

## *President's Letter*

I recently returned from Geneva, Switzerland where I served as SPEE's delegate to the Ad Hoc Group of Experts ("AHGE") on Harmonization of Fossil Energy and Mineral Resources Terminology, formed under the United Nations Economic Commission for Europe ("UNECE") Committee on Sustainable Energy. I know that the very mention of the United Nations in the context of petroleum reserves and resources will raise the eyebrows of many who are familiar with the United Nations Framework Classification ("UNFC") for Fossil Energy and Mineral Resources – a three - dimensional

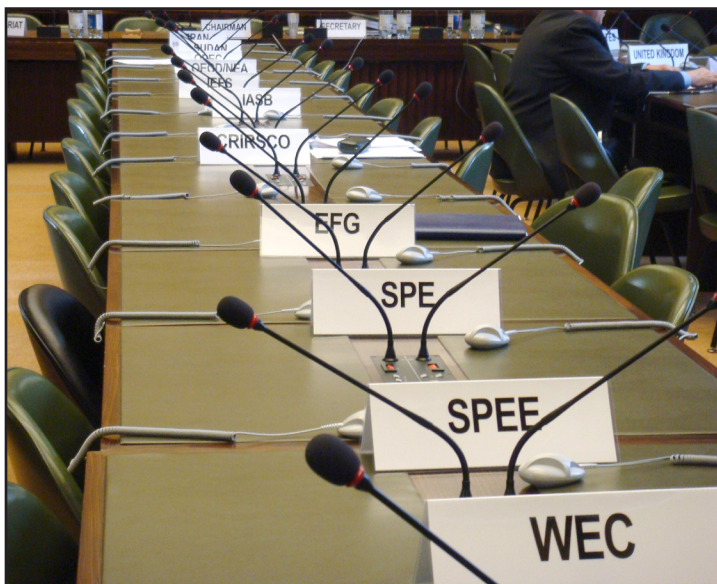
classification system sometimes dubbed the "the Rubik's Cube" by petroleum evaluation engineers and geologists. However, the harmonization effort is worthy of SPEE's notice and continued engagement.

As a refresher to those who have been following this process, and by way of explanation to those who have not, I have included an article on this initiative in this Newsletter edition.



By way of summary, the effort results from expansions in the globalization of the financial and energy markets. The harmonization effort under the UNECE began in 2004, although the visions of a world-wide classification system can be traced back to the efforts of the International Accounting Standards Committee ("IASC") to establish financial reporting standards for the extractive industries in 1998.

SPEE joined the AHGE, by invitation, at its Fourth Session. The invitation followed SPEE's partnership on the March 2007 Petroleum Resources Management System ("PRMS"), and its sponsorship and participation in the International Multi-Disciplinary Reserves Conference held in Washington, D.C. in June of this year. I was able to satisfy myself during the Fourth Session



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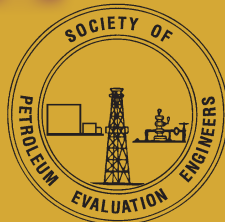
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The SPEE Newsletter is a quarterly publication of the Society of Professional Evaluation Engineers. News items, correspondence, address changes and advertising inquiries should be directed to SPEE headquarters in Houston, Texas.

that the harmonization effort is progressing in a manner that may accomplish its purpose while preserving the integrity of the SPE/WPC/AAPG/SPEE PRMS. Nevertheless, this

Meanwhile, back on the continent, the SPEE Board of Directors is pleased to announce the election of three new Directors, each of whom will begin a three-year term of service to the Board and the Society on January 14, 2008. The new Directors-

and the world, on a forward going basis. This edition of the Newsletter culminates the Board's nine-month exploration into the logo issue, during which numerous possibilities and countless variations were evaluated. The Board painstakingly narrowed the field of logo finalists to three logos. You will note that two are corporate-type logos that feature the SPEE initials, and connote SPEE's affiliation with the oil and gas sector. The third attempts to capture what SPEE members do professionally – "see" or evaluate reserves and resources from within the earth. The third logo also hints at SPEE's globalization.

As every SPEE Member is a stakeholder in the SPEE logo, it is the responsibility of the SPEE Membership to direct the process from here. The three new logo candidates are presented on the back page of this newsletter edition, and a ballot has been enclosed so that each Member may select the logo that will represent SPEE for years to come, including the current logo, if you prefer to keep it. Please take time to vote, and submit your ballot to Administrator B.K. Buongiorno by December 14th. If a new logo is selected, it will first appear on the SPEE website by Christmas, and on the 2007/2008 Membership Directory, due out February 2008. Also, look forward to SPEE logo lapel pins in 2008.

