Park City was a great environment for our 2002 annual meeting. Vice President Mark Doering did a terrific job organizing the meeting. The speakers were excellent. The topics stirred many discussions, especially Dr. Deffeyes presentation on Hubbard’s peak. His comments at our meeting have been the recent topic of one of the SPE focus group's e-mail discussions. Another real benefit of our meeting was the ability to socialize with each other about our industry and the apprehensions that we have about our economy.

The temperature was in the high 20's on Saturday morning at the Lodges in Deer Valley, and coming from Houston in June it was a welcome change. At the Monday night dinner, we gave out our first annual volunteer service awards to Russ Long (editor of the Fair Market Value Monograph and chairman of the FMV committee), Tim Smith (chairman of the Economic Parameters Survey), and John Wright (co-author and presenter of the Recommended Evaluation Practices). We have so many wonderful volunteers that keep our organization moving forward; the award is a step in the right direction in recognizing their efforts.

At our SPEE board meeting, it became obvious that we needed to arrange another SEC forum. That forum will be held in Houston at the Hyatt Regency on October 22nd. We are updating the topics. In addition, we are making plans for another economic evaluation software forum for the fall of 2003, and hope to organize a fair market value forum. If you would like to participate on the committees for any of these events, please contact me, and I will put you together with the other volunteers.

Finally, during our meeting, we had some valuable discussions surrounding engineering ethics and the need for SPEE to remain the leader in establishing good evaluation practices. An SPEE member approached the board with a concern; they had attended a data room for an oil and gas property that was being sold. During a presentation, they discovered that the engineering report on the property had combined all the categories of reserves for the property into a single cashflow with no adjustment for uncertainty. The member was distressed to discover that this practice was commonplace for some brokers of properties, and that unsophisticated buyers attending the presentation were unaware of the risk.

Unfortunately, SPEE does not have any authority to police the industry, especially, companies that do not have SPEE members as employees. Additionally, they often do not have licensed engineers working in their offices. The board felt the solution would be for me to bring up the subject in this letter, to solicit responses from our membership, and eventually form a committee that could address these issues. I personally believe that it is important to the existence of our organization to attack these subjects head on.

Marilyn Wilson
SPEE Officers, Board of Directors 2002

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Vice President ...................................................... Mark A. Doering (Dallas)
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G. Michael Harper (Fort Worth)

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Evaluation Parameters Survey ............... S. Tim Smith
Fair Market Value ................................... D. Russell Long
Gas Imbalance ......................................... R. Curtis Phillips
Grievance .................................................... Florence Hughes
Internet .................................................. David K. Gold
Membership .................................................. Daniel R. Olds
Newsletter Coordinator ....................... Fred Goldsberry
Past Presidents Council ....................... Gene B. Wiggins, III
Qualifications ............................................ Charles W. Gleeson
Reserve Definitions ............................ R. Ronald Harrell

Individual Appointments
Annual Meeting Advanced Planning ............. Richard J. Miller
Chapter Coordinator ............................ N. James Wilde
Communications Director ...................... M. Fred Duewall
Production Tax Summary ....................... Charles G. Massey
Professional and Public Affairs .............. Dave Cox
Historian ........................................... Herbert Poyner
Liaison Representative on SPE ............... Robin B. LeBleu
Oil & Gas Reserves Committee ................ D. Ronald Harrell

Chapter Officers - 2002

Calgary
Chairman .......................... Keith Brown
Vice Chairman ...................... Frank Molyneaux
Secretary/Treasurer ................. Barry Ashton
Membership Coordinator .......... David Tutt
(3rd Tuesday of each month except June/July/August)

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Vice Chairman ...................... David Gold
Secretary/Treasurer ................. Barry Evans

Central Texas
Chairman ............................ Rick Johnston
Program Chairman ................. Michael Horne
Co-Membership Austin .............. Wayman Gore
San Antonio ........................ Paul Cleveinger
Secretary/Treasurer ............... Cary McGregor
(Quarterly - Austin Country Club)

