

## President's Letter

SPEE tends to hold its Annual Meeting within the first two weeks of June. For one, school is out by then, making travel planning easier for many Members. As important, if not more so, is that the weather at desired meeting locales tends to be enjoyable during this time of year. In Vail, Colorado, it is the tail end of the "mud season" -- ski country parlance for the boggy that characterizes mountain trails during the late-spring/early-summer snow melt. The term may lack appeal, but for the 2007 Annual Meeting attendees, "mud season" meant great weather, green mountainsides, and fully flowing mountain streams. Our Members seemed to have this highly sought-after mountain village to themselves. The crowds and long waits at restaurants were replaced by warm reception, accommodation, and great bargains. Extracurricular activities, such as golf, rafting, cycling, horseback riding, etc., were readily available, even on short notice. I personally rode the mountain peaks on horseback and did not observe any mud. Perhaps that reality is best kept quietly and exclusively amongst us. Thanks again to Richard Miller and Carol Lillie for their site selection prowess and keen sense of timing. I understand that the crowds were back for July 4th week.

### Vail "Mud Season" Was the Right Season for SPEE

The Vail Meeting attendees were also well accommodated from a professional standpoint. Vice President Frank Molyneaux planned and executed a top-notch technical program allowing willing attendees to garner all necessary professional development credits. SPEE's most prestigious and rarely awarded Honorary Life Membership was conferred upon **Ron Harrell** for his many years of leadership in the pursuit of evaluation excellence and professionalism, and his endeavors to position the Society as a recognized leader in the area of petroleum reserves evaluation. It turns out that SPEE is not the only professional society recognizing Ron's efforts this year. It was recently announced that Ron has been selected by SPE as a Distinguished Member for 2007. SPE Distinguished Members are industry professionals who have attained eminence in the petroleum industry or academic community, and/or who have made significant contributions to SPE. Ron will receive the award at the SPE ATCE in Anaheim, California on

November 14, 2007. If you see Ron, please

congratulate him on both well-deserved awards. In addition to recognition for his accomplishments as SPEE President, **Bernie Brauer** received SPEE's prized crystal ball for his foresight and leadership role in reconnecting SPEE to the SPE/AAPG/WPC reserve definitions. This



allowed SPEE to regain its seat at the reserves definitions table, which in turn allowed SPEE to influence the PRMS in a useful and material way. **Mike Garcia** won a crystal ball as the 2007 oil and gas price "Soothsayer of the Year," and **Danny Simmons** won the survey respondent's drawing for the flat screen TV. Last, but by no means least, I would like to shine a bright light on **B.K. Buongiorno** -- the wind beneath the Annual Meeting planner's wings. Right, Frank?

New SPEE logo prospects were also debuted in Vail. The Meeting attendees were canvassed for their logo preferences using a straw poll, the results of which are presented in this Newsletter on page 10. The SPEE Board believes that all SPEE Members should have a stake in any decision to update our logo -- the symbol that represents SPEE to industry and the world. Accordingly,

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# 2007 Officers and Directors

## Committee Chairmen and Individual Appointments

### Officers

President .....S. Tim Smith (Austin)  
 Vice President.....Frank Molyneaux (Calgary)  
 Secretary/Treasurer..... David Gold (Bakersfield)  
 Past President..... E. Bernard Brauer (Corpus Christi)

### Directors

Barry R. Ashton (Calgary)	Nanette Schulz (Denver)
Robert Dimit (Midland)	Brian Walter (Dallas)
Stuart Filler (Houston)	Marshall Watson (Midland)
Fred Goldsberry (Houston)	Jim L. Wilson (Enid)
Bruce Randall (Tulsa)	

### Committee Chairmen

Continuing Education..... Stuart Filler  
 Evaluation Parameter Survey.....Tom Collier  
 Fair Market Value.....D. Russell Long  
 Ethics and Grievance .....L. D. (Buddy) Sipes  
 Internet ..... Richard Krenek  
 Membership.....Brian Walter  
 Newsletter Coordinator ..... Richard J. Miller  
 Past President’s Council .....Charles Gleeson  
 Qualifications ..... Jim Wilson

### Individual Appointments

Annual Meeting Advance Planning .....Barry Ashton  
 Communications Director ..... Jim Wilson  
 Production Tax Summary ..... Marshall Watson  
 Liaison Representative on SPE  
     Oil & Gas Reserves Committee.....D. Ronald Harrell  
 Professional Registration ..... Marcus Snyder

# Chapter Officers - 2007

## Calgary

Chairman	Floyd Siegel
Vice Chairman	Atila Szabo
Secretary/Treasurer	Curt Labelle
Membership Coordinator	Phil Kandel

(3rd Tuesday of each month except June/July/August)

## California

Chairman	Russell Bertholf
Vice Chairman	Tom Walker
Secretary/Treasurer	Barry Evans

## Central Texas

Chairman	Cary McGregor
Membership	Open

(Quarterly - Austin Country Club)

## Dallas

Chairman	Rick Krenek
Vice Chairman	Dean Eiland
Secretary/Treasurer	Paul McDonald
Membership Chairman	Dee Patterson

(Bimonthly-September through May - Dallas Petroleum Club)

## Denver

Chairman	Scott Wilson
Vice Chairman -Program	Jerry Hertzler
Secretary/Treasurer	Kevin Weller
Membership	Pat Galuska

(2nd Wednesday of first month of each quarter  
 Hershner Room - One Norwest Center)

## Houston

Chairman	Stuart Filler
Vice Chairman	Ed Gibbon
Secretary/Treasurer	Ron Rhodes
Program Chairman	Samantha Meador

(1st Wednesday of each month except June/July/August - Petroleum Club)

## Midland

Chairman	Arlen Edgar
Vice Chairman (Program)	Charles Gleeson
Treasurer	Bob Dimit
Membership	Joe Neal

(1st Tuesday of odd months-Petroleum Club)

## Oklahoma City

Chairman	Jim Wilson
Vice President-Program	Ken Sigl
Vice President -Membership	Bruce Heath
Secretary/Treasurer	Fletcher Lewis

(Every odd-numbered month)

## Tulsa

Chairman	Ken Richison
Vice Chairman	Chris Jacobsen
Secretary/Treasurer	Bob Harmon

(1st Tuesday of each month - Petroleum Club)

# SPEE

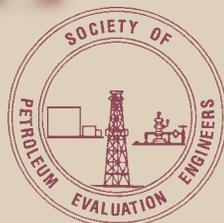
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The SPEE Newsletter is a quarterly publication of the Society of Professional Evaluation Engineers. News items, correspondence, address changes and advertising inquiries should be directed to SPEE headquarters in Houston, Texas.

