

## *President's Letter*

Since my last letter, the Annual Meeting of our Society has come and gone. This year it was held at Omni Amelia Island Plantation, just north of the city of Jacksonville, Florida. This is the first time that the Annual Meeting has been held in Florida, and while I am on that subject I would like to talk with you briefly on locations for the AM. My wife, Sharon, and I comprise the Advance Planning Committee whose purpose is to find locations to host the Annual Meeting. Following in the footsteps of Richard Miller and Carol Lillie who previously did this task, Sharon and I have sought new locations throughout North America, thereby giving the attendees a chance to visit and experience different parts of this great land. Recently we have sought direction from the Board on this strategy, and discussed with its members the pros and cons of considering an overseas location. We polled the attendees of Amelia Island on three locations, Cabo San Lucas (55 percent in favour), Hawaii (75 percent) and Ireland (75 percent). What are your thoughts? We would appreciate hearing from you so please send us an e-mail ([bashton@deloitte.ca](mailto:bashton@deloitte.ca)).

Your Board, Executive Committee and other various Committees continue to be very busy and the Annual Meeting provides the venue to meet, discuss and carry out the (many) various business matters SPEE has taken on or finds itself involved in. Allow me to update you on these.

1. On July 8, 2011 the vote for revisions to SPEE's By-Laws was closed following a 60-day voting period. As of July 9th, 225 members had submitted ballots and by a vote of 199 in favour, 26 opposed; the revisions were passed. The revised By-Laws are posted on the SPEE website.
2. House Bill 2067 was enacted by the Texas legislature and signed by the Governor on May 28, 2011. It

clarifies that professionally licensed petroleum evaluation engineers from outside

of the State of Texas may legally evaluate petroleum reserves and resources located in Texas without a license from the Texas Board of Professional Engineers. There are a couple of qualifications in the Bill, one of which is that the state in which the practicing engineer is licensed must grant reciprocal privileges to engineers licensed in Texas.

3. A huge debt of gratitude is owed to **Tim Smith**, Past President and Chair of the Reserves Definition Committee, for identifying this issue and shepherding its resolution.
4. The Board has agreed and moved to retain support for B. K. Buongiorno. B.K. has been a pillar of strength for the Society over many years. However, as we have continued to grow, the accounting and website needs have added more time than B.K. wishes to devote. So B.K. recommended Ann Davis be retained to manage the accounting and website functions, while B.K. will continue to manage all administrative matters. **Rick Krenek**, Secretary Treasurer, interviewed Ann and made a motion to the Board, which the Board approved, to retain her services. As with B.K., this will be a part-time position with the costs reflected in SPEE's budget.



# 2011 Officers and Directors

## Executive Committee

President ..... Barry R. Ashton (Calgary)  
Vice President.....Marshall Watson (Midland)  
Secretary-Treasurer .....Richard Krenek (Dallas)  
Past-President.....Stuart L. Filler (Houston)

## Directors

Allen Barron (Houston) Samantha Meador (Europe)  
Thomas Collier (Midland) Rod Sidle (Houston)  
Edward Gibbon (Houston) Ken Sigl (Oklahoma City)  
Gary Gonzenbach (Central Texas) Graeme Simpson (Europe)  
Paul McDonald (Dallas)

Chair of the Council of Past-Presidents .....Frank Molyneaux

## Bylaws Committees

Qualifications ..... Samantha Meador  
Committee: Steve Blair, Jon Crawford, Tim Gilblom, Phil Kandel and Dee Patterson  
Nominating ..... Stuart L. Filler  
Grievance ..... L. D. (Buddy) Sipes

## Individual Appointments

Evaluation Parameters Survey ..... Richard F. Krenek II  
Committee: Mike Garcia, Cary McGregor, and Joel Turnbull  
Fair Market Value.....D. Russell Long  
Internet .....J. Brian Walter  
Membership.....Paul McDonald  
Newsletter Publisher..... Richard J. Miller  
Communications.....George Schaefer  
Production Tax Summary and University Interface .....Marshall Watson  
Recommended Evaluation Practices.....Daniel R. Olds  
Annual Meeting Advance Planning .....Barry Ashton  
Professional Registration ..... Marcus Snyder  
2011 Software Symposium..... Brian Walter and John Wright  
Evaluation of Resource Plays ..... Russell K. Hall  
Reserve Definitions .....S. Tim Smith  
Journal of the Society of Petroleum Evaluation Engineers ... Richard J. Miller  
SPEE/SPE Reprint ..... Richard J. Miller

## SPEE Delegates

SPE OGRC Oil and Gas Reserves Committee Observer ..... Ron Harrell  
JCRET Joint Committee on  
Reserves Evaluator Training..... Rod Sidle, Dan Olds, John Ritter  
COGEH Canadian Oil and Gas Evaluation Handbook .....Barry Ashton  
UNECE Expert Group on Resource Classification ..... S. Tim Smith  
Washington Reserves Conference 2011 ..... S. Tim Smith

# Chapter Officers - 2011

## Calgary

Chairman – Harry J. Helwerda  
Vice Chairman – Katherine Crerar  
Secretary – Boyd Russell  
Treasurer – Gary Metcalfe  
Membership – David Hornung

## California

Chairman - Tom Walker  
Vice Chairman – Brad DeWitt  
Secretary-Treasurer - Barry Evans  
Membership - John Davis

## Central Texas

Chairman – Cary McGregor  
Vice Chairman – James Bostic  
Secretary - Charles Price  
Treasurer – Gary Gonzenbach  
Membership – Paul Clevenger

## Dallas

Chairman - Gary Swindell  
Vice Chairman – Jay Thrash, Jr.  
Secretary/Treasurer - Jack Harper  
Membership - Dean Eiland  
SPEE Liaison - Paul McDonald

## Denver

Chairman – Mike White  
Vice Chairman - Letha Lencioni  
Secretary-Treasurer – John Benton  
Membership - Fred LeGrand

## Europe

Chairman – Paul Taylor  
Vice Chairman – Simon McDonald  
Secretary-Treasurer – Andrew Evans  
Membership – Jes Christensen

## Houston

Chairman – Mitch Reece  
Vice Chairman – Jerry Blevins  
Secretary-Treasurer – Jennifer Fitzgerald  
Program Chairman – Anna Hardesty  
Membership - All Houston Officers

## Midland

Chairman – Russell Hall  
Vice Chairman – Todd Yocham  
Secretary-Treasurer – Karl Gulick  
Membership Chairman – Joe Neal  
Director - Charles Gleason  
Director - Tom Collier

## Oklahoma City

Chairman – Ken Sigl  
Vice President - Don Jacks  
Secretary-Treasurer - Fletcher Lewis  
Membership - Bruce Heath

## Tulsa

Chairman - Daryl Duvall  
Vice Chairman - Chris Jacobsen  
Sec/Treas. - Jerry Russell  
Membership - Phil Schenewerk

Wyoming Chapter Coordinator Scott Stinson



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

5. The Society of Petroleum Engineers has requested SPEE's approval to adopt the *Guidelines for Application of the PRMS*. This is currently being reviewed by our Reserves Definition Committee with a recommendation expected to go to the Executive Committee on or before August 22nd.
6. Finally **Paul McDonald** (Membership Chair) and **Samantha Meador** (Qualifications Chair) have been working with the Chapters to improve the Membership Application procedures prior to the application being sent to the Qualifications Committee. I am hopeful that this will result in more members (by Chapter members taking greater

ownership and personal interest in the on-boarding process) and greater efficiencies on moving new applications to completion (less recycle time between the Chapter and Qualifications).

