



29 July 2016

BP America Production Company

Dear Interest Owner:

As a valued non-operator in one or more BP-operated properties you are being sent this letter to inform you of several BP America Production Company (BP) joint interest billing practices. This letter applies to onshore properties in the Lower-48 United States with a Joint Operating Agreement (JOA), or other contract, utilizing COPAS model form accounting procedures (JOA/COPAS).

BP is sending this letter and attachment to those interest owners for whom it has an active mailing address. This letter does not directly address payout statements or net profits interest statements except as noted.

### **Direct Charges to the Joint Account**

BP bills direct charges to the joint account that may include, but are not limited to:

- (i) for JOA/COPAS procedures dated 1984 and later, Operations Center (OC)/ Office costs including utilities, repairs, maintenance, rent in lieu of depreciation (RLD) and interest on investment (IOI) and other such charges. For JOA/COPAS pre-dating the 1984 procedures, BP's policy at this time is not to bill such OC/ Office costs.
- (ii) chargeable personnel who work at OCs or at other field locations, including most ecological, environmental and safety personnel;
- (iii) field operating supplies including non-controllable material such as lubricants, rags, safety equipment, and small tools used in operations by field personnel;
- (iv) computerized production control equipment, automatic well test equipment, computerized maintenance and integrity management systems, and automation maintenance expense;
- (v) IT/Telecomm costs that support operations; including but not limited to labor, equipment, applications, and systems, for or related to: (a) desktop/laptop computing capability; (b) data centers or networks; and (c) communications (voice or digital). This will include costs for labor, equipment, applications and systems, performed or located off the joint property (but benefiting the joint property), including BP's Houston offices or elsewhere, that BP deems necessary for the operation of the joint property.

IT/Telecomm charges are, for the most part, allocations based upon BP's worldwide IT/Telecomm costs attributable to BP's onshore US upstream operations together with BP's IT/Telecomm costs incurred directly by or for BP's onshore US upstream operations. IT cost allocations among BP's operating areas are based on estimates of the number of chargeable computers within an operating area and are generally allocated to the joint account based upon active well count within the operating area. Chargeable computers include (a) computers assigned to chargeable company labor or contractors (e.g., a Field Environmental Coordinator based in the OC); (b) computers assigned to operations personnel (e.g., a Well Site Leader working at several different drilling sites); and (c) unassigned computers devoted to chargeable systems. Such allocations are updated periodically. A majority of IT/Telecomm costs are projected in advance and later reviewed. Where the estimate does not reasonably reflect actual costs, adjustments are made;

- (vi) first level supervisors - where a team consists of both chargeable and non-chargeable personnel, an estimate of the percentage of the supervisor's time spent supervising non-chargeable personnel is not charged to the joint account;
- (vii) technical labor, charged hourly or, in many cases by the day. Although most chargeable technical labor will occur directly on or with the joint property, where technical labor is performed as a result of government mandate or required for safe operations, and even where such technical labor is removed from the joint property, such technical labor is considered chargeable by BP and not covered by overhead rates; and

(viii) other costs allowed as Direct Charges under the applicable JOA/COPAS.

These costs will often be charged via allocations to the joint account.

### **Oil and Gas Data Available Electronically**

Non-operators have the ability to view production, gas balancing, and payout information via [www.pdsenergy.com](http://www.pdsenergy.com).

Payout information is available as a result of our 2011 payout tracking system implementation. User registration and login details were sent via letter mid-2011.

### **Incentive Compensation Plan (ICP)**

Incentive Compensation Plan (ICP) costs are charged out on a monthly basis as an addition to the labor burden, accurately aligning our process with industry practice. Every property receiving labor charges will bear a ratable portion of the ICP.

### **Non-operating Interests Without Written Accounting Procedures**

Where a non-operating interest in a well has been joined via a regulatory or statutory procedure or order (e.g., force pooling) or where, for whatever reason or circumstance, there is no applicable written accounting procedure or order provision, BP will generally apply the procedure contained in BP's approved version of the 2005 COPAS accounting procedures. A copy of BP's approved version of this form is available upon request.

