

SPE/API Joint Meeting

SEC RESERVES REPORTING

**MOVING FORWARD WITH THE INSIGHT GAINED
ON MATTERS OF
DISCLOSURE AND COMPLIANCE**

Disclaimer

The information conveyed in the following presentation represents informed opinions about certain laws, regulations and interpretations but should not be considered as advice or counsel about any specific provision or topic. The information addressing the U.S. SEC reserves reporting regulations may not be identical to advice to be obtained from the SEC. The applicability of the guidance provided herein should be considered on a case by case basis.

SEC Mission and Objectives

- The SEC's mission is to protect investors, maintain fair, orderly and efficient markets, and facilitate capital formation.
- SEC does not evaluate the merits of any transaction or make any determination as to whether an investment is appropriate for any investor.
- The SEC requires companies whose securities are publicly traded to disclose meaningful financials such that all investors will have access to certain basic facts about an investment prior to buying it, and so long as they hold it.
- SEC administers the federal securities regulations under the Securities Act of 1933, the Securities Exchange Act of 1934, the Trust Indenture Act of 1939 and the Sarbanes Oxley Act of 2002.

New SEC Reserves Reporting Regulations

SEC intent with the new guidelines:

“The revisions are intended to provide investors with a more meaningful and comprehensive understanding of oil and gas reserves, which should help investors evaluate the relative value of oil and gas companies.”

New SEC Reserves Reporting Regulations

Some Background

- December 31, 2008 – SEC adopts amended oil and gas disclosure rules
- January 14, 2009 – Definitions and disclosure guidelines contained in Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting released in the Federal Register (SEC regulations).
- October 26, 2009- SEC Corporate Finance Division staff issues Compliance and Disclosure Interpretations (CDIs) regarding the new rules
- Comment letters and informal discussions with the SEC staff

New SEC Reserves Reporting Regulations

- Roger Schwall has said from the beginning back in 2010 after the first filings under the new regulations were in that he was not satisfied with the level of disclosure
- “We don’t really know yet what all we want in terms of additional information”
- SEC continues to expand the scope of their inquiry for information and ask for much more detailed information

Audience Poll



- How many of those in the audience today work for companies that have received an SEC Comment Letter for a filing since 12/31/2009?

Required and Selective Review

- The SEC is required by the Sarbanes-Oxley Act of 2002 to conduct some level of review of each reporting company at least once every three years and reviews a significant number of companies more frequently.
- In addition to the reviews required by SOX, the SEC selectively reviews filings to monitor and enhance compliance with the applicable disclosure and accounting requirements. The decision to undertake a further review of a company's filings is based on a preliminary review. The SEC does not publicly disclose its preliminary review criteria. The subject company is generally unaware of the review until it receives SEC comments.
- In the filing review process, the SEC concentrates its resources on critical disclosures that appear to conflict with the Commission rules or the applicable accounting standards or on disclosures that appear to be materially deficient in explanation or clarity.



The Comment Letter Process

**Why SEC Comment Letters
Are Important to Us as
Reserves Evaluators**



Major Cause for Non-Compliant Reserves

- Misinterpreting or misapplying the applicable reserves definitions

*“As most engineers who deal with the classification of reserves have come to realize, **it is difficult, if not impossible, to write reserve definitions that easily cover all possible situations.** Each case has to be studied as to its own unique issues.”*

Source: SEC Division of Corporate Finance “Interpretations and Guidance” Website Release, 21 March 2001

Penalties Under SOX for Noncompliance



- Up to 10 years in federal prison for destroying, altering, concealing, or falsifying records
- Up to 10 years in prison for failing to maintain all audit or review work papers for 5 years pertaining to an issuer of securities
- Up to 25 years in federal prison for knowingly defrauding shareholders
- Possible fines of 25 MM\$ per offense for corporations
- Fines for individuals possible
- Increased penalties up to 20 years in prison for violations under the SEC Act of 1934

Individual Accountability

From the 31 March 2001 SEC
Interpretations and Guidance:

"The SEC staff reminds professionals engaged in the practice of reserve estimating and evaluation that the Securities Act of 1933 subjects to potential civil liability every expert who, with his or her consent, has been named as having prepared or certified any part of the registration statement, or as having prepared or certified any report or valuation used in connection with the registration statement. These experts include accountants, attorneys, engineers or appraisers."

