

PDC ENERGY, INC.
Form 10-K
February 19, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

T ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

or

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 000-07246

PDC ENERGY, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State of incorporation)

1775 Sherman Street, Suite 3000

Denver, Colorado 80203

(Address of principal executive offices) (Zip code)

95-2636730

(I.R.S. Employer Identification No.)

Registrant's telephone number, including area code: (303) 860-5800

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, par value \$0.01 per share

Name of each exchange on which registered

NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes T No £

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes £ No T

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes T No £

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of our common stock held by non-affiliates on June 30, 2014 was \$2.2 billion (based on the closing price of \$63.15 per share as of the last business day of the fiscal quarter ending June 30, 2014).

As of February 2, 2015, there were 35,991,142 shares of our common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

We hereby incorporate by reference into this document the information required by Part III of this Form, which will appear in our definitive proxy statement to be filed pursuant to Regulation 14A for our 2015 Annual Meeting of Stockholders.

PDC ENERGY, INC.

2014 ANNUAL REPORT ON FORM 10-K

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PART I

REFERENCES TO THE REGISTRANT

Unless the context otherwise requires, references in this report to "PDC Energy," "PDC," "the Company," "we," "us," "our" or "ours" refer to the registrant, PDC Energy, Inc. and all subsidiaries consolidated for the purposes of its financial statements, including our proportionate share of the financial position, results of operations, cash flows and operating activities of our affiliated partnerships and PDC Mountaineer, LLC ("PDCM"), a joint venture owned until its sale in October 2014 50% each by PDC and Lime Rock Partners, LP. Unless the context otherwise requires, references in this report to "Appalachian Basin" refers to our operations in the Utica Shale in Ohio and Marcellus Shale in West Virginia and Pennsylvania, including PDC's proportionate share of our affiliated partnerships' and PDCM's assets, results of operations, cash flows and operating activities. See Note 1, Nature of Operations and Basis of Presentation, to our consolidated financial statements included elsewhere in this report for a description of our consolidated subsidiaries and Note 14, Assets Held for Sale, Divestitures and Discontinued Operations, for a discussion of the sale of our interest in PDCM.

GLOSSARY OF UNITS OF MEASUREMENTS AND INDUSTRY TERMS

Units of measurements and industry terms are defined in the Glossary of Units of Measurements and Industry Terms, included at the end of this report.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 ("Securities Act") and Section 21E of the Securities Exchange Act of 1934 ("Exchange Act") regarding our business, financial condition, results of operations and prospects. All statements other than statements of historical facts included in and incorporated by reference into this report are "forward-looking statements" within the meaning of the safe harbor provisions of the United States ("U.S.") Private Securities Litigation Reform Act of 1995. Words such as expects, anticipates, intends, plans, believes, seeks, estimates and similar expressions or variations of such words are intended to identify forward-looking statements herein. These statements relate to, among other things: estimated future production (including the components of such production), sales, expenses, cash flows and liquidity; estimated crude oil, natural gas and natural gas liquids ("NGLs") reserves; the impact of prolonged depressed commodity prices; anticipated 2015 capital projects, expenditures and opportunities; expected timing of additional drilling rigs; availability of sufficient funding for our 2015 capital program and sources of that funding; expected 2015 capital budget allocations; future exploration, drilling and development activities, including the number of drilling rigs we expect to run during 2015 and number of locations; capital efficiencies and per well reserves expected to be realized through drilling of extended length laterals, tighter frac spacing and cost reductions; our evaluation method of our customers' and derivative counterparties' credit risk; effectiveness of our derivative program in providing a degree of price stability; future horizontal drilling projects that are economically producible at certain commodity prices and costs; anticipated reductions in our 2015 cost structure; potential for future impairments; potential acquisitions of additional acreage and other future transactions; electronic, cyber or physical security breaches; the impact of high line pressures and the timing, availability, cost and effect of additional midstream facilities and services going forward; the expected NYMEX differential at our two primary sales hubs; compliance with debt covenants; expected funding sources for conversion of our 3.25% convertible senior notes due 2016; compliance with government regulations; impact of the Colorado task force on oil and gas regulation and potential future ballot initiatives and legislation; the borrowing base under our credit facility; impact of litigation on our results of operations and financial position; the adequacy of existing insurance to cover operating hazards and the availability of such insurance on a cost effective basis in the future; that we hold good and defensible title to our leasehold; that we do not expect to pay dividends in the foreseeable future; anticipated timing of filing of a new shelf registration statement; and our future

strategies, plans and objectives.

The above statements are not the exclusive means of identifying forward-looking statements herein. Although forward-looking statements contained in this report reflect our good faith judgment, such statements can only be based on facts and factors currently known to us. Consequently, forward-looking statements are inherently subject to risks and uncertainties, including known and unknown risks and uncertainties incidental to the exploration for, and the acquisition, development, production and marketing of, crude oil, natural gas and NGLs, and actual outcomes may differ materially from the results and outcomes discussed in the forward-looking statements.

