President’s Column

Michael N. Austin, #2366
Denver, Colorado

“Top Ten Reasons to Attend the SIPES Annual Meeting or How to be a Hero with your Spouse”

I want to encourage all members to attend the SIPES 44th Annual Meeting scheduled for June 18-21 in Monterey, California. Our annual meetings are one of the best reasons to belong to SIPES. These meetings are educational and informative while providing an opportunity to network with other members from various chapters. In addition, the location this year is an outstanding venue with many opportunities for fun and adventure. I hope you will seriously consider attending – participation is what makes this organization successful. My top ten reasons to attend are:

1) Technical Sessions – The sessions will be a combination of talks about exploration case studies along with presentations about oil and gas production and their attendant price projections. As I write this column, oil prices are flirting with a two-year low and gas storage is casting a dark cloud on gas prices. These talks should provide information about the oil and gas industry along with some ideas of how independents have successfully discovered and produced oil and gas.

(Continued on Page 25)

THE BARNETT SHALE
Still The Hottest Natural Gas Play in the U.S.

by David Pursell, Pickering Energy Partners — Houston, Texas

Note: This article is from the Corpus Christi Chapter, and is the third in a new series submitted by SIPES Chapters.

The Barnett remains a freight train that will continue chugging until either natural gas prices fall below $6/mcf or we run out of drilling locations.

Production History

Barnett Shale production growth has been phenomenal, with current production nearly 2bcf/day, which is approximately 4% of the U.S. total.

(Continued on Page 20)
The following reports on national, state and environmental issues were presented to the SIPES Board of Directors on December 14, 2006 in Lafayette, Louisiana. Bernie Brauer, Vice President of National Energy and Corpus Christi Director, authored the report, "Inside Energy." Lee Petersen, the Fort Worth Director, provided the report on State Legislative News. Jack Naumann, Treasurer and Midland Director, submitted the Environmental Committee Report. The views and opinions expressed are those of the authors. Some of the information presented is in the public domain and is available from a variety of sources; other references were selected by the authors, and are noted on their reports.

**INTRODUCTION**

The energy picture continues to have degrees of uncertainty affecting all areas of the industry. The conflict in Iraq is still an issue but conflict seems to have been reduced in Lebanon for the present. Price volatility continues as a function of price, demand and anticipation of OPEC action.

**POLITICS**

The major political news was the Democrats taking control of the House and Senate. It is hard to view this as a surprise result considering the political climate of the country regarding Iraq and Congress in general. Certainly there has been talk of a windfall profits tax. However, talk and passage are quite different. It is difficult to imagine more counter productive legislation to increasing domestic energy supply than a windfall profits tax. Both parties like to talk in terms of ending energy dependence or gaining energy independence. In all probability there will be little significant change. Generally, Democrats support conservation or reduced demand and Republicans support increased domestic supply. Both in the proper balance may reduce price and reduce imports.

Other issues on the agenda for the new congress may be increased interest in renewable energy, electric vehicles, ending favorable tax treatment for the oil industry, and assorted investigations.

A real political surprise was in California; the fourth largest oil producing state in the U.S. Proposition 87 was a ballot initiative to impose an oil production tax on California oil wells. The initiative was defeated 55 percent to 45 percent even though California is the only state that does not have a state production tax. California only has a $0.061869 per barrel or per 10 mcf to fund The Department of Oil and Gas. The issues that helped defeat Proposition 87 were the feature the producers could not pass through the tax as a cost and that a beneficiary of the tax revenue was the ethanol lobby who helped fund Proposition 87. People in the industry are aware that California has high ad-valorem taxes and the oil producers certainly pay taxes but on the assessed value not production.

**PRICE**

The oil price hit a 17 month low of $54.86/bbl on November 17 but since has increased over $8.00 to over $63.00/bbl on December 1. The weaker U.S. dollar, OPEC production cuts and colder U.S. weather are the contributing factors for the increase. A Reuter’s survey in November indicated 10 OPEC members had made the pledged production cuts. While Saudi Arabia cut production by 785,000 BPD, OPEC was still 600,000 BPD over their 26.3 million BPD quota.

The December 10 OPEC meeting may result in further production cuts. The Forbes October 2 issue had an article predicting oil at $45/bbl by June 2007. Obviously there are many opinions on oil prices. The NYMEX gas prices were $7.67/MMBTU on December 8. That is a decrease of $1.18 from $8.85/MMBTU on November 30. At the $7.67/MMBTU gas price the oil price on a BTU basis is $10.76/MMBTU. The oil price has been greater on a BTU basis than the gas price since January 2006. Futures also showed a decrease due to the forecast for warmer weather.

**SUPPLY**

Current domestic oil production is 5,244,000 BPD with 80 percent coming from Louisiana (1,360), Texas (1,353),
Alaska (770), and California (705). The next four states -
Okahoma (172), New Mexico (164), Wyoming (142) and
North Dakota (106) have 11 percent of the total. Current
domestic oil production is 407,000 BPD greater than a year
ago or an 8.4% increase.

Total domestic supply of oil production is 15,543,000 BPD
with 10,299,000 BPD from imports or 66 percent. There is
especially no chance this level of imports will reduce in
the future.

The EIA has revised its World Oil Supply 1997 - Present.
The revised report indicates 85,205 million BPD in May
2005 as the all-time peak for world oil production.

Current gas production is 1,618 BCF per month and has
averaged 1,620 BCF per month for 2006. Domestic gas sup-
ply stability continues to depend on storage as the swing
production.

**DEMAND**

Oil demand is driven by the pressure from the
economies of all countries. The U.S. is first in global
demand at 23.246 million BPD. China is in second position
with demand currently at 7.000 million BPD with 47 per-
cent being imported. China's demand is expected to
increase to 10.000 million BPD by 2020 ensuring continu-
ing competition for the available supply. Japan is in third
position for global demand at 5.800 million BPD.

Refinery utilization has finally reached 90.5 percent after
Katrina resulting in increased gasoline supply and a corre-
sponding general decrease in gasoline price.

**EXPLORATION**

A significant exploration event has been Chevron’s dis-
covery announcement in the Gulf OCS with reported pre-
development potential of several billion barrels.

The U.S. Geological Survey released a 2006 report that
the Bakken formation in the Williston Basin, Montana and
North Dakota may have 400 billion barrels of reserves
potential. The formation is difficult to drill and is still car-
rried with reserves of 800 million barrels.

In November, the U.S. had 64 seismic crews working and
7 available. The corresponding world seismic data are 259
and 101. Currently the rig count is 1,714, a 300 increase
from a year ago at 1,406.

Total wells drilled in October 2006 were 4348, with 502
dry holes, 2754 gas wells, and 1092 oil wells. For October
2005 the corresponding wells were 3763 total wells, with
459 dry holes, 2499 gas wells, and 805 oil wells. Footage
drilled was almost flat at 24,784,000 feet in October 2006
compared to 25,096,000 feet in October 2005.

