



**Gaining Insight from the SEC's 2012  
Comment Letters**

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# Disclaimer

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# Purpose

**Insight to the most recent SEC reporting and disclosure concerns as indicated by comment letter questions.**

**Presented data is limited to filing year 2011 to ascertain recent trends.**

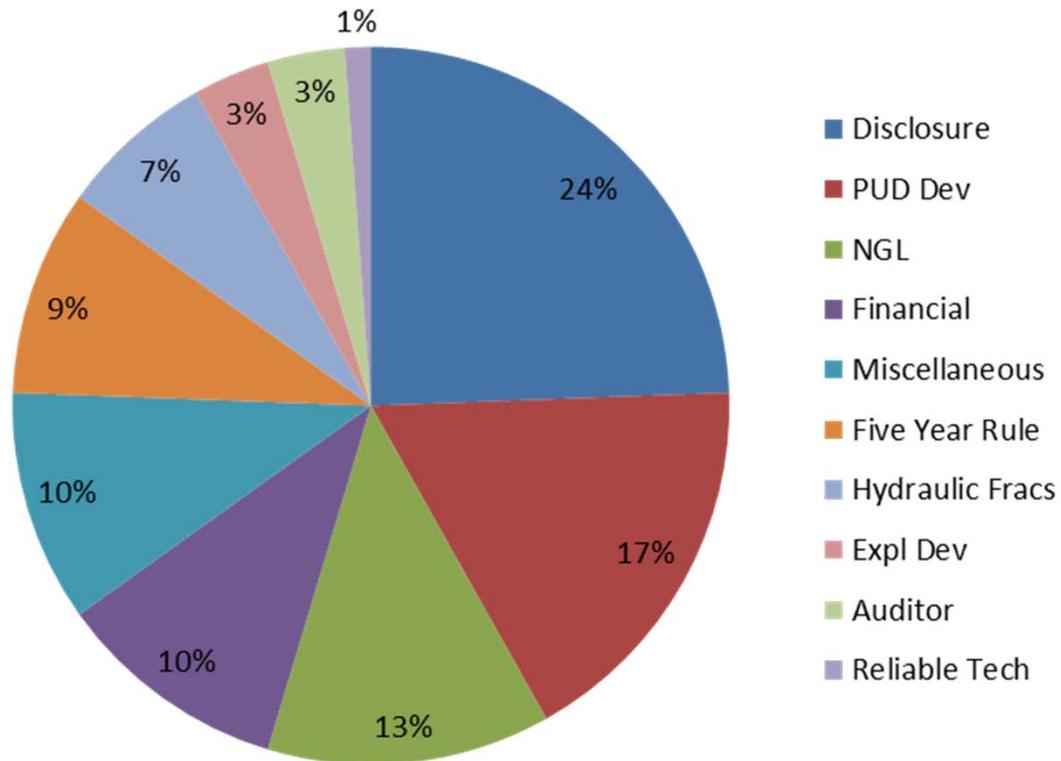
**(Filing year 2012 comment letter process is just beginning now.)**

# Process

- **Gathered and read all of the SEC's comment letters pertaining to 2011 filings using Ryder Scott's "SEC Seeker" tool.**
- **2012 comment letters pertaining to other filing years excluded**
- **Categorized the individual comments based on the most prevalent theme of each comment**
- **Categories are subjective and not provided by the SEC.**
- **Many comments do encompass more than one category**

# SEC Comment Categories

## SEC Comment Letter Topics 2011 Filing Year



# PUD Development Example #1

*"It appears that you converted approximately 10.9% of proved undeveloped ("PUD") reserves to proved developed reserves during the fiscal year ended December 31, 2011. We also note your response to our prior comment 7 in our letter dated March 28, 2011 which indicates that PUD conversion ratios in 2009 and 2010 were lower than historical rates (i.e., conversion ratios of approximately 5.7% and 8.8%, respectively). Please provide us with additional detail regarding the rate of PUD conversion during the fiscal year ended December 31, 2011 compared to historical rates and in the context of your development plans. Refer to Rule 4-10(a)(31)(ii) of Regulation S-X. For additional guidance, refer to questions 131.04 and 131.05 of our Compliance and Disclosure Interpretations regarding Oil and Gas Rules."*  
(RSC emphasis added)