Well, that is enough for now. We are experiencing one of those rare summer days in Calgary, so I must go and spend time with my golf clubs! I thank all of you who continue to work on the many activities SPEE is currently involved with. An active Society is a healthy Society. Please do not hesitate to call me or send me an email with any concerns or thoughts you have regarding SPEE.

**Barry R. Ashton**  
*President*



### SPEE Annual Meetings

June 9-12, 2012 Colorado Springs,  
Cheyenne Mountain Resort

June 8-11, 2013 Idaho, Coeur d'Alene  
Golf & Spa Resort

Contact Barry Ashton to provide suggestions  
on locations and venues for future meetings.

### Please note:

Due to recent by-law changes, a large majority of SPEE business will be conducted electronically, including membership dues notices. It is strongly recommended that you are certain that your email address and contact information is currently up-to-date in the SPEE database. You may contact B.K. Buongiorno at 713-651-1639 or [bkspee@aol.com](mailto:bkspee@aol.com) with updates.

# Chapter News

## Calgary

The Calgary Chapter has not met since the annual meeting. Twenty-six Calgary members and spouse/guests attended the meeting in Florida.

Meetings - 3rd Tuesday of each month except June, July and August. Membership - 55

## California

Membership - 27

## Central Texas

Membership - 31

## Dallas

The Dallas chapter announced new officers:

Chairman – Gary Swindell

1st VP and Program Chairman – Jay Thrash

2nd VP and Secretary/Treasurer – Jack Harper

SPEE Liaison and Past Chairman 2008-2010 - Paul McDonald

Past Chairman 2010-2011 – Philip Crouse

Membership Chairman – Dean Eiland

The tentative program meeting dates for the 2011-2012 year are:

September 15th TBA

November 10th TBA

January 19, 2012 TBA

March 22, 2012 TBA

May 17, 2012 - Dr. Lee, University of Houston

Meetings – Bimonthly September through May on 3rd Thursday of the Month unless otherwise stated. Membership – 55

## Denver

On July 20th, the Denver Chapter held its third quarter meeting of 2011 with 44 in attendance including 22 members and 22 guests. The guest speaker was SPEE Member Dr. John Wright. His presentation was entitled *Summary of Two Software Symposia*. Dr. Wright reviewed highlights from both the 2009 and the 2011 SPEE Software Symposia. The 2009 symposium dealt primarily with economic software that modeled U.S. domestic producing properties while the 2011 symposium focused on economic software that modeled international production sharing agreements (PSA's). Approximately eight vendors participated in each of the two symposia. Dr. Wright compared and contrasted the range of final answers received after multiple feedback iterations. Some of the software programs gave significantly different answers than expected. Reporting multiple rates of return remains a problem with all software examined. Half the software vendors had difficulty calculating payout



SPEE Member Dr. John Wright of Wright Consulting Company



Mike White, Denver Chapter Chairman, Jane Wright and Dr. John Wright, and John Benton, Secretary/Treasurer



Mike White presenting speaker's gift to Dr. John Wright

with problems containing later (post time zero) capital investments. Additionally, there is considerable difference of opinion on the meaning of return-on-investment (ROI) also referred to as profit-to-investment ratio. Do you add 1.0 or not? Dr. Wright concludes there still is a great need for standardization and communication.

*Meetings – 2nd Wednesday of first month of each quarter – Denver Athletic Club – The New Petroleum Club. Membership-65*

## Europe

*Meetings – Four per year. Membership - 11*

## Houston

Since the Houston Chapter does not meet during the summer months, there has been no activity with the exception of the annual meeting in Florida. The Chapter had 76 members and spouse/guests who attended.

*Meetings – 1st Wednesday of each month except June, July and August – Houston Petroleum Club. Membership – 186*

## Midland

*Meetings – 1st Tuesday odd months – Midland Petroleum Club. Membership - 28*

## Oklahoma City Chapter

The May Oklahoma City Chapter SPEE meeting was Thursday, the 26th. We were pleased to have Jim DuBois, partner at Portfolio Decisions International LLP, give a presentation on *Selecting among Dissimilar Assets: A Portfolio Approach*. Jim discussed how companies can use a portfolio approach to compare and choose between investment opportunities that are fundamentally different in character or that occur in different time frames. Attendance was 32 members and guests.

Dr. John Lee, P.E., Regents Professor & L.F. Peterson Endowed Chair, Texas A&M University, spoke to the OKC SPEE Chapter June 23rd. Dr. Lee gave an update on the new SEC reserves rules, providing insights into the intent of the document and answered questions from the audience. Dr. Lee encouraged industry members to compile SEC comment letters in a database to help create a reference of how the SEC is responding to the various reserves reports they see. Attendance was 62 members and guests.

*Meetings – Every odd numbered month. Membership - 23*

## Tulsa

At a business planning meeting on March 1st, the Tulsa Chapter of SPEE elected the following officers for 2011-12:

Daryl Duvall – Chairman  
Chris Jacobsen – Vice Chairman  
Jerry Russell – Secretary-Treasurer  
Phil Schenewerk - Membership Chairman

On August 11th, 56 members and guests attended our second meeting of the year. Mr. Tom Tella, Senior V.P. of

Netherland Sewell and Associates, Dallas, spoke on *Estimating Reserves for Unconventional Shale Plays* at the Summit Club in Tulsa. Space was limited for this meeting.

Our next meeting is planned for October at The Summit Club. Future meetings will be scheduled based on space availability instead of a specific monthly date.

*Meetings – 1st Tuesday of each month – Petroleum Club. Membership – 27*

## Calling All Members – We Need Your Story!

I sat by a longtime SPEE member and his wife at our Amelia Island Annual Meeting last month at dinner and heard how he got his first oil field job by camping out in a tent on a rig location in South Texas for four days before the toolpusher relented and put him on the payroll. As we began to share somewhat similar – but not nearly so dramatic – stories with others at the table, it became obvious to me that these stories are worthy of being recorded in a way they can be shared with others, perhaps 18 to 21-year-olds considering a career.