Dallas
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Vice Chairman ...................... Mark Nieberding
Secretary/Treasurer ................. Ron Wade
Membership Chairman .......... Ed Butler
(Bimonthly-September through May - Dallas Petroleum Club)

Denver
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Program ............................... Scott H. Stinson
Secretary/Treasurer ................. Wally O’Connell
Membership ......................... Greg Wilcox
(2nd Wednesday of first month of each quarter
Hershner Room - One Norwest Center)

Houston
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Vice Chairman ...................... Charles Nelson
Secretary/Treasurer ................. Sam Singer
Program Chairman ................. Tom Gardner
(1st Wednesday of each month - Petroleum Club)

Midland
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Vice Chairman ...................... Roy Williamson, Jr.
Treasurer .............................. Robert Dinit
Membership ......................... Bill Huck
(Bimonthly)

New Orleans
Chairman ............................... Dennis Jordan
Vice Chairman ...................... Jim Hubbard
Secretary/Treasurer ................. Mark Hubbard
(3rd Wednesday of each month)

Oklahoma City
Chairman ............................... M. Dale Smith
Vice Chairman ...................... Dean Sargent
Program ................................ Bruce Heath
Secretary/Treasurer ................. Fletcher Lewis
(Every odd-numbered month)

Tulsa
Chairman ............................... Jerry Russell
Vice Chairman ...................... Richard Banks
Program ................................ Bruce R. Randall
Membership ......................... Robin LeBleu
Secretary/Treasurer ................. Rob LeBleu
(1st Tuesday of each month - Petroleum Club)
Thompson Memorial Scholarship Challenge

Robert Thompson’s fraternity brother, colleague, fellow SPEE member, and lifelong friend John Wright has issued a challenge to triple the size of the current endowed fund. He will match up to $25,000 in additional donations to the Robert S. Thompson Memorial Scholarship Fund (Colorado School of Mines Foundation), which provides an award to a Colorado School of Mines upperclassman studying in the Petroleum Engineering option. If you are interested in contributing to this scholarship, please contact Maureen Silva at 303 273-3523/mcsilva@mines.edu.

Fair Market Value: What it Really Means

The Society of Petroleum Evaluation Engineers has just released their monograph entitled: “Perspectives on Fair Market Value of Oil and Gas Interests” which required over five years to complete. It provides a thorough analysis of the Fair Market Value concept for oil and gas properties, both producing and non-producing. The monograph cautions readers to understand that the sales prices of oil and gas properties are not a reliable indication of even that property’s FMV or of properties similar to it. Prices paid in an auction bidding process can be especially misleading as they usually represent the high bid for the property, which frequently involves values unique to the bidder.

Generally, fair market value should be considered an average of the values obtained by a large number of evaluators who have no interest in the property, its sale or purchase. The concept of fair market value is very important in tax work and to the accounting profession. However, evaluation engineers are generally considered to be qualified professionals responsible for determination of a FMV. Almost every estate requires a fair market value determination for the purpose of fixing estate value for income tax. Fair market value frequently involves a determination of risks associated with the recovery of the reserves often leading to discussion and even disagreement between evaluators.

Companies and individuals make numerous acquisitions based partially on “Strategic Values” such as having to make a purchase within a particular time frame, requiring a fuel supply in a certain area or simply making strategic portfolio changes such as increasing gas or oil production.

The 90-page document discusses the three Primary Evaluation Parameters commonly used for determination of FMV and contains several example problems of different complexity, complete with the answers obtained by a panel of experienced evaluation engineers.

Copies of the SPEE Fair Market Value monograph can be obtained by mail for $50.00 each at SPEE – Suite #801, 1001 McKinney Street, Houston, Texas 77002.
Call for Case Presentations

The Houston Chapter of SPEE will sponsor a one-day Forum on Oct 22, 2002 at the Hyatt Regency (Downtown) Hotel in Houston. This session will focus on SEC reserves definitions and the applications and interpretations of these definitions by the SEC engineering staff. Both staff engineers and their departmental supervisor have confirmed their intent to participate. The schedule will follow that of the 2000 and 2001 forums but with new cases and updates to topics not presented to date.