Warmest wishes for a safe, happy, Holiday Season, and a prosperous new year.

**Tim Smith**  
**President**



progress bears monitoring, and important decisions on a long-term governance structure for the UNFC are expected to be revisited in the future. Indeed, to support the accounting and disclosure requirements for oil & gas reserves in an international financial reporting standard, the IASB will need to identify a suitable definition of reserves. The SPEE's participation is vital if it is to have an influence on that process. A fifth AHGE session is planned for April 2008, and I will make every effort to insure that SPEE continues to be represented.

Elect are Rick Krenek (Dallas, TX), Jim Patterson (Houston, TX), and Scott Stinson (Centennial, CO). Congratulations to each of these gentlemen. The SPEE Board looks forward to working with you.

SPEE has clearly embarked upon a path that will bring it greater global exposure and visibility within the industry. In recognition of this fact, the SPEE Board resolved earlier this year to retain professional graphics advice in search of a new logo that will adequately represent SPEE's identity to the industry,

# Chapter News

## Calgary

Meetings of the Calgary Chapter resumed on September 18 with Creties Jenkins, Vice President of DeGolyer and MacNaughton, as our guest speaker on the topic of Coal Bed Methane and Reserve Evaluations.

Amendments to NI51-101 will come into force on December 28, 2007, provided all necessary ministerial approvals are obtained. Notable changes are as follows:

- Proved Reserves Constant Price case will be optional;
- The Value Reconciliation will not be required;
- The Reserves Reconciliation should be done on Company gross not Company net;
- Resources must be specific (lowest feasible) for Section 5.3;
- Section 5.9 has been reduced to include only 4 factors to disclose.

Details of the changes can be found on the website of the Alberta Securities Commission by following the steps below.

Step 1 – [www.albertasecurities.com](http://www.albertasecurities.com)

Step 2 – Securities Law & Policy (look to far left of computer screen)

Step 3 – Instruments & Policies

Step 4 – Type in “NI51-101” in Search For: \_\_\_\_\_

Step 5 – Double-click on document titled “Notice of amendments to NI51-101 Standards of Disclosure for Oil and Gas Activities” dated: Published 12 Oct 2007.

Our next technical meeting will be on November 20th at the Calgary Petroleum Club when Dr. David C. Elliott, Chief Petroleum Advisor, Alberta Securities Commission will address the Amendments to NI51-101.

The COGEH Standing Committee has completed revisions to COGEH Volume 1. These changes were endorsed and COGEH Volume 1 Second Edition was approved for publication at the business meeting of the Calgary Chapter on October 16th. COGEH Volume 1 Second Edition will be available soon from the Petroleum Society website, [www.petsoc.org](http://www.petsoc.org).

The COGEH Standing Committee has also completed COGEH Volume 3 sections on “Detailed Guidelines for Estimation and Classification of Coal Bed methane (CBM) Reserves and Resources” and “Reserves Recognition for International Properties.” These were also endorsed and approved for publication at the October 16th meeting. COGEH Volume 3 will be available soon from the Petroleum Society website, [www.petsoc.org](http://www.petsoc.org).

## Central Texas

The Central Texas Chapter met at the Campus Club on November 8 for a presentation on Oil and Gas Production Hedging Strategies and Tools. The presentation was made by Greg Zuercher with Devo Capital Management out of Colorado. The half-day presentation included a two-hour workshop on oil and gas futures and hedging strategies. The presentation provided insight on hedging strategies and tools to reduce risk and maximize profits with the use of futures, options, and over-the-counter products.

## Dallas

The Dallas chapter kicked off its 2007-08 year by electing a new slate of officers as follows:

Chairman – Dean Eiland

Vice Chairman – Paul McDonald

Secretary/Treasurer – Philip Crouse

Membership Chairman - Rick Krenek

Our first meeting after the summer break was held September 20th with 29 in attendance.

Tom Collier, Chair of the Evaluation Parameters Survey Committee of the SPEE presented an overview of the committee’s annual report, originally presented in Vail, Colorado at the SPEE Annual Meeting. The presentation addressed consensus outlooks on oil and gas price projections and cost growth projections. The presentation was followed by an enthusiastic question, answer and discussion session.

November 15th we are scheduled to have Mr. Wayne Wisniewski give his presentation “You Make the Call – Applied Ethics.” This will give Dallas/Ft. Worth area engineers a chance to get their ethics required credit for their PE registration. We are looking forward to a great turnout for this meeting.

