

September 2000

SPEE Newsletter

President's Letter

In the April newsletter I mentioned some of the things that I thought should be done to enhance the professional stature of SPEE membership, and of SPEE as an organization, and asked for your response and help in getting those things done. Apparently that was a good idea - or maybe several of the ideas were good. In any event, since April your friends and fellows members have been busy. We have started down the path of making SPEE a better organization for members and defining SPEE among other professional groups.



Several articles in this newsletter discuss some new appointments that have been made, projects that have been set in motion and proposals for the establishment of standards for evaluation practice. Further, we had an excellent meeting in Whistler - one of the best, if not *the* best, attended annual meetings ever. The Calgary Chapter put together an informative program and, between the location and the arrangements made by Vice President Hughes, a good time was, as they say, had by all.

I would like to take a few minutes to discuss two of the new projects that have been started. At Whistler, your Board of Directors approved the establishment of a committee, to be known as the Petroleum Economics Standards Committee, to study and then propose standards for terminology used in evaluation, particularly as related to evaluation software, but also for general use. Of course, in order to define and standardize terminology one must also define the function which underlies the term. In other words, if you and I use the term "*Net Operating Revenue*" do we necessarily mean the same thing? How should "*Net Operating Revenue*" be (a) defined and (b) calculated? And so forth. This project is an outgrowth of the SPEE Software Symposium that was held back in March. It was apparent at the symposium that not only were different terms and titles being used on computer printouts, but even some of the basic terms used in the construction of input data and calculation methods, such as the components of hyperbolic decline, were confused. SPEE has taken on this project because it is squarely in our area of supposed professional interest and it is a good place to start to define that interest. We hope that the project will be a first step toward an industry-wide standardization of evaluation terminology. This will not be easy. But we can do it - after all,

if SPEE does not do it - who will? Another new wrinkle - unlike past projects where we have asked for volunteers and hoped someone would show up, this project has been turned over to the Denver Chapter to manage, and the good folks in Denver have accepted. Future projects are being planned. Watch for one coming to a Chapter near you. (See related article by Ms. Schulz on page 4)

Another great idea was brought to the Board by Dan Olds regarding establishment of a procedure for member-initiated Recommended (evaluation) Practices. The idea would be that any member could propose a Recommended Practice (RP) that would cover a very specific topic of evaluation. The member would write up his or her RP by defining the topic, providing a discussion of the need for the RP, and specifying the RP being proposed (preferably with an example). The proposal would be posted on the SPEE Website for discussion and comment for a period of time (I think we agreed on 60 or 90 days) after which it might be approved, with or without modification, as policy by the Board of Directors. This is a way for all members to have direct input into defining standards of evaluation practice, particularly on specific issues that are not covered in monographs or other publications. The objective is to accumulate a series of RPs which can be published and promulgated to industry and other interested folks. (See related article by Mr. Olds on page 5)

Among the many decisions made by the Board in Whistler was to ratify the improvements in the presentation of the SPEE Parameter Survey that were made by the Parameter Committee this year. If you have not obtained a copy - get one. The old drab photocopy survey report has been replaced with a bound document in living color that puts the content of the report in a much more professional format. And, after you have read the report cover to cover, be sure to call Kerry Pollard and say "*Thank You*" to him, his committee and his firm for doing a great job.



One of the most useful reports that the Board received at Whistler was a Report Card, so to speak, from the Council of Past Presidents on the progress of SPEE in meeting the goals of our long-range plan (LRP). I'll bet you didn't know we had a plan, let alone a long-range one! This report was meticulously done and serves two very important purposes. It fulfills the obvious purpose of checking our progress and drawing

Continued on page 3

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attention to parts of the LRP that have either been neglected or where time has wrought other changes. But, it also provides a basis for continuity of goal and purpose. This is extremely important in a small organization such as SPEE, which has no bureaucracy to carry over from year to year. Now, I have a few changes to suggest ... copies of the original LRP and the Report Card will be posted on the SPEE Website and are available from SPEE in Houston - call BK.

APPOINTMENTS:

Mr. Fred Duewall (Dallas) who was elected (1999) to the Board of Directors has been appointed Communications Director and will coordinate the Newsletter, Website, Public Relations and other forms of communication.

Mr. Tim Smith (Austin) has been appointed to succeed Mr. Kerry Pollard (Austin) as Parameter Survey Chairman.

Mr. Ron Harrell (Houston) has been appointed to succeed Mr. Chap Cronquist (Houston) as the SPEE representative on the SPEE Reserves Committee

Mr. Gene B. Wiggins, III (Houston) has been appointed to organize an SPEE-sponsored forum on Fair Market Value to coincide, if possible, with the projected release of Monograph 2 in early 2001.

I am sure that these gentlemen and any of our other committee/Chapter chairpersons would be pleased to have you call and offer your comments or, better yet, your help.

