

Maintaining Hard-Earned Value

John “Jocko” Evans Technical Symposium
April 2024

Kristen Manson
Jetco Energy Services

Introduction



- ▶ Jefferson Energy Trading company established in 2000
Jetco Energy Services established in 2009
- ▶ Montana Tech connections
- ▶ Unique insight into the impacts of marketing, production accounting, and regulatory reporting on a company's bottom line

What is the impact of accounting and regulatory reporting errors?

- ▶ Lost productivity resulting from:
 - ▶ reporting corrections
 - ▶ regulatory audits
- ▶ Financial implications resulting from:
 - ▶ interest/penalties assessed by regulatory agencies
 - ▶ lost marketing opportunities
 - ▶ operator bearing excessive burdens

How can the engineering team help maintain hard-earned value?

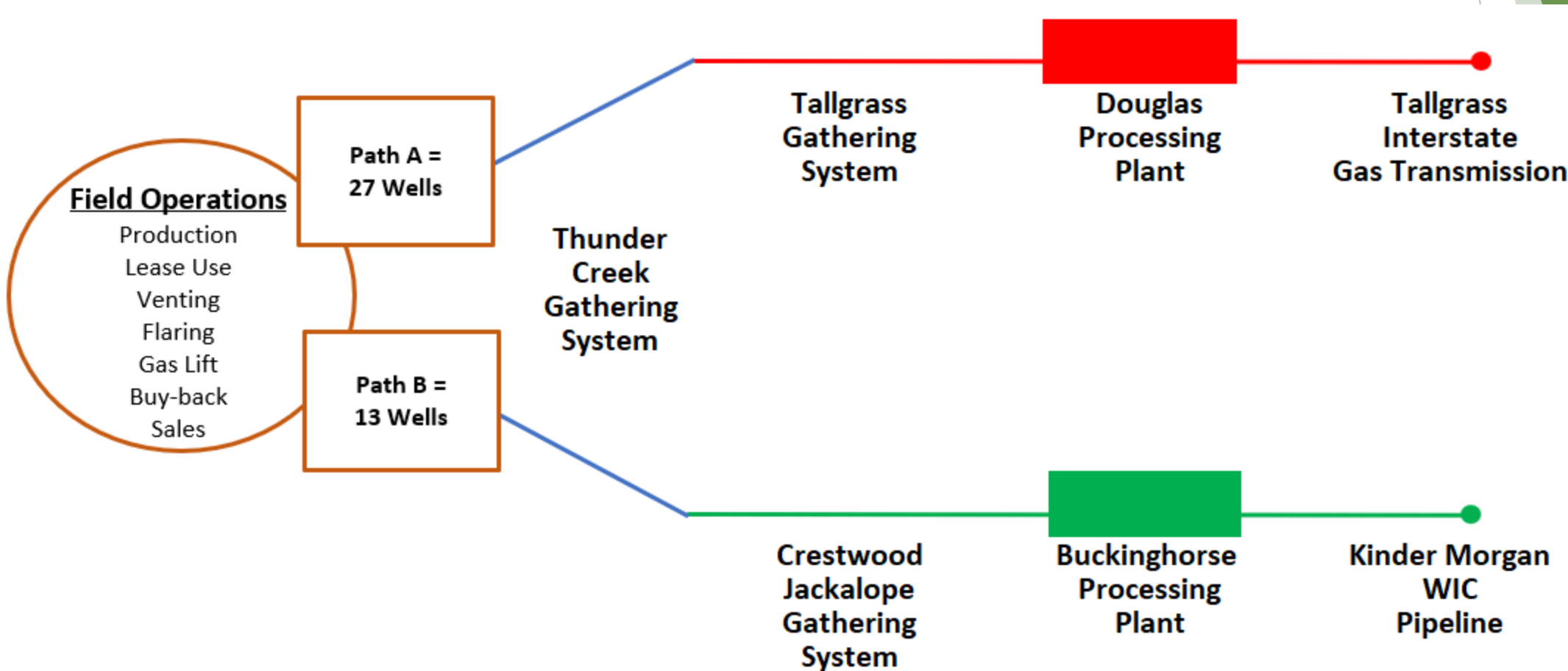
- ▶ Understand the flow path - physical and contractual movement from wellhead to sales
- ▶ Ensure proper allocation factors - measurement and associated data collection
- ▶ Coordinate interactions - land, measurement, operations, accounting, and marketing teams