### **Annual Adjustment of Fixed Rate Overhead**

The Crude Petroleum and Gas Production Workers Index referenced as the basis for the annual adjustment of fixed rate overhead in some accounting procedure forms was discontinued several years ago. In response, COPAS began calculating and publishing an annual adjustment factor using the average of the Oil and Gas Extraction Index with the Professional and Technical Services Index. Since 2004 BP has used this published COPAS annual adjustment factor. These adjustments will apply to calculations and charges reflected in JIBs, Payout Statements, and Net Profit Interest statements.

The 2016 adjustment factor is -3.2%.

### **The Joint Interest Bill (JIB) and Summary Billing Classifications**

Your monthly JIB is in "summary billing" form, with the charges and credits to the joint account summarized in classifications. Attached to this letter is a brief explanation of the summary classifications used by BP in preparing JIBs. BP's intent is that charges appear on your bill according to the classification descriptions. However, BP's intent is not to create procedures or billing requirements that are administratively burdensome. Thus, at times charges may be included within other classifications, such as A00001 Operating Expenses/Other when, for example, a prior period adjustment (PPA) is involved.

BP also includes additional detail for intangible drilling costs related to authorizations for expenditure on your JIB. Please note that the classifications used to provide this additional detail will supplement the standard industry service codes and classes.

### **Variations**

BP reserves the right to review applicable circumstances and JOA/COPAS provisions and make adjustments to these policies as needed.

### **Questions**

As shown on each JIB, for further information about the billing format and classifications you can contact BP at the Joint Venture Hotline at 1-800-732-6626.

It is likely that your JOA/COPAS also affords you audit rights.

## EXPLANATION OF SUMMARY BILLING CLASSIFICATIONS

(Attachment to 29 July 2016 Letter)

Pursuant to your joint operating agreement (JOA) or similar contract with BP America Production Company (BP) you receive a monthly joint interest bill (JIB) in summary form with charges and credits summarized by classifications. The classifications used by BP are described below and are provided to help you better understand your JIB. You should note that these descriptions only apply to JIBs for onshore Lower-48 properties where the applicable JOA or similar contract has standard COPAS accounting procedure attachments (JOA/COPAS).

The classifications described below represent general classifications of costs included on the JIB and include both costs charged directly to properties and costs charged via allocations to multiple properties. BP's intent in providing these descriptions is not to list every possible line item that could appear on a JIB or cost that could be incurred by or on behalf of the joint operations. Instead, these descriptions are meant to be representative of the general nature of such costs and JIB classifications.

**A00001 Operating Expenses/Other** will include operating expenses that do not logically or practically fit under other more specific classifications. Examples of such costs include: JV audit adjustments; insurance; saltwater disposal; fluid hauling; lease or rental compressors, generators, and other equipment; automation and measurement; gathering costs (including fuel); production blending, treating and dehydration; subsurface lift equipment; usage fees for BP-owned well and lease service equipment; heavy equipment fuel & lube; jack-up and lift boats; non-AFE rig costs; non-AFE wireline logging; non-AFE location and access expenses; meter certification fees; inspection services; maintenance and preventive maintenance costs not included in B00001; road expense; painting; on-site food service; allocated contract labor charges; miscellaneous lease services (e.g. snow removal, grass cutting, etc.); chargeable employee expenses not included within A00013 Payroll Burdens and ICP (such as allocated automobile mileage, reimbursed employee expenses, and T&E); job-related training, including training provided by

traveling subject experts and charged by the day; and incidental operating/miscellaneous expenses.

**A00002 Utilities** will include power, fuel, and water purchased from outside parties or produced and consumed on the operating location.

**A00003 Chemicals** will include chemicals and other substances purchased for the purpose of modifying, testing or treating wells, equipment or products.

**A00004 Legal and Title Work** will include expenses of handling, investigating, and settling litigation or claims, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations. Where required by the applicable JOA/COPAS, BP internal or outside legal charges are only made after prior approval.

This will also include costs for procuring abstracts, fees paid to outside attorneys for title examination (including preliminary, supplemental, shut-in royalty opinions and division order title opinions), and other associated direct charges. BP will not bill for services rendered by its internal staff in the performance of these activities.

