



2009 Overview Modernization of Oil & Gas Reporting

***First Session of UNECE Expert
Group on Resource
Classification***

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Modernization of Oil and Gas Reporting *Overview*

- Background (U.S. Standards - Reserves Development)
- Significant changes to Proved (P1) definitions
- New reserves disclosure requirements
- Path forward
- Impacts

U.S. Standards - Reserves Development



- 1977 FASB No. 19 established oil and gas producing company financial accounting and reporting guidelines
- 1978 SEC published reserves definitions (Regulation SX 4.10)
- 1982 FASB No. 69 added additional reporting requirements for oil and gas producing activities.
- 2008 Modernization of Oil and Gas Regulation updating definitions and disclosure requirements
- 2010 ASC 932 (includes former FASB Nos. 19 & 69) updating disclosure requirements to conform with new regulations
- 2010 March reporting deadline for 2009



Modernization of Oil and Gas Reporting

Highlights - General Description

- Improves consistency and aligns with industry standards
 - Aligns with the Petroleum Resources Management System (PRMS)
 - Utilizes 12 month average pricing
- Principles Based (Not Rules Based)
 - No technology exclusion (requires "Reliable Technology")
 - Allows both deterministic and probabilistic calculations
 - Aligns P1D and P1U to the same standard of "Reasonable Certainty". Eliminates most P1U "Bright Line" tests
 - New definition of reasonable development time frame (5 years)
- Requires reporting of "saleable hydrocarbons"
 - "As Sold" reporting
 - Allows all sources of oil and gas (conventional or unconventional) produced through wells or mined
- New Disclosures (Required and Optional)
- Effective 12/31/09



Modernization of Oil and Gas Reporting

New Disclosures: Required

- Disclosures of a technical nature
 - Substantial increase in P1U disclosure
 - ▶ Material volumes on P1U ledger more than five years and justification for development delay
 - ▶ Material changes (New volumes, Revisions, Transfers to P1D and Associated costs)
 - Disclose technologies employed
- Reserves Process Disclosures
 - Disclosure of reserves process and reporting
 - Qualifications for person overseeing the process
 - 3rd party qualifications (if relied upon for material estimates)
- Table format and granularity
 - Disclosure by continent or country if > 15% of the P1 ledger
 - Disclose by Natural & Synthetic products



Modernization of Oil and Gas Reporting

New Disclosures: Optional

- Probable and Possible Reserves
- Reserves estimates at pricing different than mandatory 12 Month Average Price



Modernization of Oil and Gas Reporting Goal

Develop a **seamless set of Chevron standards** for the evaluation of resources as they move from Contingent Resource to Proven Reserves that are:

- Consistent with new SEC rules and PRMS guidelines
- Utilize the same “principle based” standards and logic as outlined by the SEC and PRMS



Modernization of Oil and Gas Reporting *Work Flow: Constraints*

- Timing was critical as a delay in filing was not considered an option
 - Revised Procedures September 2008 - April 2009
 - ▶ Started on technical procedures before rules were final
 - ▶ No industry analogs (We were all at the same starting point)
 - Revised Reserves Manual by May
 - Training worldwide May – September
 - Reserve work started in May
 - ▶ Timing was a critical and required coordination with the training effort
 - Review for quality assurance September - December
- Quality was critical and could not be compromised
- Budget and Manpower were the only scalable variables



Modernization of Oil and Gas Reporting *Work Flow: Requirements*

- Engage expertise in all areas to develop an informed company position
 - Corporate Reserves group
 - Operating companies
 - Technology company
 - Subsurface Governance Group
 - ▶ Reserves Advisory Committee
 - ▶ Exploration Review Team
 - ▶ Reservoir Asset Management
- Training thousands of worldwide staff
 - Technical professionals (Reservoir Engr., Geology, Geophysics)
 - Accounting staff
 - Operations in 26 countries
- Data roll up issues; historical data was not always readily aggregated to conform with new disclosure requirements



Modernization of Oil and Gas Reporting

Impacts: Technical

1. As Sold reporting
 - Improved overall clarity of information to investor with synthetic crude reported in the same tables as natural crudes(they compete in the same market)
2. 12 Month average price
 - Reduced reserves price volatility
 - Improve workflow efficiency adding an additional month of calculation time with commodity prices available 1 December
3. Alignment with PRMS
 - Improved conformance with overarching standard of “Reasonably Certainty” for both developed and undeveloped proved reserves.
 - Improved efficiency by closing the gap between the SEC proved and the company’s low case estimates.
 - Improved international alignment; international disclosures, contracts and financial institutions normally accept PRMS standards



Modernization of Oil and Gas Reporting

Impacts: New Disclosures

1. P1U disclosures required retooling of the database and minor changes in review processes.
2. Probable and Possible Reserves
 - Very few companies elected to report non-proved reserves
3. Reserves estimates at pricing different than the mandatory 12 Month Average Price
 - Very few companies elected to report price sensitivity



QUESTIONS OR COMMENTS?

