

The Qualifications Committee: A Review of the Application and Approval Process

This discussion will review the Qualifications Committee responsibilities and revisions to the membership requirements and the approval process to become a member of SPEE.

The Qualifications Committee is appointed by the executive committee (President, Vice-President, Secretary-Treasurer, and past President) of SPEE and consists of at least four members. Currently the Qualifications Committee has six members. The SPEE bylaws give the Qualifications Committee the responsibility to review the applications to ensure compliance with the requirements for SPEE membership at either the member or junior member level.

After the Qualifications Committee review, the applications that meet the membership requirements are then sent to the executive committee for

approval. Applications deficient in the requirements for membership are also sent to the executive committee with an action recommendation.

In July 2001 the Board of Directors of SPEE adopted a definition of license to be "that applicants comply with all laws pertaining to the practice of evaluating oil and gas properties in the jurisdiction in which they practice."

Many oil and gas companies, consulting firms, and banks do not require engineers to be registered or geologists to be certified. If the applicant does not need to be a registered engineer or a certified geologist as a condition of their employment, it is not now an SPEE membership requirement. If the applicant's state of residence requires registration or certification, then registration or certification continues as a

membership requirement. If the member moves or changes employment where registration or certification is required, then the member must become registered or certified to continue as a member in good standing

Once potential members determine that they meet the requirements for membership, they then obtain three sponsors who are currently SPEE members in good standing. This is a very important step in the application for the applicant and

the sponsor. The applicant should get sponsors who are well aware of the applicant's experience in evaluating oil and gas properties. In most cases the sponsors will know the applicants better than the members of the Qualifications Committee. Sponsors will submit sponsor forms indicating their knowledge in all areas of an applicant's potential for membership. The sponsor's form will be revised to allow this critical part of the application process to be more useful to the Qualifications Committee and ultimately the Executive Committee in their approval of the applications.

At the January, 2002 SPEE Board of Directors meeting, a decision on the newsletter notification was made that will reduce the wait time for Executive Committee-approved applicants to become members. Previously, the approved applicants and their sponsors were listed in the quarterly newsletter and after 30 days, if there were no objections from the membership, then the applicant was an SPEE member. In the new procedure, if the quarterly newsletters that are to be published on January 1, April 1, July 1, and October 1 will have a significant delay in publication, then the notification to the membership of the approved applicants will be by mail, email, or the SPEE website. Any or all methods may be used.

The SPEE welcomes professionals who are in the business of evaluating oil and gas and meet the requirements for membership to apply for membership. In many cases this will be by a current member who has knowledge of a person's qualifications and invites them to join SPEE.

Bernie Brauer
Chairman, Qualifications Committee

The requirements for membership to SPEE are detailed in Article III, Section 1 of the SPEE bylaws, summarized below:

- 1) a bachelor's or advanced degree in engineering or geology.
- 2) 10 years' experience in the evaluation of oil and gas properties. With five years experience, the application will be for junior membership. Experience in both cases means that principal employment on a consistent basis regularly involves the evaluation of oil and gas properties.
- 3) a license or is registered as an engineer, if an engineer. A geologist must be:
 - a) certified petroleum geologist as designated by the AAPG or
 - b) be certified as a member of the Society of Independent Professional Earth Scientists or
 - c) be certified as a geologist in the applicant's state of residence, if the certification is available.

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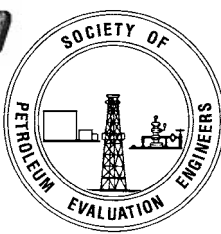
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Chapter News

Calgary

The 2001 program of the Calgary chapter was concluded on December 18 with a luncheon at the Petroleum Club.

The first meeting of the New Year was held on January 15 with one of the main items of business being the status of the Canadian Oil & Gas Evaluations Handbook. At the February 19 meeting, the guest speaker was Glen Baden of Coral Energy Canada. Glen gave a very interesting presentation on the topic "The Road Ahead: Will the Increasing Correlation Between Electricity and Gas Prices Continue?"