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the Board will refine and submit the field of logos to a formal vote of the Membership this year. The existing logo will also be on the ballot for our Member traditionalists. SPEE's summer conference agenda did not end when the Annual Business Meeting was gavelled to a close in Vail. SPEE was a joint sponsor in the first-ever **SPE/AAPG International Multidisciplinary Reserves Conference**, which was held in Washington, DC from June 24–26<sup>t</sup>. (See report by Bernie Brauer in this edition.) Half the conference consisted of plenary sessions, the other half of sleeves-rolled break-out sessions, where attendees were not timid about sharing opinions. All sectors involved expressed a strong preference for a unified set of reserves definitions, also one of the goals of the SPEE-sponsored Petroleum Resources Management System (PRMS). The conceptual benefits of bringing together the creators and users of petroleum reserve information were proven, and additional international multidisciplinary reserves conferences are planned.

The Board-proposed By-Laws amendments were approved with a 90% margin of those voting (about 50% of the membership). I would like to thank every Member who reviewed the amendments and took a position with your ballot. I had many good discussions with Members on both sides of the By-Laws initiative. Many things will be accomplished with these new By-Laws. To name a few, the **SPEE European Chapter in Formation** is now able to move full speed ahead, and SPEE admittance standards have been both broadened and strengthened. Special thanks to **Joel Turnbull**, a leader in the formation of the European Chapter, who traveled across the pond to inform Vail Meeting attendees about United Kingdom evaluation practices.

SPEE Member volunteers are busy! With the By-Laws approved, we are moving forward with publication of the new hard-copy directories for those who ordered them. If your contact information has changed, please advise **B.K. Buongiorno**...and soon. And get those new or updated photographs in to BK as well. SPEE Webmaster **Rick Krennek** is working on an automated, members-only, password-protected, web-based version of the directory. Look for other SPEE website enhancements to start taking shape by year end. And call Webmaster Rick if you have an idea for improving the website's appearance, function, and use. You will no doubt notice that we are increasing Newsletter content and have moved to a full four-color printing process under the direction of Newsletter Editor, **Richard "Inkspot" Miller**. **Kerry Pollard** will serve as the General Chairman of the upcoming SPEE Software Symposium. Look for the symposium in the spring of 2008. **Tom Collier** is filling seats on the SPEE Survey Committee. SPEE representatives on JCORET, **Stuart Filler** and **Dan Olds**, are busy with committee business and reviewing training coursework. (Ron Harrell is serving as at-large member and general Chair of JCORET, voting only to break a tie.) Stuart is also a member of the Applications Document Subcommittee of the SPE Reserves Education Committee. This subcommittee will draft the new applications guidance for the PRMS over the next two years.

The Society is bustling. Members are encouraged to join in on the activity. Contact me at (512) 476-1245 or tim@drgainc.com if you would like to get involved, or to simply share ideas for improving SPEE and/or the services that we provide to our Members.

**Tim Smith**  
President

## *In This Issue*

As part of our ongoing effort to enhance your SPEE Newsletter experience you may note that we have gone from the old B&W format to Living Color – just like the '50s. We are experimenting with formats and presentation ideas that will, we hope, improve the readability and flow of the articles and stories provided. Your feedback on our humble endeavors would be appreciated.

In this issue we have included a report on the recent SPEE Annual Meeting in Vail, CO complete with pictures of your friends and other celebrities. We also have a message from our President, Mr. Tim Smith, along with articles by Bernie Brauer and Stuart Filler. Bernie is reporting about a conference held in late June in Washington, DC to discuss the regulatory and other implications of the new SPE/AAPG/WPC/SPEE reserves definitions while Stuart provides an update on the Joint Training Program. Our feature article is contributed by SPEE members John Homier and Larry Tharp regarding the evaluation context of modern oil and gas lending practices. We also include news from the various SPEE Chapters regarding their activities. Some chapters are busier than others and those members who may not attend Chapter meetings might want to see what you have missed.

It is our goal to continue to add to both the content and value of the newsletter to SPEE members. Your help in this effort through contribution of information and feedback is essential; who knows? We may even start a Letters to the Editor section. Our next issue is scheduled for October. See you then.

**Richard J. Miller**  
Newsletter Editor

## 2007 Annual Meeting Report

The “Rocky Mountain High” acquired at the June 9–12, 2007 annual meeting is now fading. The memories are not. A total of 93 members, 13 non-members, and 77 spouses and guests enjoyed spectacular scenery, fresh mountain air, an informative technical program, and two educational short courses. Attendees maximized an opportunity to accumulate copious Professional Development Hours for conference attendance, continuing educational training, and participation in the Professional Ethics discussion.

Once again Saturday and Sunday short courses were offered. On Saturday, 40 registrants participated in the short course, “Evaluating the Third Dimension – A Layman’s Guide to Auditing 3D Geological Models” by John Hodgkin. Sunday’s short course, “Modern Practices in Reserve Estimation for Reservoirs under Primary Recovery” by SPEE member Stuart Filler, attracted 67 participants. Our ability to offer world-class training at \$75 per short course is a testament of SPEE’s stature in our industry as a premier technical society.

