Berry Petroleum Company, LLC
Form 10-K
March 28, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-K

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

For the fiscal year ended December 31, 2015

.. 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: 1-9735
BERRY PETROLEUM COMPANY, LLC
(Successor in interest to Berry Petroleum Company)
(Exact name of registrant as specified in its charter)

Delaware	77-0079387
(State of incorporation or organization)	(I.R.S. Employer Identification Number)

600 Travis, Suite 5100
Houston, Texas 77002
(Address of principal executive offices, including zip code)
Registrant's telephone number, including area code:
(281) 840-4000
Securities registered pursuant to Section 12(b) of the Act: None
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 o NO ý
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 ý NO o
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 o NO ý
Pursuant to the terms of its senior note indentures, the registrant is a voluntary filer of reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, and has filed all such reports as required by its senior note indentures during the preceding 12 months.
The registrant meets the conditions set forth in General Instructions I(1)(a) and (b) of Form 10-K as it is an indirect wholly owned subsidiary of Linn Energy, LLC, which is a reporting company under the Securities Exchange Act of 1934 and which has filed with the SEC all materials required to be filed pursuant to Section 13, 14 or 15(d) thereof, and the registrant is therefore filing this Form 10-K with a reduced disclosure format.
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) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ý NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) 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. ý

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 o Accelerated filer o Non-accelerated filer ý Smaller reporting company o

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

On December 16, 2013, the registrant was acquired (see Note 1 of Notes to Financial Statements), as a result of which 100% of its membership interest is currently held by a single member and the registrant deregistered its equity under the Securities Exchange Act of 1934.

Documents Incorporated by Reference:

None

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Glossary of Terms

As commonly used in the oil and natural gas industry and as used in this Annual Report on Form 10-K, the following terms have the following meanings:

Basin. A large area with a relatively thick accumulation of sedimentary rocks.

Bbl. One stock tank barrel or 42 United States gallons liquid volume.

Bbls/d. Bbls per day.

Bcf. One billion cubic feet.

BOE. Barrel of oil equivalent, determined using the ratio of one Bbl of oil, condensate or natural gas liquids to six Mcf of natural gas.

BOE/d. BOE per day.

Btu. One British thermal unit, which is the heat required to raise the temperature of a one-pound mass of water from 58.5 degrees to 59.5 degrees Fahrenheit.

Development well. A well drilled within the proved area of a reservoir to the depth of a stratigraphic horizon known to be productive.

Diatomite. A sedimentary rock composed primarily of siliceous, diatom shells.

Dry hole or well. A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production would exceed production expenses and taxes.

Enhanced oil recovery. A technique for increasing the amount of oil that can be extracted from a field.

Field. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition.

Formation. A stratum of rock that is recognizable from adjacent strata consisting primarily of a certain type of rock or combination of rock types with thickness that may range from less than two feet to hundreds of feet.

Gross acres or gross wells. The total acres or wells, as the case may be, in which a working interest is owned.

MBbls. One thousand barrels of oil or other liquid hydrocarbons.

MBbls/d. MBbls per day.

MBOE. One thousand barrels of oil equivalent.

MBOE/d. MBOE per day.

Mcf. One thousand cubic feet.

MMBbls. One million barrels of oil or other liquid hydrocarbons.

MMBOE. One million barrels of oil equivalent.

MMBtu. One million British thermal units.

MMcf. One million cubic feet.

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Glossary of Terms - Continued

MMcf/d. MMcf per day.
Mwh. One thousands kilowatts of electricity used continuously for one hour.
Mwh/d. Mwh per day.
Net acres or net wells. The sum of the fractional working interests owned in gross acres or gross wells, as the case may be.
NGL. Natural gas liquids, which are the hydrocarbon liquids contained within natural gas.
Productive well. A well that is found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceeds production expenses and taxes.
Proved developed reserves. Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.
Proved reserves. Reserves that by analysis of geoscience and engineering data can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.
Proved undeveloped drilling location. A site on which a development well can be drilled consistent with spacing rules for purposes of recovering proved undeveloped reserves.
Proved undeveloped reserves or PUDs. Reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances. Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time. Estimates for proved undeveloped reserves are not attributed to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.
Recompletion. The completion for production of an existing wellbore in another formation from that which the well has been previously completed.
Reservoir. A porous and permeable underground formation containing a natural accumulation of economically productive natural gas and/or oil that is confined by impermeable rock or water barriers and is individual and separate from other reserves.
Royalty interest. An interest that entitles the owner of such interest to a share of the mineral production from a property or to a share of the proceeds there from. It does not contain the rights and obligations of operating the property and normally does not bear any of the costs of exploration, development and operation of the property.
Spacing. The number of wells which conservation laws allow to be drilled on a given area of land.
Standardized measure of discounted future net cash flows. The present value of estimated future net revenues to be generated from the production of proved reserves, determined in accordance with the regulations of the Securities and Exchange Commission, without giving effect to non-property related expenses such as general and administrative expenses, debt service, future income tax expenses or depreciation, depletion and amortization; discounted using an annual discount rate of 10%.