**GOVERNMENT**

The House signed a bill to open 8.3 million acres of Gulf
OCS for leasing within a year. The bill opened an area that
was previously off-limits. The states of Texas, Louisiana,
Alabama and Mississippi will share in 37.5 percent of the
revenue from the new leases. The Senate approved the bill
in August. Included in the bill is the suspension of the net
income limitation on percentage depletion for marginal
wells. The bill also exempted gathering lines from regula-
tion but regulated for the first time low-stress oil pipelines.

With the new Congress it is likely that ANWR will never
be considered. There will almost certainly be more move-
ment toward support of alternative energy. With the U.S.
having only three percent of the world oil reserves, it will
still most likely be the most reviewed, analyzed, and
inspected three percent in the world.

The Department of The Interior on November 14
announced the formation of an independent royalty poli-
cies review panel. The panel will review the policies and
procedures on Federal and Indian lands. It was obviously
initiated after leases were granted to industry that omitted
critical royalty calculation language favorable to the gov-
ernment.

**INTERNATIONAL**

The tax advantage for income trusts used by Canadian
companies will be eliminated by the Canadian govern-
ment in four years. The trusts will then pay taxes on
income that had previously flowed through to the trusts’
unit holders. This is essentially the same tax vehicle that
was used by Master Limited Partnerships in the U.S.
decades ago.

Felipe Calderon, the new president of Mexico, proposes
opening their industry to foreign companies. Currently,
foreign companies can only operate as contractors provid-
ing oil field services.

Russia has suspended permits for Shell's Sakhalin-2 oil
and gas project that may further delay the $22 billion pro-
ject. It was to be put in service by 2008.

**M & A ACTIVITY**

The following were recent significant industry transac-
sions or proposals:

- Occidental will exit Peru with a sale of its production.
  It will retain drilling rights on 6.3 million acres.
- Santos will divest its U.S. properties and concentrate
  on Australia, Asia, and The Middle East.
- Consolidation in the industry, domestically and inter-
nationally seems sure to continue. Consolidation in the
  industry is always seen as a strategy for financial strength
  or survival.

**STATE LEGISLATIVE NEWS**

**COLORADO**

- **SB 06-138** (requires 75% of all gasoline sold in Colorado
  from November through April every year contain at least
  10% ethanol, and that such requirement shall not increase
  the retail cost of gasoline) vetoed by Governor 5/26/2006
- **SB 06-142** (Increases the cap on the 2-year average of
  the unobligated portion of the oil and gas conservation
  and environmental response fund from $2 million to $4
  million) approved by Governor 3/31/2006

(Continued)
• HB 06-1408 (Includes off-site ground water monitoring wells as land that is not considered affected land for purposes of a mining operation) approved by Governor 5/26/2006
  
  KANSAS
• HB 2104 (amending the uniform commercial code concerning securities interests in oil and gas production) signed by the Governor
• SB 303 (authorizes income tax credits, accelerated depreciation, and property tax exemptions for several types of energy-related projects) approved by the Governor 5/23/2006

LOUISIANA
• No earth science related bills were acted upon by the House Committee on Natural Resources during the 2006 1st and 2nd Extraordinary Sessions of the state legislature.

MONTANA
• LC-0090 (Providing common carrier status to pipelines moving carbon dioxide; extending the right of eminent domain to underground reservoirs suitable for storing carbon dioxide) drafted August 21, 2006
• SJR 36 (Distributed Energy Generation) report to the 60th Legislature, September 2006
• SJR 39 (Energy Planning & Coordinating Entity for Montana) draft study plan revised

NEW MEXICO
• HB 22 (providing for financial assurance to plug oil, gas or service wells) signed 3/06/2006

OKLAHOMA
• HB 2810 (Expedites and streamlines the permitting process oil refineries built under the Rural Economic Development Initiative) effective 7/01/2006
• HB 2506 (Extends the expiration date for the deposit of petroleum excise taxes into the Corporation Commission's plugging fund) effective 7/01/2006
• HB 2691 (applies restrictions to persons building a habitable structure within a certain distance of an oil or gas well) effective 6/08/2006
• SB 1366 (Modifies the apportionment of the one-cent per gallon fee on motor fuels for the purpose of remediating petroleum related hazardous waste sites such as abandoned refinery sites) effective 7/01/2006

TEXAS
The Texas Railroad Commission adopted new rules to encourage the use of oil and gas wastes for beneficial purposes. The new rules require commercial recycling facilities to control the quantity of recyclable materials they store, and are intended make sure that recyclable products are reused and not abandoned and that storing recyclable materials does not threaten or impair public safety.

The Railroad Commission also completed a year-long study of the intrastate gas gathering market. In 2005, the state legislature directed the Railroad Commission to study whether viable competition exists in the natural gas market from wellhead to burner tip. Producers and royalty owners have long complained that there is a lack of competition in the mid-stream sector. The report has been adopted and forwarded to the legislature with the recommendation to seek additional solutions to any problems that might be impeding the efficiency of the petroleum energy market in Texas. The full text of the report can be accessed online on the TIPRO web site: http://www.tipro.org/documents/20060706100520335.pdf

The Commission has also granted the first long-term permit to distill and re-use fracture flow-back fluid from Barnett Shale completions in the Fort Worth Basin. A Barnett Shale frac job can use up to 100,000 barrels of water, but distillation and/or membrane treatment could eventually recycle 85 percent. Water use is already an issue in several counties in the Barnett play.

- The Oil Field Cleanup Fund Advisory Committee has declined to move forward with legislation requiring operators to set up escrow accounts to cover the future plugging costs of their inactive wells, but has stated they would continue to look for proposals on the issue of additional financial assurance for inactive wells that are put forth by the oil and gas trade associations.
- The House Energy Resources Committee has one bill in committee in the 79th Legislature Third Called Session: HCR 36 (Urging the U.S. Congress to take measures to lower gasoline prices and reduce national energy consumption) referred to committee

WYOMING
• 07LSO-0169.W3 (House bill to create a sales and use tax exemption for clean coal technology) draft in Joint Minerals, Business and Economic Development Committee
• 07LSO-0031.W6 (Senate bill to amend and expand rulemaking authority for underground storage tanks) draft in Joint Minerals, Business and Economic Development Committee

SOURCES
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New Mexico Legislature — http://legis.state.nm.us/lcs/

(Continued)
Global Warming: The 2006 Hurricane Season came to an end on Thursday, November 30, without a single hurricane-making landfall. After the hurricane devastation of the 2005 Tropical Storm season, NOAA (National Oceanic and Atmospheric Administration) and other weather and environmental experts predicted the 2006 storm season would be one of the worst on record. Global warming was once again identified as the main reason for the number and severity for these storms. To the surprise of the experts and the general public, the 2006 Tropical Storm season proved to be one the mildest on record. NOAA predicted at least 13 named storms and as many as 16 for the 2006 season. Eight to 10 of these storms were expected to reach hurricane strength with four to six of those becoming major hurricanes reaching Category 3, 4 or 5. These predictions came directly after the 2005 Tropical Storm season, which was the deadliest hurricane season on record. For 2006, only nine storms were named, of which five became hurricanes and only two became major hurricanes. Of the storms that hit the United States, only two tropical storms made landfall, which were tropical storms Alberto and Ernesto.