SEC Staff Comments



- The comment letter process is viewed by the SEC as a “dialogue with a company about its disclosure.”
- Staff comments are relevant to a specific filing and in “response to a company’s disclosure of information.”
- Comments are formulated based on the staff’s “understanding of that company’s facts and circumstances.”

Comment Letters Are An Iterative Process Between You and the SEC

1. Initial letter asks generic questions about many issues
 2. Based on the company's response, the SEC may ask follow up questions about specific issues
 3. This may result in a series of comment letters between the SEC and the company
- The SEC may ask for "supplemental" or supporting documentation
 - Maps, geologic or engineering data, contract data, or electronic summaries for every reserve entry
 - The initial company response may also open the door for in-depth questions on specific issues or lead to comments on new topics
 - The comment and response process continues until the SEC and the company resolve the comments



The Comment Letter Process

- Limitation of the process

Comment letters do not form “new regulations” but serve as “guidance” in formulating effective disclosure

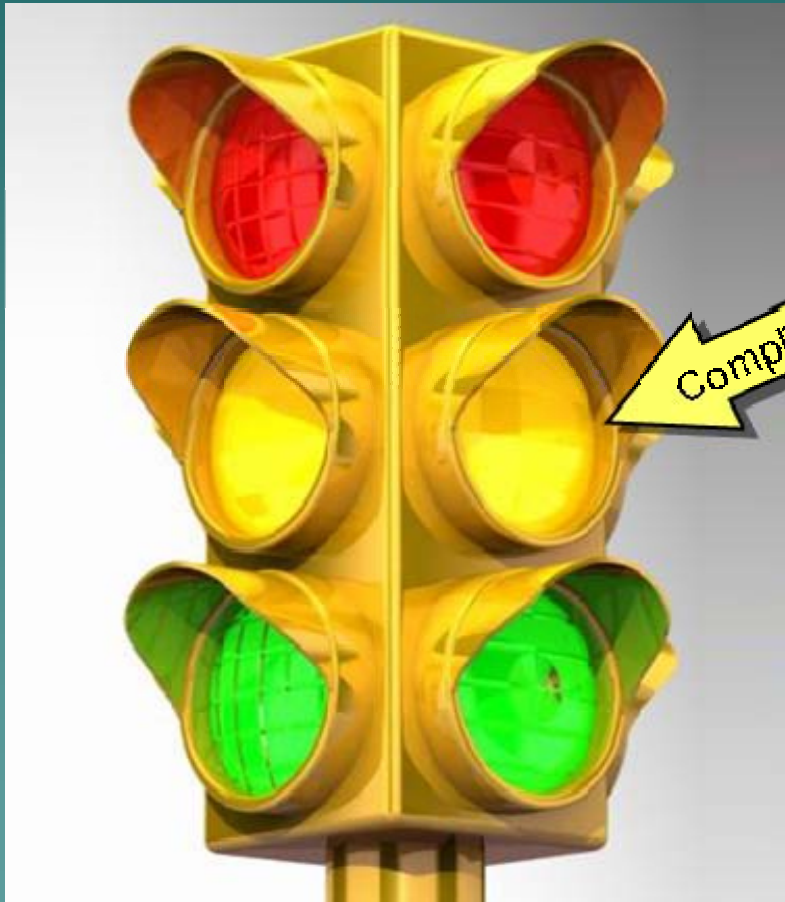
- This limitation has lead some to believe this is informal conversation that is non-binding on their disclosures
- Responding to SEC comment letters is time consuming and costly and to be taken very seriously
- Careful with your response – too much information can open more areas of SEC interest

