

These Procedures set out what is generally regarded in the Industry as good practice. They are not mandatory and Operators may adopt different standards in a particular situation where to do so would maintain an equivalent level of reporting. Where there is an inconsistency with the Accounting Procedure, the Accounting Procedure will prevail.

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1. Introduction

This document is to set out minimum standards on the content and scheduling of Well Cost Reviews (referred to as “Well Reviews” after this point) and Well Accounting.

It is unreasonable to be too prescriptive as to how each company should perform its Well Reviews. This SOAP stresses the minimum requirements, and the Operator should decide what additional requirements they need in practice.

The recommendations are:

- Defining the kind of review required for different types of well costs (i.e. detailed physical reconciliations for tangible/bulks costs but a more analytical approach to rig costs, services, overheads and logistics where that approach is reasonable);
- Estimated Final Cost (EFC) to be produced within 1 (one) month of completion of the well activity;
- Defining the maximum timeframe for the completion of a Well Review (where practicable 6 months after completion of the well activity), and subsequent closure of the AFE within 18 months after the end of well to allow for the actualisation of annual allocation cycles;
- Completing a Well Review for all drilling operations (capex wells and major opex workovers) within 6 months of completion of the relevant well activity;
- Performing a high level variance analysis between the estimated final cost (EFC) and the actual “final” cost when a more analytical approach is appropriate rather than reconciliations of individual GL account codes.

These practices will maintain fit for purpose well accounting records which respect internal management, Joint Venture management and external needs. Lessons learned from well reviews should be used to add value to the business.

2. Well Review

2.1 Purpose

The Well Review is a management control process which uses a combination of detailed accounting reconciliations and analytical review techniques to compare actual final costs to AFE and EFC. A Well Review will provide verification of final costs within acceptable tolerance levels. This process also provides well-cost data for benchmarking and for estimating future well costs.

2.2 Proposals

All drilling operations will require a Well Review to be completed, where practicable, within 6 months of the completion of the well activity.

The recommended process is:

Tangibles and bulks should be physically reconciled to available technical documents (e.g. casing tallies, bit records, mud recaps, cement field tickets etc.);

It is expected that under standard recommended procedures, steps will be taken to reconcile costs within a reasonable tolerance. Such a tolerance would be set so that any variance in an item of more than 10% would result in a Joint Venture audit claim with a de minimis level of £10 thousand being raised;

It is recommended that the mud, chemicals and cement contracts require a supplier to provide monetary and physical quantities reconciliation with the final invoice;

- All other cost categories are subject to a technical review by well engineers:
 - Rig Costs - review rig rate, recharges, start/finish dates; review for material variances against EFC; review rig cost per day. This review should be completed within 2 months. Allocations for rig mobilisation, demobilisation etc. should be completed within the 6 months;
 - Services - review for material variances against EFC;
 - Manpower and Overheads - review levels of planning costs, timewriting; review for material variances against EFC. See SOAP 4;
 - Logistics - review standby vessels, supply vessel/base costs, helicopters; review for material variances against EFC; review logistics cost per day. See SOAP 6.
- Other Points;
 - Particular focus on on/off hire stocks, mobilisation and demobilisation costs and cut-off dates using the rig handover certificate.
- Minimum cost categories for use in well accounting;
 - Tangibles and Bulks - mud, cement, bits, casing, tubing, wellheads, completion equipment. See SOAP 5;
 - Rig Costs – rig rate, recharges, mobilization and demobilisation, surveys and modifications;
 - Services - drilling, testing and completion services personnel and equipment rental;
 - Manpower and Overheads - timewriting to the well;
 - Logistics - vessels, fuel, helicopter and base costs.

3. Well Accounting Policies

Drilling Programme is defined as the period (rig days) for which the drilling rig is under contract to the Operator.

3.1 Rig Mobilisation

Definition: Costs of a drilling rig, services and associated costs before starting the well activity. These costs include rig inspection, rig certification, port costs, fuel costs, third party equipment mobilization and standby, rig hire, anchor handling boats, towing vessels, aircraft, timewriting and overhead and the costs of a delay in rig delivery (e.g. waiting on weather). Some rig and vessel costs may be covered by a fixed lump sum rig contract mobilisation charge.