The Steering Committee consists of Marilyn Wilson, Andy Merryman, Dan Olds, Russ Long and Richard Rowe. Dan Olds will head up the Case Selection Committee. Cases to be presented are to include real-world fields and situations disguised to protect confidentiality but with arguable reserves booking questions. The SEC staff will render their “on-the-spot” decisions and explain their rationale.

Volunteers for case topics are invited - contact Dan or me.

Ron Harrell

We Are Going Where?

Have you ever wondered how SPEE comes up with the sites for the Annual Meetings? Or tried to figure out who plans these things? If not, no problem. But if you do worry about such things - read on. Annual meeting planning occurs in two distinct but interactive stages that together are similar to ducks on a pond - calm and unperturbed on the surface with lots of furious paddling underneath. The first stage is carried out by the Advance Planning Committee (APC) which has responsibility for identifying, evaluating and (the fun part) inspecting potential locations, sites and facilities. Potential locations are obtained by this hardy band of explorers who review member surveys, collect suggestions from members, slog through Meeting & Conventions magazines, and occasionally bump into a particularly attractive site whilst traveling. The APC then makes recommendations to the Board, the Board makes its decision, and the APC negotiates a contract with the selected facility. The Committee may also arrange for major offsite activities, such as the Membership Dinner and/or Reception which require early planning and/or the APC may contract an event planner to help with those arrangements. The APC tries to have sites selected for meetings three years ahead but that rarely happens. After all the contracting is done and deposits are paid not much happens until the year of the meeting scheduled for that site.

The second stage in meeting planning is done by the Vice President serving in the year of the meeting, i.e. Mr. Mark Doering, our current VP, planned the Park City meeting. Of course, since the VP is not elected by the Board until January and the Annual Meeting is usually in June there is not much time for planning - this is where the furious paddling occurs. All of the work represented in those enticing meeting brochures that you receive in April is done in a few weeks of February and March. Sometime in the months before the meeting, B.K. Buongiorno, our intrepid Administrative Secretary, treks to the meeting site to chat with facility staff and check it over one more time. This is an essential step since coordination with the staff and knowledge of the terrain - sometimes literally - is necessary to a successful meeting. If the VP is lucky, all that really has to be done is to plan the technical program.

Now that you know about all the hard work being done to provide SPEE members with an exceptional Annual Meeting, why not plan to attend the next three or four just to check it out? You will not be sorry you did. To help your planning here are scheduled and tentative sites and dates for the next four years.

<table>
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<th>Year</th>
<th>Location</th>
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<td>May 18-20</td>
<td>DoubleTree Guest Suites in the Historic District</td>
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<td>(Tentative) Huntington Beach, CA</td>
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The APC is always looking for information on sites you may have visited and encourages comments on prospective sites and/or the selection process. Please pass your suggestions to B.K.

Richard Miller
The Story Behind the REPs Program

Many SPEE members spend a considerable amount of time in a courtroom, and that’s OK as long as you’re getting paid to be there. A significant portion of SPEE membership, probably the majority of members who are categorized as consultants, have been involved in a litigation case as an expert witness.

When preparing a reserve report for use as an expert witness, the lawyers will invariably ask for your justification as to why you did what you did for some particular point – did you follow some industry standard? This is typically followed by a look of disbelief when you explain that while you followed industry practice, there are no clear-cut “industry standards” for oil and gas evaluations. For example, lawyers are used to real estate valuations and the typical real estate report goes something like this: “...and the value was determined using the Comparable Value method, the Replacement Cost method, and the Discounted Cash Flow method...” They think they’ve gotten less than they bargained for, expert wise, when we can’t show them a cookbook approach to property valuation. Those of us that have been in that awkward position have felt the need for some industry guidelines, but the very nature of oil and gas evaluation problems preclude a set of rigid standards.