During the 2006 Tropical Storm season, not a single hurricane made landfall anywhere in the United States. The periodic warming of tropical Pacific Ocean waters known as El Nino and West Africa dust clouds which created a cooler Atlantic ocean, are suspected of causing the low numbers for the formation of tropical storms this year. According to Gerry Bell, a hurricane forecaster with NOAA, "El Nino produces a sinking motion and increased wind shear in the Atlantic atmosphere, both of which kill hurricanes." Because El Nino is a warm-water phenomenon, some global warming skeptics wonder whether warming trends blamed for a hurricane-friendly Atlantic Ocean will also lead to stronger El Ninos that will in turn kill those hurricanes. The last named storm in the season was Hurricane Isaac, which dissipated in the Atlantic Ocean on October 2. Obviously, forecasters severely underestimated the number of storms for 2005 and overestimated the number of storms for 2006.

David Ridenour, vice president of the National Center for Public Policy Research, has stated, "The failure of forecasters to accurately predict the frequency and intensity of this year's hurricanes should remind Americans that climatology is an uncertain science." "If increasing global temperatures increases the frequency and duration of El Ninos, global warming could result in less intense hurricanes," he argued. "Those who claim that rising global temperatures would definitely lead to more intense hurricanes appear to be relying upon political science, not climate science."

Along those lines, former Vice President Al Gore had previously warned that "the average hurricane will continue to get stronger because of global warming" as "unusually warm waters" create "much stronger" hurricanes. But Gore has also linked global warming to El Nino occurrences which, according to Bell, may actually have the effect of killing hurricanes.

Although it is quite telling that forecasters were completely wrong for 2006, what does this say about the millions of dollars that are spent on state-of-the-art forecasting tools? Or more revealing, (at least in this writer’s opinion): What does this say about the reactionary/fear-based information propagated by the media and special interest groups?

NOAA experts plan to release a forecast for the 2007 Hurricane Season in December of this year. It will be interesting to see the predictions, which I would assume, will be slightly more conservative than prior estimates. Whether or not you believe the predictions, hurricane experts’ cautions the public to look at the bigger picture, stating that we are currently amidst a 30-year cycle of above-average hurricane seasons.

Carbon Dioxide Emissions: Concerning the ongoing arguments and debates of greenhouse gas emissions, the U.S. Supreme Court is currently involved in a potentially landmark case. Twelve states, three cities, a U.S. territory and thirteen environmental groups are arguing that the EPA ignored the clear language of the Clean Air Act. The U.S. Supreme Court has heard the arguments and will rule sometime this summer on the case of Massachusetts v EPA, 05-1120. This case is important due to the fact that it is the first case of its kind heard by the high court concerning the legalities of carbon dioxide emissions. The high court will be, in effect setting the precedence by determining whether the available data are enough to say that CO2 emissions pose a threat to the public's well being, which would effectively be putting CO2 emissions as the main reason for climate change "on trial."

The basis of the argument is that the Environmental Protection Agency lacks the power to regulate carbon dioxide as a pollutant under the Clean Air Act, and even if it (Continued)
had such authority, the EPA still would not use it at this point because of uncertainty surrounding the issue of global warming. Essentially two questions are at issue: can the U.S. government’s Environmental Protection Agency (EPA) regulate CO₂, and if it can, is it required to. Under the 1970 law, carbon dioxide is an air pollutant that threatens public health and the EPA must regulate it. The current estimate is that U.S. power plants and vehicles account for 15 percent of the world output of greenhouse gases, (the majority being from power plants).

The Bush administration has argued that the Environmental Protection Agency lacks the power to regulate carbon dioxide as a pollutant under the Clean Air Act. A federal appeals court in Washington, in a fractured decision in 2005, upheld the administration’s position. Michigan, home of the U.S. auto industry, and eight other states, are backing the EPA.

Ralph Colleli, a lawyer for the American Petroleum Institute in Washington, said the text of the law should be considered along with legislative history suggesting the law "doesn't authorize EPA to impose mandatory regulations for controlling greenhouse gas emissions for climate change purposes."

Also currently in the federal court system is a separate case involving the EPA’s claim that the Clean Air Act similarly does not give it authority to regulate greenhouse gas emissions from power plants.

**POLITICS, ENERGY AND THE ENVIRONMENT**

The political debate over global warming is a continual and common battle ground among politicians, and with the mid-term elections over and the Democratic Party taking control of the senate and the congress, it is interesting to note the current movement with the larger energy companies. Many CEOs and top executives at many of the nation’s largest energy companies have accepted the scientific consensus about climate change and see federal regulation to cut greenhouse gas emissions as inevitable. John Hofmeister, the president of Shell, has gone on nation wide fifty-city public relation tour of sorts. "We have to deal with greenhouse gases," John Hofmeister, president of Shell Oil Company, said in a recent speech at the National Press Club. "From Shell's point of view, the debate is over. When 98 percent of scientists agree, who is Shell to say, let's debate the science?" Hofmeister has attempted to bring this and other issues into the public eye and to promote the fact that Shell is aggressively pursuing alternative fuels such as ethanol. Hofmeister has outlined that Shell is actively investing in research making ethanol from wood chips, switch grass and waste products. In his public relations tour, Hofmeister has stated that the "oil industry has zero credibility with many Americans, and that Shell no longer questions the need for curbing greenhouse gas emissions."

Duke Energy Corporation’s chief executive, James E. Rogers, backs a proposal that would cap greenhouse gas emissions and allow firms to trade their quotas. Paul M. Anderson, Duke Energy’s chairman and a member of the president’s Council of Advisors on Science and Technology, favors a tax on emissions of carbon dioxide. Duke Energy is the nation’s third-largest burner of coal.

Exxon Mobil Corporation made a statement in September that it was considering ending its funding of a think tank that has sought to cast doubts on climate change. Additionally, on November 2, the company announced that it would contribute more than $1.25 million to a European Union study on how to store carbon dioxide in natural gas fields in the Norwegian North Sea, Algeria and Germany.

Although many of the major energy companies can be applauded for such public relations campaigns and environmental friendly endeavors, it will most likely be labeled as attempts to pacify the newly elected senate and congress majority.

