

# DAN OLDS, P.E.

## MANAGING SENIOR VICE PRESIDENT

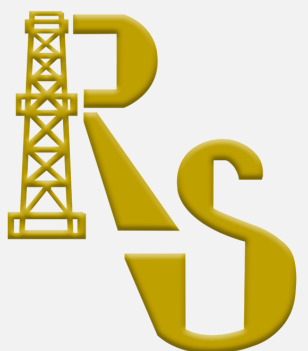
Ryder Scott Company, L.P.



Based at Ryder Scott Co., L.P.'s Houston office, Dan Olds brings over 40 years of experience to his role as Managing Senior Vice President. With a background in petroleum engineering, Dan specializes in reservoir engineering, economic evaluation, and regulatory compliance. He holds a Bachelor of Science in Petroleum Engineering from West Virginia University and an MBA from the University of Houston.

Dan is proficient in SEC, NI 51-101, and other industry-standard reserves reporting requirements. His career highlights include leading international projects, overseeing strategic initiatives, and providing expert witness testimony. Dan also contributed to the 2018 PRMS update and served as Chairman of the SPE Oil and Gas Reserves Committee.

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# SEC Comment Letters 2024

Dan Olds, P.E.



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# Why do we pay attention to Comment Letters?

- Comment letters represent the only other written indication of how the SEC staff interprets or expects the rules to be interpreted by filers other than the Compliance and Disclosure Interpretations (C&DIs).
- C&DIs are created for the oil and gas industry infrequently.
  - Last C&DI issued in 2013.
- Comment letters allow us to understand the thinking of SEC staff, but:
- Comment letters cannot change the regulations or be cited as precedence.

# Points for Consideration

- If you are not filing under the SEC, does this presentation have any value to you?
- Who polices the use of PRMS?
- Is the definition of proved reserves the same?
- Are the questions posed here by the SEC appropriate to ask of a PRMS reserves report?