I am asking each of you to send me a note describing how you came to be a part of the petroleum industry and then an SPEE member. Even the simplest stories are worthy of sharing and preserving. I am willing to both collect and compile your stories perhaps in an electronic (or maybe printed) booklet. With your consent, some may be selected to be included in our SPEE Newsletter.

Thank you in advance,

**Ron Harrell**  
**rharrell7@comcast.net**  
**713-248-7129**

# SPEE Initiates Groundbreaking Texas Legislation Affecting Petroleum Property Evaluation

Press release by SPEE August 7, 2011

This year, the Society of Petroleum Evaluation Engineers (SPEE) spearheaded groundbreaking legislation in Texas to confirm the portability of oil and gas property evaluation across state lines. This legislation, signed by Governor Rick Perry on May 28, 2011, clarifies that professionally licensed Petroleum Evaluation Engineers from outside of the State of Texas may legally evaluate petroleum reserves and resources underlying Texas soil without Texas engineering licensure, under limited circumstances. This is the first step toward national recognition of a practice that has been accepted by the industry and professional engineering firms since the practice of petroleum property evaluation began, perhaps over a century ago.

*“This law reaffirms Texas’ ability to mandate high standards of professional engineering practice without compromise to common sense. Both live harmoniously in the 82nd Legislature’s HB 2067 -- a bill recognized for its benefits to industry, the professional engineering community, and Texas,”* said Tim Smith, Past-President of SPEE and current Chairman of SPEE’s Reserves Definitions Committee, a committee dedicated to the development of quality uniform property evaluation standards and the assurance that these standards are widely accepted for use worldwide. Tim Smith coordinated SPEE’s effort on Texas House Bill 2067 at the direction of SPEE’s Board of Directors.

The most valuable assets of an oil and gas company are oil and gas reserves -- the technically and economically recoverable volumes of oil and gas lying deep underground. The United States Securities and Exchange Commission (SEC) requires public oil and gas companies to quantify and report reserves, along with the associated economic value each year, for the benefit of shareholders and the public. Furthermore, many private oil and gas companies rely on independent reserves evaluations to support external financing for their activities. The quantification of these assets can be complex, and requires technical and economic data combined with analysis by experienced engineers and geoscientists. A typical oil or gas company has assets spread across many states. Assets can also underlie state boundaries.

HB 2067 was enacted in response to a recent Texas Board of Professional Engineers (TBPE) opinion that evaluation engineers holding professional engineering licenses from states other than Texas were not authorized under Texas law to evaluate reserves in the Texas subsurface. Most engineering practices result in the design, construction, repair, or

creation of something mechanical, chemical, or otherwise physical. States maintain specific laws, regulations, ordinances, and guidelines to control engineering work in order to protect the health, safety, and welfare of the citizenry. Requiring engineering licensure in their jurisdictions is a means to insure that engineers adhere to the high standards and rules set by the state.

The practice of petroleum property evaluation, however, is the exception. Evaluation engineers are not involved in design, construction, drilling, or otherwise creating anything physical. There is no “footprint” on states’ soil from evaluation engineering. Rather, evaluation engineers apply science and engineering principles to the quantification of economically recoverable hydrocarbons lying beneath the surface of

the earth, typically from professional offices at locations remote from the field.

While the SPEE agrees with TBPE that engineers performing these eval-

uations should be professionally licensed, the SPEE disagreed with the inadvertent outfall from the Texas Engineering Practices Act -- a requirement for oil and gas companies to retain and coordinate multiple engineering firms, each licensed in specific states, for their independent reserves assessments. This not only leads to inefficiency of manpower and inefficient use of the company’s capital, but it may prevent a company from engaging the best, most experienced independent engineers to perform the reserve evaluations for its particular portfolio. Furthermore, maintaining professional licensure and continuing education requirements in the 30 or more oil and gas producing states is neither practical nor efficient for most professional engineers and engineering firms.

While fervent about fulfilling its mandate to protect public health and safety, the TBPE understood the uniqueness of the issues as they relate to evaluation engineering. *“The Texas Board of Professional Engineers has encountered complications regarding licensure requirements for reservoir evaluations, and we are pleased that recent legislation has addressed this issue,”* said TBPE Director, Lance Kinney.

House Bill 2067 was passed through the Texas House of Representatives without opposition by Representative William A. “Bill” Callegari from Katy. Representative Callegari, a Texas licensed professional engineer, understood the benefit of such legislation to Texas and the practice of petroleum

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*House Bill 2067 establishes a fair, reasonable solution that should encourage other states to adopt reciprocal policies. I am glad to see that Texas, with the help of the Society of Petroleum Evaluation Engineers, has emerged as a leader on this issue.”*

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property evaluation. "We wanted to ensure that Texas engineers engaged in the practice of evaluating oil and gas resources have the freedom to apply their skills in other states. This bill allows Texas to remain open for business to those engineers licensed in other states that do not prohibit Texas engineers from evaluating resources in those states. House Bill 2067 establishes a fair, reasonable solution that should encourage other states to adopt reciprocal policies. I am glad to see that Texas, with the help of the Society of Petroleum Evaluation Engineers, has emerged as a leader on this issue." Senator Kel Callegari from Amarillo, whose district includes the prolific Texas Permian Basin, passed the bill through the Texas Senate without a single "no" vote allowing the bill to go to the Governor for signature.

The Texas Legislature has now set the table for greater cooperation between states' licensing boards on addressing evaluation engineering practice. Under HB 2067, engineering evaluation services for Texas oil and gas properties are limited to non-Texas licensed professional engineers practicing in states that have not denied evaluation rights to Texas-licensed engineers. Myra Crownover, Vice-Chair Texas House Energy Resources Committee, said, "In order for Texas to remain competitive in the global marketplace, we must collaborate with other states to ensure that all engineers are treated fairly while maintaining the highest professional standards. I believe HB 2067 accomplishes both goals." Mr. Kinney noted, "We have initiated communication with other state licensure boards and look forward to working with them to implement these changes."

Texas House Bill 2067 also received widespread support, including two key industry groups with national ties: the Texas Society of Professional Engineers (TSPE) and the Texas Council of Engineering Companies (Texas CEC). Furthermore, the bill received widespread support from US petroleum engineering firms, as well as the oil and gas industry.