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Undeveloped acreage. Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil, natural gas and NGL regardless of whether such acreage contains proved reserves.
Unproved reserves. Reserves that are considered less certain to be recovered than proved reserves. Unproved reserves may be further sub-classified to denote progressively increasing uncertainty of recoverability and include probable reserves and possible reserves.
Working interest. The operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and a share of production.
Workover. Maintenance on a producing well to restore or increase production.

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Part I

Item 1. Business

This Annual Report on Form 10-K contains forward-looking statements based on expectations, estimates and assumptions as of the date of this filing. These statements by their nature are subject to a number of risks and uncertainties. Actual results may differ materially from those discussed in the forward-looking statements. For more information, see "Cautionary Statement Regarding Forward-Looking Statements" included at the end of this Item 1. "Business" and see also Item 1A. "Risk Factors."

References

The reference to a "Note" herein refers to the accompanying Notes to Financial Statements contained in Item 8. "Financial Statements and Supplementary Data."

Overview

Berry Petroleum Company, LLC ("Berry" or the "Company") was formed as a Delaware limited liability company on December 16, 2013, and is an indirect wholly owned subsidiary of Linn Energy, LLC ("LINN Energy") engaged in the production and development of oil and natural gas. The Company's predecessor, Berry Petroleum Company, was publicly traded from 1987 until December 2013. On December 16, 2013, the Company completed the transactions contemplated by the merger agreement between LINN Energy, LinnCo, LLC ("LinnCo"), an affiliate of LINN Energy, and Berry under which LinnCo acquired all of the outstanding common shares of Berry and the contribution agreement between LinnCo and LINN Energy, under which LinnCo contributed Berry to LINN Energy in exchange for LINN Energy units (see Note 2). Linn Acquisition Company, LLC, a direct subsidiary of LINN Energy, is currently the Company's sole member.

The Company's properties are located in the United States ("U.S."), in California (San Joaquin Valley and Los Angeles basins), Kansas and the Oklahoma Panhandle (Hugoton Basin), Utah (Uinta Basin), Colorado (Piceance Basin) and east Texas. In August and November of 2014, the Company divested all of its properties located in the Permian Basin. Proved reserves at December 31, 2015, were approximately 175 MMBOE, of which approximately 53% were oil, 37% were natural gas and 10% were natural gas liquids ("NGL"). All proved reserves were classified as proved developed, with a total standardized measure of discounted future net cash flows of approximately $995 million. At December 31, 2015, the Company operated 5,910 or approximately 96% of its 6,125 gross productive wells and had an average proved reserve-life index of approximately 10 years, based on the December 31, 2015, reserve report and year-end 2015 production.

Strategy

The Company's business strategy is to add value by efficiently increasing production, reserves and cash flow. The Company's strategy is based on the following:

- pursuing the development of projects that the Company believes will generate attractive rates of return;
- maintaining a balanced portfolio of long-lived oil and natural gas properties that provide stable cash flows;
- maximizing production from the Company's base assets; and
- maintaining a strong financial position by investing capital in a disciplined manner.

Business Strengths

The Company believes that the following strengths allow it to successfully execute its business strategy:

Low-Risk Multi-Year Drilling Inventory in Established Oil and Natural Gas Plays

The Company has a significant number of drilling locations in established oil and natural gas plays that possess low geologic risk, leading to relatively predictable drilling results. The Company's complementary mix of primary development locations as well as heavy oil thermal projects provide the financial flexibility to respond to commodity price and localized operating environments.