**A00006 Fuel Gas** will include gas purchased for use or consumed on the lease/unit.

**A00007 Oklahoma Gas Royalty Handling Fee** is for the administrative fees chargeable to the joint account for non-unitized gas producing leases in the state of Oklahoma per Senate Bill 168.

**A00008 Materials & Supplies** will include costs of fittings, small tools, diesel fuel and lubricants, and other non-controllable material used for repairs, maintenance or otherwise to the benefit of the joint property. Generally, these costs are allocated charges

**A00011 Company Labor & Services** will include the salary and wages, including incentive compensation and overtime wages, of BP's field employees and first level supervisors employed in the conduct of joint operations. Examples of such costs include: electricians; mechanics; operation technicians; gas measurement technicians; well production optimizers; computer automation technicians; operational specialists who engage in planning and scheduling of operations activities; employees engaged in in-house training; field environmental specialists; environmental management system specialists; field or wells safety specialists; systems operators dealing with production automation or field operations or maintenance systems including, as to all the

foregoing, computerized systems; and other employees engaged in the operation and maintenance of the joint property. Generally, these costs are allocated charges.

**A00012 Contract Labor & Services** will include payments to contractors for labor, incidental consumable supplies, and transportation furnished by the contractor in connection with the operation, maintenance, and repair of the joint property. Examples of such third-party labor & services costs include: technical labor; training; development of training materials; roustabout work; painting; cleaning; tank erecting; coating; security; grounds maintenance; electrical; testing, connection work; cement work; ditching; dismantling; weed killing; laundry; tank and treater cleaning; pipeline work; welding; and construction, repair and maintenance of facilities and equipment associated with operations. Those payments may also include performance-based incentives (e.g. pre-set timely completion or safety performance incentives). At various times, contract labor may be engaged to perform work similar to that described in Company Labor & Services and Technical Company Labor. Note, however, that contract Labor distributed to properties via allocation is included in A00001.

**A00013 Payroll Burden and ICP** will include the estimated costs of BP's employee burdens and benefit plans charged in accordance with JOA/COPAS provisions. Payroll taxes (FICA and Unemployment) paid to governmental authorities and costs associated with Workers' Compensation will also be included. These costs are generally charged as a percentage of company labor.

Also included, on a monthly basis, will be charges for ICP and its associated burdens.

**A00014 Technical Company Labor** will include the salary and wages of BP's technical employees that are chargeable per the JOA/COPAS. Examples of such costs include: drilling and completions engineers; production, operations, reservoir, and other sub-surface engineers or petrotechnical (e.g. geological and geophysical) staff; environmental engineers or technical staff; and facilities and other surface engineers. All technical labor charges are for work on or with the joint property including work on specific operational issues at an Operations Center/field office. Technical labor will generally be charged in increments of one day. Charges benefiting multiple properties are allocated.

Where chargeable technical labor is performed by BP's Exploration and Production Technology Group or a similar group, such charges may be in the form of "loaded rates" similar to those charged by a company's affiliate service providers.

Technical labor performed in connection with AFE or project work will usually be included within the AFE classifications outlined in the sections below rather than within A00014.

**A00016 Facility Expense** will include the costs of BP owned or operated facilities or systems related to, for example, production gathering, automation, water flooding, gas injection, salt water disposal, compression, treating, or gas lift. This will include both directly charged and allocated operating costs of the facility, including Rental in Lieu of Depreciation/Interest on Investment (RLD/IOI) and may also include costs from any or all of the other classifications. This A00016 classification will also include costs associated with any structure housing staff where the structure is integral to a facility. Facility expenses benefiting multiple properties are allocated.

**A00030 Transportation** will include the transportation costs of employees, materials, and supplies necessary for the operation of the joint property. Examples of such costs include: costs for freight; automotive vehicles; helicopters; and pontoon planes, crew boats, barges, and other marine transportation.

**A00040 Field Computing/Telecommunications** will include the purchase and/or development, installation, upgrades, ongoing maintenance and support, and repair costs of software, hardware, network systems, servers, phones, mobile phones, radio towers, and other voice and data telecommunication equipment, related to or supporting operations. These charges also include health, safety and security information technology. These are allocated charges. Note that automation costs may also be included in A00001 or A00016 and maintenance systems may be included in B00001.

