The net present value (NPV) of an Asset Retirement Obligation (ARO) is calculated by using different banking rates and the life of the asset. This NPV is then booked in the accounting records as an asset and a liability. The future value (FV), based on the life of the asset is calculated. On a monthly basis the ARO asset is reduced with depreciation and the ARO liability is increased by accretion. The ARO asset will be depreciated until the value of the asset is zero and the liability will be accreted until it reaches the FV of the asset. The accretion and depreciation items are booked as expense items. These expenses are totaled and funds are deposited into a trust account. These funds are set aside for the actual abandonment of the asset at the end of its life. AROs are periodically evaluated and if a change is determined to be needed, an adjusting entry to increase or decrease the ARO is made.

-Aaron Rose, Supervisor Accounting, Wexpro Company

In short, if Wexpro Company is given approval to leave the backfilled pit in place until plugging and abandonment of the associated well, additional funds will be set aside over time to account for the cost of remediation of the pit, as opposed to being charged to the producing well, which may make the well un-economic to produce, therefore resulting in the early plugging and abandonment of the well.