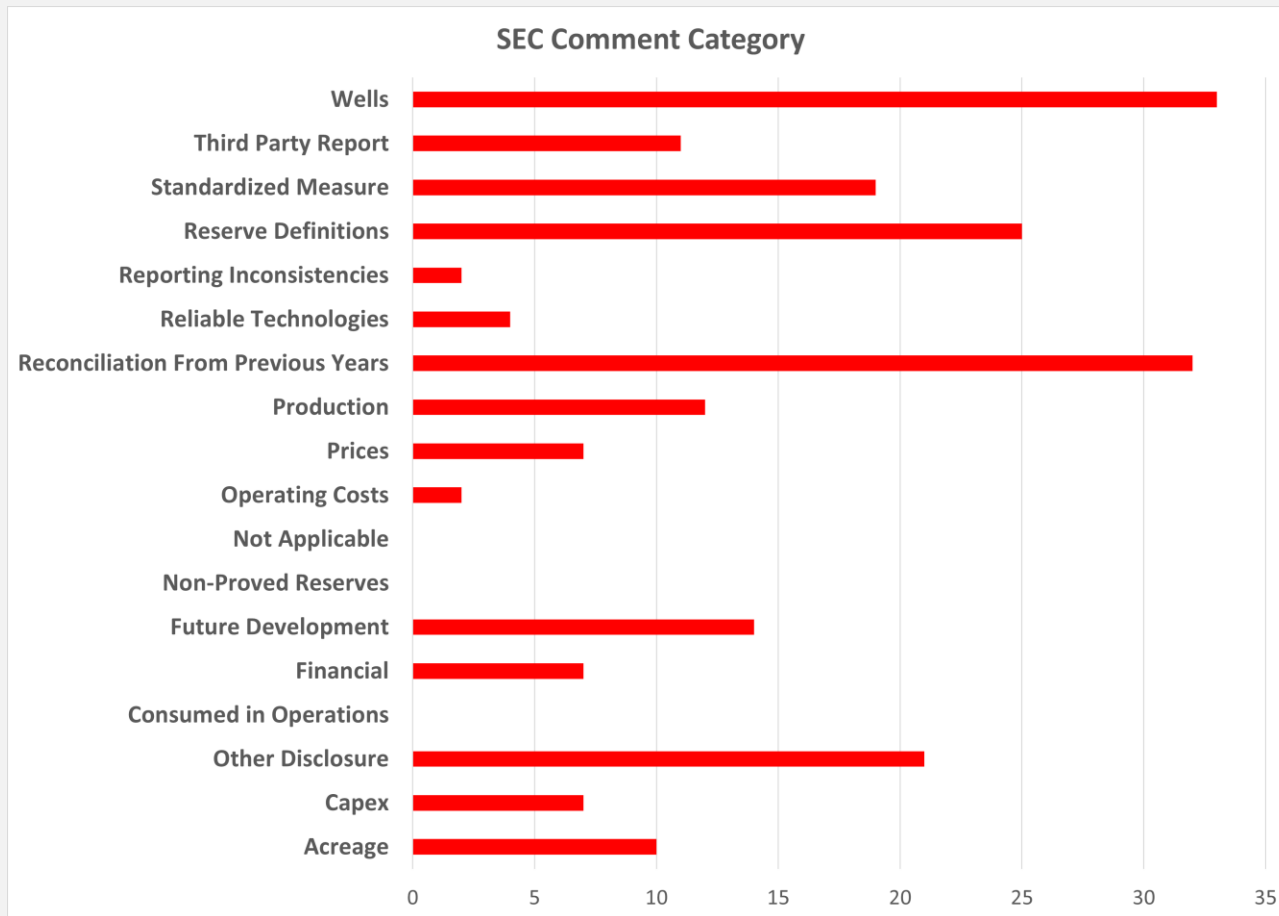


# How have areas of interest changed?

## Issues from past years:

- 5 Year Rule
- PUD conversion rate / Reconciliation / Capital Availability
- DUCs
- Reserves Definitions
- Third Party Reports
- Fuel Gas

# Recent topic areas



- It's all about the numbers!
- Reconciliation regarding wells (counts, types, interests, drilled, etc.) or reconciliation of prior years is the majority of comments



# Details on wells drilled

***SEC Comment:*** Please expand your disclosure to provide the number of net productive and dry exploratory and development wells drilled in which you owned an interest, including wells drilled by operators other than you, during each of the last two fiscal years. If you did not participate in any such wells, please clarify your disclosure.

***Company Response:*** No new wells drilled.

# Show it all!

**SEC Comment:** Please expand your discussion to explain why there are no natural gas reserves associated with the disclosure of oil reserves...

**Company Response:** *We clarify for the Staff that we had no natural gas reserves associated with the ... project...we will add as a footnote to any tabular disclosure showing no natural gas reserves, verbiage stating that we had no natural gas reserves...*

# Check your units!

**SEC Comment:** Revise your disclosure to reconcile the figures and related units of measurement ... For example, the estimated net quantities of proved developed reserves... are disclosed as 29,590 MBbls of oil and 123,770 MMcf of natural gas...; however, these same estimates appear to be disclosed in the tabular presentation... as 29.6 MBbls of oil (“MBO”) and 123.6 Mcf of natural gas.

# Financial Wherewithal

**SEC Comment:** We note disclosure indicating there are... Bbls of proved undeveloped oil reserves as of... that have remained undeveloped for a period greater than five years. The reasons that you identify for the extended period for conversion in your discussion... (e.g. depressed crude oil and natural gas prices and a lack of capital available for drilling), do not appear to support the reserve characterization when the period required for conversion is longer than five years. Based on your current financial condition, lack of capital available for drilling, and ongoing concern audit opinion, it is unclear that you have the financing necessary... to develop your undeveloped reserves at this time.

# Reserves Classification Shortcuts

**SEC Comment:** Your disclosure...states, “All of the Company’s leases are unproven and undeveloped.” Furthermore, your disclosure...states, “none of the potential production areas can be categorized as “Proven” as all are undrilled prospects” and “rather than trying to classify the potential production into “Proven reserves”, “Probable reserves”, or “Possible reserves”, you address all potential production as “Potential Resources.” However, we note disclosures throughout the Offering Circular that include the use of the terms reserve(s), proven, and possible in various contexts. To the extent that your use of these defined terms is inconsistent with the definitions..., please revise your disclosures... to remove such references.