- SEC Comment Letter - Apache, July 16, 2012

# PUD Development Example #2

*"We note your statement that you "have no PUD reserves whose scheduled delay to initiation of development is beyond five years of initial booking." We also note that you converted 5 Bcfe of PUDs into proved developed reserves in 2011 and 13 Bcfe of PUDs into proved developed reserves in 2010. These amounts were 2.4% and 3.8%, respectively, of your year beginning PUD reserve volumes for those years. As we would expect PUD conversions in a 5 year development timeframe to approximate 20% of the beginning of year volumetric balance, tell us how you expect to meet your stated time frame."*  
*(RSC emphasis added)*

- SEC Comment Letter – Cimarex Energy, May 15, 2012

# Five Year Rule

*“Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.”*

[Source: 210.4-10 (a)(31)(ii), pg. 2192]

# Five Year Rule Example #1

*"We note your disclosure stating that certain PUDs were removed because the likelihood that these locations would be drilled within the next five years was remote. Please note that Rule 4-10(a)(31)(ii) of Regulation S-X specifies a five year limit after booking for the development of PUDs. Please tell us about any remaining PUDs that are scheduled for development beyond five years from initial booking."*  
*(RSC emphasis added)*

- SEC Comment Letter – Legacy Reserves LP, July 20, 2012

# Five Year Rule Example #2

*"We note the disclosure per page 21 of your filing stating that the majority of your proved undeveloped reserves ("PUDs") are "already scheduled to be developed within the next five years." Please clarify this disclosure by clearly indicating that the majority of your PUD reserves are scheduled for development within five years after initial booking, as provided in Rule 4-10(a)(31)(ii) of Regulation S-X, if true, or otherwise clarify."  
(RSC emphasis added)*

- SEC Comment Letter – Petro China, September 21, 2012

# NGL Example

*"We note that you have combined estimates of crude oil and natural gas liquids in disclosing your reserve quantities. Tell us how you applied FASB ASC paragraph 932-235-50-4 in preparing this combined presentation and submit a schedule showing the information in the table on page 143, for crude oil and natural gas liquids separately. "*

- SEC Comment Letter – Royal Dutch Shell, April 10, 2012

*"We note that you have combined estimates of crude oil and natural gas liquids in disclosing your reserve quantities. Tell us how you applied FASB ASC paragraph 932-235-50-4 in preparing this combined presentation and submit a schedule showing the information in the table on page FS-68 for crude oil and natural gas liquids separately. "*

- SEC Comment Letter – Chevron, April 17, 2012

# NGL – Interpretive Position

- \* Confirm custody transfer point based on gas purchasing agreements
  - \* If title transfers at the plant outlet (post-processing), report NGL reserve volumes with residue gas reserve volumes and future net income
  - \* If title transfers at the plant inlet (pre-processing), report wet gas reserve volumes and future net income
  - \* Gas shrinkage, BTU, and price differentials should be estimated to account for which gas reporting method is used

*Production of natural gas should include only marketable production of natural gas on an “as sold” basis. Production will include dry, residue, and wet gas, depending on whether liquids have been extracted before the registrant transfers title.*

*[Source: 229.1204 Instruction 2, pg. 2195]*

*Reserves (all categories) In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production...*