The General Sessions proved to be informative and timely. On Monday we kicked things off with a very open and insightful dialogue about the implementation of the new Petroleum Resources Management System. Next we heard how El Niño affects weather and climate and extrapolated that knowledge to our own industry. Two different speakers enhanced our

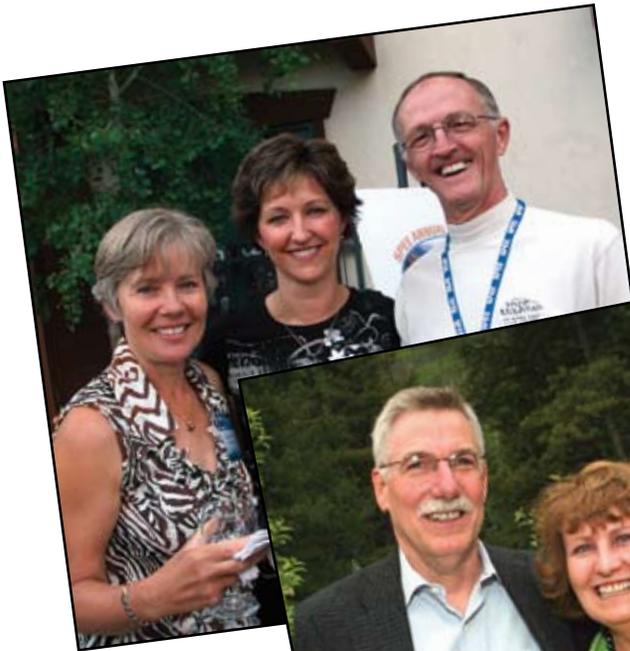
understanding of industry drivers and challenges. Our first European member traveled from London to provide us with a better understanding of reserves evaluation from a European perspective. As always our annual economic parameter survey displayed some interesting results. The usually dry Professional Ethics seminar incorporated audience viewpoints that were instantly displayed on-screen using handheld transmitters.

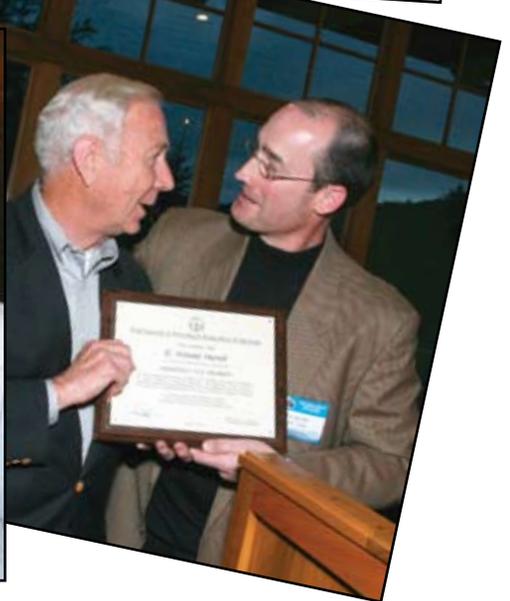
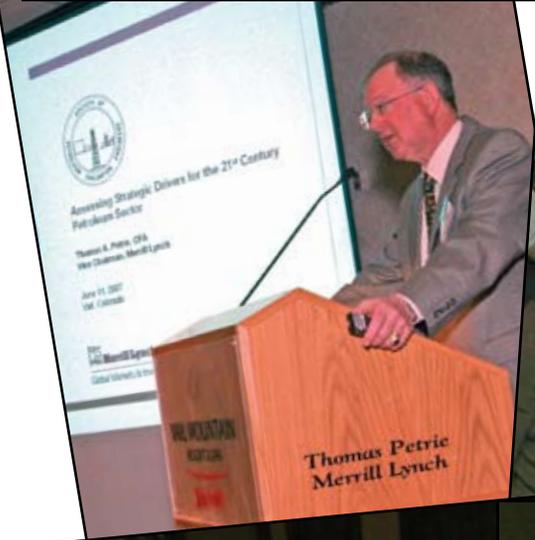
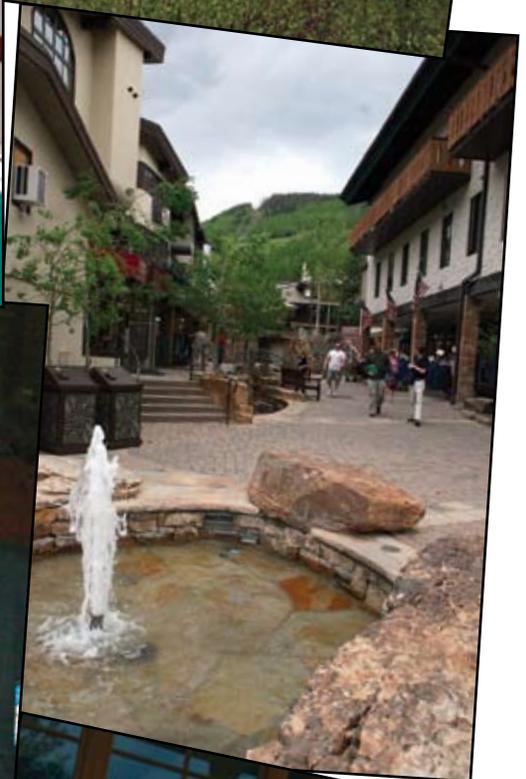
This year your Board of Directors has been particularly busy. President Tim Smith reviewed the status of various initiatives as well as the strong financial position of the Society. Potential new logo designs were introduced. A vote on the various logo options is forthcoming.

I would like to take this opportunity to thank all those who attended. I would also like to thank the 22 corporations and individuals who chose to sponsor our event. The support we received via your attendance and the generous contribution of sponsors should allow us to achieve our goal of a revenue-neutral event.