# Plugging goals

**SEC Comment:** We note that you have identified the expansion of your plugging operations from one team... to nine teams as a milestone, and your observation that this will allow you to comfortably achieve your goal of plugging 200 wells a year by 2023. Please expand your disclosure to address why you have identified plugging operations as a goal of your business model. In addition, explain whether the increase in your plugging operations after year-end will impact your recorded asset retirement obligation in future periods

# Acreage Details

**SEC Comment:** Please expand your disclosure of developed and undeveloped acreage to additionally include the figures relating to acreage in which you hold royalty and overriding royalty interests. Refer to Items 1208(a) and 1208(b) of Regulation S-K.

**Company Response:** The royalty acres are an extremely small part of the Company's acreage and future disclosures will not refer to overriding royalty acreage in the event such holdings continue to be such an extremely small part of the Company's acreage. If required, the Company's future disclosures will set forth the acreage in gross and net acres and otherwise will comply with Regulation S-K.

# Acreage Details

**Speaker comment:** A review of § 229.1208 (a) and (b) shows a requirement to show total gross and net productive wells, total gross and net developed acreage, and the amount of undeveloped acreage in gross and net acres. There is no mention of a requirement to separate acreage into royalty and overriding royalty interests.



# When in doubt - obfuscate

**SEC Comment:** We note the disclosure on page 39 indicating that you expect all currently scheduled PUD locations to be drilled over the next five years beginning in 2023. Please expand your disclosure to clarify, if true, that the proved undeveloped reserves as of December 31, 2022, are part of a development plan adopted by management... that results in converting your proved undeveloped reserves to developed status within five years of initial disclosure as proved reserves.

**Company Response:** The Company confirms that it plans to drill all scheduled PUD locations within the next five years and the five years following the initial disclosure of the PUDs as proved reserves. All PUDs are tracked with respect to the year the reserves were initially booked to verify compliance. The PUD schedule of the Company is reviewed and approved by management as part of its reserves control process and the schedule is also reviewed by its independent petroleum engineers...

# As Of Date

**SEC Comment:** We note the reserves report incorporates an “as of date” of January 1, 2023, rather than an “as of date” of December 31, 2022, as utilized throughout your filing on Form 10-K. Please note SEC reserve evaluations, based on historical average prices and costs, provide an estimate of reserves using an effective date as of the end of a time period or "as of fiscal year-end," e.g. as of December 31, 2022. Please revise the disclosures throughout the reserves report to use an appropriate "as of date."

**Company Response:** This comment was discussed with the Company's independent petroleum engineer... The January 1 date format was kept consistent with the prior year's annual filings (dating back to 2015) and while the Company believes it has no effect on value or reserves estimates, an "as of" date of December 31 will be provided and used by the Company in future disclosures.

# Some Comment Letters are Keepers

- Most comment letters are asking for more information or clarity to demonstrate compliance with the regulations.
- The SEC is very careful that they do not create a new rule in their comment letters. Rules cannot be issued without a significant review process and a public comment period.
- However, a few comment letters provide clear guidance and are worthy of keeping in your files. I consider this letter regarding the “as of” date to be a keeper.
- Here’s another letter that is a keeper:

# Non- Oil & Gas Income

**SEC Comment:** We note you appear to aggregate the net present value attributable to your ownership interests in proved developed producing reserves with the net present value generated by fees charged to third-party customers under the terms of your production handling agreements (“PHAs”). Please revise the presentation of Proved PV-10 for each period to remove the net present value relating to your PHAs and clarify that revenues from your PHA contracts are not included in the standardized measure.