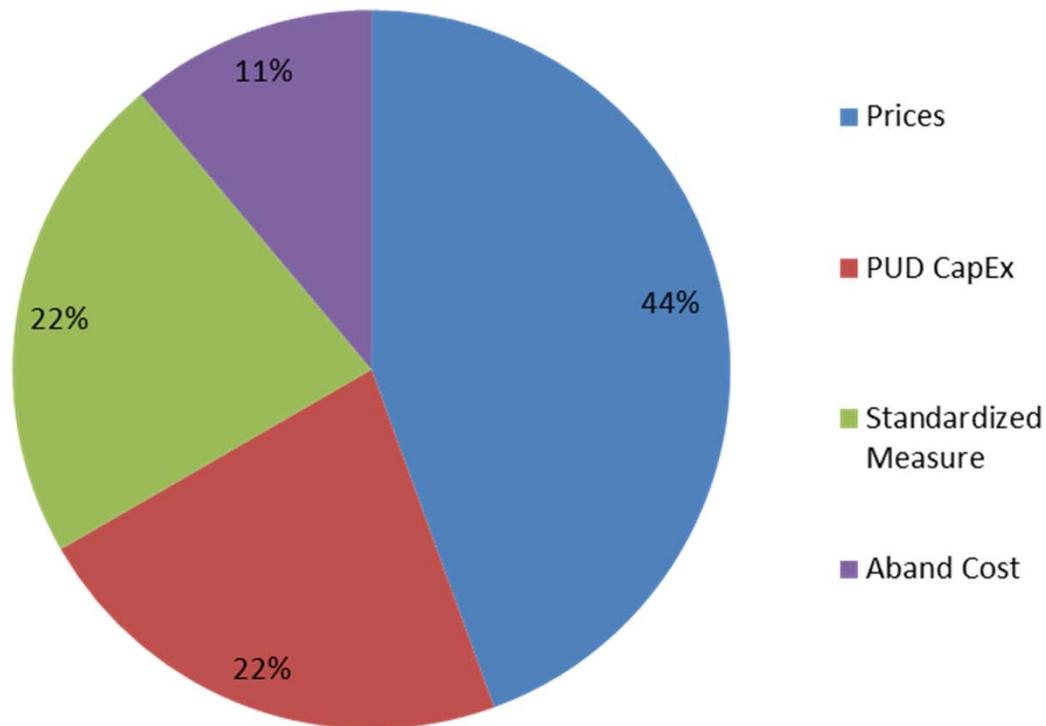
*[Source: 210.4-10 (26), pg. 2192]*

# NGL – Targa Resources

- Targa Resources
  - Midstream Natural Gas and NGL Processor
  - Received requests to modify gas contracts from clients with title transfer at inlet
  - Approached SEC with white paper to seek clarification
    - Treatment of NGL reserves for POP contracts with title transfer at inlet vs. POP contracts with take-in-kind provisions
- Current Status
  - SEC indicated that they are not in a position to answer the question
  - Encouraged Targa to pursue matter the with FASB
  - If an E&P company had posed the question, SEC would have been more likely to take a position

# SEC Finance Comments

**SEC Comment Financial Topics  
2011 Filing Year**



# Finance Example #1 (PUD CapEx & SM)

*"Please reconcile the 26.4 MMBOE proved undeveloped reserves converted, and the \$160 million of PUD development costs incurred in 2011, as disclosed on page 21, to the 34.6 MMBOE proved undeveloped reserves converted, and \$516 million of development costs incurred in 2011, included in your response. Similarly, reconcile total estimated future PUD development costs at the beginning of the year for 2011 and 2010 per your response to the corresponding amounts appearing in the presentation of your Standardized Measure for 2010 and 2009 in the notes to your financial statements."*

- SEC Comment Letter – Denbury Resources Inc., July 12, 2012

# Finance Example #2 (PUD CapEx & SM)

*"We note that your disclosure of the standardized measure includes future development costs of approximately \$1.6 billion as of December 31, 2011 compared to future development costs of approximately \$1.7 billion as of December 31, 2010. Please provide us with additional detail comparing your estimated expenditures to be incurred in developing proved oil and gas reserves at each year-end in light of the increase in your PUDs from 976.9 Bcfe at December 31, 2010 to 1,233.1 Bcfe at December 31, 2011. As part of your response, please address your consideration of the increase in actual costs incurred to convert your PUDs during 2011 (i.e., \$284.5 million incurred to convert of 228.7 Bcfe of reserves to proved developed reserves) compared to 2010 (i.e., \$183.4 million incurred to convert of 216.9 Bcfe of reserves to proved developed reserves). Refer to FASB ASC 932-235-50-31b."*