In conclusion, I pass the torch to the 2008 Annual Meeting Chairman – David Gold, who I know will do an outstanding job. Please plan early to attend next year’s meeting at The Homestead, Virginia, June 7–10.

*Frank Molyneux*  
2007 Annual Meeting Chairman



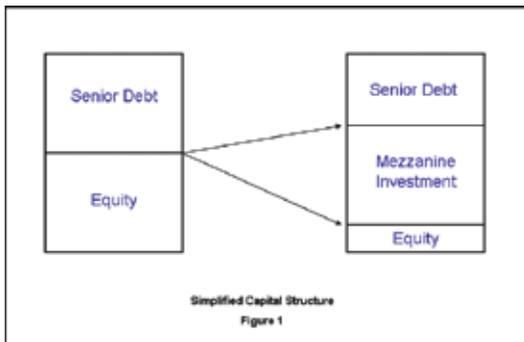


# Mezzanine Finance for Private E&P Ventures and Companies

## The Capital Markets

Senior bank debt, subordinated debt, second lien paper, project equity, high yield debt, venture capital, preferred equity, private equity, convertible debt, senior notes, senior subordinated notes, secured, unsecured – the lexicon of financial instruments available to assist E&P companies with their capital needs is virtually unlimited. But when we sort things out, there are really only two traditional types of capital available – senior debt and common equity. And then there is hybrid capital that lies between these – in the mezzanine. Broadly speaking, all financings that are not senior debt or common equity can be considered a form of mezzanine finance.

Without this hybrid, or mezzanine financing, the capital structure of firms would be very simple indeed, consisting of only traditional debt and equity. But mezzanine financing instruments allow a host of potential capital structures and provide a mechanism to customize risk and return sharing among the capital providers of the firm. One of the most significant attributes of including mezzanine finance in a company's capital structure is that it allows the company to significantly reduce (but generally, not eliminate) the amount of common equity that it needs (see Figure 1). This can have a powerful effect on the returns to the common equity of a company (positive if things go well and negative if they do not).



## General Parameters for Capital for Oil and Gas Reserves

Figure 2 shows how this concept of three tiers of capital can be applied to the reserves of the E&P companies that we work with every day.

The fact that the reserve categories are represented by bars instead of points is indicative of the fact that reserves are unique. Consider a reserve package with one producing well from a geo-pressured reservoir that has been on production for 30 days. Compare that to a reserve package that consists of interests in 300 Hugoton wells, each on production for at least a decade. Both packages can be considered PDP, but the return required by an investor in the first package could be quite different from that for the second, if for no other reason than concentration.

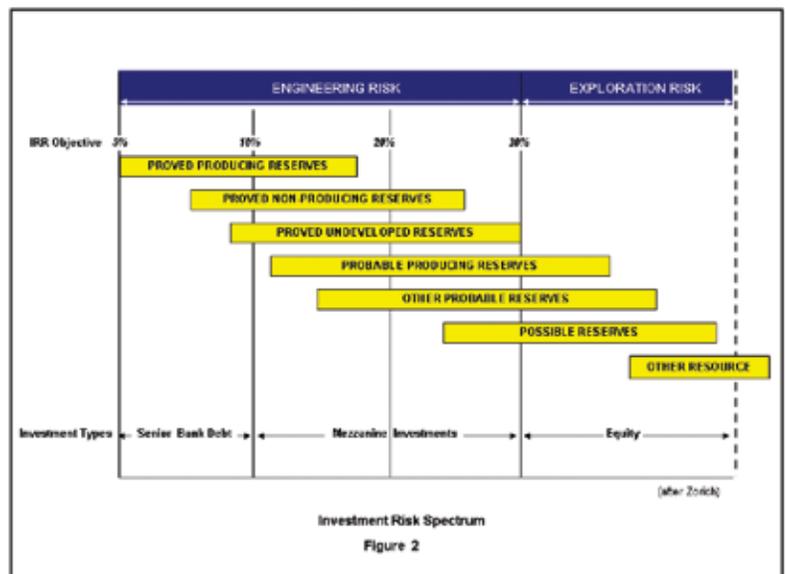
## Discussion & Comment

The fact that the bars overlap is also indicative of the unique nature of reserves. Consider a Probable Producing reserve that is below lowest known gas in a reservoir that is well defined by 3D seismic and pressure gradient data and compare that with a Proved Undeveloped reserve in a channel sand environment having limited seismic control. Here the return requirement for the Probable

Producing reserve could be less than that for the PUD reserve. As we all know, there is a significant element of engineering judgment required in assessing the risk embodied in any reserves package.

On one end of the risk spectrum lie reserve loans by senior banks. This generally is, of course, the lowest cost funding available for a company. Current pricing of reserve loans by senior banks is in the range of 7% to 8%. These loans are based primarily on reserves that are Proved Developed Producing, with some allowance for other Proved reserves that are projected to be brought into production in relatively short order. Banks sometimes also have other requirements such as concentration and reserves half-life limitations. Based on their own requirements and usually conservative commodity price assumptions, banks will advance a portion of the present value of the projected cash flows from those reserves, perhaps 60% to 70%.

At the other end of the risk spectrum lies common equity. For a private company, equity investors are generally looking to achieve a return equal to a multiple of the initial investment – 2:1 or better. This often translates into a rate of return requirement of 30% or more. Equity is often not directly relying on the initial reserves of a company to generate that return. Those initial reserves are often pledged to financings that are senior in the company's capital structure. Simply put, equity is relying on management to create new reserves and value through development and acquisition activities, exploration, and drilling.



