

#1 ISSUES WITH WELL OPERATING CHARGES

Well operating charges made to the Joint Account often result in questions and disputes. The Matrix is intended to bring some clarity to these charges.

We will point out some issues that result in disagreement about what is chargeable versus what the Operator should pay under the Joint Operating Agreement. Your comments are welcome.

#2 WELL OPERATING CHARGES

QUESTIONS:

Are the Joint Venture Accountants experiencing questions as to the validity of certain charges? Are these items chronic or are they most often easily resolved between the Accountants?

Are the Joint Venture Administrators and JV Representatives assisting in resolution of questions by successfully providing terms of reference from the governing agreements?

DISPUTES:

When questions and answers do not sufficiently conclude the issues that arise when processing Joint Account charges, some issues may escalate to "disputes".

Do very few issues escalate to dispute settlement at the audit and JV management level?

Is our experience with resolving the disputes being used to improve our Operating Agreements and Accounting Procedures?

PRIORITY:

The JV community may feel that 2009 will be the time to dedicate our resources to more complex issues and the daily management of our JV properties. Minimizing issues related to well operating charges might not be a high priority.

The Operator of the property and working interest participants should decide on the level of priority to resolve issues related to well operating charges. This Early Morning Session discussion should help you proceed.

ISSUES- WELL OPERATING CHARGES

The Matrix is a draft. It presently provides a list of 8 Operating Cost Scenarios (*rows*) and a selection of 9 explanations (*columns*) suggesting how the costs should be borne between Operator and working interest owners.

The selected explanation as to “how costs are borne”, attempts to fit appropriate explanations to each operating cost scenario.

Issues:

1. Administration fees and Overhead Charges:

If the Operator is charging an overhead fee to the Joint Account within the context of PASC Article III, is this all-inclusive or is Operator allowed to also charge third party well administration fees to the Joint Account?

Example: Operator has entered into Contract Operating Agreement with a third party for services that include an administration fee such as \$250/well/month.

2. Governing Agreements from Audit Perspective:

When JOA Operator enters into a contract operating agreement, does the JOA Operator have the right to bind the working interest owners to the terms of the agreement?

Does the JOA Operator have the right under the JOA Agreement /CAPL Operating Procedure to enter into a typical Contract / Well Facilities Operating Agreement without approval of the working interest owners?

Are the contract operating agreement -operating and administration fees typically accepted by auditors as valid joint account charges?

3. Services Charged by Contract Operator and by JOA Operator:

Is JOA Operator allowed to charge direct and allocated well operating costs to the Joint Account during the same period that contract operating charges are being charged to the Joint Account?

4. ERCB well levy/ admin fee:

Matrix explanation 4-F provides that Contract Operator (cwfo) will charge JOA Operator and JOA Operator will charge the joint account with all charges allowed under the contract operating agreement.

Apparently if the cwfo is reporting production to the Registry then it is the cwfo who is billed an annual well levy by the ERCB. Should we make this a specific Matrix item?

The PJVA 2003 model agreement is not specific but seems to give general coverage under 301(b). The Fee Exhibit is also not usually specific on this.

5. Production Administration Agreement charges:

The Matrix explanations 7-B and 7-E assume that the provider of the administrative reporting service will bill the JOA Operator and the JOA Operator will charge the fee to the joint account as an operating or overhead charge. Apparently there are more complex practices, not specific in the Matrix, that need to be considered. **Discussion is needed;**

- a) Where the service is simply “reporting to the Registry” then 7-B and 7-E may be fine as-is.
- b) Where a production allocation service is provided by the operator of upstream facilities (such as a gathering system or field treating and compression) and is in addition to the Plant Operator’s production allocation and reporting services, should the Matrix address this? Apparently some upstream facility operators are required to perform production balances and well allocations to assist the Plant Operator in cascading Plant inlets back to the wells.
- c) Where the service is provided by a Plant Operator to administer take-in-kind splits to well working interest owners and the JOA Operator is charged a single fee, (Example \$250/month) should the Matrix address this?
- d) Where the service is provided as in c) above, but Plant Operator bills each working interest owner a fee (example \$250/month) should the Matrix address this?
Is the alternative to recommend that all such fees, also called CSO fees, be dealt with under Gas Handling Agreements on the basis that well operating or joa agreements do not govern services at or downstream of the sales product custody transfer point?
- e) Do we need to add a matrix explanation as to the billing of related scada, chart reading and gas analysis costs?