The Comment Letter Process

Limitation of the process - continued

- While comment letters are available to the public through EDGAR (Electronic Data Gathering, Analysis and Retrieval) the issues addressed are on a case by case basis and the guidance is not uniformly distributed for everyone's benefit
- This can lead to limitations in industry-wide awareness of SEC interpretations of specific issues
- The same limitation exists with SEC guidance given during informal one on one discussions between the SEC staff and registrants
- Official SEC website releases like the October 2009 CDIs that reflect the SEC's interpretation would be beneficial to the industry

Comment Letters as Supplemental Guidance for Applying Reserves Definitions



- Situations where the SEC definitions and associated regulations are not clear as it relates to their specific application for booking SEC compliant reserves.
- This results in individual interpretations of the definitions and/or regulations leading to differing views and bookings.
- Comment letters may provide insight to how the SEC staff may view the application of the regulations to certain reserves related matters

SEC Responses in Comment Letter Are Not Synonymous with Judicial Case Law



- Under common law systems, case law is the reported decisions of certain courts which result in new interpretations of the law and are cited as precedents. Under case law, courts are bound by their own previous decisions in similar cases. Common law courts generally explain in detail the legal rationale behind their decisions.
- The SEC notes that views expressed by staff as either written or oral statements are "not legally binding due to their informal nature." These statements "do not necessarily contain a discussion of all material considerations necessary to reach the conclusions stated." Information provided in the form of compliance and disclosure interpretations or "C&DIs" (e.g. Oct 26, 2009 SEC C&DI referencing certain aspects of the "Modernization") are "intended as general guidance and should not be relied on as definitive." "There can be no assurance that the information presented in these interpretations is current, as the positions expressed may change without notice." This guidance also applies to comment letters.
- In conclusion, the views and interpretations expressed by SEC staff do not represent a binding precedent.

DISCLOSURE.....



- *NOTE: The SEC Comment Letters referenced herein have been disclosed by the SEC and are publicly available.*

Disclosure Deficiencies Cited by SEC Staff in Comment Letters

Five-year Rule

- PUDs converted at 'mathematically impossible' rates
- How to convert PUDs to proved developed in 5 years
 - Provide volumes/percentages of PUDs converted in prior years
- Explain why PUDs remained as such on books for 5 years
 - Remove from proved category if no reasonable certainty of development within 5 years
- Explain reasons for material changes in PUDs year-to-year
- Where 'special circumstances' exception to 5-year rule was relied on, disclose estimates for particular PUD locations & conditions preventing their earlier booking as producing

Disclosure Deficiencies Cited by SEC Staff in Comment Letters

Disclosures for development of undeveloped locations

- If special recovery methods are to be used, has investment decision been made yet on special recovery equipment?
- If liquidity to fund development plans looks insufficient, discuss how PUDs will be developed within time frame disclosed
- Newly booked PUDs offset by 2 or more locations away from producing well required additional disclosures
- Statistics of company's drilling history for PUDs offset by 2 or more locations including a complete explanation of added reserves attributable to each of the PUDs

Disclosure Deficiencies Cited by SEC Staff in Comment Letters

Reliable Technology

- Company must be able to document technologies that provide reliable results to establish reasonable certainty of economic probability more than one direct offset away
- Describe, discuss generally and explain actual, specific methods and technologies applied
- **Broad, imprecise descriptions do not meet “reasonably certain” threshold**
- Explain why reliable in specific geological environment in which applied
- Disclose how many proved reserves determined by alternative methods/technologies used

Disclosure Deficiencies Cited by SEC Staff in Comment Letters

“Reasonable Certainty”

