

*UNECE Expert Group on Resource Classification, Geneva  
Financial Reporting Session*

*Filings under New SEC  
Oil and Gas Disclosure Rules*

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# *Experience of SEC Filers*

- Overall reaction positive
- Generally companies felt more comfortable interpreting “reasonable certainty”
- Extra month to prepare estimates was helpful
- Much of the textual disclosure had already been included in prior filings in response to SEC comment letters
- Disclosure by continents was not a straight-forward exercise
- Some transition issues in presenting on new basis
- Not clear how detailed the discussion of technologies employed should be, especially where proprietary technology was involved

# *Company Filings Surveyed*

- Review of filings of some 30 large cap SEC reporting companies
- US and non-US filers (not all FPIs have filed yet)

Exxon Mobil	Anadarko	Canadian Natural	Newfield
Shell	Talisman	Resources	Exploration
BP	Southeastern Energy	Cabot Oil & Gas	Linn Energy
Chevron	Occidental	Questar	Forest Oil
ConocoPhillips	Suncor Energy	XTO Energy	Exco Resources
Statoil	EOG	Range Resources	Denbury Resources
Total	Devon Energy	Nobel Energy	Ultra Petroleum
Eni	Chesapeake	Pioneer	McMoRan
	Apache	Plains	
		Petrohawk Energy	

# *Additions or Deletions due to New Rules*

- Although restatement of prior years was not required, a number of companies were able to disclose the actual amounts added or deleted due to the new rules; others indicated the impact was immaterial or “less than x%”.
- Reasons cited:
  - Average price vs year-end price
    - Greater impact on gas reserves
  - 5-year rule for PUDs
    - Resulted in both additions and deletions
  - Non-conventional reserves
    - Most significant additions were due to these
      - Oil Sands
      - Shale plays
      - Synthetic Crude

# *Additions or Deletions due to New Rules (cont.)*

- Reliable technology
  - Well spacing area
  - LKH/HKO
- Analogues
- Future extension of licence period based on proven track record

# *New Required Disclosures*

- **Internal controls and governance**
  - Centralized review process
  - Focus on the independence of the internal review function from the operating divisions
  - Qualified and experienced team of engineers
  - In some cases, third party audits
- **Qualifications of technical person primarily responsible**
  - Broadly similar profile among companies
  - Advanced degrees in petroleum engineering, geology or related science
  - 20 + years of experience in the oil and gas industry
  - Membership in professional body
- **Reliance on third party audits/reviews**
  - A significant number of US/Canadian filers included third party audit reports; two FPIs

# *New Required Disclosures (cont.)*

- **Geographic areas**

- Various interpretations of “continents”
- Some aggregated regions with immaterial volumes under “other”
- No disclosure by continent if that would result in disclosure of an individual field
- Many of those with reserves only in the US, also provided disclosure by region or basin

- **Technologies employed**

- Only a few companies provided discussion of specific technologies and additions
- Most provided list of general types of technologies

# *New Required Disclosures (cont.)*

## ■ Conversion of PUDs to PDs

- Amount converted in the year vs cost during the year provided a wide range of results that are not comparable
  - e.g. Canadian Natural Resources stated it converted 135 mmboe at a cost of \$774m (\$5.73 per barrel), Anadarko stated it converted 100 mmboe at \$1bn (\$10 per barrel) and Talisman stated it converted 48 mmboe at \$1.1bn (\$20 per barrel)
  - Likewise for gas conversions: e.g. Southwestern 120.8 bcfe for \$19m, EOG 176 bcfe for \$280.5m, Newfield 123 bcfe for \$364

## ■ PUDs remaining more than 5 years

- Most companies indicated the amount remaining was immaterial
- Some companies gave precise amounts and stated the reasons, usually indicating there was an active drilling program
- A number of companies stated that they had removed reserves that had been undeveloped for more than 5 years

# *Optional Disclosures*

Few companies provided optional disclosures:

- Probable reserves
  - Talisman
  - Suncor
  - Canadian Natural Resources
- Possible reserves
  - Suncor (contingent)
- Reserves sensitivity based on different price scenario
  - Chesapeake (10-year average NYMEX strip prices as of year-end)
  - Range (PV-10 as supplemental disclosure to the standardized measure)
  - Newfield/combination of price scenarios
  - Forest Oil (year-end Henry Hub and WTL. Also pre-tax PV-10)
  - Exco (pre tax PV-10)
  - McMoRan (Year-end NYMEX and pre-tax PV-10)

## *Optional Disclosures (cont.)*

- Possible reasons why companies did not provide optional disclosure:
  - Time and effort
  - Broader range of uncertainty therefore less comparability
  - Commercial sensitivity
  - Liability concerns
    - less confidence in probable/possible estimates
  - Information is already provided by the company in non-SEC communications
  - Waiting to see what other filers do

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