The Canadian Oil & Gas Handbook continues to be a key issue for the Chapter and the first edition is being formally made available to the membership at the March meeting.

- ◆ Chairman: Keith Brown (Ryder Scott Company – Canada)
- ◆ Vice-Chairman (Meetings): Frank Molyneaux (Scotia Capital)
- ◆ Secretary/Treasurer: Barry Ashton (Ashton, Jenkins, Mann)
- ◆ Membership Coordinator: David Tutt (R3 Resources)

The chapter now has 37 members in Calgary. An additional nine applications are pending, four of which are in the 30-day notice period.

Denver

The January meeting program was a presentation by Dave Faulder, a Principal of Wind River Consultants, LLC. Mr. Faulder discussed production decline curve analysis of hydraulically fractured tight gas wells, using Agarwal Gardner type curves. The A-G method is one of a growing number of advanced decline curve methods based on theoretical reservoir principles. There were 20 members and two guests in attendance at this meeting.

The next meeting will be in April.

Midland

Here at the Midland Chapter ... we are trying to put together a short course utilizing Forrest Garb to present Probabilistic Evaluation and Economics.

There has been no progress on the ethics project.

No membership activity the biggest issue seems to be getting recommendations of other SPEE members (i.e. knowing three members)

Meetings held - February 5, 2002
Speaker: Mr. Keith J. Bartenhagen

Subject: Applications of Using Cased Hole Formation Resistivity in the Permian Basin to find Oil and Gas

The talk included a brief overview of how this new measurement is made and its limitations. Several Permian Basin examples were shown illustrating the approach to cased-hole evaluation using this measurement.

Keith is a petrophysicist with Schlumberger Oilfield Services in Midland, Texas. Keith's experience ranges from hard rock reservoirs of the Williston Basin to several basins in the Rockies, as well as Deep Water Gulf of Mexico. Keith graduated with a BS in Petroleum Engineering from the University of Wyoming in 1985.

Future Meetings - April 2, 2002

Speaker: Dan Sodersten, P.E.

Subject: "Oil & Gas Property Auctions: Successful Internet Applications to an Existing Business"

The talk will include a brief overview of how property auctions can be a viable tool for divestment of properties in the A&D market. Actual sales results for the Permian Basin will be presented.

Dan is a Certified Professional Engineer in the State of Texas currently employed as Senior Vice President with The Oil & Gas Asset Clearinghouse. He has had experience in the oil and gas industry since 1982.

New Orleans

The New Orleans section meets bimonthly on even-numbered months. The speaker for the February meeting was Dennis Jordan, who spoke on Recent Trends in Risk Analysis. For the April meeting, Jim Hubbard will lead a roundtable discussion on Engineering Ethics in Property Evaluations.

Tulsa

The Tulsa Chapter met March 28, 2002 and hosted speaker and SPEE member Robin LeBleu, Manager, Budget and Planning of Vintage Petroleum, Inc.

Topic: The Reserves Rulebook According to the SPEE and SEC Staff: What they say about the following topics: proved reserves definitions, year-end prices, what items should be in a reserve report, how to convert production to sales, non-hydrocarbon revenue in reserve reports, hedging, and terminology usage.

Attendees were encouraged to read the SPEE "Recommended Evaluation Practices" at the SPEE website – www.spee.org - before the meeting.

President's Letter

Dear Members,

The past year has been so difficult for our country, emotionally and financially. Many of the events in the news have made us all feel vulnerable. Additionally, the Enron debacle and low oil and gas product prices have created the latest instability in our industry.

What does this all mean for our future? Obviously, everyone reacts differently to adversity, and I am not one to pretend that I can predict the future.

I strongly believe, on a small scale, these are times when a society like SPEE, can be the most beneficial to its members.

To strengthen our business and personal lives, we need to rally together, attend the local chapter lunches, and rendezvous at the annual meeting. This year the meeting is in Park City, Utah, a place that for a short time during the Olympics was a magical, patriotic escape from the troubles surrounding our country. Mark Doering, SPEE Vice President, is setting up a fabulous meeting with a theme of Fair Market Value. With the anticipation of many properties changing hands this year, the relevance of this topic to our industry is obvious. Networking is such an overused word, but the implication is clear; this may be a year when it is important to have strong connections in this business. Job changes and financial needs may dominate our corporate lives.

