



December 2000

# SPEE Newsletter

## President's Letter

It has only been a short time since the last newsletter in September but your organization has been busy. Progress is being made on several projects that were discussed in September. In addition, one or two new projects have been started and we have even held a very successful two-day forum in Houston regarding SEC evaluation issues. In the meantime, we have elected three new Directors to the Board.

The Petroleum Economics Standards project which is being done by the Denver Chapter is making good progress and is on track to provide an interim report to the Board at the January meeting. A final draft report will be made to the annual meeting in San Diego in June. This is one of the most



ambitious projects that SPEE has attempted. While this project started as a result of the Software Symposium, the end result is expected to have influence far beyond software programming.

The committee formed by the Denver Chapter is soliciting input from a broad spectrum of the evaluation community and is very interested in hearing from you. Please call Mr. Robert Thompson or Mr. John Wright.

Ethics is an essential quality of any civilization. It is a part of the moral glue that binds otherwise diverse people together into a successful community. And, at a time when ethics and personal responsibility seem to be in short supply, it is important to remind ourselves that ethics and integrity are indispensable parts of being a professional evaluation engineer. SPEE has a well-defined Code of Ethics printed right in the front of your Membership Directory. In an effort to expand our knowledge of and commitment to ethical practices, the Midland Chapter has taken on the responsibility of writing a monograph on the topic of Ethics and Professionalism. The draft plan is to review the application of the SPEE Code of Ethics and the Principles of Acceptable Evaluation Engineering Practice (also in the front of the Directory) to our work as engineers and also to explore those areas of

regulatory and legal practice which have influence on our profession. This project is being led by Mr. Arlen Edgar and Mr. Buddy Sipes who will do a splendid job but a few helpers never hurt. Feel free to volunteer.

The Reserves Committee has been asked to look into several specific topics related to the 1997 SPE/WPC reserves definitions including but not limited to "current conditions," the probabilistic/deterministic issue, and the proper application of risk adjustment methods to evaluation. This will be a major undertaking and the existing committee will need the help of those people with an interest in these issues. While the project plan has not been laid out in any detail, it is not too early to volunteer. If all the chatter I hear at meetings of evaluation engineers is any guide, these should be topics that stir one's soul and beget passionate but illuminating debate. This is your chance to get your two bits off your chest and (possibly) onto paper.



Speaking of reserves, SPEE sponsored a forum in Houston on October 31 and repeated on November 1 to discuss the current trend in reserve evaluation at the Securities and Exchange Commission. The forum featured one of the engineers from the SEC and a panel of experts to discuss and study the impact of certain criteria for evaluations that were being contemplated by the SEC. An article on the forum is on page 4.

This extremely well-received forum resulted directly from the efforts of Mr. Dan Olds and Mr. Ron Harrell who created a committee and put the program together in a very short time. Programs of this type are exactly what SPEE should be doing and, like the Software Symposium, the SEC Forum demonstrates that SPEE can be effective in bringing educational opportunities to the evaluation community. The SPEE members who worked on the SEC Forum project deserve your thanks and congratulations. Now, for an encore ...

Continued on page 3

# SPEE Officers, Board of Directors

## 2000

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### Chapter Officers - 2000

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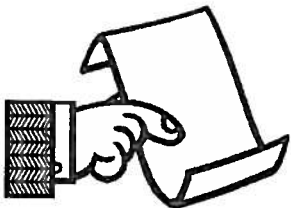
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## Election of Directors

It is a pleasure to welcome three new members to the Board of Directors; Mr. Michael Harper (Ft. Worth), Mr. Dan Olds (Houston) and Mr. Robert Odd (Calgary). These gentlemen will serve for three years starting in January, 2001. They join Board members from Tulsa, Denver, Houston, Midland, Dallas and even California.



Congratulations should also go to the SPEE members who took the time to vote in the election of Directors. We had a 52% response which is better than in the past. Participation in the vote for Directors is a relatively small event but it does show your interest in the future and well-being of your organization. If you do not participate, SPEE becomes just another group to which you belong - sort of.

