



# Modernization of SEC Oil and Gas Reporting Requirements

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## Disclaimer

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- Opinions expressed in this presentation are mine and mine alone; they represent neither the opinions of the Securities and Exchange Commission nor of its staff members

# Modernization of Oil and Gas Reporting

## Requirements



- SEC proposed updates to oil, gas disclosure requirements on June 26, 2008
- Public comments received through September 8, 2008
- Commission adopted new definitions and disclosure requirements on December 29, 2008
- See <http://www.sec.gov/rules/final/2008/33-8995.pdf> for complete text of adopting release

# Changes in Technology, Markets, Resources

## Motivation for Updates



- Current reporting requirements in place since 1978-1982
- Technology for estimating oil, gas in place and recovery has advanced substantially in 25 years
- Spot markets, transportation of products to market have grown and improved
- New resources, such as bitumen, have become economical to produce

# Ideas for Modifications Came from Many

## Sources



- Filers have suggested changes to staff in recent years
- Staff has identified need for enhanced disclosure in investors' interest
- SEC issued concept release in December 2007, soliciting suggestions for modernization
  - Comments reinforced and advanced previous ideas, added new possibilities
- SEC issued proposing release in June, 2008
  - Comments led to clearer, more appropriate definitions and disclosure requirements
- SEC adopted final rules on December 29, 2008



# Major Changes in Regulations

- Replace single-day (year-end) price with 12-month average [S-X 210.4-10(a)(23)(v)]
  - Reduces effects of short-term volatility
  - Reduces effect of seasonality in prices
  - Average determined from first-day-of-month prices
- Permit use of new technologies to estimate proved reserves
  - Current rules prescribe specific technologies
  - New rules allow unspecified technologies proven in practice to lead to correct conclusions [4-10(a)(25)]



## Major Changes (Cont'd)

- Nontraditional resources to be included in oil and gas reserves [4-10(a)(16)]
  - Oil (tar) sands, oil shales from mining operations to be considered oil and gas activities – formerly mining
  - Synthetic oil, gas from mined coal also considered oil and gas activities
- “Certainty” criterion for proved undeveloped reserves changed to “reasonable certainty” [4-10(a)(31)]
  - Affects undrilled acreage beyond immediate vicinity of existing wells

# Definitions Modified, New and Supporting

## Definitions Introduced



- Reserves [4-10(a)(26)]
  - Estimated remaining quantities of oil and gas expected to be recovered from known accumulations
  - Classified as proved, probable, possible according to degree of uncertainty
- Resources [4-10(a)(28)]
  - Quantities of oil and gas estimated to exist in natural accumulations
  - Portion recoverable (reserves), another portion unrecoverable
  - Some discovered to date, some undiscovered

# Definitions Modified, New and Supporting

## Definitions Introduced



- Proved reserves [4-10(a)(22)]
  - “Reasonable certainty” criterion clarified – much more likely than not; 90% probability
- Probable reserves [4-10(a)(18)]
  - As likely as not; 50% probability
- Possible reserves [4-10(a)(17)]
  - Possible, but not likely; 10% probability

# Uncertainty Increased with New Classifications of Reserves



- Probable reserves less certain than proved reserves (50% likelihood of recovery for probable, 90% for proved)
- Possible reserves even less certain (only 10% likelihood of recovery for possible)
- Greater uncertainty = greater risk to investor



## **New Disclosures for Non-Traditional Resources**

- Non-traditional resources [4-10(a)(16)]
  - Bitumen (“tar” in tar sands) in natural state
  - Oil and gas in natural state from shale formations
  - Synthetic oil and gas from bitumen, shales, coal, other non-renewable natural resources
  - Gas from coalbeds (formalizing guidance)
  - Possible others, including gas hydrates

# Modern Technologies

## Allowed for Reserves Estimates

- Technologies used to establish reserves estimates [4-10(a)(25)]
  - Old rules allow only specified technologies to be used (e.g., flow tests to surface) to establish reserves
  - New rules allow technologies that have been demonstrated to be reliable
    - Proprietary technologies included in allowable technologies
  - Concise summary disclosures required of technologies that provide basis for additional reserves reported



## **Additional Guidance Provided for MD&A**

In list of topics below, filer needs to discuss only those that are material

- Changes in proved (and, if disclosed, probable and possible) reserves and causes
  - Changes in prices
  - Technical revisions
  - Changes in status of concessions held

# Additional Guidance Provided for MD&A

## (Cont'd)



### MD&A Topics

- Technologies used to establish certainty levels for reserves increases or additions
- Prices and costs and impact on DD&A and on full cost ceiling test
- Performance of currently producing wells, including water production and need for enhanced recovery techniques
- Performance of any mining operations for recovery of hydrocarbons

# Additional Guidance Provided for MD&A

## (Cont'd)



### MD&A Topics

- Company's recent ability to convert PUD reserves to PDR, probable to proved, possible to probable and proved
- Minimum remaining terms of leases and concessions
- Material changes to any line item in required disclosures (S-K Items 1202 through 1208)

# Additional Guidance Provided for MD&A

## (Cont'd)



### MD&A Topics

- Potential effects of different forms of rights to resources, such as production sharing contracts, on operations
- Geopolitical risks that apply to material concentrations of reserves

# Comparison of Previous, New Definitions: Geographic Area, Product Types



Disclosure	Previous	New
Geographic area	Countries or groups of countries (SFAS 69, ¶ 12)	Continent; groups of countries within continent; country with >15% BOE proved reserves [S-K 229.1201(d), 1202(a)(2)]
Product types	Oil, gas	Oil and natural gas; synthetic oil and gas (from non-traditional resources, such as bitumen, oil and gas shales, coal, gas hydrates); non-renewable natural resources intended to be upgraded to synthetic oil and gas (S-K 229.1202)

# Comparison: Proved Reserves, Probable

## Reserves



Disclosure	Previous	New
Proved reserves	For oil and gas, in aggregate and by geographical area, total proved and proved developed (SFAS 69, ¶ 10)	By product type (oil, natural gas, synthetic oil and gas, saleable non-traditional non-renewable resource intended to be upgraded to synthetic oil or natural gas); by geographic area; developed and undeveloped [S-K 229.1202(a)(2)]
Probable reserves	Not allowed	Optional; by product type; by geographic area; developed and undeveloped [S-K 229.1202(a)(2)]

# Comparison: Possible Reserves, Non-Reserve Resources



Disclosure	Previous	New
Possible reserves	Not allowed	Optional; by product type; by geographic area; developed and undeveloped [S-K 229.1202(a)(2)]
Non-reserves resources	Not allowed	Not allowed (S-K 229.1202)



## Final Reminder: Disclaimer

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