My plans, as your new President, are to visit the local chapters, and meet as many members as possible. The local

chapters are the heart of our organization. Our board, in the past two years, has had board members representing the Calgary, California, Central Texas, Dallas, Denver, Houston, Midland, New Orleans, and Tulsa chapters. With the exception of Oklahoma City, every chapter has been represented on our board. (That should be a challenge to Oklahoma City to nominate someone this year.)

It is important for our local chapters to encourage qualified applicants to apply for membership. Applicants need to be practicing legally (licensed in their state), have strong sponsors, and have the appropriate experience for full or junior membership. It is important to strengthen our membership with qualified people. In addition, SPEE has many wonderful committees. These committees and their respective chairman are listed in this newsletter. Please call and join a committee. They can always use your help.

We have another wonderful board of directors this year. These are dedicated members who will devote many volunteer hours to SPEE. J.D. Hughes was a terrific President in 2001, and I thank him for all the support he gave me last year.

Finally, please do not hesitate to contact me if you have any questions or comments. I am very difficult to reach by phone, but I will answer emails at mwilson@hjgruy.com as quickly as possible.

Marilyn Wilson
SPEE President 2002

Annual Meeting in Beautiful Park City, Utah

June 9, 10 and 11, 2002

Exciting plans are being made for this year's annual meeting at The Lodges at Deer Valley in Park City, Utah. On Sunday, June 9th, a great 3-1/2 hour short course on Coalbed Methane Gas Reserve Estimation and Production Forecasting will be presented by Matthew Mavon.

On Monday, the general session will include the unveiling of the new SPEE Fair Market Value monograph, including a panel discussion of experts on the subject led by Russell Long. Ken Hersh of Natural Gas Partners will make an interesting presentation on life after Enron and the effects on our industry and the capital markets.

Tuesday will include a provocative presentation on the current acquisition divestiture market and predicting actual property sale prices. Another presentation on Tuesday will include an in-depth analysis of the current oil and natural gas supply and price outlook. Reports on the SPEE Reps and Annual Survey of Economic parameters will precede the annual business meeting.

Social activities will include a Sunday night cocktail party and a wonderful Monday night dinner set high up in the mountains. Monday afternoon activity options include a scenic steam-engine train excursion into beautiful Provo Canyon or a challenging game of golf at a nearby course.

Further details and registration forms will be mailed out soon, but mark your calendars now to reserve these dates.

Welcome New Members

BOWNS, LAURIE

Pan Canadian Petroleum
150 –9th Ave SW, Box 2850
Calgary, Alberta Canada

DAVIS, JOHN NEWTON

Netherland, Sewell & Associates, Inc.
1601 Elm Street
Dallas, Texas 75201

GRING, LARRY MARTIN

Smith Production
14425 Torrey Chase, Suite 190
Houston, Texas 77014

HERTZLER, JEROLD MAX

St. Mary Land & Exploration Company
1776 Lincoln Street, Suite 1100
Denver, Colorado 80203-1080

JACOBSEN, JOHN CHRISTIAN

KCS Energy, Inc.
7130 S. Lewis Avenue, Suite 700
Tulsa, Oklahoma 74136

KIRKHAM, FREDERICK DALE

Martin & Brusset Associates
1000 – 736 – 6th Avenue SW
Calgary, Alberta Canada T2P 3T7

KRENEK, DOUGLAS G.

Ocean Energy, Inc.
1001 Fannin, Suite 1600
Houston, Texas 77002

KRENEK, II RICHARD F.