Several years ago, I was involved in a litigation case that dealt with offshore equipment. While researching the background of the case, the issue of appropriate governmental approvals – North Sea versus Gulf of Mexico – came up, and a comment from an official of the MMS was the start of the REPs program. The comment was made that while the MMS does not officially recognize the certification of certain industry trade associations, if you want to use non-certified equipment, then you have an extra burden to prove to the MMS that what you want to use is just as good as the certified stuff.

Lawyers invariably ask, “Did you follow some industry standard? This is typically followed by a look of disbelief when you explain that ... there are no clear-cut “industry standards” for oil and gas evaluations. They don’t recognize a standard, but if you want to do something non-standard, you’ve got to convince them it’s as good as the standard they don’t recognize. Classic Bureaucracy Doublespeak – They don’t recognize a standard, but if you want to do something non-standard, you’ve got to convince them it’s as good as the standard they don’t recognize.

I immediately recognized that this would be the ideal way for SPEE to promulgate a series of “industry best practices.” The SPEE’s position on these practices, what later became REPs – short for Recommended Evaluation Practices – is that they would not be a set of rigid guidelines – something that would not work in our industry. Rather, the REPs could be a statement of a peer-reviewed, accepted way of addressing a particular problem. SPEE members would be under no compulsion to use them, but if they did so, they could point to SPEE’s approval as justification of their approach. The REPs could be published on the SPEE website, freely available to non-members, in hopes that the evaluation community would embrace them.

It was coincidental that Richard Miller, then president of SPEE, had just sent out an email asking for ideas for projects that would benefit the organization. Richard’s enthusiastic response to the idea for the REPs required me to prepare some samples and present the idea to the board at the annual meeting in Whistler. The board’s enthusiastic response required some serious work to try and get the program off the ground. John Wright and Robert Thompson recognized that the REPs would be an ideal vehicle to disseminate the learnings for the Software Symposium. This essentially tripled the number of draft REPs for consideration.

We were asked to present a short course on the REPs at the San Diego meeting – I couldn’t imagine many members being willing to attend a short course that was really going to be more of a round-table discussion. The attendance was among the largest we’ve drawn for a short course, and the discussion was very lively. It was also invaluable for the development of the REPs – issues that I thought were pretty straightforward generated a lot of discussion. The follow-up discussion at the general meeting was also invaluable, not only in bringing up several points that helped shape the REPs, but demonstrating that the membership was behind the concept.

John and I left San Diego with a feeling of accomplishment. We planned to address the issues raised at the meeting and have the first batch of REPs finalized and ready for board approval. Robert Thompson had not attended the San Diego meeting in order to help host the AAPG convention in Denver. His untimely death shortly after San Diego was not only a shock to all but a loss to the REPs program.

The editing of the REPs continued during the year after San Diego. Although many members assisted during this process, the Denver chapter was particularly involved in helping shape the final product. By the time the convention rolled around at Park City, John and I were able to present ten REPs to the Board, which were approved. The ten approved REPs have been posted on the SPEE website and more are in the works. In future newsletters we’ll discuss some of the background behind the individual REPs.

Dan Olds

Note: More detailed information about the REPs is boxed on the following page.
The Society of Petroleum Evaluation Engineers (SPEE) has just released the results of their 21st Annual Survey of Parameters Used in Economic Evaluation of Oil and Gas Properties. The SPEE survey has consistently requested knowledgeable evaluation engineers, primarily located in the United States, to provide their best estimates of future oil and gas prices and their methodology for applying risk to the various reserve categories. It is believed that this is the only publication that provides an industry view of the adjustment factors utilized by industry for “Risk.”

The 26-page publication for example, indicates that approximately 40% of the evaluators apply a “risk adjustment factor” (RADR) for price uncertainty while 37% indicate they apply RADR to compensate for reserve risk. Significantly different factors are used to adjust PUD, proven undeveloped reserves, by bankers and by producer/consultants, although both use approximately the same risk adjustment factors for producing and shut-in reserves.