- If ‘reasonable certainty’ on amount and timing not assured, then those reserves should be removed
- Reasonable certainty’ from a given date forward, from known reservoirs and under existing operating conditions, operating methods and government regulations
- Terms like ‘appears to have enhanced ’or ‘apparently economic’ are unclear as to whether reasonable certainty threshold met
- Statements like ‘there are uncertainties ‘in companies’ reserves estimates ‘due to factors outside our control’ will require a precise discussion of those factors

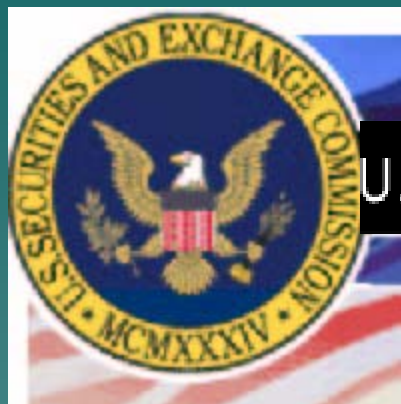
Disclosure Deficiencies Cited by SEC Staff in Comment Letters

- **'Industry principles'** disclosure
 - Estimates prepared according to 'generally accepted petroleum engineering and evaluation principles' not adequate
 - References to February 19, 2007 Society of Petroleum Engineers publication –*Standards Pertaining to the Estimating & Auditing of Oil and Gas Reserves Information*' are acceptable
- Failure to discuss **company's specific internal controls** used to ensure objectivity in estimation processes
- **3P independent petroleum engineers' reports** not complying with Reg S-K Item 1202

Disclosure Deficiencies Cited by SEC Staff in Comment Letters

- Failure to disclose qualifications of technical company person responsible for overseeing/accepting 3P engineer reserves estimates or audit
- Material changes in proved reserves without a general discussion of technologies used to establish appropriate level of certainty for estimates from material properties
- Where proved oil reserves included NGLs in sufficient quantities, failure to either separate & disclose the 2 products, or explain why they should be grouped together
- Breakdown the portion of total reserves and geographic areas covered
- Expand discussion of primary economic assumptions

SEC Comments Relating to the PUDs That Remain Undeveloped for Five or More Years



U.S. Securities and Exchange Commission

Letter Dated: October 29, 2010

Topic: **Proved Undeveloped Reserves**

Reference: 12/31/2009 20-F Filing

"We note your discussion of reserves that remain proved undeveloped for five or more years. Describe for us the specific field or projects involved. For each field or project, explain, in greater detail, the reason why the reserves remain undeveloped. Also, tell us the volume of reserves at issue, by field or project and in total."

SEC Comments Relating to the 5 Year Rule



U.S. Securities and Exchange Commission

Letter Dated: March 31, 2010

Topic: **Proved Undeveloped Reserves**

Reference: 12/31/2009 10-K Filing

"You state that you developed 81 million barrels equivalent of proved undeveloped reserves in 2009. This represents approximately 19% of your total proved undeveloped reserves at year end 2008 and 10% of your proved undeveloped reserves at year end 2009.

This rate of development of your proved undeveloped reserves at year end 2009 suggests that it will take approximately 10 years to develop all of your proved undeveloped reserves, assuming that no additional proved undeveloped reserves are added during that time.

As proved undeveloped reserves should generally be developed within five years of initially booking them as proved, please tell us your plan to accomplish this."

Interpretative Position

- No specific public guidance offered by the SEC
- Informal discussions with the SEC staff have indicated that the development schedule should:
 - Represent realistic conditions
 - Reflect what a company intends to actually drill in the next 5 years
- Proved projects pushed beyond the 5 year timeframe to accommodate other priorities in the portfolio, such as following a drilling schedule which includes a mix of Proved and Non-Proved Projects, would not qualify as an exception to the 5 year rule.