Evaluation engineering practice is guided by specific rule sets, often called reserve or resources classification systems. In the U.S., petroleum classification systems are not created or maintained by states, instead they are created and maintained by professional societies whose underlying principles are focused on the advancement of competent and ethical engineering practice. In addition to the disclosure rules promulgated by the SEC, the reserves/resources classification in broadest use in the US (and around the globe) is the 2007 Petroleum Resources Management System (PRMS). PRMS was developed by an international group of reserves evaluation experts, then approved by the Board of Directors of the Society of Petroleum Engineers (SPE) along with the Board of Directors of a number of other key professional organizations, including SPEE, the American Association of Petroleum Geologists (AAPG), and the World Petroleum Council (WPC). The Society of Exploration Geophysicists (SEG) has since endorsed PRMS as the preferred guidelines and classification system for petroleum reserves and resources. The PRMS is often used for banking, acquisition, and divestiture activities within the United States, and is also used in the exploration phase of the petroleum business around the world.

## The State of Texas

By: Callegari H.B. No. 2067

AN ACT

relating to the regulation of the practice of engineering by individuals engaged in the evaluation of oil and gas resources.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Subchapter B, Chapter 1001, Occupations Code, is amended by adding Section 1001.068 to read as follows:

Sec. 1001.068. CERTAIN OUT-OF-STATE ENGINEERS ENGAGED IN EVALUATING OIL AND GAS RESOURCES. (a) In this section, "evaluation of oil and gas resources" includes:

- (1) the quantification of the volume of oil and gas reserves and resources in the subsurface of the earth;
- (2) the determination of production forecasts for the reserves or resources; and
- (3) the evaluation of the economic impact of the production forecasts.

(b) This chapter does not apply to the evaluation of oil and gas resources if the evaluation:

- (1) is done by an engineer licensed in a state that does not prohibit engineers licensed under this chapter from engaging in the evaluation of oil and gas resources in that state;
- (2) does not involve design, construction, or engineering assessments on the surface; and
- (3) does not present a risk to public health or safety.

SECTION 2. This Act takes effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If this Act does not receive the vote necessary for immediate effect, this Act takes effect September 1, 2011.

H.B. No. 2067

*David Neuhorst*  
President of the Senate

*Joe Straus*  
Speaker of the House

I certify that H.B. No. 2067 was passed by the House on April 30, 2011, by the following vote: Yeas 148, Nays 0, 2 present, not voting.

*Robert Kinney*  
Chief Clerk of the House

I certify that H.B. No. 2067 was passed by the Senate on May 13, 2011, by the following vote: Yeas 31, Nays 0.

*Satey Shaw*  
Secretary of the Senate

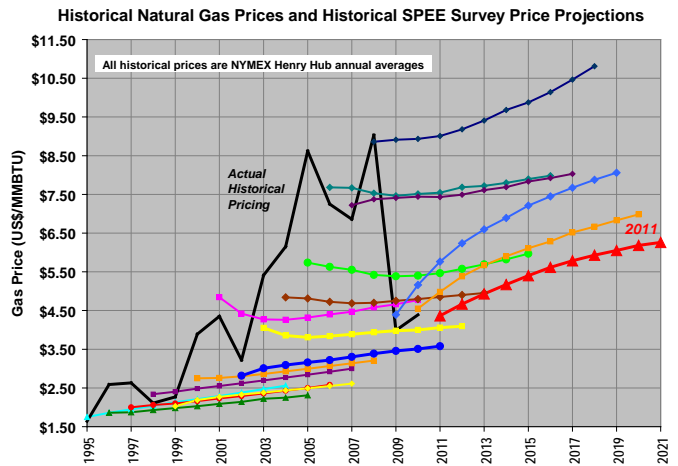
APPROVED: *RICK PERRY*  
Governor

*William "Bill" Callegari*  
State Representative  
District 132

# SPEE's Annual Survey of Parameters Used in Property Evaluation Turns 30 Years Old

In June of this year, the SPEE completed its 30th Annual Survey of Parameters Used in Property Evaluation. Often referred to as “the SPEE Survey,” it is well known by certain segments of our industry. Each year, the SPEE Survey poses a series of questions regarding standardized topics such as commodity price and cost index projections and methodologies and criteria used for petroleum property evaluation. Special questions are also posed each year to obtain opinions regarding topics of special interest at that moment. The survey questionnaire is sent to all members of SPEE, along with select non-SPEE members who hold positions in the industry and who are deemed to be knowledgeable in the subject matter. Care is taken to assure that all responses are reviewed, aggregated, and analyzed in an anonymous manner. The SPEE Survey is historically completed just before the SPEE’s annual meeting, and a summary of the results is typically presented at the meeting.

An interesting facet of the SPEE Survey is its tracking of oil and gas price projections each year. This line of questioning is relevant to the survey because estimates of future commodity prices are integral to the property valuation exercise. The graphic below, extracted from the 2011 SPEE Survey Report, illustrates the 2011 respondents’ average forward oil price projection, along with the average forward oil price projections for the previous 16 surveys.

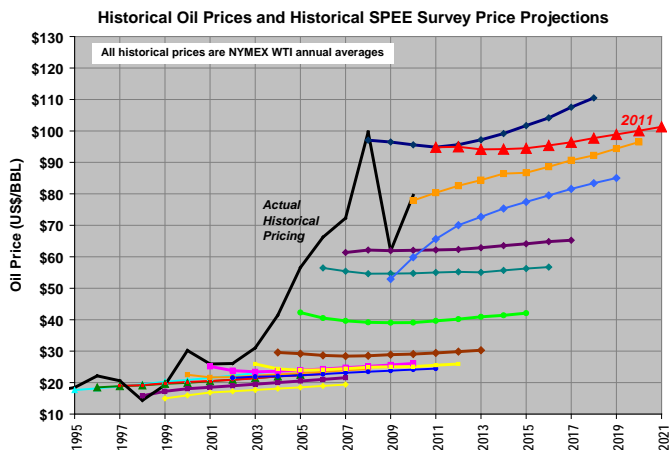


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The survey report includes significant additional detail behind the composite 2011 oil and gas forecasts, including projections subdivided by area of respondent’s specialization such as exploration and production; banking and energy finance; and consulting. Data are provided in tabular, as well as graphical, formats.

According to the survey, discounted cash flow analysis is by far the most commonly utilized method of evaluating oil and gas properties for acquisition or divestiture. But this method only yields a valuation after careful consideration of appropriate discount rates and any additional risk factors that the valuator deems appropriate for incorporation into the analysis. The SPEE Survey has a long history of questioning its respondents with regard to discount rates and risk factors.