## SPEE and the Professional Engineer

In the course of reviewing the SPEE Long Range Plan and working on the start-up of the Ethics and Professionalism project with the Midland Chapter, I found myself pondering the purpose of SPEE and the relationship of SPEE to the practicing professional evaluation engineer. The former is a work-in-progress that will take some time and real effort to attain resolution. The latter is, of course, dependent upon the outcome of the former but also needs to be addressed as the purpose of SPEE becomes defined.

If we take the approach that the purpose of SPEE is to be, among other things, an organization that determines and promulgates standards of ethical and professional practice in oil and gas evaluation then we can also take one of two views of the relation of SPEE to the practicing professional engineer. We can view SPEE as the source of knowledge and experience, the watering hole, if you will, to which some are invited to share; or we can take the alternative view that in having that accumulated knowledge and experience, we have a responsibility to help to train and educate other professional engineers and to bring order to the practice of evaluation.

I would submit that we have started down the latter path and, after we get the feel of the road, we can pick up the pace. We will do so with publications and with efforts such as



the Software and SEC forums; with well-done monographs on reserves, Fair Market Value, and economic standards; with the introduction of Recommended Practices; and with continually broadened contact with the outside world through our Website and our Chapters. We can even work on developing good connections with those in academia and the government/regulatory world who could benefit from our accumulated wisdom - so to speak. A part of the price of going down this road is to shake off the watering hole view.

One issue that SPEE needs to address is our concept of - "What is a "Professional Evaluation Engineer?" Leaving aside the amateur/pro distinction, what do we mean by a "professional evaluation engineer?" For that matter - what do we mean by "evaluation engineer?" Taken another step - What constitutes "evaluation?" Let's leave that for another day and, instead, confine our thinking to how SPEE can and should relate to professional engineers who are members, prospective members, or just folks doing their jobs who are not now members and are not inclined to be.

A useful and rational view of "professional" is one who through training, education, and experience is able to conduct and complete an evaluation (there's that word again) of an oil property in a manner that is not only competent but will stand up to scrutiny by peers as representing the best application of accepted practice. These are people we work with every day in consulting firms, producing companies, government agencies, and financial institutions. They come by the title "professional" because they earn it; it is a title conferred by others who recognize the training, experience and quality of workmanship, if you will, of the individual. It does not come out of a box, or from books or by longevity, and it most certainly does not come by virtue of a piece of paper issued by a licensing board or other bureaucratic entity. A professional is defined by his or her work product, not the fancy documents hung on the wall.



However defined, these working professional evaluation engineers are the natural constituency of SPEE. Our programs and membership recruiting efforts should be aimed at them. If we can influence them toward the standards set by SPEE then we have accomplished our purpose. If they decide to become members - so much the better. We have made a good start, but this is a long-term project that will require a sustained effort by *all* our members.

**Richard Miller**

## ***SPEE Forum on SEC Reserves Interpretations is Well Received***

At an exclusive SPEE forum, a representative of the U.S. Securities and Exchange Commission clarified the agency's recently published interpretations on petroleum reserves definitions and reporting Oct. 31 and Nov. 1. The meeting brought together an SEC engineer and 162 senior-level financial and engineering personnel who tackled some of the more controversial issues. SPEE sent invitations to all 500 members, all consultants listed in the PT magazine and targeted SPE members.

Discussion focused on eight actual cases, disguised to protect confidentiality. Presenters were Carter Henson on updip reserves, Robert Rasor on reservoir simulation contacts and on history matching in simulation, Tom Gardner on production sharing agreements and associated issues and on proved undeveloped reserves, Ace Alexander on probabilistic reserves, Chapman Cronquist on seismic analysis and Joe Blankenship on coalbed methane evaluations.

The forum steering committee prepared and nominated cases for presentation. A subcommittee, which included Chuck Brittan and which was chaired by Gardner, reviewed all submitted cases and made the ultimate selections. Copies of the slides (overheads) used in the presentations were included in three-ring binders given to all registrants.

Reaction to the forum was positive. J. Ford Griggs, manager of reservoir and production technology at Phillips Petroleum Co., said, "The forum was excellent and much needed." Others commented on a future forum. Robin Lebleu, manager of budget and planning at Vintage Petroleum, said, "It was a very good seminar and worth continuing and expanding." Representatives from the consulting companies appreciated the forum. Elizabeth Hunt, a consultant at Hunt, Wallace & Assocs., said, "It was an excellent forum to present hypothetical, anonymous cases to the SEC for an opinion and informal ruling."