SEC Request to Remove PUDs Delayed By Causes Within Your Control

Letter Dated: November 9, 2010

Topic: **Intent to Develop PUDs That Remain Undeveloped for Five or More Years**

Question 4:

- In response to prior comment 4 you disclose that the wells associated with 4.5% of PUDs, or 2% of total proved reserves, have not been drilled within five years of the booking date because of internal factors, namely the allocation of development capital across your portfolio. Your response does not indicate if and when you intend to drill and produce these wells. Unless you are reasonably certain of developing these wells within five years, you should remove the reserve estimates associated with these wells. Please revise or advise.

SEC Request to Remove PUDs Delayed By Causes Known at Time of Booking

Letter Dated: February 22, 2011

Topic: **Intent to Develop PUDs That Remain Undeveloped for Five or More Years**

Question 1:

- In your February 3, 2011 response to our January 6, 2011 comment, you stated that the shortage of hydraulic fracturing services was a primary cause of the delay in drilling proved undeveloped locations in this field. Your statement, "During 2009 and throughout 2010, as the Company conducted vertical and horizontal drilling operations in this field, there was limited access to hydraulic fracturing equipment and other completion services, requiring the Company to delay and defer some development drilling." seems to indicate that these shortages were a known factor and should have led to the removal from the proved category of those undeveloped locations that were not scheduled to be drilled within five years of booking. Please remove such locations from your PUD reserves in future Exchange Act filings.

SEC COMMENT LETTER



U.S. Securities and Exchange Commission

Letter Dated: April 27, 2010

Topic: **Conformance to PUD 5 Year Rule**

Questions #6:

You state that you developed 15 BCFe of proved undeveloped reserves in 2009. This represents approximately 2% of your total proved undeveloped reserves at year end 2008 and less than 1% of your proved undeveloped reserves at year end 2009. Therefore, at this rate of development, it will take at least fifty years to develop all of your proved undeveloped reserves, assuming that no additional proved undeveloped reserves are added during that time. Tell us how this complies with Rule 4-10(a)(31)(ii) of Regulation S-X. In this regard, we note your statement that your 2010 capital budget will focus on the development of non-proved reserves.

SEC COMMENT LETTER



U.S. Securities and Exchange Commission

Letter Dated: April 27, 2010

Topic: **Conformance to PUD 5 Year Rule-Disclosure**

Questions #7:

Because your prior year's conversion rate of proved undeveloped to proved developed reserves was much lower than that necessary to convert all of your proved undeveloped reserves to proved developed reserves within five years, more history of your prior record of conversions is necessary as we believe this is **material information to investors**. Please expand your disclosure, either here or under Management's Discussion and Analysis, to include the amount of proved undeveloped reserves that were developed in each of the last three years. Please see Section V. of Securities Act Release 33-8995.

SEC Comments Relating to the Impact of Reliable Technology



U.S. Securities and Exchange Commission

Letter Dated: April 29, 2010

Topic: **Use of Reliable Technologies**

Reference: 12/31/2009 10-K Filing

"You name a number of common technologies and methods that have been used in reserve estimation for decades. **Please tell us if you used any alternative methods and technologies instead of production flow tests in determining material amounts of proved reserves that you added in 2009 and why those methods or technologies are considered reliable in the geological environment in which they were used. Also tell us how many of the proved reserves added in 2009 were determined by these alternative methods and technologies.**

In addition, also tell us if you used any alternate technologies other than open-hole logs to determine gas-oil or oil-water contacts in determining material amounts of proved reserves that you added in 2009. If so, please tell us the amount of reserves and why those methods or technologies are considered reliable in the environment that they were used."

