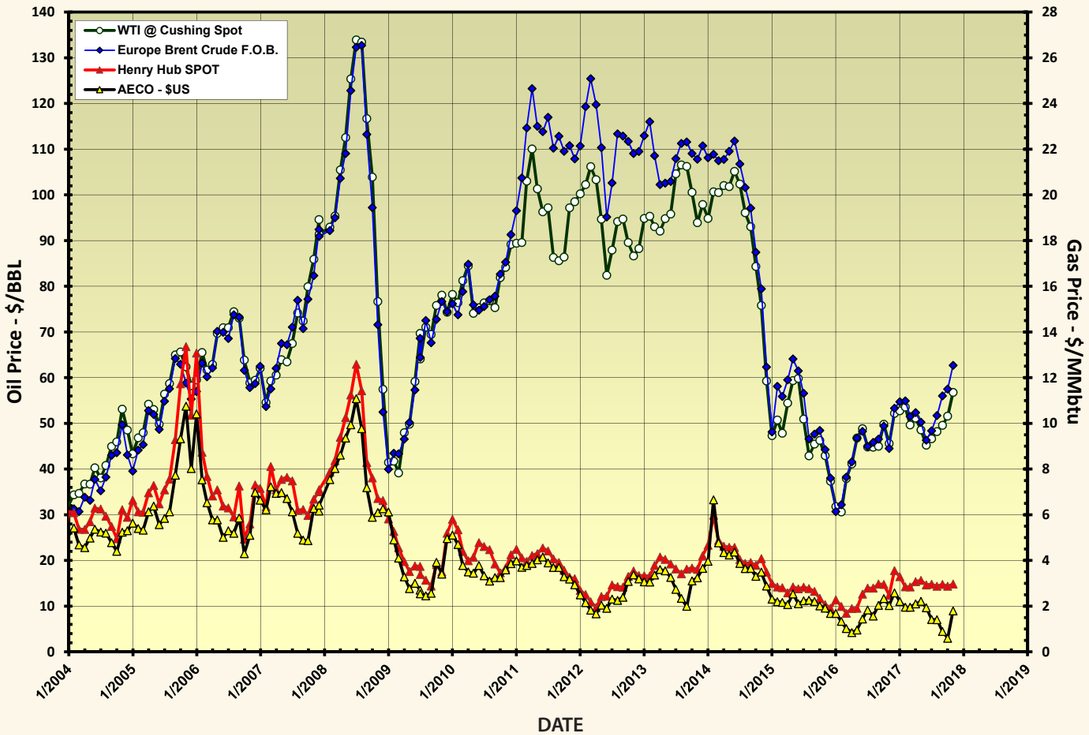
Hardesty has also sponsored engineers applying for SPEE membership.

"She sponsored me," said **Dean Rietz**, president. "This is another example of Ryder Scott folks doing more to improve themselves and our industry. SPEE will benefit from Anna's leadership. She will guide SPEE in meeting various challenges it faces as a professional society in today's challenging environment."

Hardesty will serve for a three-year term.

Anna Hardesty

Price history of benchmark oil and gas in U.S. dollars



Published, monthly-average, cash market prices for WTI crude at Cushing (NYMEX), Brent crude and Henry Hub and AECO gas.