The SPEE recorded the forum discussion and sent the transcript to the SEC for editing. After the SEC returns the document, the SPEE will further refine the transcript before making it available to the public, most likely through a CD-ROM product, said Ryder Scott CEO Ron Harrell, chairman of the SPEE forum steering committee and forum moderator. SPEE will delete extraneous discussion and insert overhead and slide presentations used for each of the eight case studies. Harrell expects the proceedings to be available by the second quarter of 2001. "The transcript will be a comprehensive document put in the public record," he said.

Ron Winfrey, the participating SEC engineer, said that he would consider the following on a case-by-case basis, if a compelling argument is made:

- ◆ Use of 3D seismic to define lowest known hydrocarbons
- ◆ Use of pressure gradients to define gas-water and oil-water contacts
- ◆ Submission of contract extensions, if historically supported

"The SEC engineering staff is believed to be internally reviewing a guideline that reservoirs and fields be flow tested before assigning any proved reserves. This is a thorny issue in deepwater areas where testing is impractical and potentially unsafe and one that has yet to be resolved, but now the SEC staff is aware of the problem and is giving consideration to it," said Harrell.

Winfrey said that public issuers may book enhanced-recovery reserves as proved undeveloped (PUD) based on analogies in the area. "This is a departure from past positions that required a response from a pilot injection well or project in the reservoir," said Harrell.

Winfrey did not strongly pursue an SEC guideline that an evaluator consider political, legal and environmental risks in classifying proved reserves. However, he insisted that an evaluator consider the financial capabilities of the public issuer.

Winfrey discouraged the booking of PUDs beyond one offset or drainage unit. "The SEC position on PUDs is more conservative than that of the Society of Petroleum Engineers/World Petroleum Congress," said Harrell. He remarked that the position of the SEC on the PUD issue is "unnecessarily conservative in some cases."

The SEC states that those reserves for undrilled units more than one unit location away "can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation." The SEC staff points out that "this definition contains no mitigating modifier for the word 'certainty.'"

Harrell said, "Beyond the PUD interpretation and the SEC requirement for pricing, the interpretation of the SEC and SPE definitions are coming closer together."

SPE guidelines allow for the use of oil and gas prices based on historical averages or specified in sales contracts while the SEC continues to require the use of year-end prices.

Harrell praised Winfrey. "His participation in the forum represents a candidness and openness from the SEC that we have never seen before," said Harrell. "The two SEC engineers (Winfrey and Jim Murphy) are competent and have consulting experience."

## Chapter News

### CALGARY

The Calgary Chapter started the new meeting season on September 19 by reviewing the latest draft of the Canadian Oil and Gas Evaluation Handbook. At the lunch meeting on October 17, Mark Kryzan of Global Thermal Electric gave a presentation on fuel cell technology. The November meeting will include an election of new officers for 2001 and 2002. On December 19 the group looks forward to welcoming SPEE President Richard Miller as guest at the annual festive lunch. Seasonal Greetings to all SPEE members!

### DENVER

On October 11th, 22 members and guests of the Denver Chapter met in the Hershner Room of the Wells Fargo Center. Mr. John Wright and Mr. Robert Thompson held their first working committee meeting regarding *Petroleum Economics Recommended Practices*. The committee has been charged with developing a set of Recommended Procedures for (a) definition of relevant terms and (b) calculation procedures for upstream oil and gas economic calculations. Subjects included: discounting methodology (monthly and annual), definition of decline curve parameters, price and cost escalation, calculations of reversionary interests, calculation of economic indicators, and reporting multiple rates of return.

The Denver Chapter also elected officers for 2001:

Chairman - Gary Krieger

Program - Richard George

Treasurer - Scott Stinson

Membership - Wally O'Connell

### HOUSTON

After the summer break, September's luncheon meeting featured Carlos Maeso of Schlumberger, who discussed interesting aspects of Log While Drilling and horizontal drilling. October's speak was Hank Gruy. Hank presented his recent SPE paper on the History of Ownership of Mineral Rights. Hank had recently presented it at the SPE annual meeting in Dallas, where we discovered that Hank first gave a SPE paper at the AIME convention in Los Angeles in 1946.