This report has been compiled from recent public reports and periodicals and is for the use of SIPES and SIPES members. The information presented is of general interest to earth scientists and is not an opinion or position of the SIPES organization.
2006-2007 SIPES CORNERSTONE GROUP

Many thanks to the members listed below for their continuing support of our society
2007-2008 members will be printed in the May 2007 Quarterly

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Civville R. Beck – Shreveport, LA
Foy W. Boyd, Jr. – Midland, TX
Garnet W. Brock – Midland, TX
Arthur N. Budge – Dallas, TX
Robert A. Cooksey – Richardson, TX
Marlan W. Downey – Dallas, TX
Paul W. Foster – Dallas, TX
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Paul E. Habermas – Houston, TX
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George S. Johnson – Amarillo, TX
Ronald E. Neal – Houston, TX
John E. Scherer – Midland, TX
Otto J. Welper – Houston, TX

Driller – $600

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Dan A. Hughes – Beeville, TX
C. M. Jacobs – Mandeville, LA

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Arthur N. Budge – Dallas, TX
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Robert L. Williams, Jr. – Wichita, KS
Larry R. Wollschlager – Midland, TX
James M. Zatkiewicz – Metairie, LA

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Wilbur E. McMurtry – Oklahoma City, OK
Douglas B. Watkins – Austin, TX
W. David Willig – Houston, TX

Deceased

* Joe H. Warren, Jr. – Dallas, TX
* Deceased
Being remiss in my duties last year, I have vowed to make up for the omission of the past year with a summary of our activities. We started '06 off with a hole in the officer lineup but managed to wing it.

Our January meeting featured a talk about oil & gas litigation; food for thought, especially after the '05 hurricane season. We followed this up with real estate in February. Did you know there is more value than just the minerals? Sometimes a dry hole can turn a profit. Rounding out the quarter, we then learned about the new expandable liner hanging and completion systems: pretty slick.

The second quarter continued the technology theme with MWD/LWD sensor systems in April. We then finished up with our annual Sporting Clays Shoot Out and BBQ Steak Night. Someone even won a new shotgun, Buddy Powell, #2004. And that concluded the activities prior to summer break. Not that anyone really took the whole summer off. After the break in September, we picked up some insight on the latest computer exploration software from SMT, including techniques to enhance our seismic interpretation.

Our October meeting continued a long standing (since last year) tradition of a get together in the park for BBQ and Jazz (We BBQ a lot down here)! Very informal and tons of fun for all, it is quickly becoming our premier social, and the weather was perfect again. This of course is followed up with the annual dove hunt, a truly long standing tradition with this group.

The November meeting consisted of chapter business discussions and finalizing plans for our Christmas Party.

The year end Christmas party was a roaring success and a return to better days with a sit down dinner and piano bar. It was doubly enjoyable since we got to meet and entertain the SIPES National Board of Directors while in town for their quarterly meeting.

We normally install new officers at this event, but hadn’t managed to shake any out of the trees by then. I’m now happy to report that new officers have been elected. They are Ellis Guilbeau – chairman, Johnny Walker – vice chairman, and David Bieber – secretary/treasurer. Thanks guys and good luck.

New Chapter Chairman Ellis Guilbeau with his wife, Lettie (R) and Sharon Bieber (L).

Heather and Bill Finley (left) with Jim Gamble.

Attending the Chapter Christmas Party are (L to R) David Bieber, Johnny Walker and SIPES President Mike Austin.
NEW ORLEANS

New Orleans Chapter officers for 2006–07 are: Chairman Ken Huffman; Vice Chairman Paul Perret; Secretary Jim Zotkiewicz; Treasurer Dave Phelps; Past Chairman Rodney Rymer; National Director Jeanne Phelps.

Our October luncheon speakers, Kathy and Kelly Haggar, presented a slide show and discussion on "Shallow Faulting as seen at the Surface of the Mississippi River." Numerous slides of surface faulting in southern Louisiana and in the Houston area drove home the point that the region has been, is, and will continue to sink. Many variables contribute to the region's subsidence. The building of levees, while protecting our cities, also perpetuates the problem by greatly decreasing the sediment flow into the marshes.

Our November meeting was held jointly with seventeen other local energy industry associations. Rayola Dougher, Manager of Energy Market Issues, and chief economist for the American Petroleum Institute (API) was the speaker for this event. She is the principal spokesperson for the API, and leads efforts to inform policymakers, the media, and the public on energy market issues such as gasoline taxes, energy conservation, and competition in the retail markets. Her topic was "Challenges Facing our Oil and Gas Industry" and she discussed the overall U.S. and world energy situations, the factors shaping supply and demand in energy markets, industry investment and earnings, measures to maximize energy security, and needed changes in the U.S. energy policy. This well-attended annual joint luncheon meeting has been held for several years and gives everyone an opportunity to support the local energy community.

Every December, the New Orleans Chapter holds its annual open-floor meeting. This year, keeping with tradition, we did not have a speaker and the floor was open to members' comments, discussions, ideas on current events, humorous stories, etc.

Last fall, we lost a dear friend and colleague, Bob Sabate', who died of cancer and complications from surgery. Bob was a long time SIPES member who contributed greatly to the organization. He will be missed.

Jim Zotkiewicz
Secretary
DALLAS

The Dallas Chapter held its second annual symposium with the help of the Ellison Miles Geotechnology Institute at Brookhaven College; the North Texas Energy Council; and the Petroleum Technology Transfer Council Texas Region on October 17, 2006 at Brookhaven College. The symposium title was "Oil and Gas Operation in Urban Areas," and was organized by Vice Chairman Ed Gonzales. The focus of the seminar was to address the impact of the Barnett Shale play in regard to legal and land issues, environmental concerns, local economic impact, and drilling within an urban area. Technical aspects of this play have previously been discussed at several recent meetings.


The luncheon speakers were Richard Varela, executive director, and Kathy Way, executive assistant, with the Railroad Commission of Texas (RRC). They described how to use the RRC website and gave a brief overview of historical information applicable to the oil and gas industry. This includes well data, information pertaining to leases and royalties, production data, electric logs, various types of maps, drilling permits and plugging reports. A full day was concluded with a social hour. Due to the success of this and the previous symposium, we are currently considering topics for next year.

Sid Moran gave a most provocative, mathematical presentation at our November 2006 luncheon titled "Prospect Evaluation." Sid has degrees from the University of Texas in geology, mathematics and petroleum engineering. He worked for Shell Oil Company for thirty-three years and has consulted for sixteen years.

There are several independent variables that affect the estimated probability of success (EPS) for a given prospect. They include the trap, the reservoir, the seal and the charge which refers to the quantity of hydrocarbon present. A number ranging from 0.0 (0 percent) certainty to 1.0 (100 percent) certainty is assigned to each variable and the EPS is simply the product of these four variables. A product of 0.20 would indicate a 1 in 5 EPS.