That leaves everything in the middle for mezzanine investors. Typical structures are:

- subordinated debt (either secured with a second lien behind senior bank debt or, as is common with high yield bonds, unsecured)
- senior and subordinated debt combined in one facility (usually secured with a first lien)
- preferred equity (convertible and/or redeemable)

Where banks are typically looking at what is Proved Developed Producing today to make a lending decision, mezzanine investors often look at what they believe will be Proved Developed Producing after execution of a well articulated development program. As a result, a mezzanine investor may advance significantly more than a bank will against a given asset package, provided it has significant identified development potential. In return for that larger advance, the return requirements for a mezzanine finance facility can be anywhere from high single digits to 20%+. The driving factor for a mezzanine financier is to earn a return that is commensurate to the risk it feels it is undertaking. The value for a company utilizing such financing is that it displaces higher cost equity in its capital structure while providing funds for development of high return projects at a faster pace than could be accomplished using senior bank debt alone.

Typical mezzanine financings will have a required interest coupon. This can sometimes be deferred or “paid-in-kind.” Depending upon the return requirements, a mezzanine financing may also require an equity kicker (an overriding royalty interest, net profits interest, or warrant) or a right to convert some portion of the debt or preferred equity into common equity of the company being financed.

### Requirements for a Successful Mezzanine Financing

The fundamental requirements for mezzanine financing, as for any financing, are management and assets. An experienced management team bringing a track record and some “knowledge edge,” be it regional or asset specific knowledge or technical expertise, is always an important cornerstone. And, because mezzanine financings are typically developmentally intense, it is important for the management team being financed to operate or have control over the pace of development operations.

Along with a good management team, a mezzanine financier looks for assets that are engineering and development oriented. As illustrated on the Risk Spectrum chart, mezzanine financiers are not necessarily focused on financing any particular reserve category or status. Instead, they are typically focused on an engineering evaluation that shows how meaningful reserves can be brought into production through a reasonable development program. In addition to Proved reserves, Probable reserves and, sometimes, Possible reserves can play a part in that engineering assessment. The goal at the end of the development program is to have an asset package that can repay the mezzanine financing from cash flow, refinancing, or sale.

Mezzanine financing can be very appropriate for redevelopment of “orphaned” or under exploited assets that are in need of intellectual and monetary capital. Placed in the hands of a focused management team with adequate capital – much of it coming from a mezzanine finance facility – a significant increase in value can be created. Mezzanine finance is also often appropriate for resource

development drilling plays. Coal Bed Methane development is an example of such a development drilling venture. The reserves and operations risks of such a development are often much more engineering focused than geologic focused.

However, given its engineering development orientation, mezzanine finance is often difficult to apply in some other circumstances. Examples could be: a start-up company having no assets and needing to cover G&A while it looks for assets to acquire; a pure exploration or new technology play; or a pure price speculation play.

### Real World Examples of Mezzanine Finance Applications

**Case 1.** In this instance a producer with existing assets wanted to purchase an asset package having significant redevelopment potential – PDNP reserves, PUD reserves, and operational improvements. The purchase price for the acquisition was approximately \$120 million and the senior debt capacity of the company’s existing assets combined with the acquired assets was approximately \$60 million. In this case, a mezzanine financier provided a \$50 million subordinated debt facility and a \$10 million bridge loan. Along with senior bank debt, this mezzanine financing allowed the company to complete the acquisition, successfully develop its assets and ultimately refinance the mezzanine facility with conforming senior bank debt.

**Case 2.** In this case, a producer with existing assets desired to refinance its existing debt and purchase an asset package having significant development potential. The total financing need was approximately \$40 million and the senior debt capacity for the combined asset package was approximately \$15 million. Along with a \$5 million equity investment from third parties, a mezzanine financier provided a \$35 million combined senior and subordinated debt facility. In connection with the equity investment, this mezzanine financing allowed the company to complete the acquisition, implement a successful development program, and ultimately sell the entire asset package to another producer.

**Case 3** shows the flexibility that can be embodied under the concept of “mezzanine finance.” Here a management team needed \$30 million to acquire and develop several producing oil and gas fields. The team needed additional equity to complete the transaction and wanted a “one-stop” financing source. The senior bank debt capacity for the new company was approximately \$17 million. In this case, a mezzanine financier provided a \$22 million combined senior and subordinated debt facility for the company and made a \$4 million common equity investment along with a similar common equity investment by the management team. This allowed the company to complete the acquisition, make follow-on acquisitions, successfully develop its assets and ultimately refinance the mezzanine debt facility with conforming senior bank debt.

### Conclusion

Mezzanine investments are an important tool for a company to consider in developing its overall capital structure. In appropriate situations, mezzanine finance allows a company to displace higher cost equity in its capital structure while providing funds for development of high return projects at a faster pace than could be accomplished using senior bank debt alone.

*John Homier and Larry Tharp  
SPEE Members - Houston Chapter*

# Chapter News

## Calgary

The Calgary Chapter was well represented at the SPEE Annual Meeting in Vail with ten members present. Several Calgary Chapter members also attended the AAPG/SPE International Multidisciplinary Reserves Conference in Washington, D.C. from June 24th to 26th. The Calgary Chapter is currently enjoying a summer recess, although the COGEH Standing Committee is continuing to work on revising COGEH Volume 1 and drafting COGEH Volume 3. Our meetings will resume on September 18 when Creties Jenkins, Vice President of DeGolyer and MacNaughton will speak on Coal Bed Methane and Reserve Evaluations.

## Denver

The Denver chapter has continued to see growth in meeting attendance over the last year with 40 to 50 attending the quarterly lunch meetings downtown. We had excellent speakers in both January and April.

In January, John Ritter, SPE Reserve Committee Chairman, presented the new SPE reserves guidelines and asked for comments from the group. Since the meeting preceded the comment period deadline, members had an opportunity to review and comment on the draft before it went final. This talk drew enough interest to nearly fill our large presentation space in the Well's Fargo Tower. Well's graciously allows us to use their large meeting room on the first floor free of charge when it is not booked for bank business.

In April, Scott Richardson of Richardson Barr & Co. discussed some of his company's recent transactions and the trend from private to public asset purchasers. He described the asset supply, and how changes in commodity price expectations affect transactions. IN addition he described the different criteria and benchmarks used by the different financiers of deals and the demand for different types of assets. He discussed the various players in the markets and how much it took to close a deal in variety of different transactions.