Recommended Policy: For a single well location, mobilisation costs shall be charged to that well. If the rig is being transferred from one Operator to another, the transfer of cost liability is when the rig is on tight tow (500 metres).

Where there is more than one well in the programme, the costs incurred in the 72 hour period before completing anchoring operations (anchors set) on the first well shall be charged to that first well. The costs incurred before that 72 hour period shall be allocated pro rata, on the basis of rig days, to all the wells in the programme or to the activity in the 24 months from anchors set on the first well whichever period is shorter.

This standard 72 hour period is based on the reasonable towing time from the rig base (for example Cromarty Firth) to another UK North Sea, Atlantic Margin or West of Shetland location. If practice shows that the average regular tow time is shorter, e.g. 48 hours, then that new figure may be adopted provided the Recommended Policy is applied consistently.

An alternative specific mobilisation allocation period may be adopted if agreed in advance with Co-venturers.

The entire mobilisation costs may be charged to the first well where the 72 mobilisation period is exceeded by only a marginal amount and there is only a non-material balance of costs to be allocated as above.

3.2 Rig Demobilisation

Definition: Costs of drilling rig, services and associated costs from the time when the last anchor has been racked and the rig is under tight tow (500 metres) from the final well in the drilling programme. Costs as defined in the mobilization. Some rig and vessel costs may be covered by a fixed lump sum rig contract demobilisation charge.

Recommended Policy: For a single well location, demobilisation costs will be charged to that well.

Where there is more than one well in the programme, the demobilisation costs will be allocated pro rata, on the basis of rig days, over all the wells drilled in the programme, or in the previous 24 months (or as agreed with Co-venturers) whichever period is shorter.

3.3 Rig Certification

Definition: Costs of assessing and certifying that the drilling rig is fit for purpose and meets health, safety and environmental requirements.

Recommended Policy: Where the rig owner has not incorporated the costs of certification and inspection in the rig day rate, these costs will be charged to the single well location, or if there is more than one well the costs will be allocated pro rata, on the basis of rig days, to all the wells drilled in the programme up to a maximum of 24 months or as agreed with Co-ventures from anchors set on the first well.

3.4 Rig Upgrade Costs

Definition: Costs of modifying or upgrading the drilling rig to meet the Operator's specifications.

Recommended Policy: For a single well location where the rig rate is not amended for upgrade costs, the upgrade costs will be charged to that well.

Where there is more than one well in the programme, and where the rig rate is not amended for upgrade costs, the rig upgrade costs will be allocated pro rata, on the basis of rig days, over the wells drilled in the programme subject to the maximum 24 months period or as agreed with Co-venturers.

Where an upgrade has been made specifically for one well, for example a high pressure high temperature (HPHT) well, or a deep water well, then the costs of the upgrade should be charged to that well. However, if it can be shown that other well(s) benefited from the upgrade (for example through fewer drilling days) then the costs should be allocated as above.

3.5 Rig Moves

Definition: Movement of the drilling rig from one well location to another.

Recommended Policy: Rig hire costs are charged to the transferee location from the time when the last anchor has been racked and the rig is under tight tow (500 metres) from the transferor location as per the rig handover certificate. The same principle applies to charges for boats, helicopter, rental services and any other associated costs.

Rig fuel, lubricating oils ("lubes"), drilling materials and other consumables should be measured at the same time rig hire transfers to the next location and the rig hand-over statement prepared.

However when equipment or inventory specifically required for the transferor location remains on the rig after the rig has been transferred, then the transferor location will bear all the costs associated with these

item(s). Similarly when the transferee location requires equipment or inventory unique to that particular well, then transferee location will bear the total cost of the item(s), even where the item(s) have been loaded on the rig before transfer.