Important factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to:

- changes in worldwide production volumes and demand, including economic conditions that might impact demand;
- volatility of commodity prices for crude oil, natural gas and NGLs and the risk of an extended period of depressed prices;
- impact of governmental policies and/or regulations, including changes in environmental and other laws, the interpretation and enforcement related to those laws and regulations, liabilities arising thereunder and the costs to comply with those laws and regulations;
- potential declines in the value of our crude oil, natural gas and NGLs properties resulting in impairments;
- changes in estimates of proved reserves;
- inaccuracy of reserve estimates and expected production rates;
- potential for production decline rates from our wells being greater than expected;
- timing and extent of our success in discovering, acquiring, developing and producing reserves;
- our ability to secure leases, drilling rigs, supplies and services at reasonable prices;
- availability of sufficient pipeline, gathering and other transportation facilities and related infrastructure to process and transport our production and the impact of these facilities and regional capacity on the prices we receive for our production;

- timing and receipt of necessary regulatory permits;
- risks incidental to the drilling and operation of crude oil and natural gas wells;
- our future cash flows, liquidity and financial condition;
- competition within the oil and gas industry;
- availability and cost of capital;
- reductions in the borrowing base under our revolving credit facility;
- our success in marketing crude oil, natural gas and NGLs;
- effect of crude oil and natural gas derivatives activities;
- impact of environmental events, governmental and other third-party responses to such events, and our ability to insure adequately against such events;
- cost of pending or future litigation;
- effect that acquisitions we may pursue have on our capital expenditures;
- our ability to retain or attract senior management and key technical employees; and
- success of strategic plans, expectations and objectives for our future operations.

Further, we urge you to carefully review and consider the cautionary statements and disclosures, specifically those under Item 1A, Risk Factors, made in this report and our other filings with the U.S. Securities and Exchange Commission ("SEC") for further information on risks and uncertainties that could affect our business, financial condition, results of operations and cash flows. We caution you not to place undue reliance on forward-looking statements, which speak only as of the date of this report. We undertake no obligation to update any forward-looking statements in order to reflect any event or circumstance occurring after the date of this report or currently unknown facts or conditions or the occurrence of unanticipated events. All forward-looking statements are qualified in their entirety by this cautionary statement.

ITEMS 1. AND 2. BUSINESS AND PROPERTIES

The Company

We are a domestic independent exploration and production company that produces, develops, acquires and explores for crude oil, natural gas and NGLs with primary operations in the Wattenberg Field in Colorado, the Utica Shale in southeastern Ohio and, until the fourth quarter of 2014, the Marcellus Shale in northern West Virginia. Our 2015 operations in the Wattenberg Field are focused in the inner and middle core areas of the Niobrara and Codell plays. We own an interest in approximately 2,900 gross producing wells, of which approximately 350 are horizontal. Production of 9.3 MMboe from continuing operations for the year ended December 31, 2014 represents an increase of 42% compared to the year ended December 31, 2013. For the month ended December 31, 2014, we maintained an average production rate of 30 MBoe per day. As of December 31, 2014, we had approximately 250 MMBoe of proved reserves (30% of which are proved developed) with a pre-tax present value of future net revenues ("PV-10") of \$3.5 billion, representing increases of 24 MMBoe and \$0.8 billion, respectively, relative to December 31, 2013, after adjusting for the divestiture of our Marcellus Shale dry-gas assets. Proved reserves at December 31, 2014 were comprised of approximately 64% liquids and 36% natural gas. Our proved reserve additions included further downspacing in the Wattenberg Field and an increase in per well reserves in our inner core horizontal wells targeting the Niobrara formation. PV-10 is not a financial measure under accounting principles generally accepted in the United States of America ("U.S. GAAP"). See Part I, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Reconciliation of Non-U.S. GAAP Financial Measures, for a definition of PV-10 and a reconciliation of our PV-10 value to our standardized measure.

The increases in our production and estimated proved reserves are primarily attributable to our successful horizontal Niobrara and Codell drilling programs in the Wattenberg Field. Future development of the Wattenberg Field provides the opportunity to add further proved, probable and possible reserves to our portfolio through continued delineation

and downspacing of the horizontal Niobrara and Codell formations. Similarly, we believe the Utica Shale provides the opportunity for additional proved, probable and possible reserves in a more favorable crude oil and natural gas pricing environment. In 2014, we spudded 116 horizontal wells in the Wattenberg Field, turned-in-line 86 horizontal wells and participated in 84 gross, 18.7 net, horizontal non-operated drilling projects. We spudded 11 horizontal Utica Shale wells in 2014 and turned-in-line eight horizontal wells.

The following table presents our proved reserve estimates as of December 31, 2014 based on a reserve report prepared by Ryder Scott Company, L.P. (“Ryder Scott”), our independent petroleum engineering consulting firm, and related information:

	Proved Reserves at December 31, 2014				Proved Reserves to Production Ratio (in years)	2014 Production (MMBoe)
	Proved Reserves (MMBoe)	% of Total Proved Reserves	% Proved Developed	% Liquids		
Wattenberg Field	245	98	% 29	% 64	% 28.9	8,484
Utica Shale	5	2	% 77	% 53	% 6.5	805
Total proved reserves	250	100	% 30	% 64	% 26.9	9,289

Our Strengths

Excellent drilling opportunities with a strong liquidity position.

Multi-year project inventory in premier crude oil, natural gas and NGLs plays. We have a significant operational presence in two key U.S. onshore basins and have identified a substantial inventory of approximately 2,650 gross proved undeveloped and probable horizontal drilling projects. We believe that this inventory will allow us to continue to grow our reserves and production, and that, with respect to the Wattenberg Field in particular, the majority of our projects will generate attractive rates of return at current commodity prices and our expected cost structure.