Intricacies of the Gas Flow Path

- ▶ Wellsite activity
 - ▶ Production
 - ▶ Venting
 - ▶ Flaring
 - ▶ Buy-back
 - ▶ Gas lift (injection)
 - ▶ Lease use
 - ▶ “Sales”

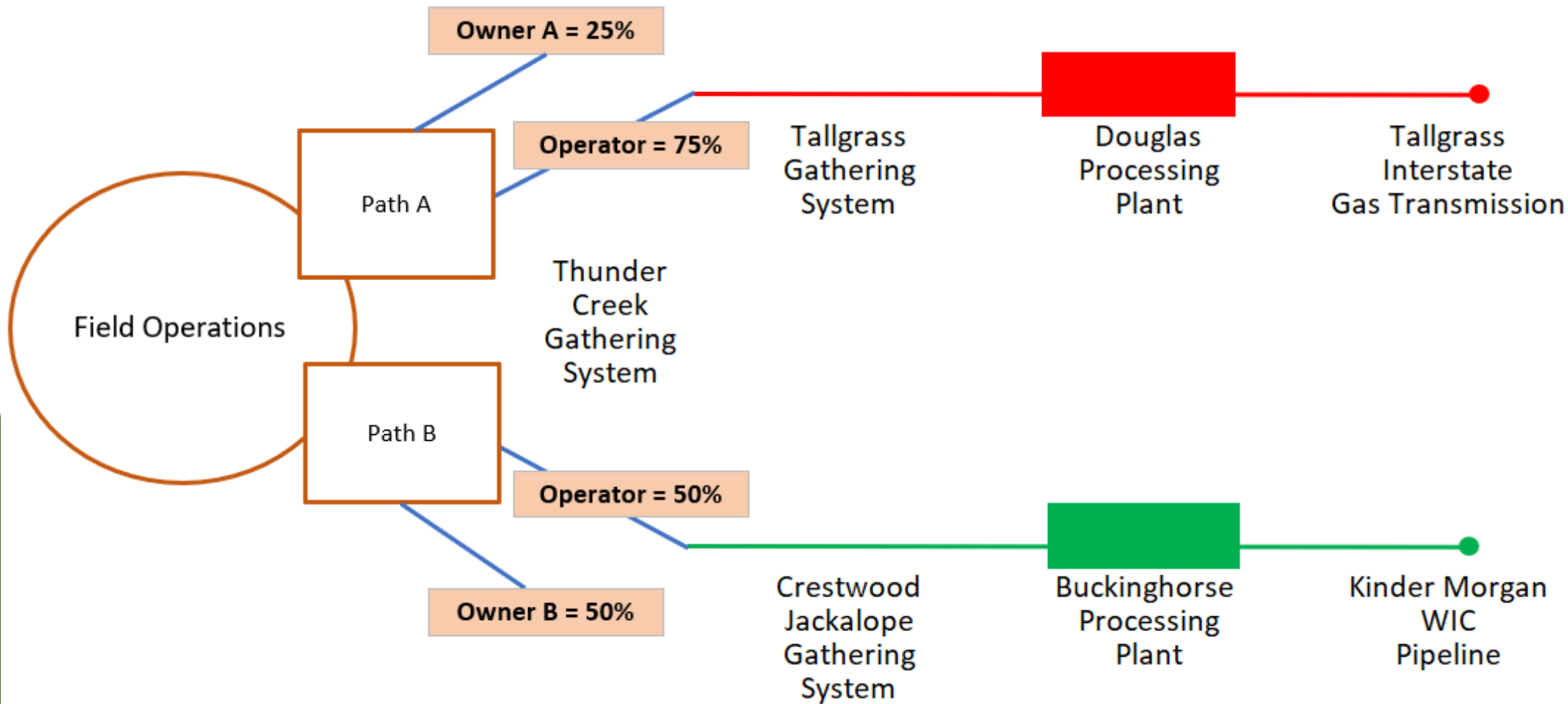
Intricacies of the Gas Flow Path

- ▶ Moving the product from the wellsite to sales



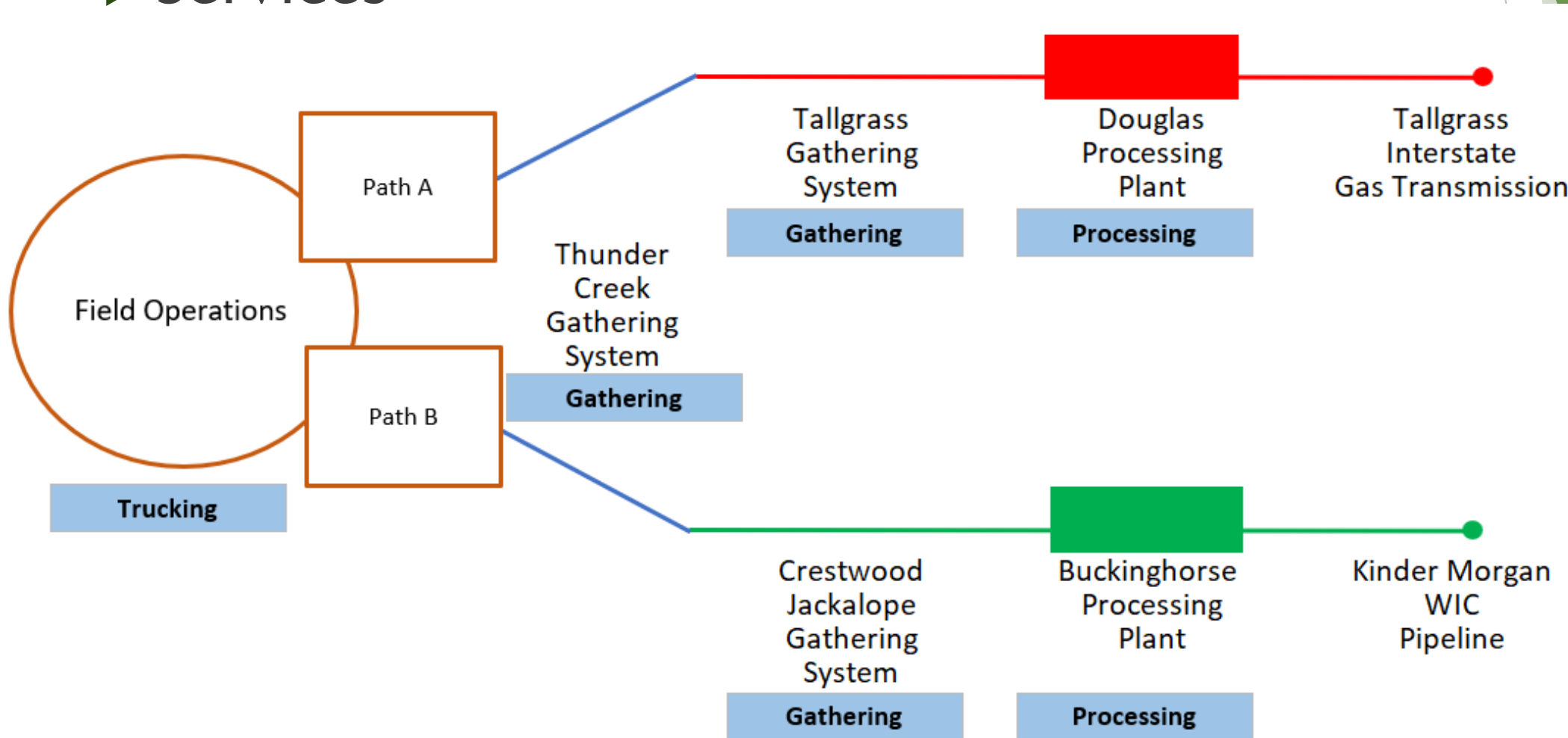
Marketing Contracts

► Take-In-Kind Marketing



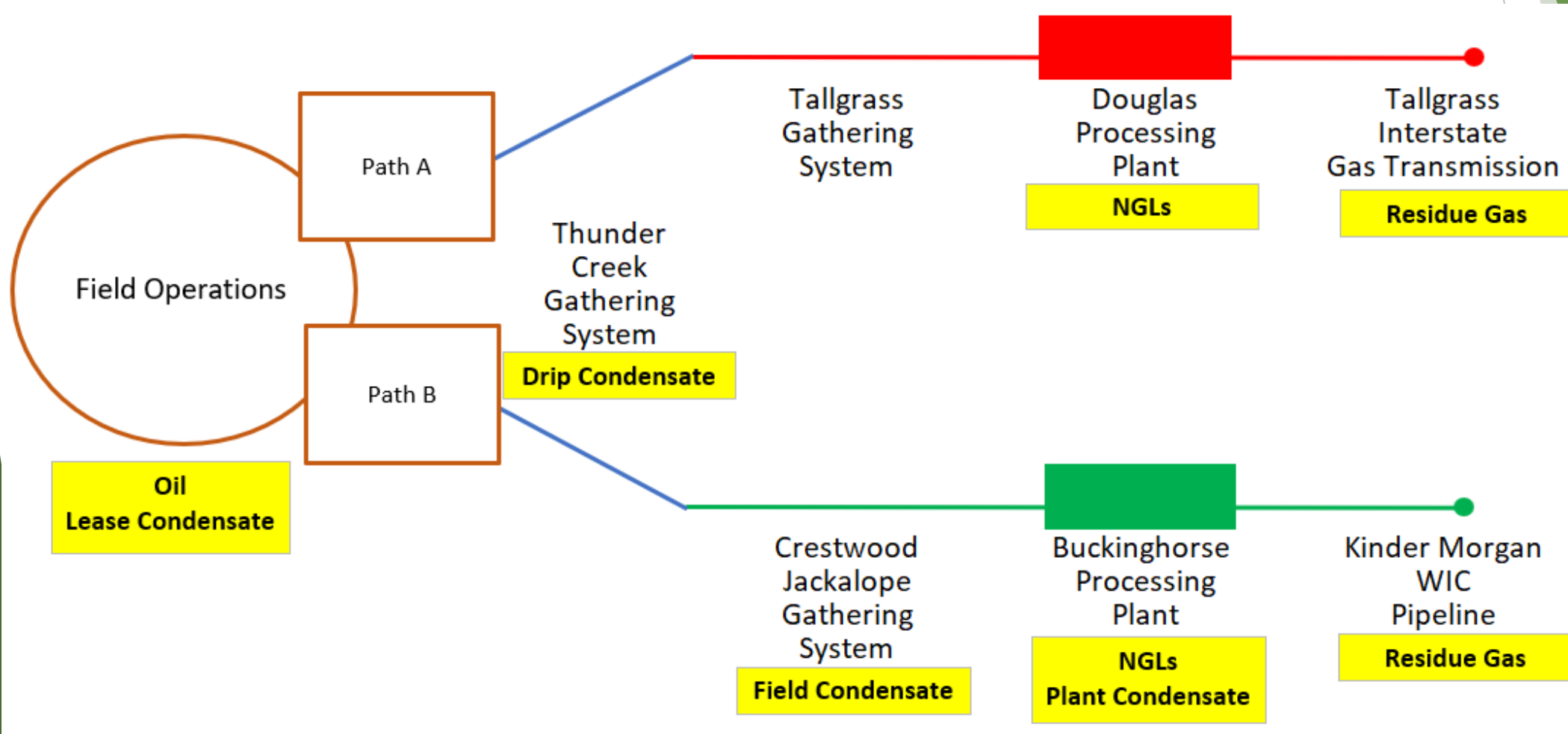
Marketing Contracts

► Services



Marketing Contracts

► Sales



Allocation Factors

- ▶ Allocation Data Requirements
 - ▶ Meter readings
 - ▶ Gas analyses
 - ▶ Field data
 - ▶ Tank levels, sales tickets, BS&W
 - ▶ Calculated components
 - ▶ Final data
 - ▶ Can the production reporting system capture all data?

Regulatory Reporting

► Referential Data Requirements

Well

- API Number (49-027-26808)
- Formation (Niobrara)
- Accounting ID Number

Taxes

- Group Number (e.g. 1486)
- County
- Tax District within County
- Oil or Gas Product

Gathering System & Plant

- Meter Number or CDP
- Gathering Contract
- Processing Contract

Royalties

- Agreement
- Leases within Agreement
- Federal or State Lease
- Multiple Product Codes

Each well has unique **referential data** which **determines the allocation of sales and fees** and **dictates the roll-up of data for regulatory reporting.**

Regulatory Reporting

- ▶ At what point does the product become tax or royalty bearing?

Wyoming Statute, 39-14-203.

Basis of Severance Tax

The production process for natural gas is completed after extracting from the well, gathering, separating, injecting and any other activity which occurs **before the outlet of the initial dehydrator**. When no dehydration is performed, other than within a processing facility, the production process is completed at the **inlet to the initial transportation related compressor, custody transfer meter or processing facility**, whichever occurs first.