November's luncheon meeting was cancelled due to the conflict with the SEC Forum. December's meeting will be held on Wednesday, December 13, due to a conflict with the Petroleum Club's annual Fellowship Luncheon. However, we think that the wait will be worth it. December's speaker will be Andrew Thomas of the New Orleans law firm of Schully, Roberts, Slattery, Jaubert & Marino. Andrew specializes in oil and gas contract negotiations, and his talk comes highly recommended.

January's meeting will be our annual joint meeting with SIPES, and will be held on SIPE's meeting date of Thursday, January 18. We will also be electing new chapter officers at this meeting.

Don't forget to mark your calendars with the dates for December and January!

### MIDLAND

The Midland chapter has accepted the responsibility for producing an "Ethics and Professionalism" monograph for SPEE, as requested by Richard J. Miller, President of SPEE. Work on this project has been started by Arlen Edgar and Buddy Sipes. The National office of SIPES has contributed copies of several past "Ethics Columns" that appeared in certain of their newsletters for possible consideration and use in our project.

The current Midland SPEE officers have worked to increase meeting attendance, and due to this, have had several non-member guests who are interested in becoming a part of SPEE.

### NEW ORLEANS

The New Orleans chapter held its first meeting of the 2000-2001 program year on September 20. The speaker was David Marshal with NUMAR/Halliburton whose topic was "Determining Free Water Levels from Log Data." At the November 15 meeting, the speaker, Gary Gozenbach, spoke on "Prospect Evaluations Using the PHDWin Cash Flow Program." The scheduled speaker for the January 17 meeting will be Dr. Ron Bonnie who will present "Real Time MRIL Data." Programs for the March 21 and May 16 meetings have not been finalized but a round-table discussion on SEC reserve definitions and rules will probably be the topic of one of those meetings. The average attendance at the meeting is fifteen individuals.

Officers are the same as last year - Tim Brookover - Chapter Chairman, Jim Glanzer - Program/Vice Chairman, and Jim Hubbard - Secretary/Treasurer.

### TULSA

The Tulsa Chapter held its last regular meeting of the year 2000 on November 7<sup>th</sup> and welcomed Bing Wines, Consulting Petroleum Engineer with Winrock Engineering, Inc. as the featured speaker. Mr. Wines spoke on "The History and Future of the Professional Engineering Registration Process, and its Effect Upon the SPEE."

Mr. Wines served on the SPE's Engineering Registration committee, which he chaired in 1975 and 1976. In the mid-'70s, he was the sole preparer and grader of the Professional Petroleum Examination; a process he continued to contribute to through 1986. He was the primary author of the SPE's book, "A Guide to Professional Registration for Petroleum Engineers," and assisted with the editing of several subsequent additions. He presented many of his own statistical records and trends regarding Petroleum Engineers gaining Professional Registration status. He specifically discussed how this has historically impacted the SPEE since it has adopted Registration as a qualification for membership.

Bruce Randall, Dick Banks, and Robin LeBleu are in the process of recruiting next year's officers for the chapter.

## News from the SEC

Recent discussions with Ron Winfrey, SEC staff engineer, provided the following guidance for oil and gas disclosures. While many companies are using hedges to manage price risk, a hedge contract

does not normally identify the production from each property that is impacted by the hedge. Ron suggested that if an engineer projecting cash flow for any specific property cannot match production from that property to a specific hedge contract, then the engineer should ignore the hedge and use the year-end price. Ron suggested that the financial impact of all hedging activity should be calculated separately and shown in the annual report as a line item in the table disclosing the Standardized Measure of Oil and Gas.

This has the effect of allowing the evaluation engineer to focus on reserves issues with less distraction from hedge contracts. It also allows the engineer's report to reflect the anticipated performance of the properties themselves. The anticipated performance of the financial managers negotiating the hedges will be reported separately.