Access to liquidity. As of December 31, 2014, we had a total liquidity position of \$398.4 million, comprised of \$16.1 million of cash and cash equivalents and \$382.3 million available for borrowing under revolving credit facility. We have no near-term debt maturities and had \$56.0 million outstanding on our revolving credit facility as of December 31, 2014. In September 2014, the semi-annual redetermination of our revolving credit facility's borrowing base was completed, resulting in an increase in the borrowing base from \$450 million to \$700 million. We elected to maintain the aggregate commitment at \$450 million. Considering the additional \$250 million borrowing base available under our revolving credit facility, subject to certain terms and conditions of the agreement, our liquidity position as of December 31, 2014 would have been \$648.3 million.

Derivative program. We actively hedge our future exposure to commodity price fluctuations by entering into crude oil and natural gas collars, fixed-price swaps and basis protection swaps. As of December 31, 2014, we have hedged approximately 5,200 MBbls, or approximately 79% to 85%, of our expected crude oil production in 2015 at a weighted-average minimum price of \$88.61 per Bbl and a weighted-average maximum price of \$90.07 per Bbl. As of the same date, we have hedged approximately 22.5 Bcf, or approximately 74% to 79%, of our expected natural gas production in 2015 at a weighted-average minimum price of \$3.90 per Mcf and a weighted-average maximum price of \$4.02 per Mcf. While our derivative program limits the upside benefits we may otherwise receive during periods of higher commodity prices, the program helps protect our cash flows, borrowing base and liquidity during periods of depressed commodity prices.

Track record of reserve and production growth. Our proved reserves have grown from 38 MMBoe at December 31, 2009, after adjusting for subsequent divestitures, to approximately 250 MMBoe at December 31, 2014, representing a compound annual growth rate (“CAGR”) of 46%. During the same time period, our proved crude oil and NGL reserves grew at a CAGR of 55%. Our annual production from continuing operations grew from 2.7 MMBoe in 2009 to 9.3

MMBoe in 2014, representing a CAGR of 28%.

Horizontal drilling and completion experience. We have a proven track record of applying technical expertise toward developing unconventional resources through horizontal drilling and completion operations. We have transitioned to multi-well pad drilling, extended laterals, increased frac density and enhanced frac design to further optimize costs and enhance horizontal drilling efficiencies. These changes enable us to improve economics and increase well density in our horizontal plays.

Significant control in our core areas. As a result of successfully executing our strategy of acquiring largely concentrated acreage positions with a high working interest, we operate and manage approximately 89% of the wells in which we have an interest. Our high percentage of operated properties enables us to exercise a significant level of control with respect to drilling, production, operating and administrative costs, in addition to leveraging our base of technical expertise in our core operating areas. Additionally, this strategy provides us flexibility in selecting drilling locations based upon differing criteria. Our operational control is also enhanced by the fact that a majority of our Wattenberg Field leasehold is held by production.

- Reputation for strong environmental health and safety compliance program. We believe that we have established a positive reputation for our environmental health and safety program. We believe that this is an important advantage for us in competing in today's intensive regulatory climate and in working with local communities in which we operate.

Community participation and outreach. We are dedicated to being an active and contributing member in the communities in which we operate. We share our success with these communities in various ways, including charitable giving and community event sponsorships. We also encourage our employees to take an active role through our charitable matching contribution fund and by participating in our “Energizing Our Community” day, during which our employees volunteer in the communities in which they work and live.

Management experience and operational expertise. We have a management team with a proven track record of drilling performance and a technical and operational staff with expertise in the basins in which we operate, particularly in horizontal drilling, completion and production activities in the Wattenberg Field.

Business Strategy

Our long-term business strategy focuses on generating shareholder value through the development, acquisition and exploration of crude oil and natural gas properties. We are currently focused on the organic growth of our reserves, production and cash flows in our horizontal drilling programs after having completed multiple transactions over the last several years to restructure and simplify our property portfolio. We pursue various midstream, marketing and cost reduction initiatives designed to increase our per unit operating margins while maintaining a conservative and disciplined financial strategy focused on providing sufficient liquidity and balance sheet strength to execute our business strategy.

We focus on horizontal development drilling programs in resource plays that offer repeatable results capable of driving growth in reserves, production and cash flows. We periodically review acquisition opportunities in our core areas of operation as we believe we can extract additional value from such assets through production optimization, refracturing, recompletions and development drilling. In addition, core acquisitions can potentially provide synergies that result in economies of scale from a combined position. While we believe development drilling will remain the foundation of our capital program, we expect to continue our disciplined approach to acquisitions and exploratory drilling.

Development drilling

Our leasehold interests consist of developed and undeveloped crude oil, natural gas and NGLs resources. Based upon our current acreage holdings, we have identified an inventory of approximately 2,650 gross proved undeveloped and probable capital projects for horizontal development. Our 2015 capital program forecast is \$473 million, including \$435 million of development capital and \$38 million for lease acquisition and other capital expenditures. The capital program forecast is a revision to our original 2015 capital budget that was announced in December 2014 and has been adjusted for anticipated service cost reductions and lower non-operated spending, partially offset by increased working interests on certain planned 2015 wells. As a result of our operational flexibility, we have allocated a significantly higher percentage of our 2015 capital program forecast to our higher-return projects in the Wattenberg Field inner and middle core areas.