Sid discussed the evaluation of producing properties. Although several techniques can be used, the discounted cash flow (DCF) method is preferable. This approach considers the time value of money and determines the present value of a future income stream discounted at the investor's targeted rate of return. The discount rate selected by an investor should take into account the risky nature of petroleum investments, the inflation rate and alternate investments such as equities. Other factors considered in the DCF calculation include pricing, decline rates, operating expenses, etc. Values for each variable must be projected throughout the economic life of the property resulting in future cash flow.

Sid lectures on these topics in more detail at the Permian Basin Graduate Center in Midland, Texas and other industry schools.

This year ended with a bang as the Chapter enjoyed the annual Christmas party at the Dallas Petroleum Club. Activities Chairman David Martineau did an outstanding job organizing the festivities. A full house dined and danced to the music of the Mike Drake Band. SIPES National Director Cliff Walker made a special presentation to Ed Gonzales and Mark Mathisen for their work on the Dallas Chapter's second annual fall symposium. James Henderson was also honored for chairing the SIPES 2006 National Convention held last June in Lake Tahoe, Nevada. The officers for 2007 were then introduced and include Chairman Ed Gonzales, Vice Chairman David Bissmeyer, Treasurer Bobby Greenwood, Secretary Don Muth, Membership Chairman David Martineau, Activities Chairman Jerry Watkins, National Directors Woody Leel and Cliff Walker, Continuing Education Chairman Stan Pittman and Past Chairman Mark Mathisen. The Dallas Chapter is looking forward to an active and prosperous 2007.

Hugh Pendery
2006 Secretary
DENVER

In October, James C. Coogan of Western State College in Gunnison, Colorado spoke on “Regional thrust geometry, timing and hydrocarbon migration in the Central Utah Thrust Belt.” The 2004 Covenant field discovery has spurred regional exploration much like the 1975 discoveries in the internal parts of the Utah-Wyoming thrust belt. Regional extents of the earlier plays were delineated within the first two years of key discoveries. However, regional play extension faces more daunting challenges as the play possesses a complex hydrocarbon system, large extensional modification of buried thrust structures, and resultantly difficult seismic imaging below low velocity extensional basins. The late timing of oil remigration implies that post-thrust traps provide an additional suite of viable exploration targets along the Colorado Plateau’s western margin and the Central Utah thrust belt’s eastern margin.

2006 Chapter Chairman Jim Rogers, owner of National Geologic Services, spoke in November at the monthly luncheon meeting. His presentation was titled “New Reservoir Model from an Old Oil Field: Garfield Conglomerate Pool, Pawnee County, Kansas.” Garfield Oil Pool, an old oil and gas field near the center of the United States. It produced more than 10 million barrels of oil from a lower-middle Pennsylvanian conglomerate reservoir, which accumulated as an ancient alluvial fan on the Pre-Pennsylvanian unconformity. A near-modern feature in north-central Colorado, the Rocky Flats Alluvial Fan, provides a remarkably similar analog to the reservoir of the Garfield Pool, exhibiting nearly identical constituents and scale. Future exploration for similar conglomerate reservoir/-traps should concentrate on the shape, character and depositional setting of this model.

Denver SIPES members and spouses, along with friends and potential members, attended a happy, catered annual holiday party at Southglenn Country Club. At that December event, outgoing Chapter Chairman Jim Rogers announced the appointment of chapter officers for 2007: Bill Miller has assumed the responsibilities of chapter chairman; he has done an excellent job for nearly four years as “chapter communicator.” Keith Droullard is the new secretary; and George Carlstrom has graciously volunteered to continue as treasurer for another year. Bill Goff continues as membership solicitor general. Mike Cruson is our national director, having replaced Mike Austin this past June when Mike became National president of SIPES.

Keith Droullard
Secretary

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Keith Droullard
Secretary
HOUSTON

In October, Fred Byther of Dallas presented "Exploration and Drilling Activity for the Deep and Downdip Woodbine Sands of Polk and Tyler Counties, Texas." This talk was presented at the 2006 SIPES Convention in Lake Tahoe and is available from the SIPES Foundation Video Film Library on DVD.

Beginning with the discovery of the giant East Texas Field in 1930, the Woodbine has made its mark in the history of oil and gas. Yet, seventy-six years later there are still significant contributions to be made from these remarkable sands. The search for new Woodbine fields has shifted far to the south, to Polk and Tyler Counties, Texas.

Fred received a B.S. degree in geology from the University of Texas at Arlington. His professional career began in with J.D. (Jack) Sistrunk, Jr., #1178, and Sunmark Exploration in Dallas. Fred worked in the in Deep Anadarko and Williston Basins, then the Texas Gulf Coast with Oryx Energy at Double A Wells, which become Oryx's most prolific producing asset onshore. Fred retired from Oryx in 1998.

In 1999 he formed Oracle Resources, LC with Bryan Pershern and George Ainsworth. Among other projects, he is currently engaged in exploration for Deep Woodbine targets from 16,000' to 22,000' supported by large 3-D. Oil & Gas Clearinghouse sponsored hospitality service for this event.

Lee Gill of Kilburn Jones Gill & Campbell, LLP presented a talk on "Preventing Agreement Failure" at our November meeting. Oil and gas professionals enter into various agreements to protect themselves and their property rights and ideas. These may take many different forms: consulting agreements, prospecting, development and exploration agreements, and other forms. Agreements can fail to accomplish their purposes when they are unclear and imprecise, and when they fail to conform to legal requirements.

How enforceable are your agreements? Do you understand what you have agreed to? Mr. Gill offered practical solutions that can be used to prevent agreement failure, including sample clauses for areas of mutual interest, confidentiality, and non-circumvention.

Lee Gill was born and grew up in the oilfield in Mont Belvieu, Texas. He graduated from The University of Texas at Austin with a degree in economics, and obtained his law degree in 1977. In the summer before his last year of law school, he worked in the abstract plant and courthouse in Rusk County, examining title and building abstracts on land that included the drillsite for the Daisy Bradford No. 3, the discovery well for the East Texas field.

Upon graduation, he took and passed both the Texas and Louisiana bar exams. He has been in private practice in Houston since 1977, started his own firm in 1981, and was a partner in two other firms before co-founding his current firm, Kilburn Jones Gill & Campbell LLP in 1998. He is Board Certified in Oil, Gas and Mineral Law by the Texas Board of Legal Specialization. Schlumberger sponsored hospitality service for this event.