Andy Merryman



## SPEE REP Rollout

The Recommended Evaluation Practices program was officially unveiled at the recent SPEE / SEC forum, and now the first four draft REPs have been posted at our website at [www.spee.org](http://www.spee.org). These drafts are as follows:

REP #1 is entitled "Recommendations for Reporting Estimated Reserves of Oil and Gas." It discusses the various elements that should be included in a typical reserve report, the issues that should be addressed. At ten pages, it is much longer than what we expect for the typical REP, but we feel that a thorough discussion of this basic element was needed.

REP #2 is "Presentation of Hydrocarbon Production, Sales, and Lease Use Quantities in Reserve Reports." This REP discusses the various ways that quantities are presented.

REP #3 is entitled "Inclusion of Revenue from Non-Hydrocarbon Reserves in Reserve Reports." Engineers customarily include revenue from a wide variety of sources in reserve reports, a practice that is not in line with SEC intent.

REP #4 is "Inclusion of Hedging Positions in Reserve Reports," and it deals with the issue of how hedges should be treated.

The four REPs presented here are drafts in the comment stage - they have not been formally adopted by the SPEE. During this comment stage, we invite all members of the evaluation community, whether SPEE members or not, to submit their comments on each REP. All comments will be considered prior to a recommendation for formal adoption.

In order for this program to really be successful, we need to expand the number of REPs in our library. I hope that after reviewing these first four, it will give you ideas for others. If you have an interest on a certain topic, contact me, so that we can avoid duplicative efforts.

If you don't have internet access and would like to review this material, please give me a call and I'll drop a copy in the mail. I look forward to your comments and/or suggestions. I can be contacted at [daniel.olds@us.pwcglobal.com](mailto:daniel.olds@us.pwcglobal.com) or (713) 356-8261.

Dan Olds

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# IT'S IN THE AIR HAPPENING HERE!

## Hydrocarbon Economics & Evaluation Symposium

As most of you probably know, the Dallas Section of the SPE will be hosting the 40th biannual Hydrocarbon Economics & Evaluation Symposium on April 2-3, 2001. It will be held at the Hotel Inter-Continental in Dallas on Monday and Tuesday. Included will be two short courses on Saturday, March 31 & Sunday, April 1; a plenary session of industry experts & company executives; the usual feast of economic-related papers and panels; and the latest in economic programs with hands-on demonstrations at our exhibits. This event has become the preeminent forum for the exchange of ideas and strategies regarding evaluation and finance in the oil & gas industry. The theme for this symposium is "energy, economics, and e-commerce."

An electronic flyer will be sent to you shortly and our web site [www.spedallas.org](http://www.spedallas.org), will soon have a complete listing of the program and registration materials. To help publicize this event & date we have created a unique mousepad (they are not cheapies) and I would like to send some to you as handouts or door prizes at your next section meetings. Please let me know who I should send these to along with a mailing address.

Please call if you have any further questions.

**Mike Flanigan**  
Publicity Chairman



## Texas Adopts New Rules for Engineering Registration

In April, 2000, the Texas Board of Professional Engineers initiated "firm registration" in accordance with House Bill 1544. This legislative re-

quirement for registering firms includes sole proprietorships, meaning that any engineer providing engineering services (including part-time consulting work) must register as a firm.

Traditionally, the Board has "registered" individual engineers. In the future, the term "registered" will be applied only to engineering firms and the terms "licensed" will refer to individual engineers. In other words, a self-employed person offering engineering services must be both licensed as an individual and registered as a firm.

Under the revised Texas Engineering Practice Act, any entity (sole proprietorship, firm, co-partnership or joint stock association) may engage in the practice of professional engineering in Texas, provided:

- (1) the entity is registered with the Board, and
- (2) such practice is carried on by only professional engineers licensed in Texas.

To be registered, an entity must file an application with the Board on a form provided by the Board. Registration is valid for one year and may be renewed by filing an updated application.

Application forms are now available on the Board's home page [www.tbps.state.tx.us](http://www.tbps.state.tx.us). The Board's mailing address is PO Drawer 18329, Austin, Texas 78760-8329; telephone number is (512) 440-7723. The full text of House Bill 1544 can be found at [www.capitol.state.tx.us/tlo/76R/billtext/HBO1544F.HTM](http://www.capitol.state.tx.us/tlo/76R/billtext/HBO1544F.HTM). Texas joins 10 other states requiring registration of engineering firms and approximately 22 other states requiring a certificate of authorization for engineering firms.

