



President's Letter

As I write this letter at my deer hunting camp, the weather has just changed from unusually warm to the more seasonable cool days we should expect for November. I was beginning to wonder if the season would ever change. This made me think of how membership in the SPEE changes.

It seems to me that each of us who join the SPEE hope that through our membership we will receive certain benefits. These would include; 1) the opportunity to gain new contacts and relationships with other professionals who have the same avocation and who share similar standard of ethics, 2) the opportunity to gain knowledge through various SPEE conferences, forums and publications and 3) the opportunity to gain additional recognition and credibility by belonging to a prestigious organization that maintains high standards for membership and influences the industry in a positive way.

It also seems that each of us, when we join the SPEE, feel that through our membership we will be given the opportunity to participate by giving our opinions, our time and efforts. We hope we will be a valuable member of the Society and our participation will help to continue and improve the ability of the SPEE to achieve its objective of furthering the profession of Petroleum Evaluation in some way. Our contribution should certainly include attendance at local chapter meetings, but also may include serving on a committee or as an officer or as a volunteer to help on the numerous projects of the SPEE.

However, many of us have found that maybe we have not been taking advantage of all of the potential benefits of the SPEE or maybe we haven't become as involved as we had planned. Actually I think that is OK and might be expected!

Before you impeach me, let me explain. Each of us goes through various seasons in our careers and lives. Our needs change and our ability to give of our time to SPEE changes.

I would expect that each of us go through stages in our membership where we are mainly recipients of the benefits of being a SPEE member and other times when we can really contribute to the society. Don't feel bad if you haven't been a contributor in the past, just be willing to step up when you are able, which may be now!

The most efficient organizations find ways to involve members in volunteer and leadership roles when they happen to be at the point where they are willing and able to serve. This means there will be new members getting involved all the time. We in current leadership roles must seek out those who are ready to serve and be willing to step aside when new volunteers are ready to take over.

This leads up to my challenge to you as members. If you are not currently involved in the SPEE, please step forward and let the officers or Board members know if you are ready to serve. We have numerous projects and goals that simply need good volunteers to make them a reality. Several chapters including Midland and Dallas have indicated that they need more volunteers for chapter officers. John Wright could use additional help right now with the Evaluation Software/REP Forum planned for next spring. Several committees charged with formulating new REPs could use new volunteers to help complete their projects. Gene Wiggins could use additional help with the new Continuing Education project. Please let us know if you can help. We need you!

It has been a pleasure and honor to serve the SPEE as president this year. Charles Gleeson is primed and ready to take over this job next year. It has been very fulfilling to serve in this way during 2003, but it is good that a new volunteer is ready to step forward. I hope that each of you will take the opportunity to become more active in our society. For me, it's time to go hunting.

Mark Doering



FOURTH ANNUAL SPEE FORUM

Dedicated to a Better Understanding of US SEC Reserves Definitions

October 28, 2003

The 2003 SPEE Forum drew a record attendance to the Hyatt Regency Ballroom in Houston on October 28th. The 209 applicants for this forum exceeded the 170 attendees in 2002 and the 120 attendees in 2001. Virtually every major oil company was represented along with both large and small independents. Most of the larger consulting firms participated in the Forum. The SEC was represented again by engineers Jim Murphy and Ron Winfrey. Randol Justice, an audit partner with PriceWaterhouseCoopers, spoke at the luncheon about several accounting issues including FAS 143 and the Sarbanes-Oxley Act of 2002.

Dave Elliot, a geologist with the Alberta Securities Commission, spoke about the new securities regulations adopted in Canada. Dave, along with Glenn Robinson, petroleum engineer, are the functional equals to Jim Murphy and Ron Winfrey in their enforcement duties with the Alberta Securities Commission.

Other case topics that were presented for review and comment by the SEC engineers included the following:

Case Topic	Presenter
Down-dip G/W Contacts	Al Evans, Rick Krenek
Attic Reserves	Sam Singer
Unconventional Gas	Steve Hochstein
Third party processing et al	Scott Rees
International Topics	Tom Gardner
Standarized Measure Of Value Report	James Hail, Jr.
Net Profits Interests	Andy Merryman
Adjacent Lease Drainage	Andy Merryman

Ace Alexander, Case Committee Chairman, also delivered a presentation of reserves booking trends based upon reports compiled by J.S. Herold. A survey form was given to the attendees as they registered asking their cooperation in completing the form and turning it in by noon. Questions included but were not limited to the following:

- ✓ Employer classification – major, independent, consultant, other?
- ✓ Are your company reserves conservative, aggressive, about right?
- ✓ Are industry reserves conservative, aggressive, about right?
- ✓ Has your company been asked by SEC to debook reserves?
- ✓ Does your management have clear understanding of SEC regs?
- ✓ Does SEC give appropriate consideration to today's technology?
- ✓ Does your company report probabilistic-derived reserves?