The election of officers for the Houston Chapter of SIPES for 2007 was held at our November luncheon meeting. They are as follows: Chairman Patrick Shannon; Vice Chairman Jim Norris; Secretary Mike Jones; Treasurer Mark Gregg; Past Chairman Larry Rairden. The 2007 Committee Chairmen are: Continuing Education - Stephen Hartzell; MAC List - Amparo Kennedy; Hospitality - Duncan Dubroff; Membership - James Grubb; Political Affairs - Dan Smith; Public Relations - John Jurasin; Technical Program - Mark O’Koren; Website - Phil Martin; National Directors - Ray Blackhall and Paul Britt; and Office Manager - B. K. Buongiorno.

Phil Martin was elected National Director, replacing Paul Britt when his term ends in 2007.

At our Fall Social on November 3, Houston Mayor Bill White delivered an upbeat message on the importance of encouraging young people to enter the field of the earth sciences. Scientists of all types are vital to the economy of Houston, and our schools are not producing enough of them. He also told us about how his office enlisted the cooperation of the community and marshaled its resources to help the victims of Hurricane Katrina.

The event was attended by more than sixty members and guests. Hospitality was provided through the courtesy of GeoGraphix.

(Continued)
Local member Phil Martin, #2390, presented "Fishing With Dynamite: 3D Tips and Trip-ups in the Gulf Coast" on December 21st. 3D seismic is the critical technology for almost all wells drilled in the Gulf Coast. Although it has been around for thirty years, its use now means the difference between a fantastic or forgettable track record. 3D data and technology were once the privilege of large oil companies but are now accessible to all. As frosting on the cake, 3D provides an excellent bridge between the geological, geophysical, engineering, and financial sectors of the energy industry.

Of course, track records of companies using identical 3D data and technology can vary greatly, depending on their interpretational skills. Although 3D alone can suffice in some trends, a convergence of multiple geoscience skills is necessary in others. This presentation shared lessons learned in the hits and misses of one company as it chalked up an 85% success ratio for thirty-six 3D prospects drilled from 2005 to 2006 in Texas and Louisiana.

Phil Martin is president of New Century Exploration, Inc., an active E&P company based in Houston. He grew up in the oil patch as the son of a geologist, grandson of a mining engineer, and great-grandson of a gold miner in Oregon.

After graduating with a B.S. from LSU and an M.S. from USL, Phil went to work as an exploration geologist for Union Texas Petroleum. After a few years, he became an independent operator. His company currently drills 20+ wells per year in Texas and Louisiana. ECHO Geophysical Corporation sponsored hospitality service for this event.

Mark O’Koren, 2006 Hospitality Chairman, wrapped up another successful year of coordinating our generous luncheon refreshment sponsors. For each of our luncheon meetings our chapter has a wine sponsor. In 2006 we had ten new sponsors and seven repeat sponsors for all meetings including the Fall Social and Continuing Education seminar.

Scott Sechrist
Secretary

SIPES Investor List

The new SIPES Investor List, containing names of members who are interested in participating in projects generated by other SIPES Members is now available from the SIPES Office in Dallas. Included are names, contact information, as well as the desired geographic location and level of participation. This information, available only to current SIPES Members, is available as a printed list, or on CD at no charge.
FORT WORTH

In October the Fort Worth Chapter adopted a resolution to make a contribution to the Desk & Derrick Club for a study essay contest in the elementary schools in Fort Worth.

Our speaker was Naresh Kumar. Dr. Kumar received his Ph.D. in geology from Columbia University and then joined the faculty of Columbia and Fairleigh Dickinson Universities. He joined ARCO in 1977. He has been involved in the discovery of 400 million barrels of oil. Dr. Kumar retired from ARCO in 1996 and created his own consulting firm, Growth Oil and Gas. He has worked throughout the world for many international oil companies and governments.

Naresh presented an interesting geographic and geologic description of his trip to the East Rift System of northwest Tanzania. His slides provided clear views of the beauty of the geomorphology in this remote area of eastern Africa. They also depicted the variations of the geology and some of the flora and fauna present.

Chairman Joe Svoboda opened our November meeting with the introduction of guests, and he presented a chapter award plaque to Tom Bass for the year 2004-05. Membership Chair Annette Borkowski presented a membership certificate to Michael Morris. Michael is an independent operator here in Fort Worth.

Vice Chairman Tom Bass introduced the speaker, Henderson Watkins, vice president of Omni Laboratories. Mr. Watkins has spent over twenty years in the core analysis industry implementing procedures for safe well-site core handling that are now considered standard operating protocol by the industry. He earned his B.S. degree in geology from Tulane University, then went on to receive an M.S. degree from the University of Southern Mississippi.

November guest speaker Henderson Watkins.

The title of the talk was "Advances in Shale Core Handling and Analysis with Emphasis in Rock Mechanics and Hydraulic Frac Design." Mr. Watkins presented recent experience in well-site core handling and analysis of the unconventional Barnett Shale reservoir. Specific topics included advances in well-site protection of the core to preserve the integrity of the rock and the contained liquids. Petrographic characterization includes fracture description, rock mechanics, and capillary pressure. The Omni Lab approach focuses on the practical aspects of analysis with emphasis on timely delivery of data. The Chapter did not meet in December.

Lou DuBois
Secretary

Monterey 2007

SIPES 2007 Convention Technical Program

Speakers and topics are subject to change. Additional speakers to be added at a later date.

William Bennett - National Exchange Services
"1015 Like Kind Exchanges"

Edward Clifton - Geologist
"Geology of the Monterey Peninsula and Point Lobos Area"

Ed Egger, #2822 - 3-D Imaging L.P.
"Affordable Software Advance in Seismic Depth Migration"

Bruce Gates - U.S. Enercorp, Ltd.
"New Gas Production in a Mature Wilcox Area"

Brian Marcotte - Titan Oil Recovery
"MEOR Improves Recovery"

Scott Lamoreaux - DZ Bank
"Trends in the Upstream Capital Marketplace"

Timothy Marquez - Venoco, Inc.
"Oil and Gas Operations in Environmentally Sensitive Areas Can be a Success"

Phil Martin, #2390 - New Century Exploration, Inc.
"3-D Seismic Prospecting on the Gulf Coast"

David Pursell - Pickering Energy Partners
"Oil and Gas Pricing and Projections"

David Read, #3070 - Independent Consultant
"Cottonwood Creek Discovery in Oklahoma"
MIDLAND

In October, an evening barbeque social was held for Midland Chapter members at Party Station. A total of eighty members and guests attended this first annual family barbeque. Members shared stories and mixed with other colleagues, enjoying the opportunity to meet new associates. Our spouses also shared stories, enjoying this rare opportunity to gather for a strictly social SIPES event. Several door prizes were awarded to ticket holders in attendance.

At our November luncheon, Jeffery G. Harris, regional tech advisor at BJ Services Company, spoke on "Successful Stimulation of Openhole Carbonate Formations with Coiled Tubing."