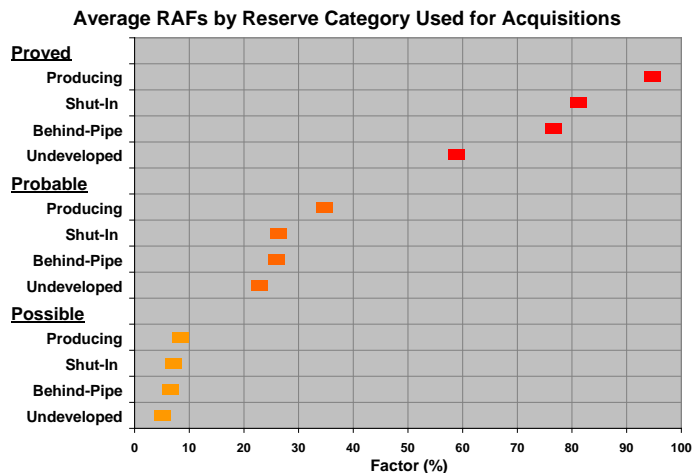
The SPEE Survey reveals that a very common method of accounting for category-based reserve risk is the utilization of what the SPEE calls Reserve Adjustment Factors (RAFs). These factors are typically used within cash flow calculations to account for the increased risk of reserves categorized as proved non-producing, relative to proved producing reserves, and the relatively higher risk of proved undeveloped, probable, and possible reserves, respectively. The following chart graphically illustrates the average RAFs by reserve category and sub-category for those respondents involved in acquisitions who indicated that they solely use RAFs for category-based risking in the 2011 SPEE Survey.



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The next graphic shown, also extracted from the 2011 SPEE Survey Report, illustrates the 2011 respondents’ average forward gas price projection, along with the average forward gas price projections for the previous 16 surveys.





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The SPEE Survey provides additional detail regarding how the various respondents apply these factors, including their propensity to apply the risking to the entire net cash flow stream (effectively risking reserves and capital/operating expenses) vs. only risking the reserve flowstreams. Generally, respondents prefer to apply risk factors in a way that capital and operating expenses are reduced along with the reserves by application of the RAFs.

The SPEE Survey is administered each year by the Evaluation Parameters Survey Committee. The Committee recognizes that petroleum property evaluation is a complex process, which requires consideration of many factors, including the type, location, and maturity level

of the properties being evaluated. Nonetheless, the SPEE Survey and its results can be useful in understanding how others generally evaluate oil and gas properties. By comparing the SPEE Survey reports from multiple years, the results can be used to understand how property evaluation thinking changes over time. Even then, it is important to consider that the aggregate types of properties evaluated may change over time. For example, nearly one-third of the 2011 respondents indicated that 50 percent or more of the properties they evaluated in the past year were “unconventional.” This percentage has undoubtedly grown over the past few years and may continue to grow in the future.

The 2011 Survey report consists of 40 bound pages of charts, tables, and thoughtful discussion, along with a reproduction of the 2011 Survey questionnaire. The SPEE Survey is sold for US\$135 per copy through SPEE headquarters, though all who participate by returning their completed survey receive a complimentary copy of the resulting report. All attendees of the SPEE annual meeting are also provided a copy of the survey report. The SPEE Survey is copyrighted by the U.S. Copyright office, and unauthorized reproduction is strictly prohibited. For more information, please contact B.K. Buongiorno, Administrative Secretary of SPEE, or Rick Krenek, Chair of the Evaluation Parameters Survey Committee, by email at rkrenek@nsai-petro.com.

*Rick Krenek*

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## It is Just My Opinion, of Course, But...

I think we, as in SPEE and related organizations, need to keep working on the whole deterministic/probabilistic reserves definition issue. I have never been a big fan of the P90, P50, etc. approach particularly when folks try to take quantitative results and stuff them into qualitative reserves definitions. Talk about fitting a square peg in a round hole. The PRMS, the SPEE Parameter Survey, and other efforts go a long way toward bringing the two approaches together but then there is still the SEC getting in the way. Apparently more education is necessary. I mentioned this problem to some of our more experienced Members at the recent Annual Meeting and found general agreement followed by a round of “You will not believe this” stories. Anyway, I was thinking about reserves definitions one morning and ran across a Dilbert cartoon (somewhere nearby) which in turn reminded me of something that came up in a recent court case.

The guys on the other side (no names here) did a Monte Carlo estimate of “reserves” and came up with P90 = 37.0; P50 = 78.4; P10 = 146.8; and P<sup>^</sup> or Pmean = 92.4 (all in millions) and then called the P<sup>^</sup> “reserves,” wait for it, PROVED.

A few more details; this field is offshore and undeveloped and if I told you where it was you would know that it never will be developed but that is beside the point. I was puzzled about how “reserves” in the P35-40 range could be Proved so I asked a few of my learned friends about this conundrum. Space does not allow publication of all the answers but I think the Dilbert cartoon captures the episode rather well. We have our work cut out for us. If folks who should know better make these kinds of errors how do we educate people outside our cozy little group?

On another topic, your July SPEE newsletter is a few weeks late. We normally like to get an issue out shortly after the Annual Meeting with all the pictures, etc but there were several articles that we wanted to include and getting good information takes time. The discussion of the recent Texas legislation and SPEE’s role therein is very informative and may be useful to our Members in other locales. The summary of the Parameter Survey is a first time event as is the “Inside

Continued on page 11

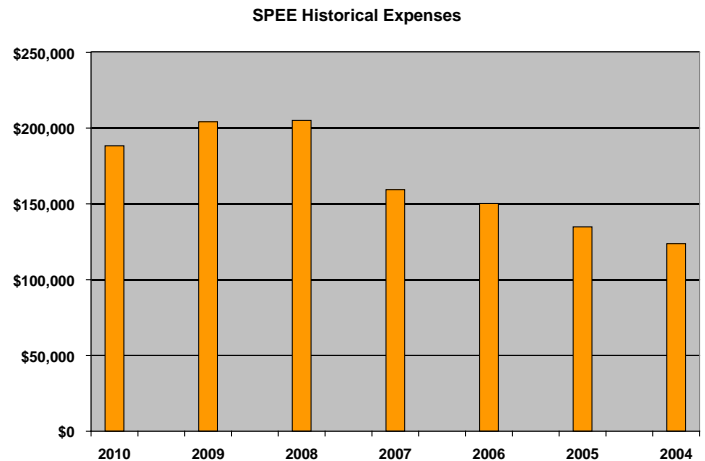
## An Inside Look at SPEE Finances

SPEE continues to maintain a strong industry presence within the United States and Canada, largely through our active support of the 2007 PRMS and our integral role in developing and maintaining COGEH. Over the past few years, SPEE's activities have increased in many ways as we solidify our role as the preeminent organization for reserve and resource evaluation professionals within North America and as we develop a firm international presence. Examples of recent expansion in SPEE roles include our authoring of Monograph 3 *Guidelines for the Practical Evaluation of Undeveloped Reserves in Resource Plays*, our chartering of a European SPEE Chapter, our active presence in the United Nations UNECE Committee's Expert Group on Resource Classification, and our sponsorship of recent Texas legislation to clarify the portability of Professional Engineering Licensure with respect to evaluation of petroleum properties located in multiple states.