## Denver

The Denver Section Quarterly meeting was held on October 10th with over 40 people attending a presentation by Mark Houser, President & COO, EV Energy Partners, L.P. Mark described why MLPs are gaining in popularity, the various types of MLPs, why EnerVest created EV Energy Partners, and how the organization is doing after one year. Questions from the audience concerned typical yields paid out to investors in the MLP and a discussion of how to set up corporate governance guidelines to avoid conflicts of interest among the various partnerships.

A short Business Meeting was held. The treasurer reported that the year will close out with a small increase in the section cash balance. On the membership side, there were a few members transferring in from other sections and a several

potential members who would be entering the membership pipeline, who have been attending meetings as guests. A new Membership Chairman was elected as part of the 2008 slate of officers. These are:

- Jerry Hertzler – Chairman
- Kevin Weller – Program Chairman
- Pat Galuska – Treasurer
- Mike White – Membership Chairman

It was noted that both Greg Wilcox and Scott Stinson from the Denver Section are running for National Board positions. The preliminary 2008 meeting schedule was defined for the following days (the second Wednesday of each month starting a quarter) - January 9, April 9, July 9, and October 9, 2008.

### Houston

Fall meetings began in September with our ethics talk. Ron Moore, an attorney who focuses on oil and gas issues, presented an example case that he titled “Read It and Weep!!!” He gave a case study that delivered the message, “Know who you are doing business with and keep it right.” Attendance was 55 members and guests. Brent Smolik, President of El Paso Exploration and Production Company,

gave an absorbing talk on the state of El Paso today, “Get Acquainted with Today’s El Paso E&P” on October 3. Attendance was 56 members and guests. On November 7, Larry Gring, President of the Potential Gas Com-

mittee, discussed the topic of “Who/What is the Potential Gas Committee?” The committee is releasing its new report on the gas reserves and potential in the United States very soon and is looking for volunteers to continue its excellent work.

Membership in the Chapter stands at approximately 180. The Houston chapter finances are in good shape. The

Chapter recently purchased a new projector and remote control to replace aged items in need of repair.

Nominations for Chapter officers for 2008 will be presented at the November meeting, and elections will be held in the December meeting. A new program chairman has been nominated, Mitch Reece, Engineering Manager with Collarini and Associates.

### Midland

The July meeting was billed as “The SPEE Smorgasbord - A Review of the SPEE Annual Meeting and Annual Midland Chapter Business Meeting.” Several chapter members made presentations involving varied topics. Tom Collier, Chairman of the SPEE Evaluation Parameters Survey Committee, presented the annual survey results. A review of the SPE/WPC/

AAPG / SPEE Petroleum Reserve Management System was made by Marshall Watson. Chapter Vice-Chairman, Charles Gleeson, discussed highlights of the 2007 Annual Meeting.

Major items arising from the 2007 Board meeting were reviewed by Bob Dimit, National Director.

In September, Jake Plunk, Vice President of Business Development with Merit Energy Company was guest speaker. His topic was “Doing Deals in a High Price Environment.” He discussed the metrics involved in acquisition and exploitation of producing properties with emphasis on the impact of current oil and gas prices.

The Midland Chapter continues to focus on inviting guests who are considered to be candidates for SPEE Membership. Several have attended meetings during 2007.

Arlen Edgar, Chapter Chairman, will conduct a program during the November meeting. The title is “Engineering Ethics - What You Don’t Know Can Hurt You.” Also, there will be election of Chapter officers to serve in 2008.



Left to right: Houston Chairman, Stuart Filler; November speaker and SPEE member Larry Gring; and Samantha Meador, Houston Program Chairman



Left to right: Frank Jeanes; Houston Chairman Elect - Ed Gibbon; and Dion Cole

## Oklahoma City

Gene R. Carlsen, Vice President Resource Development of Continental Resources, was the speaker for the Oklahoma City Chapter's August meeting. Gene reviewed the major events in Continental Resources history, as well as its current areas of operations and exploration plays.

Dr. Fred Goldsberry, SPEE, President of WAVEX Corporation was the speaker for the Oklahoma City Chapters's September meeting. Dr. Goldsberry discussed how images impact the decision making process and how WAVEX pressure transient analysis technology can aid in making better field development decisions.

After the regular meeting there was a one-hour ethics discussion led by Fletcher Lewis, OKC Chapter Treasurer. This discussion was to help Oklahoma PEs registered in Texas to get their one hour of ethics continuing education.

State Representative and State House Majority Whip, Rob Johnson, was the speaker for the Oklahoma City Chapter's October meeting. Representative Johnson discussed recent legislation affecting the Oklahoma Oil and Gas industry as well as other legislative issues of general interest.



Left to right: Fletcher Lewis (Treasurer), Ken Sigl (Program), Rob Johnson (Oklahoma State Representative and House Majority Whip), Bruce Heath (Membership), Jim Wilson (President).