This presentation addressed how coiled tubing, combined with advanced acidizing technologies, can improve the ability to optimize treatment coverage in openhole completions. Two methods that have been very successful in the Permian Basin are foam and self-diverting acid systems. These techniques have worked well in horizontal San Andres openhole completions using large diameter coiled tubing and advanced jetting technologies. These combined technologies provide enhanced stimulation coverage.

When acid is pumped into an openhole completion, it is difficult to determine precisely where the treatment fluid is going. It is vitally important to ensure that the entire interval is being treated adequately to optimize production. Many techniques to achieve total zonal coverage have been attempted throughout the years with mixed results. Coiled tubing has shown tremendous promise in these stimulation treatments.

Jeffery G. Harris works for BJ Services Company in Midland as the Permian Region technical advisor for coiled tubing and nitrogen services. He has thirty years of oilfield experience from the North Atlantic to West Texas, and has specialized in coiled tubing and nitrogen services. Harris majored in math at the University of Arkansas at Little Rock. An SPE member for more than twenty-five years, Harris has served in numerous roles in the Trans-Pecos and Permian Basin Sections and received the Trans-Pecos Section Service Award in 2004 and the Southwest Regional Service Award in 2005.

No Midland Chapter meeting was held during December 2006.

Tom Gentry
Secretary

SAN ANTONIO

At our October meeting, the SIPES San Antonio Chapter did something that was long overdue: Chairman Donna Balin presented a plaque to long-time member Don McGregor expressing the Chapter's appreciation for Don's service to the Chapter – as Officer, National Director, and (most recently) as Membership Chairman. Don is followed, certainly not replaced, by Bill Wilbert and Dave Pressly. It is a testament to Don's abilities that he had to be followed by a committee.

Our October speaker was Jeff Akins, local oil & gas attorney, who spoke on the possible pitfalls of contracts and assumptions. His talk was titled "You may have a contract and not know it!" His talk, which repeatedly warned against "handshake deals," was another in the San Antonio Chapter's continuing series of presentations by local and regional attorneys to help keep us abreast of the legal side of our business.

November saw us return to talks designed to increase our technical skills. Dan Hartmann, geologist/petrophysicist of DJH Energy Consulting in Fredericksburg, spoke on factors determining porosity trends in the Wilcox of South Texas. Dan has a tremendous amount of experience, dating back to his days with Amoco Research; he has consulted on, and lectured on, projects all over the world. His Wilcox talk stressed the importance of determination of not only the amount, but the kind, of clay minerals in the prospective reservoir, to achieve maximum production.

As usual, the Chapter dispensed with its December meeting to join the South Texas Geological Society, the San Antonio Geophysical Society, and other members of the San Antonio earth science community, in a Christmas Party at the Petroleum Club, and to say adios to 2006! (another photo). Here's wishing everybody a happy and prosperous 2007!

Bill Wilbert
Membership Co-chairman
WELCOME NEW MEMBERS

The following new members were approved by the SIPES Membership Committee from September 7, 2006 to December 6, 2006

<table>
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<tr>
<th>SIPES Number</th>
<th>NAME</th>
<th>CHAPTER</th>
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<tr>
<td>3085</td>
<td>Mark T. Owen</td>
<td>Midland</td>
<td>A. Edgar</td>
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<td>3086</td>
<td>Donald E. Hibbard</td>
<td>At-Large</td>
<td>M. Johnson</td>
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<td>(Sherman Oaks, California)</td>
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<td>3087</td>
<td>W. Chris Barnhill</td>
<td>San Antonio</td>
<td>J. Finger</td>
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<td>J. L. Jones</td>
<td>San Antonio</td>
<td>S. Chuber</td>
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<td>Constance N. Knight</td>
<td>Denver</td>
<td>M. Cruson</td>
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<td>Kathryn M. Gentry</td>
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<td>S. Howery</td>
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<td>John K. Preston</td>
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<td>M. Davis</td>
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<td>Richard S. Bishop</td>
<td>Houston</td>
<td>DPA, CPG No. 5486</td>
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<td>Steven M. Sinitiere</td>
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<td>R. Anderson</td>
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<td>3094</td>
<td>Carl B. Umstead</td>
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<td>D. Bieber</td>
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If you’re like me, an independent geoscientist putting together prospect packages to sell your deals, then you know how important pictures are to selling a prospect - VERY!! and how much it costs to put those old style paper packages together - A LOT!!

I mainly work Central and South Louisiana, and just about every piece of data I use is available in electronic format – especially the three big ones – 3D seismic, maps, and well logs. To optimize my time and make my deals easier to sell, I like to capture key views of data that support my prospect ideas and make them multi purpose.

Multipurpose pictures can be dropped into a Word document, in a PowerPoint presentation, on a web page, easily emailed, or used in a prospect fair montage. This allows me to present a consistent story to multiple audiences quickly and at a very reasonable price. One of my favorite tools to do this is a software package called SnagIt. It was created by TechSmith Corporation and is available at the website: www.techsmith.com.

SnagIt allows me to capture anything that is on my PC screen as a .jpg file and then drop it into just about any type of computer program that lets you use pictures. Most of the time I use SnagIt in two ways:

- When I am prospecting and see a lead or idea that I want to follow up on, I capture it and file it appropriately in prospect folders.
- When I put together the final story to sell a prospect and get my well ideas drilled.

SnagIt is a wonderful product that has a lot of features I don't use, but it has two features that make it very useful to your everyday independent geoscientist: – you get a 30-day trial

(Continued)
version and it can be set up to capture whatever you outline on your screen with your cursor as a .jpg.

In this article I am going to try to show you how I set up my Snagit, using some of the pictures on the Snagit web training to show you the mechanics of capturing a view. To see what the final results look like or how I market my prospects, stop by and visit me at Victor P. Smith's booth at the next NAPE.

To begin, go to www.techsmith.com and select the download tab and the free trial option. You then get to download the 14,454 KB application: snagit.exe. Click on that file, follow the instructions, and it will bring up the Snagit application window (Figure 1). I set my Snagit up like this. This becomes the Snagit defaults and makes using Snagit a background activity.

1. Set the Capture profile to Region (see Figure 1 areas 1 and 2). This means that you can select specific items within a box defined by your cursor in any screen or on your desktop to be part of your picture.

2. Setup the output by selecting the output button (see Figure 1 area 3). This brings up a submenu where you want to select the bottom option: the properties option. This brings up another menu with multiple tabs. Select the Image File tab and then the radio button "Always use this format" and JPG-JPEG Image as the output type. You also want to make sure that the Filename is set to "Ask for filename" and the Folder area is set to "Use last used folder."

3. Then when you select the red button labeled "Capture" (see Figure 1 area 4) your cursor will change to a hand that allows you to draw a box around whatever you want to capture on your screen (Figure 2).

