

## **Petroleum Reserves & Resources Definitions**

### ***Development of Reserves Definitions***

Petroleum<sup>1</sup> is the world's major source of energy and is a key factor in the continued development of world economies. It is essential for future planning that governments and industry have a clear assessment of the quantities of petroleum available for production and quantities which are anticipated to become available within a practical time frame through additional field development, technological advances, or exploration. To achieve such an assessment, it is imperative that the industry adopt a consistent nomenclature for assessing the current and future quantities of petroleum expected to be recovered from naturally occurring underground accumulations. Such quantities are defined as reserves, and their assessment is of considerable importance to governments, international agencies, economists, bankers, and the international energy industry.

The terminology used in classifying petroleum substances and the various categories of reserves have been the subject of much study and discussion for many years. Attempts to standardize reserves terminology began in the mid 1930s when the American Petroleum Institute considered classification for petroleum and definitions of various reserves categories. Since then, the evolution of technology has yielded more precise engineering methods to determine reserves and has intensified the need for an improved nomenclature to achieve consistency among professionals working with reserves terminology. Working entirely separately, the Society of Petroleum Engineers (SPE) and the World Petroleum Council (WPC, formerly World Petroleum Congresses) produced strikingly similar sets of petroleum reserve definitions for known accumulations which were introduced in early 1987. These have become the preferred standards for reserves classification across the industry. Soon after, it became apparent to both organizations that these could be combined into a single set of definitions which could be used by the industry worldwide. Contacts between representatives of the two organizations started in 1987, shortly after the publication of the initial sets of definitions. During the World Petroleum Congress in June 1994, it was recognized that while any revisions to the current definitions would require the approval of the respective Boards of Directors, the effort to establish a worldwide nomenclature should be increased. A common nomenclature would present an enhanced opportunity for acceptance and would signify a common and unique stance on an essential technical and professional issue facing the international petroleum industry.

As a first step in the process, the organizations issued a joint statement which presented a broad set of principles on which reserves estimations and definitions should be based. A task force was established by the Boards of SPE and WPC to develop a common set of definitions based on this statement of principles. The following joint statement of principles was published in the January 1996 issue of the SPE Journal of Petroleum Technology and in the June 1996 issue of the WPC Newsletter:

There is a growing awareness worldwide of the need for a consistent set of reserves definitions for use by governments and industry in the classification of petroleum reserves. Since their introduction in 1987, the Society of Petroleum Engineers and the World Petroleum Council reserves definitions have been standards for reserves classification and evaluation worldwide.

SPE and WPC have begun efforts toward achieving consistency in the classification of reserves. As a first step in this process, SPE and WPC issue the following joint statement of principles.

SPE and WPC recognize that both organizations have developed a widely accepted and simple nomenclature of petroleum reserves.

SPE and WPC emphasize that the definitions are intended as standard, general guidelines for petroleum reserves classification which should allow for the proper comparison of quantities on a worldwide basis.

SPE and WPC emphasize that, although the definition of petroleum reserves should not in any manner be construed to be compulsory or obligatory, countries and organizations should be encouraged to use the core definitions as defined in these principles and also to expand on these definitions according to special local conditions and circumstances.

SPE and WPC recognize that suitable mathematical techniques can be used as required and that it is left to the country to fix the exact criteria for reasonable certainty of existence of petroleum reserves. No methods of calculation are excluded, however, if probabilistic methods are used, the chosen percentages should be unequivocally stated.

SPE and WPC agree that the petroleum nomenclature as proposed applies only to known discovered hydrocarbon accumulations and their associated potential deposits.

SPE and WPC stress that petroleum proved reserves should be based on current economic conditions, including all factors affecting the viability of the projects. SPE and WPC recognize that the term is general and not restricted to costs and price only. Probable and possible reserves could be based on anticipated developments and/or the extrapolation of current economic conditions.

SPE and WPC accept that petroleum reserves definitions are not static and will evolve.

A conscious effort was made to keep the recommended terminology as close to current common usage as possible in order to minimize the impact of previously reported quantities and changes required to bring about wide acceptance. The proposed terminology is not intended as a precise system of definitions and evaluation procedures to satisfy all situations. Due to the many forms of occurrence of petroleum, the wide range of characteristics, the uncertainty associated with the geological environment, and the constant evolution of evaluation technologies, a precise classification system is not practical. Furthermore, the complexity required for a precise system would detract from its understanding by those involved in petroleum matters. As a result, the recommended definitions do not represent a major change from the current SPE and WPC definitions which have become the standards across the industry. It is hoped that the recommended terminology will integrate the two sets of definitions and achieve better consistency in reserves data across the international industry.

### ***Definition of Classification System for Resources***

In March 1997, the Society of Petroleum Engineers (SPE) and the World Petroleum Council (WPC) approved a set of petroleum reserves definitions which represented a major step forward in their mutual desire to improve the level of consistency in reserves estimation and reporting on a worldwide basis. As a further development, the SPE and WPC recognized the potential benefits to be obtained by supplementing those definitions to cover the entire resource base, including those quantities of petroleum contained in accumulations that are currently sub-commercial or that have yet to be discovered. These other resources represent potential future additions to reserves and are therefore important to both countries and companies for planning and portfolio management purposes. In addition, the American Association of Petroleum Geologists (AAPG) participated in the development of these definitions and joined SPE and WPC as a sponsoring organization.

In 1987, the WPC published its report "Classification and Nomenclature Systems for Petroleum and Petroleum Reserves," which included definitions for all categories of resources. The WPC report, together with definitions by other industry organizations and recognition of current industry practice, provided the basis for the system outlined by the combined organizations.

Nothing in the *resource* definitions should be construed as modifying the existing definitions for petroleum *reserves* as approved by the SPE/WPC in March 1997.

As with unproved (i.e., probable and possible) reserves, the intent of the SPE and WPC in approving additional classifications beyond proved reserves is to facilitate consistency among professionals using

such terms. In presenting these definitions, neither organization is recommending public disclosure of quantities classified as resources. Such disclosure is left to the discretion of the countries or companies involved.

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<sup>1</sup>Petroleum: For the purpose of these definitions, the term petroleum refers to naturally occurring liquids and gases which are predominately comprised of hydrocarbon compounds. Petroleum may also contain non-hydrocarbon compounds in which sulfur, oxygen, and/or nitrogen atoms are combined with carbon and hydrogen. Common examples of non-hydrocarbons found in petroleum are nitrogen, carbon dioxide, and hydrogen sulfide.