The July quarterly meeting was well attended with 47 sign-ups and 43 attending. Many were guests of members; several College Summer interns accompanied their sponsors. A brief summary of the annual meeting in Vail was given. An invitation was extended to members wishing to begin serving in the SPEE Denver section officer rotation. Our speaker was Bob Gillon of J.S. Herold, who presented "Why Any Increase in U.S. Gas Production Will be Very Short Lived." This talk concentrated on statistics on US historical gas supply trends as they relate to drilling

activity and typical well character. He discussed the change in drilling focus from conventional to resource and unconventional plays, and its implications for future decline trends.

Given the slow growth of the Denver Chapter membership, a request was made for the meeting guests to begin the process of gaining full membership. During the April meeting, members were reminded to review the by-law changes and complete and return the Parameters Survey.

## Houston

Meetings began the year with our joint meeting with the Houston chapter of SIPES on January 3. Annette Hugh, Platts Houston Bureau Chief, gave an excellent presentation on "The Fundamentals of Transparent and Accurate Pricing in Crude Oil and Refined Products Markets." She was followed by John Ritter of Occidental Petroleum Corporation (also Chairman of the SPE Oil and Gas Reserves Committee), who gave an overview of the proposed (at the time) new SPE/WPC/AAPG/SPEE Petroleum Resources Management System. Attendance was 55 members and guests. Mr. Stuart Filler made a presentation on "Working Towards Common Education in Reserves Estimation: The Joint Society Initiative," on February 7. Attendance was 38 members and guests. Robert M. (Bob) Todor of Devon Energy Corporation gave a fascinating talk on the Iraqi oil sector, "Iraqi Oil: Fuel for Conflict or Lubricant for Peace?" on March 7. Attendance was 42 members and guests. On April 4, Dan Pickering of Pickering Energy presented "Recent Trends in Energy Company Valuations." Attendance was 52 members and guests. The final meeting before summer break was held on May 2 and saw the return of John Ritter as speaker. His topic was "Recently Approved SPE/WPC/AAPG/SPEE Petroleum Resources Management System: A Synopsis". Attendance was 49 members and guests. The first half of the year saw an average attendance of 47 compared to the last year's average of 40. Credit can be given to our Program Chairman, Samantha Meador, new member of SPEE, for the outstanding speakers provided. She has an excellent program schedule for the fall, which includes the following speakers:

September 5: Ron Moore, Attorney, speaking on Ethics  
October 3: Brent Smolik, President of El Paso E&P  
November 7: Larry Gring, Smith Production, Inc.,  
Potential Gas Committee  
December 5: Open at this time

## Midland

The Midland Chapter continues a schedule of meetings in odd-numbered months, normally on the first Tuesday. Attendance has ranged between approximately 20 and 35 per meeting.

In January, the program was presented by Ron Harrell, Chairman Emeritus of Ryder Scott Company LP in Houston. He reviewed the 2007 Petroleum Reserve and Resources Classification, Definitions and Guidelines being derived by SPE, WPC, AAPG and SPEE. Since this topic is of vital importance to petroleum property evaluation, there was considerable interest in and discussion of the presentation.

The March program was an Overview of U.S. Shale Plays, presented by J. Michael Party. Mike Party is a certified Petroleum Geologist and Geophysicist and is currently Division Exploration Manager for Wagner & Brown in Midland. He is one of the leading experts on shale gas plays in the U.S. His discussion emphasized that characteristics of shales in various basins are different. These differences must be recognized in order to develop effective and economic exploration, drilling and stimulation techniques.

A panel discussion was the highlight of the May meeting. The topic was "Times Are Different - It's Not Your Father's Environment - Environmental Considerations for the Reserve Evaluator and Acquisitions and Divestiture Engineer." The panelists, all from Midland, were:

Joe C. Neal, PE, Joe C. Neal & Associates (Moderator)  
Gary E. Miller, CEA, Highlander Environmental Corp.  
Mark Henkhaus, PE, Railroad Commission of Texas  
Gary Brednich, PE, Citibank Texas, N.A.

Discussed were state environmental regulatory and reclamation issues, site environmental surveys and a lender's views on potential environmental liability associates with oil and gas properties. Specific questions from the audience were directed to the appropriate panelist.

## Oklahoma City

The Oklahoma City Chapter elected new officers in January, welcoming Ken Sigl from Devon Energy as our new Vice-Chairman (Programs). Jim Wilson assumed the office of Chairman previously held by Dean Sergent, while Bruce Heath (Membership) and Fletcher