Richard Miller

FROM THE ANNUAL CONFERENCE

It was the largest-ever annual SPEE meeting, held in the farthest-ever location - Whistler, British Columbia. 102 members and 89 spouses traveled 50 miles north from Vancouver up the spectacular Sea to Sky Highway, were luxuriously housed in the Delta Whistler Resort, and then set about the event's business and pleasure. We attended technical meetings in the Conference Center led by Program Committee Chairman Mike Brusset. We went biking ... hiking ... golfing ... and shopping. We even visited a mini hydro power plant, and took a thrilling ski lift journey to the top of the Coast Mountain Range.

The first night we were welcomed in the Conference Center Atrium by the icebreaker with a cash bar and delicious buffet, and the next night, wined and dined at a dinner complemented with wines from British Columbia's vineyards.

The closing event was a gourmet meal and a surprise "roast" of Past-President Andy Merryman, amid thoughts of a memorable three days.

J.D. Hughes

SPONSORSHIP OF APPLICANTS

FOR MEMBERSHIP

One of the most important aspects of any professional organization is the effort made to ensure that members meet the qualifications that the organization has established. While some requirements have often assumed primacy, SPEE remains committed to being a peer review organization and, if possible, to increasing the role of demonstrated and acknowledged ability as an evaluation engineer.

As we all remember, a person who applies for membership in SPEE must obtain three SPEE members who will act as sponsors for his or her application. A member who is asked to be a sponsor, and who agrees to do so, accepts a serious obligation not only to the applicant but even more so to SPEE. Unlike ASA and other organizations, SPEE does not yet use a direct peer or work product review approach to qualifying members. We rely on the sponsor's knowledge of the character and professional ability of the applicant to determine whether that person meets the standards of SPEE membership. To a large extent we also rely on the credibility of the sponsor. The degree to which an applicant and a sponsor describe the applicant's qualifications is critical to the acceptance of those qualifications. So, the next time someone asks you to sponsor him or her as a member in SPEE, think about it carefully and, if you say yes, take the time to provide as much information about the applicant as you can. After all, the future of SPEE depends on its members.

At the risk of appearing to be a scold, over the past three years I have seen a large number of applications come through. For the most part the applicant seems qualified, but in many instances it would be difficult to decide based on the sponsor forms. Some sponsor forms are well thought out and complete, go to extra pages, and clearly indicate a familiarity with the applicant's ability. Others are cryptic, unresponsive one-liners, which provide no help at all in deciding on the qualifications of an applicant. Being a sponsor is not easy. No one wants to say "no" to a friend or to the new guy in the firm. And, I agree that the sponsor form and the approval process needs work. And, it is not always easy for applicants to find sponsors - here in CA we have so few members that finding three who can be sponsors is nearly impossible. BUT, in the absence of serious sponsorship, the alternative is continued reliance on arbitrary bureaucratic criteria for members.

Richard Miller

Harry E. Otell, Jr.

Houston, Texas

May 11, 2000



NEW VOLUNTEER POSSIBILITIES

The SPEE BOD at their June meeting in Whistler approved the formation of the Petroleum Economics Recommended Practices Committee. This committee is organized under the auspice of the Denver SPEE Chapter. The purpose of the committee is to provide a set of Recommended Procedures for (a) definition of relevant terms and (b) calculation procedures for upstream oil and gas economic calculations.

The strategy incorporates a two-phase approach. During Phase I the committee will propose terminology and calculation procedures. Phase I will be followed by a review and comment period. During Phase II the committee will review proposed standards and comments with interested parties and make necessary adjustments.

The Denver Chapter is currently recruiting members for Phase I. Robert Thompson and John Wright, from the Denver Chapter, will serve as Co-chairmen. During Phase I, the membership will include SPEE Members (voting), SPE Members (non voting), Software Vendors (non voting), and the SEC in an advisory role. Specific areas to be covered include: terminology, discounting methodology, definition of decline curve parameters, price and cost escalation, calculation of reversionary interests, calculation of economic indicators, and reporting of multiple rates of return.

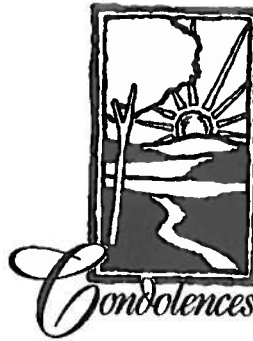
The committee will use email and teleconferencing for most of its work. We need dialogue among all the stakeholders to be successful!

Interested individuals should contact:

Robert Thompson
Colorado School of Mines
Phone: (303) 273-3743
Email: rthompson@mines.edu
or

John D. Wright
Questa Engineering
Phone: (303) 277-1629
Email: jwright@questaeng.com

Nanette Schulz
Chairman Denver



J. Donald Clark
Houston, Texas
August 30, 2000

James Donald Clark, a long-time SPEE member (1963) passed away on Wednesday, August 30, 2000 in Houston, Texas. Don was born January 1, 1918 in Plainville, Indiana. He received his BS in Petroleum Engineering from New Mexico Institute of Mining and Technology in 1947. Don also received a Master in Science degree from the University of Oklahoma in 1948. In 1941, he became a Naval Aviator and commissioned Navy Pilot during World War II, fought in numerous campaigns and retired in 1954 at the rank of LCDR. Admiral Halsey decorated him in 1943. His decorations included the Air Medal, American Defense, World War II Victory, Asiatic-Pacific Campaign with three Bronze Stars, American Area Campaign, Philippine Liberation, Philippine Independence and Navy Occupation Medals. He also received numerous Commendations for Merit.