With this increase in activity, cash flow of the organization has increased as well. The following are some interesting facts regarding the expense side of SPEE finances at the headquarters level:

- Our total expenses for the past three years (2008-2010) have averaged \$200,000 per year, which is 35% above the average of the previous three years (2005-2007).
- Based on the approved 2011 budget, SPEE's anticipated 2011 expenditures will exceed \$240,000, which is at least 20% above the previous three-year average.
- Over the past six years, annual meeting expenses have been approximately 50% of total expenses.
- While annual meeting expenses have increased in the past few years, so have website and newsletter costs. Over the past two years, website and newsletter costs have totaled about \$25,000, and costs are expected to increase further with proposed website enhancements.
- While credit card fees were nonexistent six years ago, they now total nearly \$10,000 per year.
- Special projects such as preparation of Monograph 3, organization of the Software Symposium, UNECE representation, and SPEE's sponsorship of the Texas legislation (HB 2067) are additional cost items that must be budgeted annually.

Shown is a chart of historical total expenses of SPEE, presented in reverse date order. This chart, coupled with the fact that SPEE's 2011 budget anticipates a 2011 spending level in excess of \$240,000, clearly shows that expenses have been increasing over time.



In addition to these project-specific line items, there are other significant, albeit critical costs of the organization. Principal among these is payment for office costs related to our headquarters in Houston, Texas, and the services of our longtime Administrative Secretary, B.K. Buongiorno. Most all SPEE members have had the opportunity to talk with B.K. about a membership matter, an annual meeting question, a publication order, or some other important SPEE issue. Those who have served as a Chapter officer, a Director, or a member of the Executive Committee realize the critical importance of having someone like B.K. in a paid position within the organization. Just recently, the SPEE Board of Directors reviewed the lengthy list of responsibilities that B.K. has and approved additional funds to obtain the services of a second administrative professional. This second professional, Ann Davis, will work part-time for SPEE in bookkeeping and accounting-related functions. This help is much needed, but will come at the expense of increased overhead for SPEE.

So if our organization spends approximately \$200,000 per year, where does this revenue come from? This is a question that every Secretary-Treasurer asks the moment he or she takes over the reigns of SPEE finances. The following is a typical breakdown of our revenue sources:

- Revenue from membership dues averages \$55,000 per year, only 28% of the required annual funds.

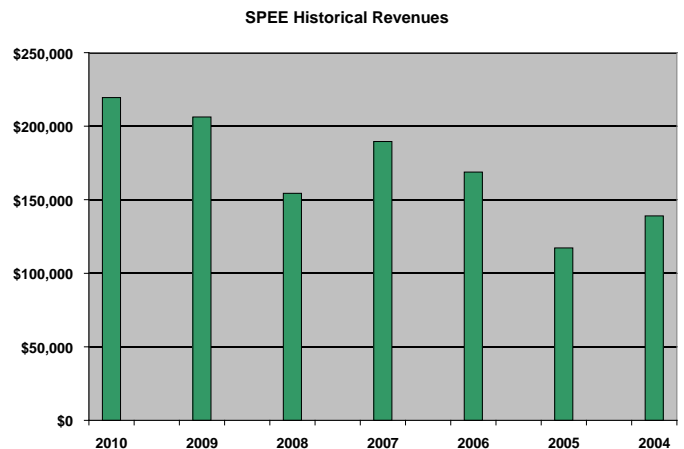
- Publication sales, including various monographs and the annual survey yield about \$10,000 per year.
- Revenue from symposia held from time to time yield approximately \$10,000 per year.
- The remaining revenue, about \$125,000, in the past few years has been generated by the annual meeting.

Those that are interested in the revenue-expense equation and are quick with math probably have already figured out that the typical recent annual meeting costs roughly \$100,000 per year and earns roughly \$125,000 per year for net positive cash flow of approximately \$25,000 per year. Much of what appears to be “profit” from the annual meeting is, first and foremost, critical to the balancing of cash flows for the organization. But it is important to understand where this apparent “profit” comes from.

Annual meeting sponsorships have recently averaged between \$15,000 and \$20,000, attributable to the generosity of many of our members’ employers, some of our members themselves, and some other companies who appreciate the fine work that the organization does. Short courses are designed to provide annual meeting attendees with valuable technical interaction at a very reasonable cost. They are also designed to provide some profit to the organization. The profit from our annual meeting short courses typically amounts to \$5,000 or more, primarily because our excellent instructors perform course preparation and lectures at no charge to SPEE. In addition, the incremental meeting room cost is minimal alongside the larger multiple-day technical meetings already planned with the host hotel or resort. It is a credit that SPEE has

the ability to attract quality speakers for our short courses and an important benefit when trying to balance the SPEE budget.

Shown is a chart of historical total revenues of SPEE, presented in reverse date order. As expected, revenues have been increasing over time in order to offset rising expenditures.



While the balance sheet of SPEE remains strong, the Executive Committee and the Board of Directors continue to review ways to increase revenue and control expenses such that our growing involvement in worthwhile projects is not constrained.

If you have any specific questions, please contact SPEE’s 2011 Secretary-Treasurer Rick Krenek at rkrenek@nsai-petro.com.

*Rick Krenek*

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Continued from page 9

Look at SPEE Finances” by our current Secretary-Treasurer Rick Krenek. This is the first time that I can recall that the Membership has gotten a close look at our finances and, while a bit broad-brush, it is a good effort to let us know where our funds come from and where they go. Thank you, Rick.

The financial information raises a few questions though that we may be able to expand upon in future newsletters. For instance, the total budget for 2011 is \$240,000+ (about \$400 per Member), which is 20% over the 2008-2010 average; which was 35% above the 2005-2007 average. Budgets in the late 90’s and in 2000 were about \$50-60,000. The article mentions several areas where costs have increased and, as we all know, costs tend to go up. This is not a critique and the dollar amounts are small, but a fair question would be, Why have the costs gone up and what are the cost drivers?

One big item is the Annual Meeting which is reported to be about 50% of expenses and also the major source of revenue. There is no question that the AM has become an increasingly expensive proposition; the registration cost alone for the 2011 AM was one-third higher than the 2010 meeting. The AM was run for years as a break-even event but now it is apparently a cash-cow that is dependent on solicited contributions. Why has the cost of the AM gone up? The format has not changed. True, we now have CE courses but those are added on to the AM and should stand on their own financially, not be carried by the AM. Considering the role of the Annual Meeting in SPEE finances, it might be a good time to review the costs and revenues from the past several meetings before authorizing a budget for the next one.