## Call for Papers Annual Meeting 2008

The SPEE Annual Meeting for 2008 will be held at The Homestead in Hot Springs, Virginia in June. While the social activities are always a highlight, the technical program is the primary purpose of the meeting. For 2008 we will be trying a different approach to planning the technical program. Rather than inviting a number of speakers from industry and/or academia we will tap into the wealth of knowledge and experience accumulated in our own membership. In order to do this we are planning to schedule up to 19 presentations of about 20 minutes each. We would like to have at least three presentations on Ethics, which will make up a one-hour ethics course, and 16 on evaluation topics. The SPEE evaluation topics should use the following guidelines:

1. The mission of SPEE "to promote the profession of petroleum evaluation engineering, to foster the spirit of scientific research among its Members, and to disseminate facts pertaining to petroleum evaluation engineering among its Members and the public."
2. The purpose of the Annual Meeting is to "provide a venue for the dissemination of pertinent information through the presentation of scientific and other papers on topics of interest and the discussion of these papers."

Do you have a short presentation or paper or talk that you would like to provide to the members attending the meeting – something out of your own work experience? Is there a topical evaluation issue that you think should be addressed? Or, conversely, is there a topic about which you would like to have more information? We have a request for someone to discuss the term "Contingent Reserves," one of the classes

in the new PRMS Reserves Definitions. Does anyone have experience with "Contingent Reserves" that they would be willing to share at the Annual Meeting?

You are invited to participate in the program. There are three options that you can use:

- Option 1 – Submit a Presentation that includes a discussion with perhaps PowerPoint or other illustrations.
- Option 2 – Submit a Presentation and a Paper; this is Option 1 but with a written paper or a handout of your PowerPoint illustrations. A paper can be as short as one page.
- Option 3 – Submit a Talk. Would you like to open a topic for discussion – maybe an issue that you would like to have addressed? Submit a title and an outline of your talk. Leave plenty of time for discussion. This approach does not require preparation of a long presentation – it can be an extract of work you are doing or a study that you have in progress or completed.

The idea is to exchange knowledge within the most experienced evaluation engineers in the world in an informal setting and to "...serve as a means of continuing education of and for Members of the Society."

This is an ambitious undertaking and requires your help to succeed. Think about it, discuss it with your colleagues, and use the enclosed form to send in your proposed presentation. Call if you have questions. Send all proposals and questions to:

**David K. Gold**  
**Dkgold@aeraenergy.com**  
**(661) 665-5018**

# 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

### BYRON HOWARD DEAN

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Manager, Acquisitions & Divestitures  
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Brian Walter  
William D. Weege

### DICK, JOHN PAUL

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Donald Jacks  
Jim Wilson  
Clifford Zwahlen

### KUMAR, VINODH K. S.

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Article IV,  
Section 2,  
SPEE By-laws

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### VAN DER WEERD, Hendrik - Member No. 702

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## IN MEMORIAM

WE REGRET TO NOTE  
THE PASSING OF  
THE FOLLOWING:

LAURENCE J. LAPEZE  
HOUSTON, TEXAS  
JULY 9, 2007

EDDIE R. AYRES  
FORT WORTH, TEXAS  
OCTOBER 25, 2007

# United Nations Effort to Harmonize Fossil Energy and Mineral Resources Terminology

## What is Happening, Why, and Where is This Going?

The United Nations is leading an effort to harmonize fossil energy and mineral resource terminology. The effort, organized under the UNECE's Committee on Sustainable Energy, is multi-rooted, and underpinned by an ever-expanding global economy, including the capital and energy markets. Globalization creates needs for a common terminology to support international energy studies, government resources management, corporate business processes, and financial reporting. This need has been recognized by professional societies from many disciplines engaged in matters of petroleum, solid minerals, finance, and accounting. This article reports on the multi-pronged evolution of this terminology harmonization effort, its relevance, the current status of the effort, and expectations for the future. Due to the need to reference numerous professional organizations and classification structures, each of which are routinely characterized with an acronym, a glossary is included: (1) as an acronym Rosetta Stone, (2) to provide necessary background on some of the entities addressed, and (3) hopefully to avoid disruption in the flow of this material. (See Figure 1 on facing page)

**Importantly, from an accounting perspective, "extractive activities" encompasses the mining industry as well as the petroleum industry.**

**Historical Work of UNECE.** Work on a mineral framework classification system began in 1992 under the auspices of the UNECE Working Party on Coal. The catalysts were UN member States who saw value in a common classification system for coal and other mineral resources to enhance international communication and cooperation in a time of "historic political and economic transformation." In 1997, at the recommendation of the UNECE, ECOSOC approved the first "United Nations International Framework Classification for Reserves/Resources – Solid Fuels and Mineral Commodities."