**A00041 Field Operating Supplies** will include engine oil, lubricants, weed killer, safety equipment (including field personnel protective equipment), chemicals, rags, small tools, parts, and other consumables including non-controllable material used in the operation of the joint property. These are allocated charges.

**A00042 OC/Field Office Expense** will include costs of office facilities for chargeable personnel.

Examples of such costs include rentals, utilities, maintenance, RLD/IOI, and repairs to OC building and equipment. These costs are charged only for JOAs with standard COPAS 1984 and later accounting procedure attachments and certain plant or other agreements allowing such charges. These are generally allocated charges and, where applicable, are reduced to reflect the relative percentage of chargeable personnel in the office.

**B00001 Repair & Maintenance** will include well and lease work, service, maintenance and preventive maintenance, and repair work. Examples of such costs include: downhole well work; and repair, preventive maintenance, and maintenance costs for storage, processing, minor rotating equipment, or treating units (including generators, compressors, storage vessels and crane equipment), that do not require an AFE. This classification includes mechanical and well integrity costs. It also includes costs, labor and equipment for maintenance or integrity management systems including, for example, systems built around computerized products such as Maximo, and/or the Work Management System.

**C00001 Miscellaneous Revenues** will include any revenues that should be shared with the joint account such as revenue generated from a joint owned facility.

**C00002 Products Purchased for Resale** will include products purchased.

**E00001 Non-Hydrocarbon Injectants** will include the costs of enhanced recovery injectants such as carbon dioxide and nitrogen.

**F00001 Loss & Damages** will include costs associated with accidents, losses, damages and injuries and to restore the joint property to producing operations.

**H00001 Property Tax** will include property taxes paid to governmental authorities on behalf of the joint property.

**H00002 Severance/Gross Receipts Tax – Gas** will include amounts accrued for production, proration, pollution, regulatory, gross receipts, and similar state severance and gross receipts taxes payable on gas produced at the joint property.

**H00003 Severance/Gross Receipts Tax – Oil** will include amounts accrued for production, proration, pollution, regulatory, gross receipts, and similar state severance and gross receipts taxes payable on oil produced at the joint property.

**J00001 Dismantlement Expense** will include costs in connection with: dismantling buildings and/or operating equipment that will not be replaced; complete or partial dismantlement of buildings preliminary to extension, expansion, or betterment; abandoning an original formation prior to deepening or recompleting the well; final plugging and abandonment of the well; restoration and salvaging well equipment.

**L00001 Operating Overhead** will include administrative overhead, fixed rate, combined fixed rate, or percentage administrative overhead assessed in accordance with provisions in the accounting procedure for producing operations.

**L00002 Development Overhead** will include administrative overhead, fixed rate, combined fixed rate, or percentage administrative overhead assessed in accordance with provisions in the accounting procedure for drilling, well work and recompletion operations. Generally such overhead will be charged whenever relevant activities last longer than 5 days but excluding lapses of more than 14 days.

**L00003 Construction Overhead** will include construction or major construction overhead charges in accordance with the accounting procedure. Most such charges are based on a percent of total costs.

**L00004 Catastrophe Overhead** will include overhead charges due to catastrophic events in accordance with the accounting procedure. Most such charges are based on a percent of total costs.

**T00001 Environmental, Health, & Safety Expense** will include costs for the benefit of the joint property and pursuant to environmental, health & safety rules, standards, or regulations; environmental supplies, training and programs; and safety supplies, training and programs.

#### **WORKOVERS AND REPAIRS:**

**D00001 Recompletion/Recondition** will include any costs associated with workovers or other major repairs. Types of such costs include company labor and associated payroll burdens (including ecological, environmental and safety personnel), intangible installation costs, utilities, equipment rentals, drilling mud and chemicals, well surveys and test services, cementing casing, shooting, acidizing, perforating, squeeze jobs, rig contract costs, company tools, contract tools, contract labor, material and supplies, etc.

#### **DRILLING/RECOMPLETION/CONSTRUCTION:**

**\*M-Exploration, N-Development, P-Recompletion, R-Non Drilling (Construction)**

**\*00001 Miscellaneous Intangible** will include all intangible drilling costs not detailed on the other service codes below.