Netherland, Sewell & Associates, Inc.
1601 Elm Street
Dallas, Texas 75201

MCBEATH, JOHN CAMPBELL (Jr. Member)

Platt, Sparks & Associates
925-A Capital of Texas Hwy.
Austin, Texas 78746

MACLEOD, RODERICK KEITH

Sroule Associates Limited
900, 140 – 4th Avenue SW
Calgary, Alberta Canada T2P 3N3

MAYNE, CHARLES JOHN

Kerr-McGee Oil & Gas
P. O. Box 809004
Dallas, Texas 75380-9004

MIERTSCHIN, JANET NEAL

Chase Manhattan Bank
600 Travis, 20th Floor
Houston, Texas 77002

RICHARDS, JON ANTHONY

Century Exploration
3 Lakeway Center – 3838 N. Causeway Blvd., #2800
Metairie, Louisiana 70007

RUSSELL, BOYD

Energy Navigator Inc.
Suite 2150 BU53 255 5th Ave SW
Calgary, Alberta Canada

SEIDLE, JOHN PRENTIS (Jr. Member)

Sroule Associates, Inc.
1675 Broadway, Suite 1130
Denver, Colorado 80202

SKOV, ARLIE MASON

Arlie M. Skov, Inc.
1210 Shoreline Drive
Santa Barbara, CA 93109

SMITH, THOMAS G.

Western National Bank
P. O. Box 61250
Midland, TX 79711

SODERSTEN, DANIEL A.

The Oil and Gas Asset Clearinghouse
390 Benmar, Suite 100
Houston, Texas 77060

WOZNIAK, DAVID A.

Belden & Blake Corp.
5200 Stoneham Road
North Canton, OH 44720

YUEN, DEXTER L.

Union Bank of California
445 S. Figueroa St., 15th Floor
Los Angeles, CA 90071

ZUBER, MICHAEL DEAN

Schlumberger H-RT
1310 Commerce Drive
Park Ridge 1
Pittsburgh, PA 15275

ZUNIGA, RICHARD

Platt, Sparks & Associates
925-A Capital of Texas Hwy, S.
Austin, Texas 78746

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
<p>HOWIE, JOHN K. EnCap Investments, L.C. 11001 Louisiana, Suite 3150 Houston, Texas 77002</p>	<p>Mike Heisey Kevin McNichol Larry Tharp</p>	<p>The Oil and Gas Asset Clearinghouse P. O. Box 671787 Houston, Texas 77267-1787</p>	<p>Scott Epley William Huck Wendy Storbeck</p>
<p>MOTTAHEDEH, ROCKY R. United Oil and Gas Consulting, Ltd. #500, 777 8th Avenue SW Calgary, Alberta T2P 3R5 Canada</p>	<p>John Essex Curtis LaBelle James Phillips</p>	<p>SEIGLE, FLOYD E. Ashton Jenkins Mann 1430, 734 7th Avenue SW Calgary, Alberta T2P 3P8 Canada</p>	<p>Barry Ashton Roy Hennig Robert Odd</p>

NORDT, DAVID P.



**We regret to note the passing of
the following member:**

DONALD LYNN HALL
of Canyon Lake, Texas
who died on
January 18, 2001

From time to time members of the various chapters will run across information that is of value to the membership as a whole.

We intend to present this under the **For Your Information** Column as a "Heads Up!" for the society as a whole. The first contribution in the notices area is from Richard George of the Denver Chapter (see adjoining box). Thanks to Richard for kicking off this important section of the newsletter. If you run across an item or a legal notice please let me know. For those who would like to present ideas in the form of an article, please volunteer. The newsletter is the principal means for binding our Society Membership. Chapters, please let me know the name and email of your information contact person. Thanks. My email is wavex@wt.net.

Fred Goldsberry



Wyoming Registration

Effective January 2002, all engineers testifying before the Wyoming Oil and Gas Conservation Commission will have to be registered in Wyoming. Reciprocity is available only for registration in states with similar requirements.

The contact at the Wyoming Oil & Gas Conservation Commission in Casper Wyoming is Don Likwartz. His telephone number is (307) 234-7147.

The contact at the Wyoming Board of Registration for Registration for Professional Engineers and Professional Land Surveyors in Cheyenne, Wyoming is Christine Turk. Her telephone number is (307) 777-6155.

Energy Finance FAQs

Larry Tharp, P.E.