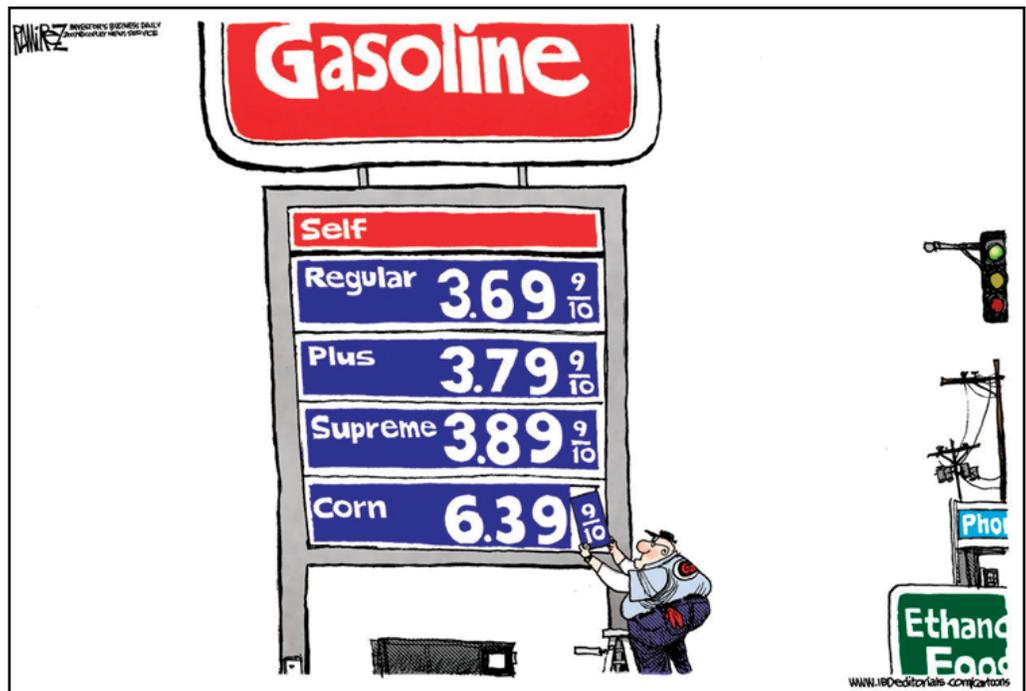
Lewis (Secretary/Treasurer) were gracious enough to continue in their roles. The chapter held four meetings during the first half of 2007, drawing an average of 35 members and guests per meeting.

Dr. Eduardo Manrique from Norwest Questa Engineering spoke in January, outlining advanced EOR screening techniques that prove very valuable when seeking acquisition candidates or re-evaluating mature projects. In February, our own Stuart Filler addressed the membership on the Joint Society Resource Definitions and the formation of the JCORET training initiatives. Jeff Swanson, President of GrailQuest Corporation, illustrated the power of his proprietary software ReservoirGrail in finding remaining reserves in March. For our April luncheon, Steve Lilly, Manager of Energy Trading for Bank of Oklahoma, shared his insight into the cyclical tendencies of product prices.

While the chapter tends to take the summer off, we do plan on having a June meeting. The rest of the "vacation season" will be spent fostering the many potential applicants that have inquired about membership during the first half of 2007. At least two applications have been completed, pending sponsorship and approval.

## Tulsa

The Tulsa Chapter is pleased to report that the meeting attendance has improved significantly during the last three months. Sixteen members and seven guests have attended at least one meeting during this period. The chapter is working on getting updated contact information for members who have not attended a meeting.



## First AAPG/SPE Multidisciplinary Reserves Conference Touched all the Bases!

The Conference was June 24-26 in Washington, DC sponsored by AAPG and SPE with SPEE and WPC serving as co-sponsors. Ron Harrell and I served on the Steering Committee, co-chaired by Pete Rose and Mike Black, which began work on the Conference in August 2006. It was an international conference devoted to petroleum reserves that addressed the two key phases of reserves: preparing the reserve estimates - definitions and methods and the uses of those reserve estimates.

The Conference participants were from all disciplines that prepare or use reserves estimates - technical, business, financial, legal, regulatory and government. There were 145 participants from 20 countries.

The SEC participation was appreciated. John White, Director of Corporation Finance, SEC, was a luncheon speaker and described the SEC's Interactive Disclosure Process. SEC Chairman, Christopher Cox, attended the Monday reception. Roger Schwall, Ron Winfrey and Jim Murphy were additional SEC staff in attendance at some of the sessions.

Judge Lynn Hughes, US District Court, Houston, speaking on "The Dilemmas of Trust" and Bob Garnett, Board member, International Accounting Standards Board (IASB) speaking on the IASB's research project on reporting for oil and gas reserves were examples of the invited speakers at the Conference. The IASB's project, the Extractive Industries Research Project, is to review how the petroleum and mining industries make their required disclosures on their operational results and financial results. The US Financial Accounting Standards Board (FASB) is a member of IASB as are the accounting standards boards of developed countries.

Ron Harrell made a presentation on the Joint Committee On Reserve Evaluator Training (JCRET) and moderated a breakout session on JCRET. I moderated breakout sessions on SPE PRMS and the impact it might have on future

IASB/FASB policies. An impact could be the FASB would recommend a policy, in step with IASB policy, that an investor gets better value representation when proved plus probable reserves are considered. If it does happen that the SEC does move in that direction it will come from their direct contact with the FASB, not from the sponsors of PRMS. PRMS will be the reference for FASB on reserves policy.

Tim Smith, SPEE President, participated in the final panel with Scott Tinker, AAPG President, Pierce Riemer, WPC President, Jaleel Al-Khalifa, SPE President, and Clark Talkington, UN representative. The panel was to give each member an opportunity to comment from the perspective of their organization. The Conference was definitely a success based on each panel member's comments and from the comments of many individual participants. The benefit of a common global understanding of reserves was recognized as a foundation for forming the Conference. In that regard, I certainly feel the Conference took a major step toward that understanding. SPEE was invited to participate in the conference because of our endorsement of the SPE/WPC/AAPG Reserves and Resources Definitions. I feel sure that the reputation of SPEE as a professional society that is dedicated to the competent and ethical evaluation of petroleum properties and the determination of reserve estimates was enhanced by our participation.

A final report and proceedings of the Conference will be made available on the participating SPEE website on or about September 1, 2007.