Wattenberg Field. Our primary focus in the Wattenberg Field is drilling in the horizontal Niobrara and Codell plays. Based on our current drilling program, and considering our inventory of approximately 2,600 gross proved undeveloped and probable horizontal projects, we have nearly 20 years of drilling activity. These projects are primarily located in the core Wattenberg Field, which is further delineated between the inner, middle and outer core. In 2015, we expect to continue to realize additional capital efficiencies through drilling extended length laterals, tighter frac spacing and shifting more of our drilling program to the inner and middle core areas of the field. We plan to enhance our completion design by decreasing the spacing between frac stages from 250 feet to 200 feet. With the modified completion design of more frac stages and anticipated cost structure savings, our gross drilling and

completion costs per well for a 4,000 foot length lateral are expected to be approximately \$3.6 million and are expected to be approximately \$4.6 million for our extended 6,500 to 7,000 foot laterals. We expect increased per well reserves from tighter frac spacing and extended laterals. Additionally, we are drilling the majority of our wells in the inner and middle core areas, which have higher per well reserves than the outer core.

Approximately \$414 million of our 2015 capital program forecast is expected to be spent on development activities in the Wattenberg Field, consisting of \$358 million for our operated drilling program, of which 91% is directed towards the inner and middle core, and \$56 million for non-operated projects. We expect to spud approximately 119 and turn in line 109 horizontal Niobrara or Codell wells of which 40% are expected to be extended length laterals.

Approximately 60% of those wells are expected to target the Niobrara formation with the remainder targeting the Codell formation. We expect to participate in approximately 85 gross, 14.2 net, non-operated horizontal opportunities in 2015. We plan to invest approximately \$21 million on other capital expenditures in the Wattenberg Field. The 2015 capital program forecast maintains our five-rig drilling program in the Wattenberg Field and is based upon the commodity price environment experienced in the first quarter of 2015. A further deterioration of commodity prices could negatively impact our financial condition and results of operations. We may further revise our capital program forecast during the year as a result of, among other things, commodity prices, acquisitions or dispositions of assets, drilling results, changes in our borrowing capacity and/or significant changes in cash flows.

Utica Shale. During 2014, we continued to delineate and develop our leasehold position in the Utica Shale. However, based on current low commodity prices and large natural gas price differentials in Appalachia, we elected to temporarily cease drilling in the Utica Shale at the end of 2014. We recognized an impairment charge of \$158.3 million to write-down our Utica Shale producing and non-producing crude oil and natural gas properties to their estimated fair value. The impairment of undeveloped acreage is primarily on acreage located outside the condensate and wet natural gas windows of the Utica Shale. For 2015, we plan to invest a total of \$35 million in the Utica Shale play to complete and turn-in-line a four-well pad that was in process as of December 31, 2014 and for lease acquisition and other capital

expenditures. We expect to resume our Utica Shale drilling program when commodity prices and net-back realizations rebound. We remain committed to the strong Utica Shale resource we are developing in the condensate and wet natural gas windows of the play. In 2015, we will develop production, reservoir and completion analyses from our recently drilled wells and will incorporate the data into our future drilling programs. We currently estimate that we have approximately 50 gross probable projects for horizontal drilling in the condensate and wet natural gas windows of the Utica Shale and have spudded 24 horizontal wells through December 31, 2014.

Operational and financial risk management

We proactively employ strategies to help reduce the financial risks associated with our industry. One such strategy is to maintain a balanced production mix of liquids and natural gas. During 2014, we produced crude oil, natural gas and NGLs with a production mix of approximately 65% liquids and 35% natural gas. This strategy of a diversified commodity mix helps mitigate the financial impact from a decline in the market price of any one of our commodities. In addition, we utilize commodity-based derivative instruments to manage a substantial portion of our exposure to price volatility with regard to our crude oil and natural gas sales and natural gas marketing segments. As of December 31, 2014, we had natural gas and crude oil derivative positions in place for 2015 covering approximately 5,200 MBbls of our crude oil production and approximately 22.5 Bcf of our natural gas production. Currently, we do not hedge our NGL production.

Strategic acquisitions

We typically pursue the acquisition of assets that may have value from producing wells and behind-pipe reserves, but most important, from high quality undeveloped drilling locations. We seek properties with large undeveloped drilling upside where we believe we can utilize our operational abilities to add shareholder value. We have an experienced team of management, engineering, geosciences and commercial professionals who identify and evaluate acquisition opportunities.

Wattenberg Field. In June 2012, we acquired certain assets from affiliates of Merit Energy (the "Merit Acquisition") for an aggregate purchase price of \$304.6 million. The acquired assets comprise approximately 30,000 net acres located almost entirely in the core Wattenberg Field and in close proximity to our then-existing acreage position. Our total position in the core Wattenberg Field is now approximately 96,000 net acres.

Utica Shale. Over the past three years, we have acquired approximately 67,000 net acres of Utica leaseholds, targeting the condensate and wet natural gas windows of the Utica Shale play in southeastern Ohio. As an early entrant into the development of the Utica Shale, we believe we have gained valuable experience in drilling and developing the condensate and wet natural gas windows of the play.

Strategic divestitures

We continue to seek ways to optimize our asset portfolio as part of our business strategy. This may include divesting lower return assets and reinvesting in our stronger economic inventory. As a result, we have divested several assets over the past few years.