At the conclusion of the Forum, Ace Alexander discussed the summary results of the survey. The results are posted on the SPEE website www.spee.org.

SEC Forum Attendees:

If you turned in the survey questionnaire and received the password, you can download the results (raw data, no interpretation) at www.spee.org.

Respectfully submitted,

Ron Harrell
Chairman, Steering Committee

Past, Present and Future: A Conversation with Hank Gruy

By Fred Goldsberry, Newsletter Coordinator

Interested in the future? The future is often reflected in the past.

A Walk Down Memory Lane

My first professional contact with Hank Gruy was in 1974. You remember the first energy crisis. I was working as principal BTU chaser for Southwestern Public Service Company seeking firm supplies of fuel. Through an arcane set of circumstances we had been offered a checkerboard lease of 22 sections on the south edge of the 6666 Ranch offsetting existing oil and gas production. Was it a good deal? We went to Hank Gruy in Dallas to confirm the reserve base. There I came to know Hank and his one-price philosophy of appraisal. After the green light from Hank we drilled 33 economically successful wells out of 35 attempts. Having had the fun of chasing rigs for two years I found myself in a research management position with the DOE. In 1979, I was sent to Houston as testing manager and discovered that Gruy Federal was one of the principal program contractors. There is nothing like a government program to get to know an organization and the people running it. Jim Hartsock had a new petroleum engineer named Marilyn Wilson working on the program. It was during this period of time that I became interested in Hank's opinions because some of his comments from my earlier exposure had come true already. Since that time I have developed great respect for Hank's perspective on future trends in the business.

Developing a Crystal Ball

The future is a logical extension of the past. It appears to me as one ages there is more past upon which to predict future events. Hank has more living perspective than anyone does in the SPEE. You see, he began his career as a cowboy in 1936 working for his uncle on a south Texas Ranch. Hank had been admitted to Rice but could not see his way there with no money and the Depression raging. His uncle, seeing the future for working cowboys as not being a growth industry, offered to pay his way to Texas A&M, or as the uncle put it "a practical school." Hank spent WW II waiting to be called to active duty. During this period Hank was Shell's production engineer and later the district engineer for the East Texas Field. Hank spent five years working for D&M. By 1950 Hank concluded that his future lay in the petroleum consulting business ... his consulting business. Hank was known as the expert on the East Texas Field.

Hank watched and participated in the growth of the Permian Basin and the East Texas Field. He has seen the rise of the offshore and was the first person to tell me years ago that the Majors would shed production just like they shed drilling in the 1950s.

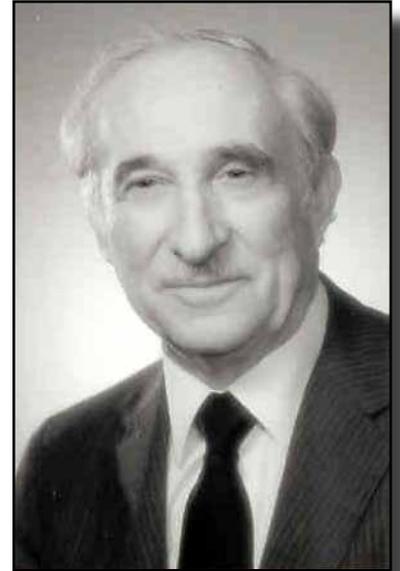
A Conversation Between Friends

Hank, were there any differences in Reservoir Engineering then and now?

In those days reserves were not as simple as they are today. Remember proration. Production was so limited that decline curves were not a useful or a realistic way to measure reserves. Hauled water in the East Texas Field at the height of production and the bottom of the price collapse in the 1930s sold for more than produced oil. Today a gallon of spring water sells for more than a gallon of gasoline at your local stop and shop gas station. The current relative price situation is not caused by an "oil glut" but by "good water marketing."