In 2001, the UNECE Committee on Sustainable Energy assembled an Ad Hoc Group of Experts on the Harmonization of Energy Reserves/Resources Terminology to explore the application of the UNFC for solid minerals to oil, natural gas and uranium. The resulting classification system, the UNFC for Fossil Energy and Mineral Resources, was adopted by the UNECE Committee on Sustainable Energy in November 2003. It is called the UNFC-2004, and is presented in Figure 2<sup>1</sup>.

As of year-end 2003, a wide variety of classifications were still in use globally, and the many reserve restatements had reduced public confidence in reserves information supplied in financial reporting. In its 2004 World Energy Outlook, the IEA wrote: "The reliability of reserves data reported by oil companies has been called into question by a series of

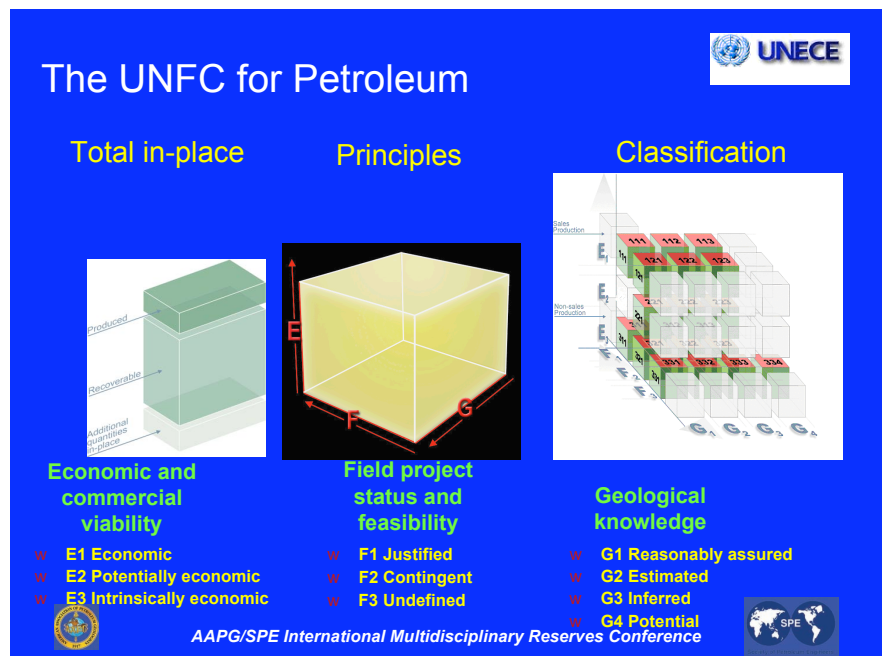
<sup>1</sup> Extracted from the presentation of Sigurd Heiberg, Chairman, UNECE AHGE, as presented at the AAPG/SPE International Multi-disciplinary Reserves Conference, Washington D.C., June 24-26, 2007

large downward revisions. Uncertainty about reserves undermines investor confidence and slows investment. There is an urgent need for all parties to work together to agree and implement a universally-recognized, transparent, consistent and comprehensive data reporting system for oil and gas reserves."

In February 2004, ECOSOC resolved to support the world-wide application of the UNFC to both petroleum and mineral resources. In response, the UNECE Committee on Sustainable Energy called for the formation of the Ad Hoc Group of Experts on the Harmonization of Fossil Energy and Mineral Resources Terminology ("AHGE"), to harmonize both petroleum and solid mineral definitions then globally in use (e.g., 1997 SPE/AAPG/WPC definitions for petroleum and natural gas, the CRIRSCO definitions for solid minerals, the IAEA/NEA system for uranium, etc.) with the UNFC. Through time, a number of events helped lead to a partial convergence of the UNFC with other applied terminologies, namely the: (1) issuance of the 2005 Russian Federation Classification Scheme by the Russian Ministry of Natural Resources (2) 2005 SPE mapping project, (3) mapping of the SPE/AAPG/WPC terminology to the CRIRSCO at the initiative of the IASB, (4) June 2006 Memorandum of Understanding (MOU) between SPE and the UNECE to cooperate in the development of a globally applicable harmonized code for reporting fossil energy reserves and resources, and (5) completion of the SPE/WPC/AAPG/SPEE PRMS in March 2007.