Appalachian Marcellus Shale Assets. In October 2014, we completed the sale of our entire 50% ownership interest in PDCM to an unrelated third-party for aggregate consideration, after our share of PDCM's debt repayment and other working capital adjustments, of approximately \$192 million, comprised of approximately \$153 million in net cash proceeds and a promissory note due in 2020 of approximately \$39 million. The transaction included the buyer's assumption of our share of the firm transportation commitment related to the assets owned by PDCM, as well as our share of PDCM's natural gas hedging positions for the years 2014 through 2017. The divestiture resulted in a pre-tax

gain of \$76.3 million. Proceeds from the divestiture were used to reduce outstanding borrowings on our revolving credit facility and to fund a portion of our 2014 capital budget. Our proportionate share of PDCM's Marcellus Shale results of operations has been separately reported as discontinued operations in the consolidated statements of operations for all periods presented. See Note 14, Assets Held for Sale, Divestitures and Discontinued Operations, to our consolidated financial statements included elsewhere in this report for additional information regarding this divestiture.

Appalachian Shallow Upper Devonian Gas Assets. In December 2013, we divested our shallow Upper Devonian (non-Marcellus Shale) Appalachian Basin crude oil and natural gas properties previously owned directly by us, as well as through our proportionate share of PDCM, for aggregate consideration of approximately \$20.6 million, of which our share of the proceeds was approximately \$5.1 million. We received our proportionate share of cash proceeds and a note receivable. Concurrent with the closing of the transaction, our \$6.7 million irrevocable standby letter of credit and an agreement for firm transportation services was released and novated to the buyer.

Colorado Dry Gas Assets. In June 2013, we completed the sale of our non-core Colorado dry gas assets, primarily natural gas producing properties located in the Piceance Basin, northeastern Colorado and other non-core areas, to certain affiliates of Caerus Oil and Gas LLC ("Caerus") for consideration of \$177.6 million, with an additional \$17 million paid to our non-affiliated investor partners in our affiliated partnerships. The sale resulted in a pre-tax loss of \$2.3 million. The proceeds from the asset disposition were used to pay down our revolving credit facility and to fund a portion of our 2013 capital budget.

Selective exploration

With the current commodity pricing environment, we do not expect our exploration activity to be significant in 2015. Historically, we have pursued a disciplined exploration program intended to replenish our portfolio and to position us for production and reserve growth in future years. We have attempted to identify potential plays in their early stages in order to accumulate significant leasehold positions

prior to competitive forces driving up the cost of entry and to invest in leasehold positions that are in the proximity of existing or emerging midstream infrastructure.

Business Segments

We divide our operating activities into two segments: (1) Oil and Gas Exploration and Production and (2) Gas Marketing.

Oil and Gas Exploration and Production

Our Oil and Gas Exploration and Production segment primarily reflects revenues and expenses from the production and sale of crude oil, natural gas and NGLs, commodity price risk management, net, and well operations and pipeline income. The exploration and production of crude oil, natural gas and NGLs involves the acquisition or leasing of mineral rights to proved reserves and related surface rights. Prior to development of these properties, we assess the economic viability of potential well development opportunities. We then develop the reserves through the drilling of oil and gas wells, which are drilled, completed and put into production. Subsequent to completion, we operate and maintain the wells while controlling associated production costs. Upon extraction of the estimated recoverable reserves from a well, it is plugged and surface disturbance surrounding the well and producing facilities is remediated. In some cases, we may also own a working interest in wells operated by unrelated third-parties. The Oil and Gas Exploration and Production segment's most significant customers are currently Suncor Energy Marketing, Inc., Concord Energy, LLC, DCP Midstream, LP and Teppco Crude Oil, LLC. Sales to each of these parties constitute more than 10% of our revenues.

Our crude oil, natural gas and NGLs production is gathered, marketed and sold as follows:

Crude oil. We do not refine any of our crude oil production. In the Wattenberg Field, crude oil is sold at each individual well site and transported by the purchasers via truck, pipeline or rail to markets under various purchase contracts with monthly pricing provisions based on NYMEX pricing, adjusted for differentials. We have entered into a five-year agreement, beginning in the second quarter of 2015, which will allow crude oil sold to these purchasers to be transported via pipeline to Cushing, Oklahoma. In addition, we have signed a long term agreement for gathering of crude oil at the wellhead by pipeline from several of our wells and transportation to at least one central point in the Wattenberg Field, with a view toward reducing costs and minimizing truck traffic. In the Utica Shale, crude oil and condensate is sold to local purchasers at each individual well site based on NYMEX pricing, adjusted for differentials, and is typically transported by the purchasers via truck to local refineries, rail facilities or barge loading terminals on the Ohio River.