Hank, tell us something of the East Texas Field.

The story of the East Texas field is the story of the boll weevil. The discovery and early development of the East Texas Field coincided with the great boll weevil infestation at the height of the Depression. The small farmers were desperate for cash and became the labor force to build the derricks, drill the wells and operate the fields. We referred to these new oil men as "boll weevils." This was later shortened to weevils and later corrupted to "worms." It was not a derogatory term but merely a descriptive adjective as to the experience level of a crew and how they came to the oil fields. These men became the core of the Texas Oil and Service Industry.



Hank J. Gruy

The story of the East Texas field is the story of the boll weevil. The discovery and early development of the East Texas Field coincided with the great boll weevil infestation at the height of the Depression.

Hank, what has been the biggest change in the business?

The trend of larger numbers of wells operated with fewer people. We are replacing people with computers. It is fairly simple to replace people who acquire data from computer database A and input that data to computer B. Artificial intelligence applied to databases is the coming trend.

Where are we going?

International. Oil is becoming an international commodity with ever-increasing developed reserves owned by national oil companies. Domestically the industry is being consolidated rapidly and the future is in the hands of small independents that are out to make money, not publicly traded companies that must show growth to Wall Street. Pay attention to the stability of small closely held companies and the continued consolidation of the larger companies. This has been going on for almost two decades and has accelerated recently. Start with the Chevron Gulf merger and you will see the onset of the trend. Oil and gas prices have been up and down while the consolidation trend has been consistent. Price fluctuations are not the reason, but they are often used as the "excuse" for an action.

What was the best consulting job you ever had?

It was a major review of property valuation for Mobil. That ended with the Exxon merger.

What is your opinion of Russian opportunities?

Russia is an interesting place. Never sell them short. They developed the modern directional drilling technologies under communism. You see the oil exploration people could not get permission from the collective farms to drill in the middle of a wheat field. To override the farming collective you had to go to Moscow. Since communism got its start under Stalin's collectivization of farms (and the mass murder of individual farmers) the collectives had become sacred cows. The result is no one in the bureaucracy wanted to take them on. The petroleum organizations literally had to drill around them. Consequently directional drilling was a political necessity. Power at the bit or mud motors became the way to proceed. They will eventually dominate the European and Japanese gas markets.

Where are the Major companies going to make money?

Marketing, refining, and transportation.

What about E&P?

Well, Fred, ten years ago or longer, I told you that the Majors were getting out of the production business and they have. If oil is plentiful and national oil companies and independent exploration companies are willing to do the job and are producing in excess of refining need why would the majors want to remain in that business except to assure a continued oil supply? Their target will continue to be elephants. The planet is finite and they eventually will run out of huge non-conventional targets.

Where will the next boom occur?

The South China Sea.

If you were advising a young person as to a career choice what would your recommendation be?

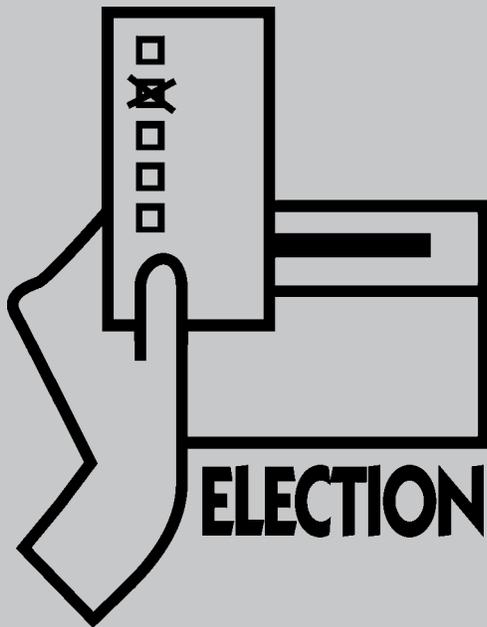
Exactly what I told my grandchildren: Study a basic engineering discipline like mechanical or electrical engineering and become part of the technology advancement business. You are part of developing new ideas or they will replace you. Being a cowboy during the depression was hot hard dirty work. Animal husbandry, antibiotics and insecticides eliminated much of the need to routinely round up cattle for this, that or the other preventative treatment. Being a cowboy was not a growth industry. Being a drilling hand is not a growth industry. Being a part of new technology is!