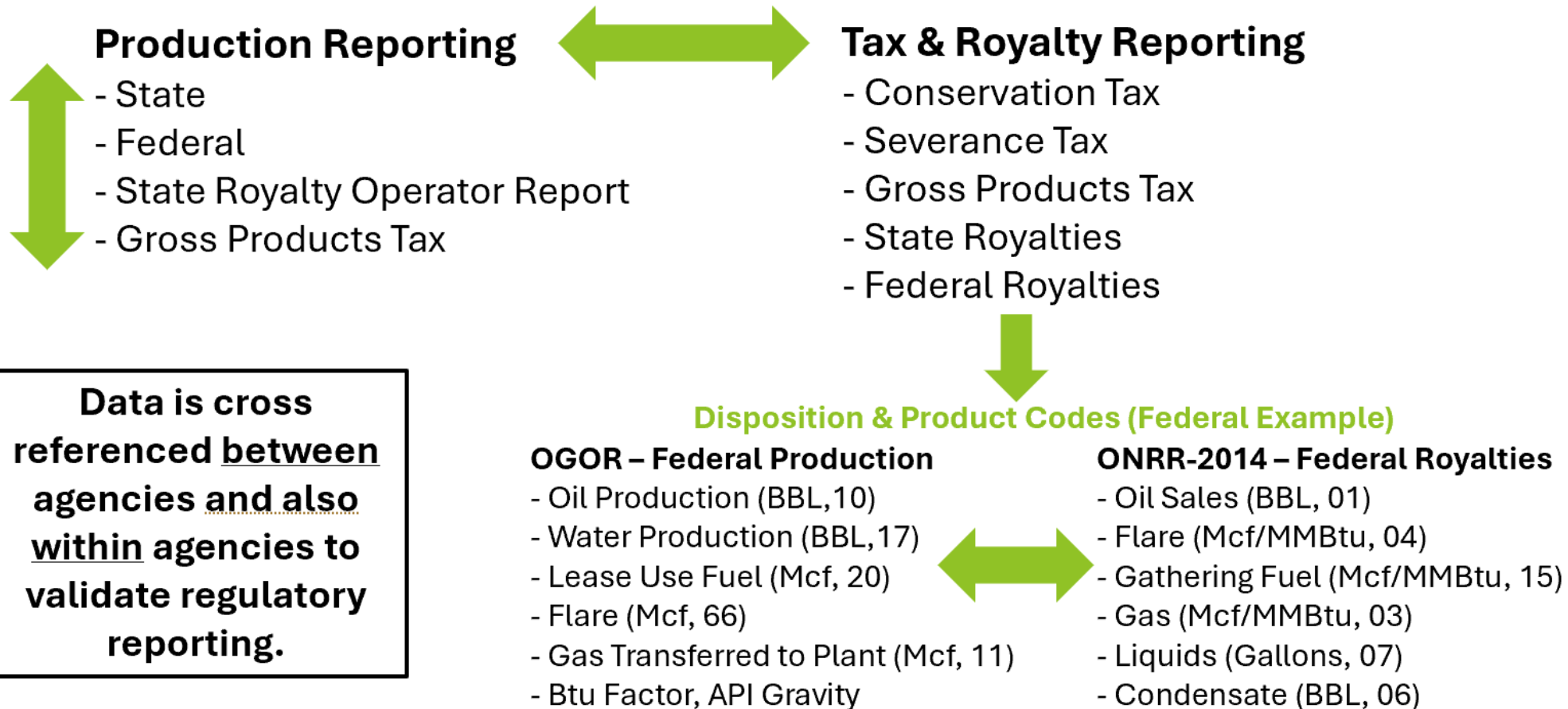
Code of Federal Regulations, Part 1206.

Product Valuation

Marketable condition means lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area. **The lessee must place the production into marketable condition at no cost to the Federal government.**

Regulatory Reporting

- ▶ Maintain data consistency throughout



Revenue Distribution

- ▶ Proper Division of Interest/Deck set-up
 - ▶ 8/8ths = 100% deck
 - ▶ Take-in-Kind deck
 - ▶ Component deck
- ▶ Ownership obligations
 - ▶ Who bears the burdens?
 - ▶ Not all owners are created equal
 - ▶ NRI calculated value versus realized value

The background features a series of overlapping, semi-transparent green triangles and polygons of various shades, creating a dynamic, abstract pattern on the right side of the slide.

▶ Comprehension

▶ Communication

▶ Consistency

...leads to proper allocation
and reporting which
Maintains Hard-Earned Value