Natural gas. We primarily sell our natural gas to midstream service providers, marketers and utilities. Our natural gas is transported through third-party gathering systems and pipelines and we incur gathering, processing and transportation expenses to move our natural gas from the wellhead to a purchaser-specified delivery point. We generally sell the natural gas that we produce under contracts with indexed, NYMEX or CIG monthly pricing provisions, with the remaining production sold under contracts with daily pricing provisions. Virtually all of our contracts include provisions whereby prices change monthly with changes in the market, with certain adjustments that may be made based on whether a well delivers to a gathering or transmission line and the quality of the natural gas. Therefore, the price of the natural gas fluctuates to remain competitive with other available natural gas supplies. In certain instances, we enter into firm transportation, processing and sales agreements to provide for pipeline capacity to flow and sell a portion of our natural gas volumes. In the Wattenberg Field, the majority of our leasehold is dedicated to our primary midstream provider, DCP Midstream, LP, which gathers and processes wet natural gas produced in the basin and sells our residue gas to various markets. In the fourth quarter of 2014, we entered into an agreement with AKA Energy Group ("AKA") whereby we have committed production from a specified number of new horizontal

wells to be drilled and completed prior to mid-2016. Pursuant to the agreement, AKA is required to install and operate, or contract for use of, facilities necessary to receive and purchase production volume committed under the agreement. In the Utica Shale, wet natural gas produced in our northern acreage is gathered and processed pursuant to a firm transportation agreement with MarkWest Utica EMG ("MarkWest") while wet natural gas produced in our southern acreage is gathered and processed by Blue Racer Midstream LLC ("Blue Racer"). We market our Utica residue gas to various purchasers based on a pipeline basis or NYMEX pricing. We are currently selling all of our residue gas from the MarkWest plant at a daily price based on the Chicago Citygate market, and plan to do so through October 2015.

NGLs. In the Wattenberg Field, all of our NGLs are sold at the tailgate of the third-party midstream service provider processing plants based on a combination of prices from the Conway hub in Kansas and Mt. Belvieu in Texas where this production is marketed. In the Utica Shale, our NGLs are fractionated and marketed by MarkWest and Blue Racer and sold based on month-to-month pricing in various markets. Our NGL production is sold under both short- and long-term contracts.

Gas Marketing

Our Gas Marketing segment is comprised solely of the operating activities of our wholly-owned subsidiary Riley Natural Gas ("RNG"). RNG specializes in the purchase, aggregation and sale of natural gas production in the Appalachian Basin. Financial results from our gas marketing segment were not material to our consolidated financial statements for any of the periods presented in this report and we do not expect them to be material in the future. RNG purchases for resale natural gas produced by third-party producers, as well as natural gas produced by us in the Utica Shale. The natural gas is marketed to third-party marketers, natural gas utilities and industrial and commercial

customers through transportation services provided by regulated interstate/intrastate pipeline companies. RNG is party to long-term firm transportation, sales and processing agreements for pipeline capacity through August 2022. Following the sale of our 50% ownership interest in PDCM in October 2014, RNG's marketing activities were scaled down and are limited to purchasing, aggregating and selling natural gas production to attempt to meet such volume commitments. After the long-term firm transportation agreements expire, we expect to discontinue this segment.

For additional information regarding our business segments, see Note 17, Business Segments, to our consolidated financial statements included elsewhere in this report.

Areas of Operations

The following map presents the general locations of our development and production activities as of December 31, 2014:

Wattenberg Field, DJ Basin, Colorado. Currently, horizontal wells drilled in this area target the reservoirs in the Niobrara and Codell formations. These horizontal wells have a vertical depth ranging from approximately 6,500 to 7,500 feet, with lateral lengths of approximately 4,000 to 7,000 feet. Using pad drilling, we have increased well density in the horizontal Niobrara and Codell plays, which results in reduced per-well costs. We currently estimate that we have 2,600 gross proved undeveloped and probable horizontal projects in the Wattenberg Field drilling inventory. In addition to our horizontal drilling program, we currently operate approximately 2,450 vertical wells in the Wattenberg Field.

Utica Shale, southeastern Ohio. Wells drilled in this area primarily target the Point Pleasant member of the Utica Shale formation. Our acreage targets the condensate and wet natural gas windows of the Utica Shale play throughout southeastern Ohio. The horizontal wells have a vertical depth ranging from approximately 7,000 to 8,000 feet, with lateral lengths of approximately 4,000 to 7,500 feet. We currently estimate that we have approximately 50 gross probable projects for horizontal drilling in the condensate and wet natural gas windows of the Utica Shale.

Properties

Productive Wells

The following table presents our productive wells:

Operating Region/Area	Productive Wells					
	As of December 31, 2014					
	Crude Oil		Natural Gas		Total	
	Gross	Net	Gross	Net	Gross	Net
Wattenberg Field	403	246.9	2,445	2,200.1	2,848	2,447.0
Utica Shale	16	12.7	3	3.0	19	15.7
Total productive wells	419	259.6	2,448	2,203.1	2,867	2,462.7

Proved Reserves

Our proved reserves are sensitive to future crude oil, natural gas and NGLs sales prices and the related effect on the economic productive life of producing properties. Increases in commodity prices may result in a longer economic productive life of a property or result in recognition of more economically viable proved undeveloped reserves. Decreases in commodity prices may result in negative impacts of this nature.

All of our proved reserves are located onshore in the U.S. Our proved reserve estimates are prepared using the definitions for proved reserves set forth in SEC Regulation S-X, Rule 4-10(a) and other applicable SEC rules. As of December 31, 2014, all of our proved reserves, including our proportionate share of our affiliated partnerships' reserves, have been estimated by Ryder Scott.