**Robert B. Byrnes**  
Eules, Texas  
August 22, 2000



## Welcome New Members

**J. MIKE CAMPBELL**  
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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	APPLICANT	SPONSOR
<b>RICHARD DALE FINKEN</b> Consultant 39 Martins Way Sugar Land, Texas 77479	William Schneider Gordon Biescar John Gargani	<b>FRANK EDWARDS SYFAN, JR.</b> Dresser/Halliburton 10200 Bellaire Houston, Texas 77072	Stephen Holditch Fred Goldsberry Denton Copeland
<b>CHARLES E. HARMON</b> C. E. Harmon Oil, Inc. 4823 S. Sheridan, Suite 312 Tulsa, Oklahoma 74145	Richard Banks John Black Robert Burlingame	<b>LAWRENCE ELSON TARRANT, JR.</b> William M.Cobb & Associates 12770 Coit Road, Suite 907 Dallas, Texas 75251	Deacon Marek Earl Krieg Richard Herrick
<b>KEITH MASTERS</b> Self-Employed 139 Ranch Estates Rd NW Calgary, Alberta, Canada T3G 1L4	Dave Elliott John Lacey Dave Tutt	<b>JOSEPH G. TIGNER</b> EOG Resources, Inc. P. O. Box 4362 Houston, Texas 77210-4362	Gary Cartwright Cliff Zwahlen Danny Wilson
<b>DELBERT J. PIERSON</b> T. J. Smith & Co., Inc. 1331 Lamar, Suite 1340 Houston, Texas 77010	Steve Barr James Patterson Mike Garcia	<b>NICHOLAS P. VALENTI</b> Valenti Engineering Service 4425 Kingwood, PMB 145 Kingwood, Texas 77339	Rick Riseden Gary Sowyrda Harry Saul
<b>JERRY A. POPE</b> Meadowlark Energy Corp. P. O. Box 280572 Lakewood, Colorado 80228	Robert Ravnaas Walt King Steve Gilbert	<b>MICHAEL RAY WHITE</b> Coastal Oil & Gas Corp. Nine Greenway Plaza, Suite 2545 Houston, Texas 77046-4486	Andy Merryman Timothy Torres Richard M. Miller

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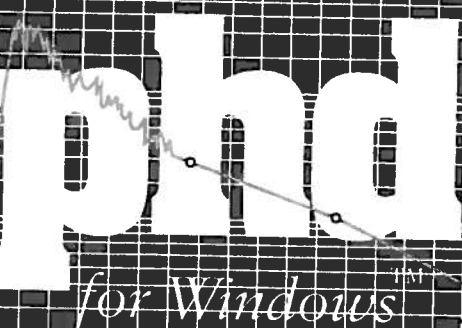
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# SPE eBiz Workshop & Trade Show

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Houston, Texas

### What?

This Society of Petroleum Engineers' educational event, including workshop panel sessions and related vendor exhibits, addresses e-Business lessons learned (both good and bad) in the upstream E&P sector. The target audience includes engineering and operations staff and management of both operators and service providers. This is a fabulous opportunity to keep pace with this exciting, unpredictable, and ever-changing environment.

### When?

Thursday, February 15, 2001 (8:30 AM to 7:00 PM)

### Where?

The J.W. Marriott, 5150 Westheimer (Galleria Area), Houston, Texas 77056 (713) 961-1500

### Lessons Learned Panel Sessions!

- Opening Keynote Speaker: Bob Peebler, VP e-Business Strategy and Ventures, Halliburton Co. Topic: “e-Sizzle or e-Fizzle: Does Our Industry Really Get It? “
- e-A&D (Kevin Neeley, Chairperson)
- e-Collaboration (Dave Barrow, Chairperson)
- e-Procurement (Larry Narrell, Chairperson)
- ASP's (John Turvill, Chairperson)
- Financial Perspectives (Art Schroeder, Jr., Chairperson)

Conference Chairperson  
Art Schroeder, Jr.  
Energy Valley

### Cost!

\$150 early registration / \$200 late registration: SPE & Energy Counsel Members  
\$225 early registration / \$275 late registration: Non SPE Members

### Registration and Current Information!

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For Questions Contact:  
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