SEC COMMENT LETTER



U.S. Securities and Exchange Commission

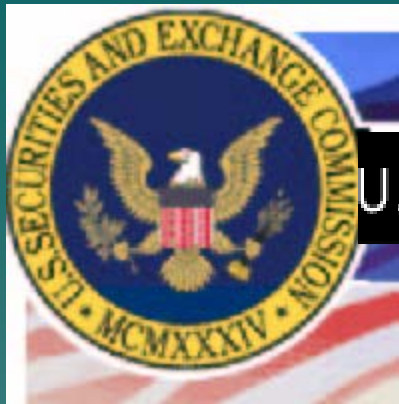
Letter Dated: April 27, 2010

Topic: **Reliable Technology**

Questions #11:

You state that you recognized additional proved undeveloped reserves totaling 1,771 thousand barrels of oil and 1,115,334 million cubic feet of natural gas resulting from the application of reliable technologies in determining proved reserves. However, you do not indicate what those technologies were or why they are reliable. Please expand your disclosure to include in more detail the actual technologies utilized and why you believe they are reliable in the geological environment they were applied. In addition, disclose if you used any alternative methods and technologies instead of production flow tests in determining material amounts of proved reserves that you added in 2009 and why those methods or technologies are considered reliable in the geological environment they were used. Please tell us how many of your proved reserves were determined by these alternative methods and technologies.

SEC COMMENT LETTER



U.S. Securities and Exchange Commission

Letter Dated: June 16, 2010

Topic: **PUDs Beyond One Offset to Existing Well**

Question #11:

You indicate that in the Barnett Shale and the Fayetteville Shale you attributed proved undeveloped reserves to locations more than one offset location away from an existing well. Disclose the average number of offset locations away from an existing well you attributed proved reserves to in each of those formations. You should also disclose the technology and methods used to establish the reasonable certainty of these reserves.

With a view towards possible disclosure, tell us whether you used volumetric estimates to calculate the proved undeveloped reserves or used analogies of producing wells in the same geologic formations. If analogies were used, disclose the age of the wells that you believe represent an analogy, the cumulative production to date from those wells and the estimated life of those wells and how it was determined. In addition, please tell us if you included these added volumes of reserves under extensions, discoveries and other additions, or under revisions of previous estimates.

SEC COMMENT LETTER



U.S. Securities and Exchange Commission

Letter Dated: June 23, 2010

Topic: **PUDs Beyond One Offset to Existing Well**

Questions #2:

In part, your response 10 indicates a significant portion of your proved undeveloped locations are 2 or more offsets removed from a producing well(s). Tell us the statistics of your drilling history for such similarly situated locations, including the success rate by distance/location removed from production.

SEC Comments Relating to the Aggregation of Oil, Condensate & NGL Volumes



U.S. Securities and Exchange Commission

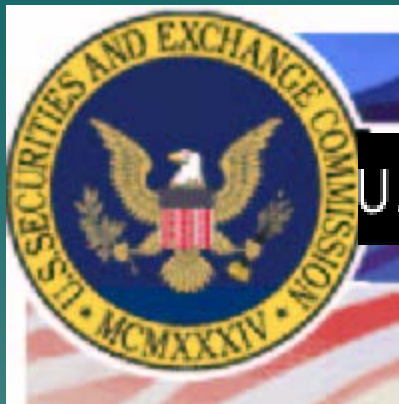
Letter Dated: June 16, 2010

Topic: **Disclosure By Individual Product**

Reference: 12/31/2009 10-K Filing

"We note that you have grouped together your proved reserves related to crude oil, condensate and NGLs. Please explain why you do not believe it necessary to disclose separately these three products."

SEC COMMENT LETTER



U.S. Securities and Exchange Commission

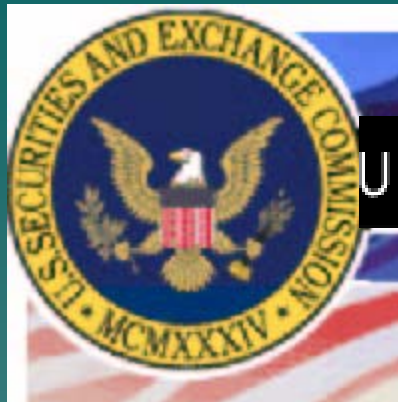
Letter Dated: April 27, 2010

Topic: **Estimation Methodology**

Question #3:

For the Haynesville Shale and the Eagle Ford Shale fields, please tell us the average well life you assume for reserve forecasting and the basis for that assumption. Please provide the type curve that you use to forecast the proved reserves for each field, the indicated estimated ultimate recovery based on that type curve, and how each type curve was derived. Please also include the decline factors such as the b factor and terminal decline rate for each curve, and explain how they were derived. Please tell us for each field the largest cumulative production from a well from that reservoir and how long each of those wells has been on production from the reservoir of interest.