We have a comprehensive process that governs the determination and reporting of our proved reserves. As part of our internal control process, our reserves are reviewed annually by an internal team composed of reservoir engineers, geologists and accounting personnel for adherence to SEC guidelines through a detailed review of land records, available geological and reservoir data, and production performance data. The process includes a review of applicable working and net revenue interests and cost and performance data. The internal team compiles the reviewed data and forwards the data to Ryder Scott.

When preparing our reserve estimates, Ryder Scott did not independently verify the accuracy and completeness of information and data furnished by us with respect to ownership interests, production volumes, well test data, historical costs of operations and development, product prices or any agreements relating to current and future operations of properties and sales of production. Ryder Scott prepares an estimate of our reserves in conjunction with an ongoing review by our engineers. A final comparison of data is performed to ensure that the reserve estimates are complete, determined pursuant to acceptable industry methods and with a level of detail we deem appropriate. The final estimated reserve report is reviewed by our engineering staff and management prior to issuance by Ryder Scott.

The professional qualifications of the internal lead engineer primarily responsible for overseeing the preparation of our reserve estimates qualify the engineer as a Reserves Estimator, as defined in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information as promulgated by the Society of Petroleum Engineers. This person holds a Bachelor of Science degree in Petroleum and Chemical Refining Engineering with a minor in Petroleum Engineering, has over 37 years of experience in reservoir engineering, is a member of the Society of Petroleum Engineers and the Society of Petroleum Evaluation Engineers and is a registered Professional Engineer in the State of Colorado.

The SEC's reserve rules allow the use of techniques that have been proved effective by actual production from projects in the same reservoir or an analogous reservoir or by other evidence using reliable technology that establishes reasonable certainty. Reliable technology is a grouping of one or more technologies (including computational methods) that has been field tested and has been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation. We used a combination of production and pressure performance, wireline wellbore measurements, offset analogies, seismic data and interpretation, wireline formation tests, geophysical logs and core data to calculate our reserve estimates, including the material additions to the 2014 reserve estimates. All of our proved undeveloped reserves conform to the SEC five-year rule requirement as all proved undeveloped locations are scheduled, according to an adopted development plan, to be drilled within five years of each location's initial booking date.

Reserve estimates involve judgments and cannot be measured exactly. The estimates must be reviewed periodically and adjusted to reflect additional information gained from reservoir performance, new geological and geophysical data and economic changes. Neither the estimated future net cash flows nor the standardized measure of discounted future net cash flows ("standardized measure") is intended to represent the current market value of our proved reserves. For additional information regarding both of these measures, as well as other information regarding our proved reserves, see the unaudited Supplemental Information - Crude Oil and Natural Gas Information provided with our consolidated financial statements included elsewhere in this report. The following tables provide information regarding our estimated proved reserves:

	As of December 31,		
	2014	2013 (3)	2012 (3)(4)(5)
Proved reserves			
Crude oil and condensate (MMBbls)	101	94	59
Natural gas (Bcf)	537	740	604
NGLs (MMBbls)	60	49	33
Total proved reserves (MMBoe)	250	266	193
Proved developed reserves (MMBoe)	75	76	82
Estimated future net cash flows (in millions) (1)	\$4,938	\$4,323	\$2,756
PV-10 (in millions) (2)	\$3,450	\$2,704	\$1,709
Standardized measure (in millions)	\$2,306	\$1,782	\$1,168

(1) Amount represents undiscounted pre-tax future net cash flows estimated by Ryder Scott of approximately \$7.3 billion, \$6.4 billion and \$4.0 billion as of December 31, 2014, 2013 and 2012, respectively, less an internally-estimated future income tax expense of approximately \$2.3 billion, \$2.1 billion and \$1.2 billion, respectively.

(2) PV-10 is a non-U.S. GAAP financial measure. It is not intended to represent the current market value of our estimated reserves. PV-10 should not be considered in isolation or as a substitute for the standardized measure reported in accordance with U.S. GAAP, but rather should be considered in addition to the standardized measure. See Part I, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Reconciliation of Non-U.S. GAAP Financial Measures, for a definition of PV-10 and a reconciliation of our PV-10 value to the standardized measure.

(3) Includes estimated reserve data related to our Marcellus Shale crude oil and natural gas properties, which were divested in October 2014. See Note 14, Assets Held for Sale, Divestitures and Discontinued Operations, to our consolidated financial statements included elsewhere in this report for additional details related to the divestiture of these assets.

The following table sets forth information regarding estimated proved reserves for our Marcellus Shale crude oil and natural gas properties:

	As of December 31,	
	2013	2012
Proved reserves		
Natural gas (Bcf)	237	179
Total proved reserves (MMBoe)	40	30
Proved developed reserves (MMBoe)	9	7
Estimated future net cash flows (in millions)	\$394	\$135

(4) Includes estimated reserve data related to our Piceance and northeast Colorado ("NECO") crude oil and natural gas properties which were divested in June 2013. See Note 14, Assets Held for Sale, Divestitures and Discontinued Operations, to our consolidated financial statements included elsewhere in this report for additional details related to the divestiture of our Piceance and NECO assets.

The following table sets forth information regarding estimated proved reserves for our Piceance and NECO assets:
December 31, 2012

Proved reserves	
Crude oil and condensate (MMBbls)	0.1
Natural gas (Bcf)	84
Total proved reserves (MMBoe)	14
Proved developed reserves (MMBoe)	14
Estimated future net cash flows (in millions)	\$56

(5) Includes estimated reserve data related to our shallow Upper Devonian (non-Marcellus Shale) Appalachian Basin crude oil and natural gas properties, which were divested in December 2013. See Note 14, Assets Held for Sale, Divestitures and Discontinued Operations, to our consolidated financial statements included elsewhere in this report for additional details related to these assets.