**Bernie Brauer**  
*SPEE Past President 2006*

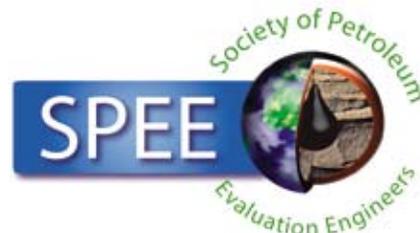
*An article regarding the Conference can be found in the current IPT or at IPT online at <http://www.spe.org/spe-app/spe/jpt/2007/08/ReservesConf.htm>*

## New SPEE Logo Concepts Vail Straw Poll Results

### First Choice



### Third Choice



### Second Choice



### Fourth Choice



# The Joint Committee on Reserves Evaluator Training (JCRET)

## An Inter-Organizational Initiative

The Joint Committee on Reserves Evaluator Training (JCRET) was formed in 2006 in response to a recognized need for training in reserves evaluation for professionals involved in this most important activity of oil and gas firms. Article II of the Bylaws of the Society of Petroleum Evaluation Engineers states in part, "The objectives of the Society are to promote the profession of petroleum evaluation engineering, ... and to disseminate facts pertaining to petroleum evaluation engineering." Reserves estimates play an integral part in evaluation of petroleum properties. The desire for increased quality and consistency of these reserves estimates led to a call for reserves evaluator certification by Ron Harrell (SPEE Honorary Life Member). The SPEE conducted a survey of the membership at the SPE Hydrocarbon Economics and Evaluation Symposium in Dallas in 2005. That survey indicated that, although there was not a mandate for certification, the majority of members favored more training in the estimation of reserves. The SPEE, in conjunction with the AAPG, elected to focus on establishing a curriculum and training courses for reserves evaluators.

In a 1995 SPE paper at that year's Hydrocarbon Economics and Evaluation Symposium (SPE 94517), Mr. Harrell defined a reserves evaluator as "... usually a reservoir engineer by training who is responsible for estimating hydrocarbon reserves appropriate to some imposed, recognized definitions and who usually forecasts future production volumes, sales quantities, cost revenues and net income – potentially before and after any income taxes. Some evaluators may be additionally charged with estimating asset market values for various purposes not limited to taxation and litigation." Although

most reservoir engineers and geoscientists are technically proficient in assessing reservoirs, many are not well versed in the application of appropriate definitions and guidelines for reserves estimation. Often subtle points of reserves estimation are not taught or learned on the job. Training courses will be initially focused on (1) reserves and resources definitions and applications, (2) recommended engineering and geological evaluation practices, and (3) ethics training will be designed to correct that knowledge gap. The JCRET was formed to find, create, and/or solicit courses that will provide that training at low cost to a world-wide audience of reserves evaluators. Topics include (but are not necessarily limited to):

1. Recommended Geological Methods and Practices
2. Reserves Definitions
3. Volumetric Methods
4. Petrophysical Methods
5. Applications of Geophysics
6. Material Balance Methods
7. Performance Methods
8. Probabilistic Estimates
9. Enhanced Recovery Estimates
10. Economics and Valuation
11. Ethics
12. Other topics as required

One course, Dan Tearpock's "Avoiding Reserves Writedowns: Recommended Geological Practices" has been approved. Two others (by Anibal Martinez, WPC, and John Etherington, SPE) are being reviewed. The committee has searched for existing courses that will meet the criteria for the program and hopes to approve more in the near future.

The committee consists of nine members, two from each of the sponsors (Society of Petroleum Evaluation Engineers, American Association of Petroleum Geologists, World Petroleum Council, and

Society of Petroleum Engineers) plus one Chairman at Large. One member from each organization serves on the Subcommittee for Curriculum. The subcommittee is actively seeking courses or modules. It has been agreed that this initiative is not profit-motivated but rather a service to members of the sponsoring organizations.

In addition to drafting bylaws for upcoming submission to the sponsors, JCRET is already in the process of recognizing and reviewing suitable courses. Members who either have courses or know of courses that would be appropriate to the program can contact one of the members of JCRET (listed below). Members who would like to develop courses or modules for the program are highly encouraged to do so. Finally, the committee seeks volunteers to assist in reviewing the proposed courses and modules for quality and accuracy.

Members of JCRET (\* indicates members of Subcommittee on Curriculum)

Ron Harrell, Chairman at Large  
(ron\_harrell@ryderscott.com)

Stuart Filler, SPEE\*  
(stuart.filler@dnv.com)

Dan Olds, SPEE  
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Dan Tearpock, AAPG\*  
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Bill Kazmann, AAPG  
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Anibal Martinez, WPC\*  
(anibalrmartinez@cantv.net)

Pierce Riemer, WPC  
(pierce@world-petroleum.org)

Rod Sidle, SPE  
(rod.sidle@shell.com)

Elliott Young, SPE\*  
(elliott.young@exxonmobil.com)

*Stuart L. Filler*  
*SPEE Director*

# Membership Applicants

# Welcome New Members

The following member applicants have been processed by the Qualifications Committee. The bylaws require that 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.

## APPLICANT

## SPONSOR

### DUVALL, DARYL KEITH

TXOK Energy Resources Co.  
Vice President Engineering & Operations  
One Williams Center, Suite 2100  
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Larry Barnett  
Allen Barron  
Richard Banks

### HAN, JOHN T.

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Steve Hamburg  
Dennis Jordan  
Mitch Reece

### VAN DER WEERD, HENDRICK

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Group Internal Auditor - Reserves  
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The Netherlands

Tom Gardner  
Farhad Ghassemi  
Dan Olds

### HENDRICKSON, STEVEN GREGG (Member No. 701)

Montierra Minerals & Production, LP  
Vice President - Engineering  
24 Greenway Plaza  
Houston, Texas 77046

### Membership Classification Change from Junior to Regular Member

Effective April 4, 2007

### ROBERT M. PALERMO (Member No. 498)

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### WESLEY S. YOUNGBLOOD (Member No. 263)

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512-472-1213 - fax  
wyoungblood@konainc.net

## Nominations for Board of Directors

If you would like to nominate a member to serve on the Board, please contact me. The term is for three years with two board meetings – January and the Annual Meeting. The nominee must be a member in good standing.

There will be six nominations with the candidates paired for the ballot voting as required by the By-Laws. The three receiving the plurality in each pairing will be the incoming Directors for 2008.

Please call if you have any questions on the duties or the election process.

**Bernie Brauer**  
Chairman, Nominating Committee  
(361)-994-7222  
ebbrazier@prodigy.net