- SEC Comment Letter – Cabot Oil, May 23, 2012

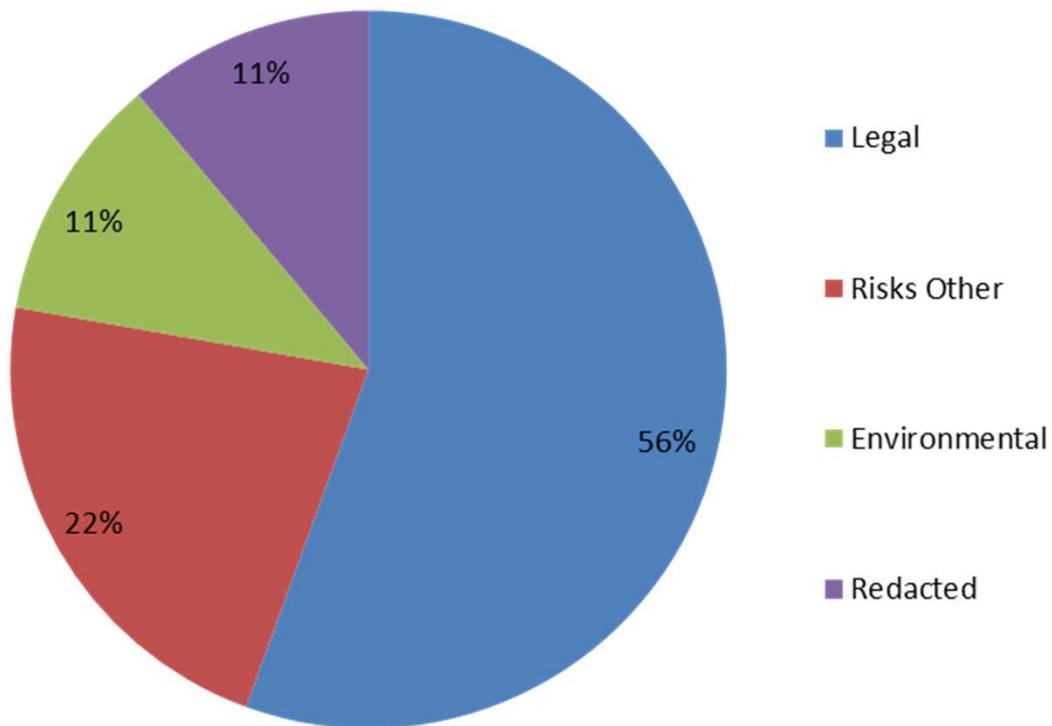
# Hydraulic Fracturing Example

*"We note your disclosure here and elsewhere that you engage in hydraulic fracturing, that natural gas accounts for the majority of your proved reserves and that you have operations in the Eagle Ford and Haynesville shale formations. Accordingly, in an appropriate location, please provide a more detailed discussion of the hydraulic fracturing process, what it entails, how it is done, etc. Also, if material, please provide risk-factor disclosure addressing the specific operational and financial risks associated with hydraulic fracturing. "*

- SEC Comment Letter – Plains Expl & Prod Co., August 23, 2012

# SEC Misc. Comments

**SEC Comment Miscellaneous Topics  
2011 Filing Year**



# Summary

PUD Development – Have you and/or will you develop what you said you would develop?

NGLs – Have you correctly accounted for and disclosed NGL reserves separately from oil and condensate reserves?

Financial – Are your reserve economics and standardized measure calculations consistent and correct? (CapEx, Abandonment Cost, Prices)

Environmental – Have you correctly identified risks, especially hydraulic fracturing risks

# Looking Ahead

John Hodgkin was hired August 2012.