After World War II and college, Don worked with AMOCO until 1952, then worked as Chief Reservoir Engineer with Unocal until he retired in July 1980. He then worked as a Consultant Petroleum Engineer until 1996. During his years in the oil industry, he was an active member of many groups, including SPE, AIME, Society of Well Log Analysts, API, Petroleum Oil Producers Society, and American Men of Science.

Don was a member of J. W. Chandler Daylight Lodge #1452, Houston Scottish Rite Bodies, Arabia Shrine Temple, and A.A.O.N.M.S.

Don was a very active member of SPEE, serving as a Director in 1967, 1968, was Secretary-Treasurer in 1972, President in 1973 and served on the Board in 1974 as Past President. He served as Director again from 1981 through 1983. Don became an Honorary Life Member in 1994.

Don is survived by his wife of 56 years, Lura Bennington Clark, three sons and a daughter, and eight grandchildren and seven great grandchildren.

Memorial contributions may be directed to the Shriners Hospital for Children - Houston, 6977 Main, Houston, Texas 77030.

The SEC discusses proved reserves and other topics of interest in their "Current Accounting and Disclosure Issues" newsletter of June 30, 2000. Web links to the newsletter are provided at our spee.org website. Click on "SEC Rules on Year-End Pricing" under the "Reserves Definitions" topic to see the full text.

Raft jumper surfaces! J.D. Hughes' wife, Babette, has written a memoir which is NOT about her rafting adventure. *Lost and Found* will be available in October at Amazon.com or can be ordered from:

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P.O. BOX 27398
AUSTIN, TEXAS 78755-3298

SPEE Announces Pilot Program for Development of Evaluation Guidelines

Article II of the SPEE By-Laws reads as follows:

The objectives of this Society are 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.

Many of us feel that SPEE hasn't been active enough in taking the lead on industry issues. During the Board of Director's meeting in Whistler, the Board approved a one-year trial program to develop position papers on specific issues. These papers will identify an issue and discuss the preferred or recommended treatment of that issue. These position papers are not intended to be a set of rules that we all must follow in all situations, but will be presented as suggested ways to handle an issue when the preparer of the evaluation report doesn't have an overriding reason to do it some other way. The papers would be maintained on the SPEE website where they could be amended, clarified, or expanded with relative ease.

What exactly are the issues we're talking about? Examples might include the treatment of hedging positions, non-hydrocarbon reserves, plugging and abandonment assumptions, gas balancing, presentation of produced versus sales volumes, presentation of mcf versus mmbtu units, treatment of fuel use — reduction in volumes or addition to expenses. Each of us recognizes that there are several ways of modeling each of these issues, and there might be valid reasons for using several approaches in a single report. However, there will be opportunities when we might wish to see what the collective opinion of our fellow members would be for a certain situation. More importantly, we can take comfort in reviewing the work of others if we see that, in situations where they had a choice, they used the SPEE-preferred approach.

Comments? Suggestions? Please let me know at dan.olds@us.pwcglobal.com or (713) 356- 8261.

Dan Olds

How will this process work? We're working on the details, but briefly, we envision the following:

- ◆ Author(s) submit draft issue to board or committee.
- ◆ Board or committee consider the draft issue and either reject it outright, return it for revision, or approve it for comments period.
- ◆ Notice of draft issue is made on website and in newsletter.
- ◆ Comments are solicited.
- ◆ At the end of pre-defined comment period (30, 60, or 90 days), a revised draft is prepared and presented to the board or committee.
- ◆ Board or committee approval.
- ◆ Issue position statement is posted on the SPEE website.

Advantages to this program:

- ◆ Develops guidelines for handling situations.
- ◆ Discussion of issue serves as an educational tool for both members and others.
- ◆ Can be used as a tool to notify members of new regulatory agency requirements or to discuss current requirements.
- ◆ Provides a means of making members aware of new issues.
- ◆ Documents a peer reviewed justification of methodology.
- ◆ Narrow focus allows streamlined review process and quick dissemination compared to the time necessary to develop a monograph.
- ◆ Further establishes SPEE as the authoritative leader on evaluation issues

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Membership Applicants

The following member applicants have been processed by the Qualifications Committee. The bylaws require that their names be presented to the membership for at least 30 days as a pre-membership requirement. Any member with an objection should address the objection to the Executive Committee (see bylaws regarding other important details) since the applications have already passed through the Qualifications Committee.

APPLICANT	SPONSOR	APPLICANT	SPONSOR
J. MIKE CAMPBELL Husky Oil 707 8 th Avenue S.W. Calgary, Alberta T2P 3G7	David Elliott Harry Jung Glenn Robinson	BYRON RAY GALE Tom Brown, Inc. 555 17 th Street, Suite 1850 Denver, Colorado 80202	Gary Krieger Larry Nelms Dee Patterson
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