*Editor Richard J. Miller*

# It Takes Money to Advance the Science

By **DAVID LANGE**, Chief Financial Officer and Acting Executive Director

The collective hurrah you may have heard coming from northeast Oklahoma around mid-April was the AAPG staff thankful that another successful annual meeting was behind them. The collective sigh you may have heard from the same location the following week was that same staff digging into the details of the FY 2012 AAPG budget.

It's been said that a budget is a method of worrying before you spend money, as well as afterwards.

The primary worry in the AAPG budget process is finding the funding for all the great programs and activities AAPG conducts each year – and the significant number of new ones.

The budgeting process at AAPG is an arduous affair that spares no AAPG manager or director. Considerable thought and evaluation goes into reviewing the financial requirements of each of the multitude of global programs and activities AAPG will be engaged in the coming year.

Even foreign currency expectations have become an important aspect of the budgeting process.

\* \* \*

It's a very bottom up process in which every program and activity planned and proposed gets a number or set of numbers assigned to them. The value and benefits of each are reviewed and evaluated.

Not all programs survive.

In budgeting parlance it's referred to as zero based budgeting, and when it's all said and done, the AAPG annual budget provides a guide for how the next fiscal year will be managed – and a template for the financial resources available to AAPG leadership, staff and volunteers to advance the science of petroleum geology.

Edward Bennett Williams, former president of the Washington Redskins professional football team, was reported to have said that he gave head coach George Allen an unlimited budget – and he exceeded it.

Unfortunately, AAPG does not have the luxury of operating with an unlimited budget. The allocation of financial resources is one of the most difficult tasks an Executive Committee must tackle each year. AAPG's growing global reach and increasing programs ensures there will be more demands for funding than revenue available to support them.

As you would expect, the stewardship of the member's money is serious business at AAPG. The overseeing of the annual budgeting process is done by the Budget Review

Committee, which includes the president-elect and treasurer. Several drafts of the budget are completed and reviewed before a final version of the budget is presented to the Executive Committee for approval.

During the year the Executive Committee is provided with quarterly financial updates, which allows it to keep track of actual results versus budget.

Additionally, AAPG has an Audit Committee and independent financial audit firm, both of which help to ensure AAPG's accounts and financial records are proper and reflect accurately the financial condition of AAPG.

This is not to say that AAPG is not on solid financial footing at this time. It is. The organization has been around since 1917, and has been blessed with support and leadership that has made it this way.

Nevertheless, to continue to advance the science of petroleum geology for the next hundred years, AAPG will require continued financial diligence as well as the financial support the organizations and members it has received the past 94 years.

\* \* \*

At the time of this writing, the FY2012 budget remains under development. Much progress has been made – however, a few tweaks here and a few minor modifications there are still under review as the new fiscal year closes in.

Sometime around July 1 please listen carefully as you might hear another collective hooray from headquarters. This means AAPG's FY2012 budget has been reviewed and approved by the Executive Committee.

Please keep listening as the hoorah may be shortly followed by a collective sigh. This means the EC recognizes it can't afford to do all it would like to this next year. Some programs and activities may have to wait until next year or beyond.

Nevertheless, as members of AAPG, you can be proud the organization has the leadership necessary to make the required budget decisions.

You also can be comforted that AAPG has the proper oversight structure and processes in place to ensure that AAPG will have the financial capability to continue the advancement of petroleum geology well into the next century.

*Reprinted with permission from AAPG Explorer July 2011 issue*

## THE ETHICS COLUMN

### Some Comments on the May 2011 Ethics Column

Many years ago, bigoil had their own massive R&D labs and there was a proprietary protective attitude similar to what's described in the case. No publications: it was all very secretive. Attendance at conferences was allowed sparingly but only to pick ideas from others and not give anything away.

This has changed as bigoil has outsourced a lot of the R&D work.

Looking at the specific case in the column, clearly there were corporate cultural issues with Oldco.

Some questions and comments:

What was the notice period Carl had to give to Oldco? Was this respected when Carl left?

What were the clauses in Carl's contract with Oldco with respect to proprietary information?

If Carl left Oldco and joined a competitor then Oldco can restrict Carl from joining a competitor for a year or perhaps two years. Was there a clause in the contract? It's usually a standard clause.

Is Carl's Servco working on or selling the new technology that Oldco was using or developing? If so, there is conflict of interest and Oldco should have protected themselves in employee contracts. Also, the employee should have seen that this may cause a problem with a new employer. And Servco should have also recognised that that it could be a problem if they employed Carl.

Forcing the new Servco employee to quit by coercion by Oldco would be unacceptable if it's simply because Oldco does not like the employee to work for Servco. Threat to terminate the contract with Servco unless the employee is fired is blackmail unless there is evidence to prove that employee is causing financial or other loss to Oldco.

Has Carl taken any proprietary information from Oldco which benefits Servco? That is: has Carl taken notes, technology blueprints or other property from Oldco?

If Carl is using the specific proprietary technical knowledge gained while at Oldco to benefit servco financially then Oldco should have protected themselves by having a sufficient lengthy termination clause in the employment contract.

If Oldco has proof that Servco is developing or using (and selling) the Oldco technology then there would be legal issues.

Just a few thoughts.

*Dr. Satinder Purewal*

Expert testimony before regulatory bodies can sometimes be interesting, boring or routine, depending on the circumstances. Results of studies and specific tests, however, sometimes become contradictory as do conclusions based upon them. Take the case of Small



Op with oil production on an adjacent lease to a large rich-gas cycling project. Big Op manages the cycling project and suspects Small Op is producing from an oil leg in the same reservoir and is benefitting from the cycling project. In some regulatory venues and, with cause, Small Op can be forced to join the cycling project to increase overall efficiency.

Big Op petitions the regulatory authority to force Small Op to join their project. Since Small Op is convinced from the performance of its wells that they are in a separate reservoir, a consultant is hired to study the data and present testimony at a hearing. Big Op hires a university professor as a consultant to study the data also.

At the hearing Big Op presents its case first, relying heavily upon the professor who uses in his testimony formulas that were derived by a Masters Candidate for whom he was the faculty advisor. His conclusion supported Big Op's position. Small Op's consultant then presented the results and conclusions from his study which, no surprise, supported Small Op's belief; however, he also questioned the validity of the professor's conclusions based upon his review of the formulas' derivation and their applicability to this situation. There was no cross-examination. Big Op moved for a continuance and nothing more was heard from them.

### WHAT DO YOU THINK?

Was there any unethical conduct? Suspensions?