**\*00002 Tangible Controllable** will include controllable material as defined in COPAS Model Form Interpretation #28 if not of nominal value.

**\*00003 Tangible Equip - Non-Controllable** will include non-controllable tangible material as defined by COPAS Model Form Interpretation #28 and material of nominal value.

**\*00004 Tax** will include the tax associated with controllable material reported in \*00002 segment of the invoice.

**\*00005 Freight** will include the freight associated with controllable material reported in \*00002 segment of the invoice.

**\*00006 Retirements/Valuation Adjustments** will include retirement of controllable material as defined in \*00002.

**\*00010 Mobilization and Demobilization (MI, RU, RD, MO)** will include costs of moving the rig to location (MI), setting the rig over the hole (RU), dismantling the rig (RD) and moving the rig from location (MO).

**\*00011 Location Costs** will include costs in connection with the building of roads, bridges, canals to drilling location including bulldozers, barges, drag line, shale, gravel, and lumber. This classification also includes surface damage payments made to landowners caused by drilling operations and location restoration.

**\*00012 Cement and Cementing Services** will include the cost of cement and cementing services for cementing casing in the well, to include but not limited to additives, floats, collars, centralizers, and guide shoes.

**\*00013 Mud Logging and Materials** will include the cost of drilling mud and related material, such as bentonite weighting material, lost circulation material, chemicals, and crude oil used to condition the hole or maintain circulation. Also included are mud logging services provided by contract or company personnel.

**\*00014 Perforating** will include the costs to penetrate through the casing opposite the producing formation to allow the oil or gas to flow into the well.

**\*00015 Stimulation Treatment** will include the costs of various acidizations, fracturing or similar procedures necessary to break down the formation in order to obtain or increase production.

**\*00016 Formation Testing** will include the costs of taking and recording physical measurements about the formations being drilled including well surveys, electric logs, sidewall cores, drill stem tests and directional surveys.

**\*00017 Geological Services** will include geological services for duties such as core analysis, paleontological services and coring analysis charges.

**\*00018 Tubular Inspection and Treatment** will include expenditures incurred inspecting and treating casing, tubing and other tubulars to insure compliance with designated specifications.

**\*00019 Drilling-Footage** will include costs paid to a contractor for drilling a well to a certain depth at a specified price per foot.

**\*00020 Drilling-Day rate** will include costs paid to a contractor for drilling a well at a specified price per day.

**\*00021 Drilling-Turnkey** will include costs paid to a contractor for all services incurred to perform a specified job.

**\*00022 Bits and Core Barrels** will include the cost of drilling bits and the use and repair of core cutting equipment.

**\*00023 Company Labor and Expense** will include salaries, wages and expenses paid to company personnel performing work or supervising work directly in connection with drilling operations including ecological, environmental and safety personnel.

**\*00024 Payroll Burden** will include vacation, sickness and disability, and other similar allowances applicable to employees serving drilling operations, as well as the current cost of group insurance, pension retirement, and other benefit plans of like nature applicable to Company labor charged to the well. Payroll taxes (FICA and Unemployment) paid to governmental authorities and costs associated with Workers' Compensation are also included. These costs are generally charged as a percentage of company labor.

**\*00025 Fuel and Power** will include the cost of diesel fuel, gas, and purchased utilities used during drilling operations.

**\*00026 Auto and Truck Expense** will include the rental or operating costs of automobiles and trucks for the hauling of equipment, material and labor.

**\*00027 Aircraft Expense** will include the costs of helicopters and planes used to service drilling operations.

**\*00028 Marine Transportation** will include crew boats, barges and other marine transportation used to transport equipment, material and labor.

**\*00029 Rental Equipment** will include the cost of various rental equipment not included in a specific category.

**\*00031 Contract Labor** will include labor furnished by contractors for performance of work incident to drilling not specifically mentioned in a previous category.

**\*00032 Communications** will include the costs of various communications systems including radio, telex, microwave and rig telephones.

**\*00033 Water and Water Well** will include costs to drill and monitor water wells for use in drilling operations.