SEC COMMENT LETTER



U.S. Securities and Exchange Commission

Letter Dated: September 29, 2011

Topic: **Disclosure of Detailed Reserve Reports**

Questions #17:

Please furnish to us the petroleum engineering reports you used as the basis for your June 30, 2011 proved reserve disclosures including the following:

- One-line recaps in spread sheet format for each property sorted by field within each proved reserve category including the dates of first booking and estimated first production for your proved undeveloped properties. Please ensure that the cumulative production figures are presented for each one-line listing;
- Total company summary income forecast schedules for each proved reserve category with proved developed segregated into producing and non-producing properties;
- Individual income forecasts for all the wells/locations in the proved develop and proved undeveloped categories;

SEC COMMENT LETTER



U.S. Securities and Exchange Commission

Letter Dated: September 29, 2011

Topic: **Disclosure of Detailed Reserve Reports**

Questions #17: (continued)

Please furnish to us the petroleum engineering reports you used as the basis for your June 30, 2011 proved reserve disclosures including the following:

- Engineering exhibits (e.g. narratives, maps, rate/time plots, volumetric calculations, analogy well performance) for each of the three largest wells/locations in the proved developed and proved undeveloped categories as well as the AFE for each of the three PUD properties. Please ensure that the decline parameters, EURs and cumulative production figures are presented on the rate/time plots.

SEC COMMENT LETTER



U.S. Securities and Exchange Commission

Letter Dated: September 6, 2011

Topic: **Extended Well Life of Horizontal Wells**

Questions #14:

All proved reserves must meet the standard of reasonable certainty. Therefore, please tell us the evidence that you have that horizontal wells in this reservoir for the properties in question will produce for fifty years and in some instances longer.

SEC COMMENT LETTER



U.S. Securities and Exchange Commission

Letter Dated: September 6, 2011

Topic: **Extended Well Life of Horizontal Wells**

Questions #14: Follow-up question:

In regards to your response to prior comment fourteen, as we stated in that comment, all proved reserves must meet the standard of reasonable certainty. While a few thousand vertical wells, a very small subset of the total wells that were drilled fifty or more years ago, have exhibited long lives, this would appear to support only the possibility that horizontal wells may exhibit lives of fifty years. As a very small subset or possibility, it does not rise to the level of reasonable certainty that is required for proved reserves. Reasonable certainty means that it is much more likely than not that the EUR will increase or remain the same than to decrease as more information is obtained. By assuming well lives that only a small percentage of vertical wells have achieved, it does not appear that your reserve estimate is reasonably certain to occur. Therefore, please revise your filing to limit the reserves to well lives that are more reasonably certain to occur.

Subpoenas to Shale Producers



U.S. Securities and Exchange Commission

**SUBPOENAS ISSUED BY
THE SEC**

Use of Subpoenas By the SEC



U.S. Securities and Exchange Commission

- SEC staff can only issue subpoenas if a formal order of investigation is issued by the Commission
- Don't know whether staff first attempted to get documents informally
- May be "headline" reasons for SEC to issue subpoenas
- Subpoenas do not mean the Commission intends to take action against any particular company
- Subpoenas do not indicate the SEC is conducting an enforcement investigation

Concluding Remarks About Using Comment Letters

- Comment letters may provide insight to how the SEC Staff may view the application of the regulations to certain reserves related matters.
- Evaluators should be aware of the limitations for such.

CLOSING REMARKS



My Time's Up!

Thanks for Listening.

Happy Holidays!