**Historical Work of IASB.** Accounting standards and practices in the petroleum and mining industries vary widely between countries and within individual countries. Nearly all enterprises

Figure 2





## Glossary (Figure 1)

AASB	Australian Accounting Standards Board
AHGE	Ad Hoc Group of Experts on the Harmonization of Fossil Energy and Mineral Resources Terminology. A group of experts formed in 2004 under the UNECE Committee on Sustainable Energy to support worldwide application of the of UNFC, assist in defining the needs to be met by the UNFC definitions, specifications and guidelines, and to recommend their application.
CMMI	Counsel of Mining and Metallurgical Institutions. Succeeded by CRIRSCO.
CRIRSCO	Combined Reserves International Reporting Standards Committee (for solid minerals). Successor entity to CMMI.
GAAP	Generally Accepted Accounting Principles (United States).
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee. Predecessor to the IASB.
IEA	International Energy Administration
IEFS	International Energy Forum Secretariat (Saudi Arabia)
IEFS	International Energy Forum Secretariat
IFRS	International Financial Reporting Standard
OECD/NEA	Organization for Economic Cooperation and Development/Nuclear Energy Agency.
OGRC	SPE Oil and Gas Reserves Committee
OPEC	Organization of Petroleum Exporting Countries
PRMS	SPE/WPC/AAPG/SPEE Petroleum Resources Management System of March 2007
SPE	Society of Petroleum Engineers
SPEE	Society of Petroleum Evaluation Engineers
UN ECOSOC	UN Economic and Social Council. One of the five principal organs of the UN. The other four organs are the: UN General Assembly, UN Security Council, UN Secretariat, and the International Court of Justice.
UNECE	United Nations Economic Commission for Europe. One of five regional commissions under the administration and direction of the UN Economic and Social Council (ECOSOC). The UNECE secretariat headquarters is in Geneva, Switzerland.
UNFC	United Nations Framework Classification for Energy and Mineral Resources. In the context of this classification, “energy resources” means all non-renewable energy resources of both organic and inorganic origin discovered in the earth’s crust in solid, liquid and gaseous form. “Mineral Resources” means all organic substances and inorganic substances in the earth that may be exploited for the benefit of mankind, excluding water resources.
US FASB	Financial Accounting Standards Board (United States)
US SEC	United States Securities and Exchange Commission
WEC	World Energy Council
WPC	World Petroleum Council

use historical costs, rather than reserve values, as the basis of their balance sheet accounting; although, many disclose some measure of reserves. Much of the inconsistency comes from variability in the method of historical cost accounting used; i.e., “successful efforts” vis-à-vis “full cost.” The balance sheet, therefore, does not necessarily reflect the value of the underlying reserves and resources.

The IASB’s predecessor organization, the IASC, began a comprehensive research project in 1998 as the first step in the development of an IFRS for the “upstream extractive activities.” Importantly, from an accounting perspective, “extractive activities” encompasses the mining industry as well as the petroleum industry. This perspective has driven efforts by the IASB to work with the petroleum and mining industries to investigate the potential for

harmonizing petroleum terminology and petroleum reserve/resource classifications with those of the solid mineral industry.

The obvious objective of the IFRS is to enhance comparability and consistency of financial reporting by extractive industries companies across the world, with a final goal of assisting participants in the global capital markets to make economic decisions. An IFRS, as envisioned by the accounting community, would address various aspects of accounting in the extractive industries, including the method by which reserves/resources are recognized or measured on the balance sheet, and the types of reserves/resources information that should be disclosed in financial reporting.

A steering committee established by the IASC published an issues paper on the extractive industries in 2000. After a series of

delays, partly due to the IASC's restructure and reformation into the IASB, a project team was established in 2004 to conduct research on the extractive industries in support of the IFRS. The team consists of representatives from the national standard setters of Australia, Canada, Norway, and South Africa. An advisory panel was also established to provide advice to the IASB through the research project. The advisory panel consisted of financial analysts and other users of financial reports, individuals from entities engaged in extractive activities (both mining and oil & gas), auditors, and security regulators. An interim IFRS was issued by the IASB in December 2004 (IFRS 6 – "Exploration for and Evaluation of Mineral Resources") pending the completion of the comprehensive project. In February of 2006, the FASB and the IASB entered into a Memorandum of Understanding and pledged to use best efforts to make financial reporting standards compatible as soon as practicable, and to coordinate future work programs to ensure that compatibility is maintained once achieved. Both had previously affirmed their commitment to the convergence of US GAAP and IFRS.

In December 2005, the IASB requested that SPE (on behalf of the petroleum industry) and CRIRSCO (on behalf of the solid minerals industry) investigate convergence opportunities of their respective terminologies to support the IFRS effort. This effort ultimately resulted in a detailed mapping between the CRIRSCO template and the SPE/WPC/AAPG/SPEE PRMS. The mapped classification frameworks are displayed in Figure 3.