Readers are encouraged to provide written comments to the SPEE Office – Attention: Editor

*Buddy Sipes*

Annual Meeting Amelia Island, Florida  
June 4-7, 2011



Russ and Rosemary Long



Kerry and Peggy Adams



Donita Phillips

Tracy Olds

B.K. Buongiorno



Curtis Phillips



Bill and Carolyn Kazmann



Brent Hale

Fred Duewall



Sharon and Fred Goldsberry

Rosemary Long



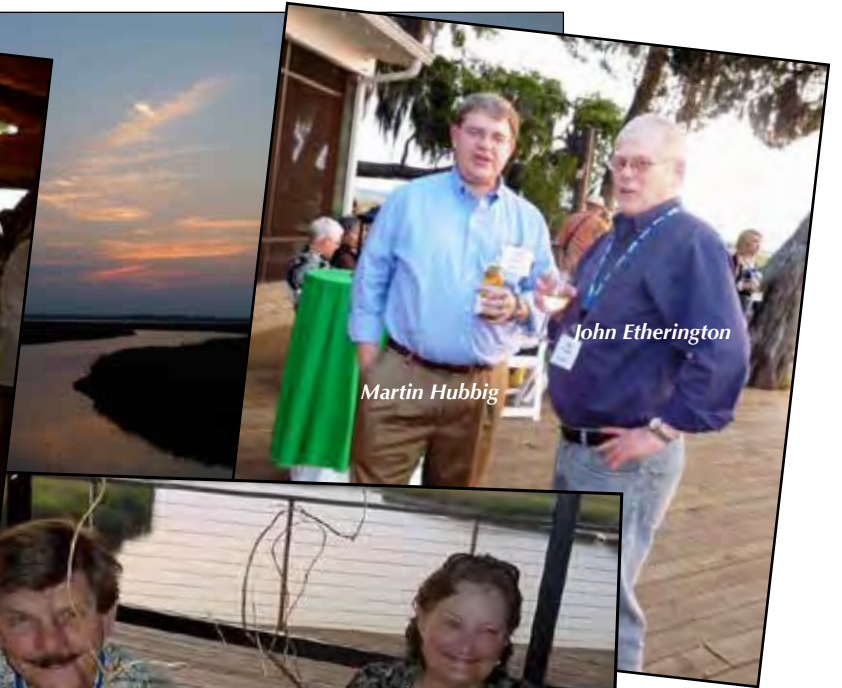
Kerry and Diane Pollard

Sharon and Barry Ashton



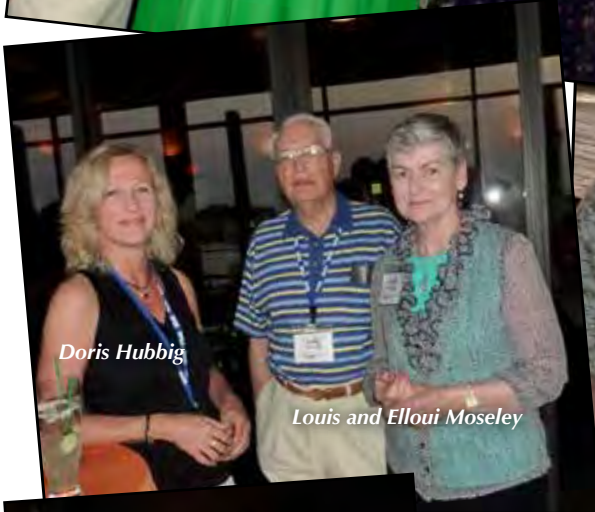
Charlie Chapman, Allen Barron, Ray Garcia

Linda Barron and Ann Chapman



Martin Hubbig

John Etherington



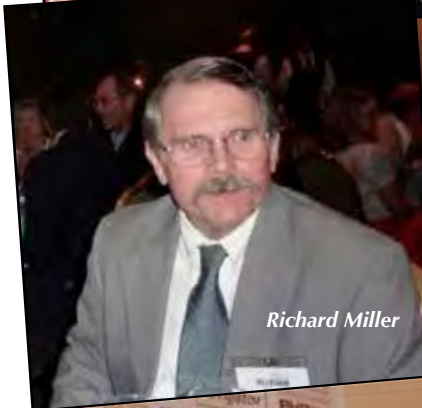
Doris Hubbig

Louis and Elloui Moseley



Charles Price

Cenda Price



Richard Miller



Curtis Phillips

John Homier



David Elliott

Barry Ashton



Barry Ashton

Stuart Filler



Marshall Watson



Tim Smith

# Membership Applicants

The following member applicants have been processed by the Qualifications Committee. The by-laws 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 by-laws regarding other important details) since the applications have already passed through the Qualifications Committee.

APPLICANT	SPONSOR	APPLICANT	SPONSOR
<b>Chernik, Paul S. (Associate Member)</b> ERC Equipoise Ltd. Business Development Manager/ Senior Reservoir Engineer 3 Rathbone Square, 28 Tanfield Road Croydon, CR0 1BT United Kingdom	Harry Jung Adam Law Simon McDonald	<b>Hunter, Gary C.</b> Ward Petroleum Corporation Petroleum Engineer 502 S. Fillmore Enid, OK 73702	Don Jacks Lew Ward Jim Wilson
<b>Cherry, Phil (Associate Member)</b> Southwestern Energy Company Staff Reservoir Engineer 2350 N. Sam Houston Pkwy., E Houston, TX 77032	Greg Avra John Gargani Stuart Filler	<b>Manning, Terrence R.</b> BBVA Compass Bank Senior Petroleum Engineer 24 E. Greenway Plaza, Suite 1400A Houston, TX 77046	Don Jacks David Nordt Patrick Thibeaux
<b>Dean, John Roberts</b> Meade Energy Corporation Vice President – Engineering 5605 N. Classen Blvd. Oklahoma City, OK 73118	Mike Drennan Loren Bruce Heath Fletcher Lewis	<b>McCloskey, Mark E.</b> Scotia Capital Director, Petroleum Engineer 711 Louisiana, Suite 1400 Houston, TX 77002	Tom Fuller Frank Molyneaux Ron Rhodes
<b>Enger, Steven R.</b> Bonanza Creek Energy 410 17 <sup>th</sup> Street, Suite 1500 Denver, CO 80202	Letha Lencioni Scott Wilson John Wright	<b>Richards, Martin Lester</b> Chariot Oil and Gas Ltd Chief Reservoir Engineer 36 Dover Street London W1S 4NH United Kingdom	Mitch Bilderbeck Andrew Evans Graeme Simpson
<b>Gouveia, James</b> Rose & Associates LLP Partner 4203 Yoakum Blvd., Suite 320 Houston, TX 77006	Gary Gonzenbach Russell Hall Bill Vail		

# Welcome New Members

**Morales, Enrique**                      **Member No. 767**  
ISVA Oil & Gas Consultancy B.V.  
Director  
Poelweg 10  
Warmond 2361LK  
The Netherlands