Hank, thanks for the insight and for sharing it with your friends in SPEE.

The target of the Majors will continue to be elephants. The planet is finite and they eventually will run out of huge non-conventional targets.

Mr. Gruy's Career Highlights

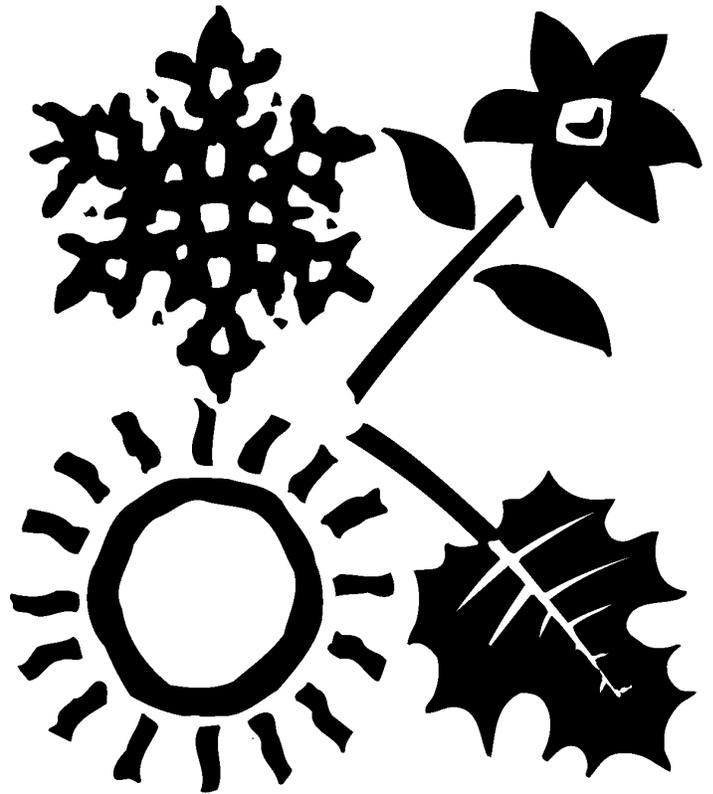
- ↔ **First elected President of SPEE**
- ↔ **Honorary Life Member of SPEE**
- ↔ **Former SPE President**
- ↔ **Author of numerous oil and gas publications**
- ↔ **Petroleum Engineering Academy of Distinguished Graduates 1977 Texas A & M University**
- ↔ **National Academy of Engineering Elected 1989**
- ↔ **Founded H. J. Gruy & Associates in 1950**
- ↔ **B.S. Petroleum Engineering, 1937 Texas A & M University**



As the result of our fall election, we have three new directors: David Gold, Frank Molyneaux, and Charles Nelson. These men have previously served in various positions within SPEE. Currently, David is Chairman of the California chapter and Webmaster for the SPEE web page. Frank is Chairman of the Calgary chapter, and Charles is the Chairman of the Houston chapter. Congratulations to these new board members!

We also wish to thank our nominees who were not elected this time - Alan Farquharson (Ft. Worth), Michael Horne (Austin), and Marshall Watson (Midland); and encourage them to run again, because our elections are always very tight races. These close ballots are a reflection of the high caliber of all nominees for board positions.

Marilyn Wilson
Nominating Committee Chair



ANNUAL MEETING

The Annual Meeting will be at "The Resort at the Mountain" in Welches, Oregon, June 13-15. Welches is about 40 miles east / southeast of Portland at the base of Mt. Hood. It is a relatively small, family-owned, full-service resort that has been developed around a Highland Scottish motif and exceptional scenery. The primary resort attraction is golf on three on-site courses and several nearby courses. Room rates are expected to be from \$129 to \$149. The location is on the rainy side of the Cascades, with deep pine forests, trout streams and other outdoor attractions abounding. The Columbia Rivergorge is about an hour away, and Mt. Hood has year-round skiing.

Welcome New Members

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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.

APPLICANT

SPONSOR

CRERAR, KATHERINE ANNE

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Barry Ashton
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Noel Cleland
Glenn Robinson

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16800 Imperial Valley Dr., Suite 270
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SPEE

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2004 Dues Notice Enclosed



The Proposed Bylaw change passed by an extremely large majority - almost unanimously!