**Historical Work of SPE.** SPE, WPC, and AAPG published a Reserve and Resource Classification to address the requirement for an international standard in 2000. The underlying Reserves definitions in this classification were unchanged from those published by the SPE/WPC in 1997. In 2001, the SPE/WPC/AAPG jointly published "Guidelines for the Evaluation of Petroleum Reserves and Resources" as clarifications for the application of the 1997 and 2000 documents. At the September 2004 SPE Annual Technical Conference and Exhibition held in Houston, Texas, the SPE leadership and the OGRC developed what it describes as its "grand vision" to have a set of reserves and resources definitions (and guidelines) universally adopted by the petroleum industry, international financial organizations, and regulatory bodies. Two OGRC subcommittees were established to advance the project: a *Mapping Subcommittee*, and a *Definitions Subcommittee*. The charge of the latter was the review of internal inconsistencies and ambiguities in the existing definitions, and any lapses in coverage. The charge of the former was the examination of key classification systems in use around the globe, and the preparation of a detailed comparison to the "SPE Definitions," then considered by SPE to be the composite of the 1997 SPE/WPC Reserve Definitions, the 2000 SPE/WPC/AAPG Reserve and Resource Classification, and the 2001 SPE/WPC/AAPG Guidelines. Specifically, the SPE

definitions were "mapped" to the following classification systems: US SEC (SEC-1978), UK Statement of Recommended Practices (SORP-2001), Canadian Security Administrators (CSA-2002), Russian Ministry of Natural Resources (RF-2005), China Petroleum Reserves Office (PRO-2005), Norwegian Petroleum Directorate (NPD-2001), United States Geologic Survey (USGS-1980), United Nations Framework Classification (UNFC-2004).

In 2005, the SPE published a Glossary (three years in the making), which provided further clarifications, and defined the term "commercial," thus further impacting the definition of reserves. Later, in December 2005, SPE published a report detailing the results of its "mapping" project. Thereafter, work stepped up on the SPE/WPC/AAPG/SPEE PRMS, which was ultimately published March 2007.

**The UNECE AHGE.** The AHGE, in its current configuration, has met annually in Geneva, Switzerland, headquarters for the UNECE, since the 2004 resolution of ECOSOC. SPEE participated for the

first time in the Fourth Session, held October 17-19, 2007. Fourth Session participants are identified in Figure 4 (above).

In July 2007, the AHGE Bureau created a special Task Force, including among others, SPE and CRIRSCO representation, to examine the SPE/WPC/AAPG/SPEE PRMS, CRIRSCO, and Russian Federation classification systems, and their alignment with the 2004 UNFC. In conducting their prior work on the IASB project to map petroleum and solid mineral reserve/resource classifications, SPE and CRIRSCO concluded that significant technical and cultural issues would prevent a complete merging of the various reserves/resources classification systems. An alternative approach was to create a mapping between the systems to enable external users to clearly understand the equivalences and differences

**Obviously, to support the accounting and disclosure requirements for oil & gas reserves in an IFRS, the IASB will need to identify a suitable definition of reserves.**