Material which is bought for a particular well but not used can be recharged to the next well providing that well accepts it. If such transfer occurs at the end of a well programme the final well shall bear the cost and any corresponding credit on return, provided that well accepts the material and has probable use for it.

3.6 Rig Middle Programme and Dry Docking

Definition: Costs of fulfilling any contractual obligation for an interim overhaul, refit, certification, upgrade or repair of the rig during a drilling programme. Costs as defined in the mobilisation section above.

Recommended Policy: Costs of the Rig Middle Programme/ Dry Docking commence when anchors are racked and rig is under tight tow (500 metres) from the well immediately before the dry docking and finish at the beginning of the standard mobilisation period described in 3.1 above. Such works may include:

- Routine overhaul, refit, certification or upgrade works where treatment is defined above;
- Minor routine maintenance materials or parts which result from normal operations and require replacement due to normal wear and tear (MOT type replacements) each with an individual value of up to £100 thousand and which can be replaced quickly often without the need for dry docking.

The costs of such interim and routine overhaul, refit, certification or upgrade work will generally be allocated forward subject to a maximum 24 month period on the basis that such certification and associated minor works is a statutory requirement and therefore is for the benefit of future drilling in terms of the rig being available and in a state of good repair and readiness.

However, in circumstances where the middle programme dry docking of the rig is related to or includes **major repairs** then the cost treatment of such repairs may vary from that above. Major repairs are defined as significant remedial works which have been identified and which may have resulted from damage or an incident during previous drilling operations and which may at some point have caused disruption or suspension of drilling operations due to safety or non-performance factors and which require to be rectified without delay, possibly in dry dock. As a guide such major repair/s will have significant **direct** rectification costs of in excess of £1million (excluding indirect costs such as vessels etc.).

Where it has been conclusively established that the damage arose in drilling a particular well then repair costs shall be charged to that well. Similarly, where the damage occurred during the drilling of a programme of wells for the current Operator and it is unclear on which particular well/wells the damage occurred, then the costs of the repair should also be charged backwards over wells drilled by the Operator during the programme but subject to a maximum 24 month period.

The rationale for this treatment is that such major repair costs were in relation to past drilling and the specific well or programme of wells involved should pay the cost of the major repairs rather than future wells, possibly involving different ventures/partnerships, which were not involved in the creation of the damage.

In any other circumstances not covered above, the purpose of the dry docking shall determine whether the costs are allocated over the forward programme or allocated over the wells drilled to date, both subject to the maximum 24 months period, or as agreed with Co-venturers.

3.7 Rig Assignments and Sublets

Definition: during the drilling programme the Operator may or may not fill a gap in its drilling programme by either assigning the rig contract or subletting the rig to another party.

The rig rate charged will be subject to negotiation between the Operator and the party to which the rig is assigned or sublet. The Operator remains responsible to the rig owner for payments under the rig contract.

There may be a profit or loss on the assignment or sublet on the arrangement because of differences between the rig contract rates and the assignment rates.

Recommended Policy: The cut-off of costs follows the procedure described for rig moves above.

The treatment of allocated costs such as mobilisation and demobilisation or rig upgrades/modifications, and any profit or loss on sub assignment, will depend on the circumstances of each case. However the recommended procedure is as follows:

The Assignor Company should include such costs as mobilization and demobilisation and rig upgrades and modifications in the rig assignment and sublet costs together with legal marketing and other such costs in arranging the assignment or sublet in accordance with the procedures of this SOAP.

Treatment and chargeability of the costs and revenues arising from a rig assignment and sublet should be addressed on a well by well basis and should be agreed in advance of such arrangement by all parties.

3.8 Oil Spill Response

Oil Spill Response Limited (OSRL) is an international industry-funded cooperative which exists to respond to oil spills wherever they may occur in the world, by providing preparedness, response and intervention services. Participant membership provides a company with global access to the full range of spill response and preparedness services. It is available only to qualifying international oil companies. Participant members become shareholders in OSRL pay a one-off entry fee, an annual subscription.

Recommended policy: Annual subscription should be allocated to all well and Producing Operations that have access to these services.

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