



**INTEGRITY**  
AUDIT AND ACCOUNTING LTD.

# Accounting Recoveries in a Recession

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# The Obligatory Background Slide

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No surprise here: We're in a recession...

- ▶ Weakened commodity prices
- ▶ Shift from conventional to unconventional resources
- ▶ Reduced capital expenditures
- ▶ Focus on reducing operating expenses and G&A
- ▶ Downsizing



# Cautionary Notes on Accounting Recoveries

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- ▶ Recovering costs does not mean creating costs
- ▶ Joint Operations as a collaboration, not competition
  - ▶ Operating in the spirit of the governing agreements
  - ▶ Principles of no-profit, no loss for the Operator



# Implementing Procedures for Accounting Recoveries

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- ▶ Know your Accounting Procedure
  - ▶ PASC 1996
  - ▶ PASC 2011
  - ▶ AIPN 2012
  - ▶ Custom Accounting Procedures
- ▶ Update Old Accounting Procedures
  - ▶ In particular, PASWC Accounting Procedures, Unit Agreements



# Key Areas for Accounting Recovery Projects

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- ▶ Overhead Projects

- ▶ Start with percentage overhead properties

- Turnarounds and workovers are typically considered operating in nature

- ▶ May have less of a recovery with fixed (monthly) overhead, but still worth doing

- ▶ Use Access or other reporting tools to pull information from Accounting or Land System tables



# Key Areas for Accounting Recovery Projects

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- ▶ Audit, audit and audit!
  - ▶ Joint Operating Agreements
  - ▶ Production Allocation Audits
  - ▶ FSOA Audits
  - ▶ Royalty Audits
  - ▶ Vendor Compliance Audits



# Key Areas for Accounting Recovery Projects

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- ▶ Payroll and Personnel Reviews
  - ▶ Critical evaluation of accounting procedures
- ▶ Allocation Methodologies
- ▶ Unconventional Resources – the previous rules of engagement don't necessarily apply anymore
  - ▶ Definition of “Services”
  - ▶ Secondment
  - ▶ On-site no longer the defining criteria



# Key Areas for Accounting Recovery Projects

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- ▶ Engineering and Technical Services Charge-outs
  - ▶ Implementing Percentage of Cost Charge-outs
  - ▶ Technical services can be charged as percentage of cost with PASC 2011





# PASC 2011 - Mechanisms for Charging

- Engineering and Technical Services both discussed in Clause 201 (Labour) and Clause 207 (Contracted Services)
- Basis for Charging

		Allowable Basis for Charging		
		Actual Cost	Per diem or hourly rate	Percentage of total Cost
Labour	Engineering	✓	✓	✓
	Technical Services	✓	✓	✓
Contracted Service	Engineering	✓	✓	✓
	Technical Services	✓	✓	✓

# Implementation of Charging Percentage of Cost Option

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- Step 1: Additional Phrasing (in AFE description or on form of AFE itself) to indicate that E&D and/or technical services will be charged at a rate of X% of total project costs
- Step 2: Assign the calculated value in the appropriate category in the AFE budget estimate.
- Step 3: Set up a new overhead method in the accounting system OR incorporate manual charge-out procedures as part of month end processes.



# Key Areas for Accounting Recovery Projects

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- ▶ Third Party Service Income

- ▶ Gathering, processing, compression, and transportation fees

- New wells on production since agreements were last revised
    - Existing agreements not implemented correctly or at all

- ▶ Contract Operating Fees

- Ensure field operations match existing charge-outs
    - Evaluate field operators' runs



# Key Areas for Accounting Recovery Projects

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- ▶ Well Pad Cost Sharing and Equalization
  - ▶ Area that is under development
    - PASC has bulletin out on the topic, and AIPN UROA/2012 Accounting Procedure also discusses this
  - ▶ Implement a mechanism for future cost sharing
  - ▶ Should include provisions for lost revenue during pad downtime for new projects (eg. tie-ins)
    - See section 7.10 of 2012 AIPN Accounting Procedure



# Key Areas for Accounting Recovery Projects

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- ▶ ICPs – Incentive Compensation Plans
  - ▶ Specific to 2011 PASC Accounting Procedure, but may have elections and alternatives in other Agreements



# Summary

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- ▶ Accounting procedures provide guidance on what's recoverable from your fellow Joint-Operators
  - ▶ Recovering costs does not mean creating costs
- ▶ Be prepared to spend a little in G&A, but recover so much more in the field cost reductions
- ▶ Take a project based approach to the described key areas



# Closing and Questions?

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