Of course, the most commonly used method for determining the value of oil and gas properties is a discounted cash flow analysis that was preferred by 88% of those responding. The other most popular methods are ROI or Return on Investment and pay-out.

The respondents primarily preferred to escalate prices of both oil and gas properties. However, over one-third of them predicted constant or declining prices for both commodities for the 10-year forecasting period. A graphic presentation of this year’s average 10-year price forecast by affiliation and history of past SPEE survey price forecasts is included in this newsletter.

A complete copy of the survey results is available from the SPEE by web site: www.spee.org

Phone orders may call (713) 651-1639 or write to our address: 101 McKinney Street, Suite 801, Houston, Texas 77002. Price of the color survey publication is $25.00
Membership Applicants

The following member applicants have been processed by the Qualifications Committee. The bylaws require that their names be presented to the membership for at least 30 days as a pre-membership requirement. Any member with an objection should address the objection to the Executive Committee (see bylaws regarding other important details) since the applications have already passed through the Qualifications Committee.

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<td>SMOLIK, BRENT J.</td>
<td>Burlington Resources, Inc.</td>
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<td>13522 Nordland Drive San Antonio, Texas 78232</td>
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<td>Kerr-McGee Corporation</td>
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Welcome New Members

The following have been dropped from the SPEE membership either by request due to retirement or for non-payment of dues:

Sloan J. Black
Oran R. Carter
Gary L. Cartwright
Robert L. Dimit
Robert J. Doubek
Ralph W. Jackson
Patrick L. Kenney
Thomas F. Liebsch
John J. Marting
Paul D. McElroy
Harry E. McPhail, Jr.
Van W. Robinson
Fred E. Simmons, Jr.
Wendy G. Storbeck
Joe M. Wanenmacher, Jr.
James R. Weddle
This is Just My Opinion, Of Course, But....

It has always been my understanding that the primary goal of SPEE was to foster professionalism and good evaluation practices among members and to attempt to transmit those practices and standards to the (very) large number of evaluation engineers and other interested parties who are not SPEE members. We have worked toward accomplishing these goals in several ways. Many Chapters present good speakers at their meetings; the technical content of the Annual Meetings is improving; SPEE has sponsored a number of seminars and forums which have attracted many non-members. In addition, our publication effort has advanced with the new Fair Market Value volume and the Parameter Survey has grown into a professionally presented and informative document that is cited in other publications and as an authoritative source in legal contests.

All the above is terrific and a good start. But if SPEE is to continue to provide value to its members, let alone (a) try to attract and hold qualified new members and (b) attempt to have an influence on the industry around us, the above accomplishments must not only continue but should probably be significantly expanded. The question (or brick wall) that always comes up at this point is: How? How can an organization of 560+ people (1% of SPE membership) with only about $100,000 in the bank hope to take on any expansion of professional education?

A first step might be to make Continuing Professional Education the priority of SPEE and implement that through a standing Board-level Committee on Continuing Education. The Committee could be charged to (1) identify areas of professional education where SPEE has particular knowledge and should focus, (2) identify the need for new forums, seminars, and publications, (3) coordinate the definition, organization and completion of publications, (4) schedule and coordinate SPEE sponsored seminars and forums, (5) work with Chapters to develop effective education programs, (6) provide program suggestions and sources to Chapters and to Annual Meetings planners, (7) investigate the utility of establishing an SPEE journal and/or using the newsletter and Website to disseminate educational information to members. Based on discussions over the past few years there are many members willing to help in this effort if they are given direction and support.

One interesting idea that has been floating around for a couple of years, and that is hinted at in the Long Range Plan, is a requirement for accumulation of CE credits in order to maintain SPEE membership. We are not there yet - we first need a CE program.

In the past, and continuing today, SPEE has relied upon individual members to suggest and then carry through on publications such as the FMV monograph or to organize forums such as the highly successful SEC and Software symposia. These efforts have served us well but it is limited to the energy of those involved. A coordinated and focused program is needed if SPEE is to accomplish its long-range goals.

Richard Miller