Senior Vice President and Manager of Engineering
Compass Bank Energy Banking Group

Last summer I was asked by Fred Duewall and Fred Goldsberry to write newsletter content concerning the finance part of our business. After considering possible concepts, I decided a list of frequently asked questions (FAQs) would be a helpful format. Discussions can address various topics and are easily presented in a number of shorter columns.

First, a few introductory comments are appropriate. In my current position, I am intimately familiar with the process associated with debt: obtaining it, structuring it, evaluating the collateral, and how the process evolves as the borrowing company grows or changes. I didn't fully understand this process and the energy finance arena before joining the bank; many others are probably in a similar situation. My knowledge of a great portion of energy finance is not exhaustive and several SPEE members have significantly more financial experience than I. However, if I don't know the answer, I will locate someone who does.

If you wish to add to the discussion on a particular topic or have a suggestion for a different subject to address in the column, I encourage you to give me feedback. My hope is this column can provide insight into energy finance matters that, while sometimes confusing, are certainly not rocket science. Besides, rocket science isn't hard to a rocket scientist.

What are the basic types of capital available to oil and gas producers?

Capital available to any company is grouped under the general definition of debt or equity. As paraphrased from Barron's Dictionary of Finance and Investment Terms, debt is money that one party is obligated to pay another in accordance with an expressed or implied agreement. Debt may or may not be secured. Likewise, equity is ownership interest possessed by shareholders in a corporation – stock as opposed to bonds.

Debt includes loans from banks, individuals or other companies and this debt has prescribed terms. There is a structural hierarchy among debt holders that starts at the highest level with (in general terms) senior secured, then senior unsecured debt and finally, subordinated debt (sometimes referred to as junior). Usually banks will have a senior secured position, unless the company reaches a certain size (200-500 MM\$) at which point it is not uncommon to see the banks make an unsecured loan. The secured distinction means that the bank takes mortgages on the properties as collateral. Typically, the bank's engineer will assess the value of the properties and a certain percentage of total value will be mortgaged. Bondholders may or may not have a secured position, but usually do not. This hierarchy becomes relevant when a bank is considering making or restructuring a loan, and certainly

in bankruptcy proceedings. Debt may be public or private.

The defining characteristic of debt is that there are prescribed terms in the form of an interest rate or a coupon rate. There is generally no upside return for the debt holders in a company beyond receiving the prescribed terms. There is downside risk if the borrower defaults on the debt, which can result in bankruptcy. In short, the bank has to ensure that its principal and interest can be repaid and that the borrower can do so while the borrower meets its other obligations.

In direct contrast to debt, equity is an ownership interest in a corporation. This interest may take the form of common or preferred stock and may be public or private. An equity holder participates directly in the success or failure of a company, and as such, there is inherently higher risk for the equity holder, as opposed to the debt holder. As a result, returns for equity participation are expected to be significantly higher than returns for issuing debt to a borrower.

Sometimes, the distinction between debt and equity becomes blurred and you might hear "That debt looks like equity". They might be referring to bonds that have very loose repayment terms such as, no payments for five years and then only with the approval of the bank group. Obviously, bonds with such a repayment provision would be expected to carry a higher coupon rate or an equity component to compensate for the higher risk. Banks like to see subordinated debt with a PIK, or payment

in kind, provision meaning that the company has the option to repay the bondholders with stock, diluting the equity, but preserving cash in the company. Mezzanine debt is another higher risk piece of debt with a correspondingly higher cost of capital to the borrower. Many times a mezzanine lender will structure its deal with a piece of debt at a certain coupon rate and an "equity kicker" which could be an override in a property or warrants in the company.

The use of each of these types of capital can be appropriate given the circumstances of a particular company. For instance, a small private company whose property set has small PDP value but large amounts of PUD reserves might consider a mezzanine lender who can provide them with the capital to drill the locations that they could not otherwise develop. The cost of capital may be high but the value created can greatly exceed this cost. In the case of a large company with a diverse property set, it is usually attractive to maximize the use of their bank facility because this is the lowest cost capital.



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