# From my files

- The letter on non-oil and gas income clearly provides guidance on how that income should not be included with the cash flows that go into the standardized measure.
- Although it is implied, it doesn't clearly address the impact on the economic limit.
- This next letter from my files from over a decade ago goes a little further:

# From my files...

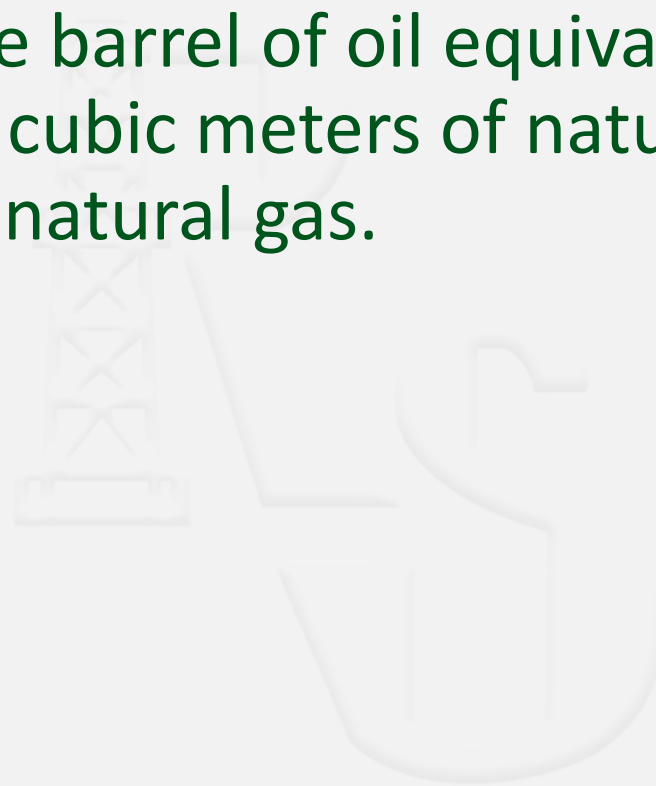
**SEC Comment:** “We have read your response... and do not concur with your conclusion that the determination of the estimates of your oil and gas reserve quantities and associated future net cash flows should give effect to the revenue derived by the sale of sulfur extracted to make your gas saleable. Sulfur is not a hydrocarbon and therefore does not represent a “saleable hydrocarbon”... The cost to remove the sulfur is part of the cost of producing the oil and gas and must be included; however, the revenue derived from the sale of non-hydrocarbons should not be included in the determination of economic producibility...”



# BOE factor

**SEC Comment:** Please expand the information relating to oil and natural gas measured as barrels of oil equivalent (“boe”) to additionally provide the factor for converting your natural gas volumes disclosed in cubic feet to equivalent barrels of oil (e.g., the number of cubic feet of gas per barrel of oil equivalent).

**Company Response:** ...we will expand our disclosure in our future filings... “boe” means one barrel of oil equivalent, which equals approximately 158.9873 cubic meters of natural gas and 5,614.5841 cubic feet of natural gas.



# Definitions

**SEC Comment:** We note the definitions for developed oil and gas reserves, exploratory wells, and undeveloped oil and gas reserves predate the changes made by the Modernization of Oil and Gas Reporting... Also, the glossary does not include the definition for an extension well, which appears to be the source of the 2022 conversions of undeveloped locations not previously booked as proved undeveloped reserves as of December 31, 2021. Please review and revise the definitions as necessary.

# Expiring Acreage

**SEC Comment:** We note that 69% of your net undeveloped acreage will expire between December 31, 2023, and December 31, 2026, and an additional 15% expires in 2027 and thereafter. Please tell us the extent to which proved undeveloped reserves have been assigned to locations currently scheduled to be drilled after lease expiration. If there are material quantities of net proved undeveloped reserves related to such locations, expand your disclosure to explain the steps necessary to extend acreage expiration dates.

***Company Response:*** ...advises that, as of December 31, 2022, we estimate that less than 1% of our proved undeveloped reserves were attributable to locations scheduled to be drilled after lease expiration. As a result, we believe that no expanded disclosure addressing this matter is required. In future instances where we have material quantities of net proved undeveloped reserves with drilling locations scheduled to be drilled after lease expiration, we would expand the disclosure to explain the steps and related costs necessary to extend the expiration of those leases.