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Balanced High-Quality Asset Portfolio
Since 2002, the Company has grown its asset base and diversified its portfolio primarily through acquisitions in the Uinta Basin and Hugoton Basin. The Company's portfolio provides the flexibility to allocate capital among a diverse set of assets.
Long-Lived Proved Reserves with Stable Production Characteristics
The Company's properties generally have long reserve lives and reasonably stable and predictable well production characteristics. The Company's ratio of proved reserves to production was approximately 12 years as of December 31, 2015.
Operational Control and Financial Flexibility
The Company exercises operating control over approximately 96% of its assets. The Company generally prefers to retain operating control over its properties, allowing it to more effectively control operating costs, timing of development activities and technological enhancements, marketing of production and allocation of the Company's capital costs. In addition, the timing of most of the Company's capital expenditures is discretionary, which allows LINN Energy a significant degree of flexibility to adjust the size of the Company's capital program. Since December 2013, the Company has financed its drilling and development program primarily through internally generated net cash provided by operating activities and funding from LINN Energy.
Experienced Management and Operational Teams
The Company's core team of technical staff and operating managers has broad industry experience, including experience in heavy oil thermal recovery operations and unconventional reservoir development and completion. The Company continues to utilize technologies and steam practices that it believes will allow the Company to improve the ultimate recovery of oil from its properties in California.
Recent Developments
See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for details about the Company's going concern uncertainty.
Financing Activities
During the year ended December 31, 2015, the Company repurchased at a discount, on the open market and through a privately negotiated transaction, approximately $65 million of its outstanding senior notes.
In October 2015, the Company entered into an amendment to its Second Amended and Restated Credit Agreement ("Credit Facility"). The spring 2015 semi-annual borrowing base redetermination of the Company's Credit Facility was completed in May 2015, and as a result of lower commodity prices, the borrowing base under the Credit Facility decreased from $1.4 billion to $1.2 billion, including $250 million posted as restricted cash (discussed below). The fall 2015 semi-annual redetermination was completed in October 2015 and the borrowing base under the Credit Facility decreased from $1.2 billion to $900 million, including the $250 million of restricted cash. In connection with the reduction in Berry's borrowing base in October 2015, Berry repaid $300 million of borrowings outstanding under the Credit Facility. Continued low commodity prices, reductions in the Company's capital budget and the resulting reserve write-downs are expected to adversely impact future redeterminations.
In connection with the reduction in Berry's borrowing base in May 2015, LINN Energy contributed $250 million to Berry to post as restricted cash with Berry's lenders. As directed by LINN Energy, the $250 million was deposited on Berry's behalf in a security account with the administrative agent subject to a security control agreement. Berry's ability to withdraw funds from this account is subject to a concurrent reduction of the borrowing base under the Credit Facility or lender's consent in connection with a redetermination of such borrowing base. The $250 million may be used to satisfy obligations under the Credit Facility or, subject to restrictions in the indentures governing Berry's senior notes, may be returned to LINN Energy in the future.
See Note 3 for additional details about the Company's debt.

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Commodity Derivatives

During the year ended December 31, 2015, the Company entered into commodity derivative contracts consisting of natural gas basis swaps for May 2015 through December 2016 to hedge exposure to differentials in certain producing areas and oil swaps for April 2015 through December 2015. In addition, the Company entered into natural gas basis swaps for May 2015 through December 2016 to hedge exposure to the differential in California, where it consumes natural gas in its heavy oil development operations.

Properties

The Company currently has five operating areas in the U.S.: California, Hugoton Basin, Uinta Basin, Piceance Basin and East Texas.

California

The Company's California operating area consists of properties located in the Midway-Sunset, McKittrick, Poso Creek and South Belridge fields in the San Joaquin Valley Basin as well as the Placerita Field in the Los Angeles Basin. The properties in this operating area produce using thermal enhanced oil recovery methods at depths ranging from 800 feet to 2,000 feet. California proved reserves represented approximately 50% of total proved reserves at December 31, 2015, all of which were classified as proved developed. This operating area produced 25.8 MBOE/d or 53% of the Company's 2015 average daily production.

Hugoton Basin

The Company's Hugoton Basin properties are located in southwest Kansas and the Oklahoma Panhandle and primarily produce from the Council Grove and Chase formations at depths ranging from 2,200 feet to 3,100 feet. Hugoton Basin proved reserves represented approximately 38% of total proved reserves at December 31, 2015, all of which were classified as proved developed. This operating area produced 9.9 MBOE/d or 21% of the Company's 2015 average daily production.

Uinta Basin

The Company's Uinta Basin properties target the Green River and Wasatch formations that produce both oil and natural gas at depths ranging from 5,000 feet to 7,500 feet. To more efficiently transport its natural gas in the Uinta Basin to market, the Company owns and operates a network of natural gas gathering systems comprised of approximately 750 miles of pipeline and associated compression and metering facilities that connect to numerous sales outlets in the area. The Company also owns the Brundage Canyon natural gas processing plant with capacity of approximately 30 MMcf/d. Uinta Basin proved reserves represented approximately 7% of total proved reserves at December 31, 2015, all of which were classified as proved developed. This operating area produced 8.0 MBOE/d or 17% of the Company's 2015 average daily production.

Piceance Basin

The Company's Piceance Basin properties target the Williams Fork section of the Mesaverde formation and produce at depths ranging from 7,500 feet to 9,500 feet. Piceance Basin proved reserves represented approximately 3% of total proved reserves at December 31, 2015, all of which were classified as proved developed. This operating area produced 3.1 MBOE/d or 6% of the Company's 2015 average daily production.

East Texas

The Company's East Texas properties primarily produce natural gas from the Cotton Valley and Travis Peak formations at depths ranging from 7,000 feet to 11,500 feet. Proved reserves for these mature, low-decline producing properties represented approximately 2% of total proved reserves at December 31, 2015, all of which were classified as proved developed. This operating area produced 1.6 MBOE/d or 3% of the Company's 2015 average daily production.

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Drilling and Acreage
The following table sets forth the wells drilled during the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Gross wells:			
Productive	196	411	340
Dry	—	—	—
	196	411	340
Net development wells:			
Productive	163	407	311
Dry	—	—	—
	163	407	311
Net exploratory wells:			
Productive	—	—	—
Dry	—	—	—
	—	—	—