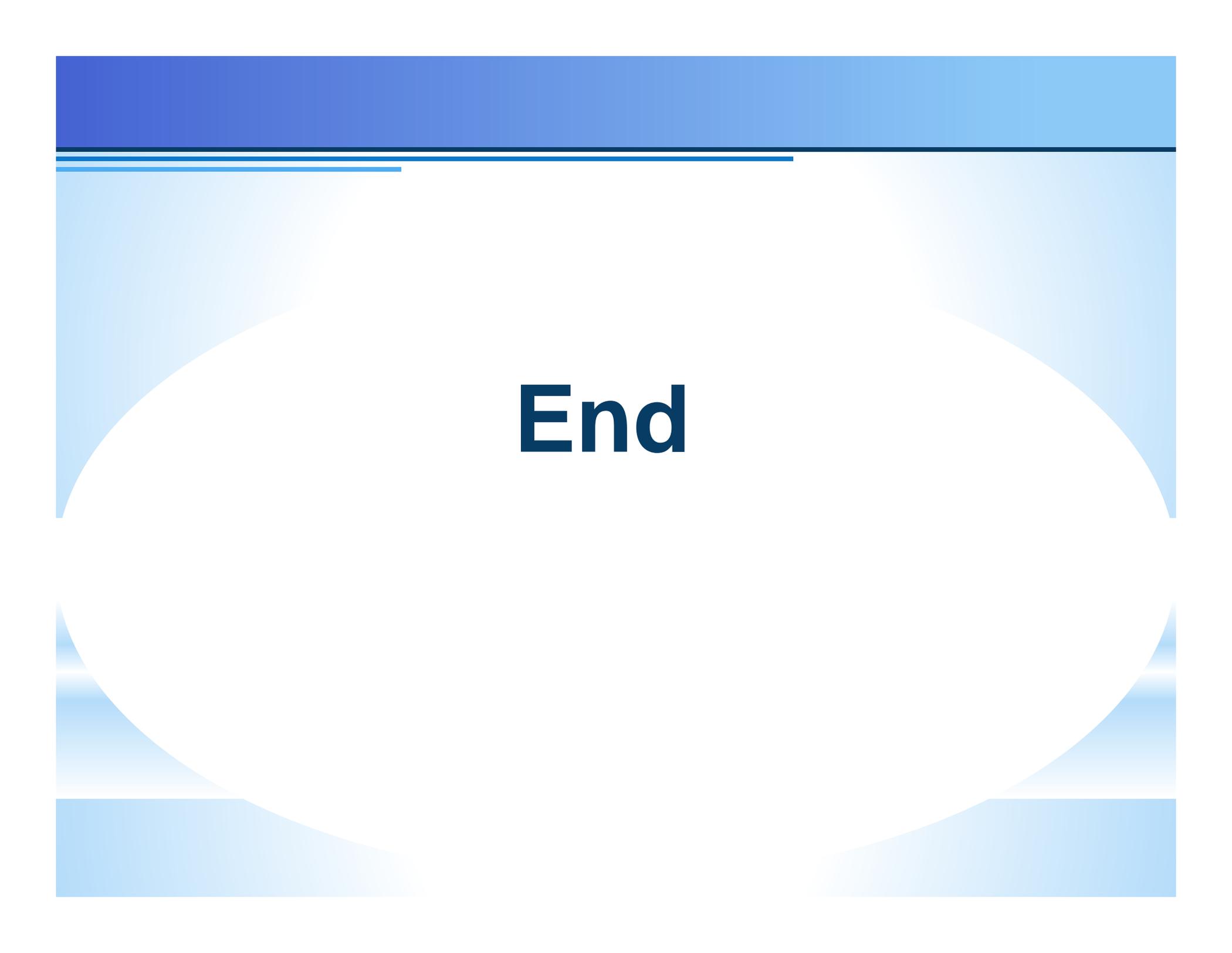
SEC should not be as staff constrained in 2013 as compared to recent history

Will this staffing change impact the SEC's processes?

# Question

The SEC comments demonstrate that when applying the “five-year rule”, five years is measured relative to the...

- A) filing date
- B) initial booking date(s)
- C) report (As of) date
- D) previous disclosure date



**End**