# Abandonment Costs

**SEC Comment:** Please expand the discussion accompanying the presentation of the standardized measure to clarify, if true, that future cash flows take into account the estimated **abandonment costs** for your proved properties. Refer to FASB ASC 932-235-50-36. If the abandonment costs, including such costs related to your proven undeveloped locations, have not been included for each of the periods presented, e.g. as of December 31, 2022, 2021, and 2020, respectively, please explain to us your rationale for excluding these costs from your calculation of the standardized measure.

# Asset Retirement Obligations

**SEC Comment:** Please expand the discussion accompanying the presentation of the standardized measure to clarify, if true, that all estimated future costs to settle your **asset retirement obligations** have been included in your calculation of the standardized measure for each period presented (i.e., as of December 31, 2022, 2021 and 2020). If the costs of your asset retirement obligations, including costs for the plugging and abandonment of existing wells (including both active and inactive wells on leases) and future proved undeveloped locations have not been included, explain to us your rationale for excluding these costs from your calculation of the standardized measure. This comment also applies to the comparable disclosure in the reserve report at Exhibit 99.1. Refer to the disclosure requirements in FASB ASC 932-235-50-36.

# What is ARO?

- Asset Retirement Obligation (ARO) is the accountant's version of Abandonment, Decommissioning, and Restoration (ADR) or P&A.
- It covers the obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs.
- FASB 143 – Accounting for Asset Retirement Obligations (June 2001) is the governing accounting standard, and this statement applies to all entities, not just oil and gas.
- Note that both of these comment letters are asking about the Standardized Measure rather than the reserves report.



# Where do ARO costs get reported?

- ARO costs are part of the audited financials.
- The Standardized Measure of Cash Flows, which incorporates the revenues and production costs from the reserves report, needs to include the ARO costs.
- The SM is a FASB 932 requirement.
- For this discussion, we assume the ARO costs equal the total abandonment costs, including any environmental and surface restoration, related facilities, and inactive wells, but we don't necessarily know that the abandonment costs in the reserves report equal the cost carried in the ARO account.

# What does FASB 932 say?

**FASB 932-235-50-36:** Additional information necessary to prevent the disclosure of the standardized measure of discounted future net cash flows and changes therein from being misleading also shall be provided.

# FASB 932 XBRL taxonomy

<b>Discounted Future Net Cash Flows Related to Proved Oil and Gas Reserves [Table]*</b>	These elements contained detailed information about the future cash inflows and future development costs related to proved oil and gas reserves. This information is presented in aggregate and for each geographic area for which reserve quantities are disclosed. The estimated future net cash flows are discounted using a rate of 10 percent per year to reflect the estimated timing of the future cash flows. Note that future cash flows related to the settlement of an asset retirement obligation are included in the disclosure.	932-235-50-30 932-235-50-31 932-235-55-6
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# What does the SEC want?

- The SEC would like for reserves reports to include the ARO.
- Including the ARO in the reserves reports at the expected time of abandonment means that it has been discounted appropriately.
- Other than for undeveloped projects, we are not aware of any requirement for abandonment costs to be included in a reserves report.
- Ryder Scott fully supports the inclusion of abandonment costs in reserve reports but we can't attest that they are the ARO costs.
- Our industry needs some clear guidance from the SEC to resolve this issue.

# How to find Comment Letters

- [www.sec.gov](http://www.sec.gov)

The screenshot shows the top navigation bar of the U.S. Securities and Exchange Commission website. The logo is on the left, and navigation links for Newsroom, Investors, and Small Businesses are on the right. Below the logo is the text "U.S. Securities and Exchange Commission". A search bar labeled "Search SEC.gov" is on the right. The main navigation menu includes "Search Filings", "Submit Filings", "Data & Research", "Rules, Enforcement, & Compliance", "Securities Topics", and "About", along with a "Submit a Tip" button. The main content area features a blue banner with the text "We make markets work better." and a "Quick Links" section. The "Quick Links" section includes a "CHECK RULEMAKING ACTIVITY" button and a "SEARCH EDGAR" button, which is highlighted by a red arrow.

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# Special Thanks

To the Ryder Scott Staff that retrieves, reads, and categorizes the comment letters each year!