The following table sets forth information regarding estimated proved reserves for our shallow Upper Devonian (non-Marcellus Shale) Appalachian Basin crude oil and natural gas properties:

	December 31, 2012
Proved reserves	
Natural gas (Bcf)	11
Total proved reserves (MMBoe)	2
Proved developed reserves (MMBoe)	2
Estimated future net cash flows (in millions)	\$3

The following table presents our estimated proved developed and undeveloped reserves by category and area:

Operating Region/Area	As of December 31, 2014					
	Crude Oil and Condensate (MBbls)	Natural Gas (MMcf)	NGLs (MBbls)	Crude Oil Equivalent (MBoe)	Percent	
Proved developed						
Wattenberg Field	25,339	174,680	16,397	70,849	95	%
Utica Shale	1,459	11,953	605	4,056	5	%
Total proved developed	26,798	186,633	17,002	74,905	100	%
Proved undeveloped						
Wattenberg Field	73,185	347,525	42,913	174,019	99	%
Utica Shale	532	2,814	204	1,205	1	%
Total proved undeveloped	73,717	350,339	43,117	175,224	100	%
Proved reserves						
Wattenberg Field	98,524	522,205	59,310	244,868	98	%
Utica Shale	1,991	14,767	809	5,261	2	%
Total proved reserves	100,515	536,972	60,119	250,129	100	%

We have stress-tested our proved reserve estimates as of December 31, 2014 to determine the impact of low commodity prices. Replacing the 2014 NYMEX commodity prices used in estimating our reported proved reserves (see Supplemental Information - Crude Oil and Natural Gas Information, provided with our consolidated financial statements included elsewhere in this report) with those shown on the table below, and leaving all other parameters unchanged, results in a decrease in our estimated proved reserves of 9% or less.

	Pricing Scenario - NYMEX			% Change from December 31, 2014 Estimated Reserves
	Crude Oil (per Bbl)*	Natural Gas (per MMBtu)*	Proved Reserves (MMBoe)	
2014 Reserve Report	\$94.99	\$4.35	250.1	—
Scenario A	70.00	4.00	238.0	(5)%
Scenario B	60.00	3.50	234.0	(7)%
Scenario C	50.00	3.25	227.0	(9)%

These prices are indices and do not include basin differentials for crude oil and natural gas. The above reserve *stress-test scenarios were calculated using the indicated index prices, less the year-end 2014 differentials we experienced for the respective commodity by basin.

Developed and Undeveloped Acreage

The following table presents our developed and undeveloped lease acreage:

Operating Region/Area	As of December 31, 2014					
	Developed		Undeveloped (1)		Total	
	Gross	Net	Gross	Net	Gross	Net
Wattenberg Field	97,900	88,500	8,100	7,000	106,000	95,500
Utica Shale	3,600	3,000	68,200	63,800	71,800	66,800
Total acreage	101,500	91,500	76,300	70,800	177,800	162,300

Approximately 2%, 8% and 20% of our undeveloped leaseholds expire during 2015, 2016 and 2017, respectively, (1) primarily in the Utica Shale. Substantially all of our undeveloped acreage in the Wattenberg Field is related to leaseholds that are held by production.

In 2014, we recognized an impairment charge of \$158.3 million to write-down our Utica Shale producing and non-producing crude oil and natural gas properties to their estimated fair value, \$45.7 million of which related to capitalized leasehold costs on approximately 27,500 gross, 22,800 net, undeveloped acres primarily located outside the condensate and wet natural gas windows of the Utica Shale. See Note 6, Properties and Equipment, to our consolidated financial statements included elsewhere in this report for additional information.

Drilling Activity

The following table presents information regarding the number of wells drilled or participated in for the period presented:

Operating Region	Year Ended December 31,					
	2014		2013		2012	
	Gross	Net	Gross	Net	Gross	Net
Wattenberg Field	158	85.9	97	61.2	66	43.0
Utica Shale	9	8.0	11	8.7	1	1.0
Other (1)	4	2.0	10	5.0	16	12.5
Total wells drilled	171	95.9	118	74.9	83	56.5

(1) Includes drilling activity in the Marcellus Shale crude oil and natural gas properties, which were divested in October 2014.

The following tables set forth our developmental and exploratory well drilling activity for the periods presented. There is no necessary correlation between the number of productive wells completed during any period and the aggregate reserves attributable to those wells. Productive wells consist of wells spudded, turned-in-line and producing during the period. In-process wells represent wells that are in the process of being drilled or have been drilled and are waiting to be fractured and/or for gas pipeline connection as of the date shown.

Operating Region/Area	Net Development Well Drilling Activity								
	Year Ended December 31, 2014			2013			2012		
	Productive	In-Process	Dry	Productive	In-Process	Dry	Productive	In-Process	Dry
Wattenberg Field	90.7	42.8	1.7	(1) 53.5	15.6	0.1	31.3	7.7	—

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Utica Shale	7.0	3.0	1.0	(1) 3.0	2.0	—	—	—	—
Other (2)	2.0	—	—	3.5	2.0				