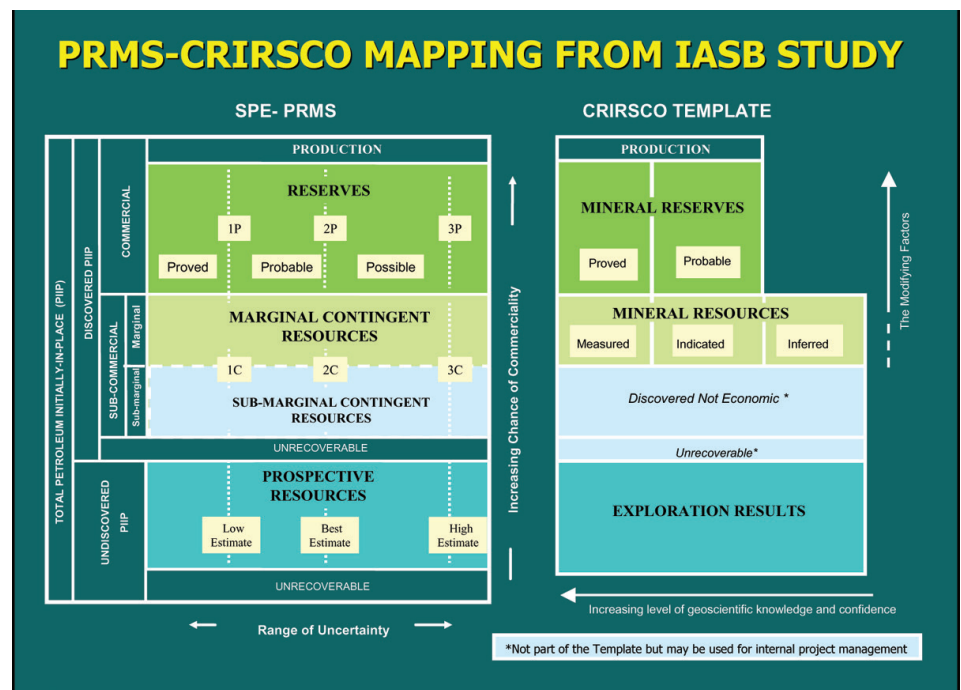


Figure 3

Figure 4

Roster of Participants AHGE Fourth Session Geneva, Switzerland	
Austria	United Kingdom
Bulgaria	US Geological Survey
Canada (Alberta Securities Commission)	AAPG
Germany	CRIRSCO
Hungry	European Federation of Geologists
Islamic Republic of Iran	IEFS (Saudi Arabia)
Norway	OECD/NEA (France)
Poland	OPEC
Russian Federation	SPE
Slovakia	SPEE
Slovenia	WEC
Switzerland	By Video Conference
Turkey	IASB
Ukraine	US SEC

in reported results. The Task Force built on the prior IASB mapping project and extended the concepts to the UNFC. While the Task Force mandate invited consideration of changes that would be required to bring the classifications and definitions together for wide acceptance and global adoption with UN support, the Task Force also considered that changes to the 2004 UNFC may be needed in order to align systems. Given time constraints, it was decided to defer mapping of the 2005 Russian Federation petroleum classification, although at the Fourth Session of the AHGE, it announced that the RF-2005 is being updated to a 2007 system for better alignment with the PRMS, and to make the treatment of the economic aspects of classification more transparent.

The Task Force issued an interim report on October 2, 2007. The following recommendations were made:

- Facilitate mapping between the UNFC and other systems, and reduce confusion and/or ambiguity, by removing the category and subcategory labels. Labels, if any, should be maintained only within the systems mapping to the UNFC.
- Maintain the numerical base of the UNFC, which will help avoid issues related to language. It would be sufficient to go from the numerical code to the full definition.
- Simplify the current UNFC definitions and keep them at a high level appropriate for an “umbrella” system. This will insure maximum potential for alignment with other systems. In simplifying the definitions, incorporate necessary principles applicable

to both petroleum and solid minerals without material deviation from the current definitions. Exclude details and/or commodity-specific information that could be captured in commodity-specific guidelines. (Suggestions for revised definitions were submitted as a part of the interim report).

No changes to the PRMS, or the CRIRSCO template have been recommended as of yet. As currently envisioned, it would be the responsibility of the respective organizations, in concert with AHGE, to maintain mapping should any of the three systems (PRMS, CRIRSCO, UNFC) be revised in the future.

The mapping between the PRMS and the UNFC is shown in Figure 5. Note that all of the boxes in the three-dimensional UNFC system are not used in classifying petroleum reserves/resources; therefore, the two-dimensional PRMS only maps to select boxes in the UNFC.

To learn more about the AHGE Fourth Session, see: [www.unec.org/ie/se/pp/4unfc17Oct07.html](http://www.unec.org/ie/se/pp/4unfc17Oct07.html).

### What’s Ahead

The IASB plans to issue an exposure draft, or discussion paper, that invites comment on the possible accounting and disclosure approaches identified by the IFRS project team in mid-to-late 2008. So that financial reporting can serve as a better predictor of value based on a reporting entity’s underlying reserves/resources, the IASB is assessing the feasibility of “fair value,” in contrast to “historical cost,” for balance sheet accounting. The AHGE has scheduled one more meeting to, among other things, work through various terminology issues, and to finalize its recommendations to support the IASB’s exposure draft.

The expected release date of a final IFRS is uncertain. IASB has suggested that an earliest case scenario would be mid-2012; however, this target has been criticized by many stakeholders as being too late. Obviously, to support the accounting and disclosure requirements for oil & gas reserves in an IFRS, the IASB will need to identify a suitable definition of reserves. Thus far, the IASB has indicated a bias for using the PRMS; however, this need underscores the importance of the terminology harmonization effort. If universally accepted, an IFRS could influence the reserve definitions and reporting guidelines currently in use by the US SEC in the United States.

*Tim Smith*

## Voting for New SPEE Logo

Please rank the following logos on the enclosed ballot and return the card to B.K. Buongiorno by 12/14/07.

**Logo A**



**Logo B**



**Logo C**



**Logo D**