4. Once you have made the selection and captured your picture, another window comes up that lets you save the file wherever you want (Figure 3). Plus, since you set the folder area to "Use last used folder," you only have to browse for your folder once per session.

That's the basic no frills way I use the Snagit, but since I had to download the 8.0 version to write this article, I can see there are a lot of new features that might make my process flow even faster. If you want more information about Snagit, then be sure to take advantage of the support tools on the www.techsmith.com site. Happy prospecting!
Total production has doubled in the last 2.5 years and is characterized by:
- Flattening production in the Core Area (Wise and Denton Counties)
- Significant growth in Tarrant and Johnson Counties (Tier I)
- Mixed results in outlying counties (Tier II) as Parker and Hood Counties are starting to show some growth, while Western counties (Jack, Erath, and Palo Pinto) remain in the "show me" stage.

The Barnett Shale has grown 0.8bcf/day (80%) since January 2004. Overall onshore production growth has been 2.8bcf/day (6%) since 2004. The Barnett Shale makes up 29% of the total growth.

**Barnett Shale Rig Count**

*Impressive Growth*

Production growth in most U.S. basins requires increasing drilling activity and the Barnett Shale is no exception. Rig count has grown significantly in 2005 and into 2006. As E&P companies focus their growth on the Barnett, we think the rig count will continue to grow in the basin as long as natural gas prices stay above $6/mcf.

Recent Barnett Shale activity has been focused on the original core area (Denton and Wise counties) and the southern expansion into Tier I (Tarrant and Johnson counties). We would expect these areas to remain active in 2007. We are surprised at the lack of producing wells in Jack, Erath, and Palo Pinto counties. Given the hoopla in early 2005 surrounding the "gas window is farther west than conventional wisdom," we thought there would be more producing wells in these counties. Given the low well count and mediocre results, we remain cautious when assigning value to this acreage until the data show otherwise.

**Barnett Shale Keys to Success:**

*Location, location, location*

Not all Barnett acreage is created equal as shown by peak monthly production, which is a good indicator of well performance and ultimate recovery.

**Tier I** - The best wells are being drilled in Tarrant and Johnson Counties, using horizontal wells with lateral lengths of 2,000 to 4,000 ft. and large multi-stage hydraulic fracture treatments.

**Core Area** - Wise and Denton Counties continue to post consistent results. Over the past year, there have been more horizontal wells drilled in the core area.

**Tier II South** - Hood and Hill counties are showing some promise over the past year as the typical peak monthly rates are between 750mcf/day and 1mmcf/day. Recent buzz indicates results are improving.

**Tier II West** - Still characterized by poor average well results. Parker County is the exception as the typical peak monthly production for horizontal wells is 850mcf/day (which is only marginally profitable). Aggregate well performance from Jack, Palo Pinto, and Erath counties continues to be poor/uneconomic.

(Continued)
Production Data

Using IHS Energy production data, we analyzed peak monthly production as the indicator of ultimate well performance. The peak monthly production was determined for all wells completed in the Barnett Shale and subdivided into various vintages (year completed) and location (counties).

Decline Curves

We used actual production data to determine decline curves for vertical and horizontal wells to forecast production for the life of the well. . . . a critical exercise for well economics. Even though peak production is variable, the decline curves are fairly consistent across the play. However, we created separate decline curves for vertical wells and horizontal wells as the horizontal wells exhibit a slightly shallower first year decline and a slightly larger second year decline.

Also, the 8% terminal decline (life of the well) is assumed to begin in year five. There is not sufficient well history to precisely determine the magnitude of the terminal decline. Some Barnett observers suggest 6% is a more appropriate long-term decline rate, but we are using 8% until production data is available to modify our thinking.

Economic Summary

Barnett shale economics are highly variable across the basin, as one would expect given the variation in well performance. The first table on Page 22 highlights our major economic assumptions for the main Barnett Shale areas.

Assuming an $8/mcf NYMEX gas price, the typical well in all regions of the Barnett is economic with the exception of the Western counties. We use Discounted Cash Flow Rate of Return (DCFROR) (See the second table on Page 22) as our main economic parameter. Our estimates are based upon 1000 Btu inlet gas. Currently the Tier II economics do not include the impact of recovering liquids in a gas plant. In portions of Hood County, the heat rate increases to 1200-1300 Btu, which adds 30-35% of natural gas liquids on an equivalent (mmcfe) basis. This is a significant economic benefit.

NOTE: Tier II economics are based on Hood, Hill, and Parker County results. Typical production rates for the western counties (Jack, Erath, and Palo Pinto) of <500mcf/day are currently uneconomic.

Breakeven gas NYMEX gas prices (DCFROR = 0%) are ~$6/mcf for all regions except Tier I (Tarrant and Johnson Counties) . . . where the breakeven gas price is $4.40/mcf. (See table 3 on Page 22).

Assuming a long-term $8/mcf NYMEX gas price, the minimum peak production that will result in breakeven economics is shown in the (Continued)
As discussed earlier, only the Tier II Western counties are producing below the threshold/breakeven production rate. Got Horizontal? In 2002, there were only a handful of horizontal wells drilled in the Barnett Shale. By 2005, over 65% of the producing wells were horizontal. Why? Because they were required to extend the development beyond the core area and they worked. As successful horizontal wells were drilled in Tarrant and Johnson counties, the technology was then applied to the core area and Tier II counties (which had been originally developed with vertical wells).

Considering the economic success of horizontal wells, why would anyone drill a vertical well outside the core area? Vertical wells are most likely drilled to gather pertinent reservoir/performance data in order to optimize horizontal drilling.

Land Cost/Royalties are important
Tarrant and Johnson counties (Tier I) have seen significant land inflation in the past year. Most notably, Chesapeake leased the DFW airport for $11,000 per acre and a 25% royalty. The land owner wins both ways . . . a larger upfront check for the lease and a larger portion of the produced gas. Our base case economics assume negligible land costs (<$1,000/acre) and a 20% royalty rate. For newly purchased acreage, the land cost alone is $11m per well (assuming 100 acre drainage) . . . too high to ignore.

- A $2.6mm horizontal well in Tier I actually costs $3.6mm if the land costs are included (for recently purchased acreage) and 100-acre drainage is assumed.
- The economics are still strong in Tier I, but the combination of high land acquisition prices and high royalty interest reduces our calculated DCFROR from 124% to 51%.
- If wells are drilled on 50 acres, then the land costs per well is only $500k and the total well cost is $3.1mm . . . resulting in an 89% return. Ultimate well spacing is very important to the project economics . . . especially when high land prices are factored into the economics.

Lagniappe
There’s Oil in Them Hills? — A handful of low production-rate oil wells have been drilled and permitted in the western counties of the Barnett. The state of Texas determines (via guidelines) if a well is permitted as an oil well or a gas well. The amount of oil production compared to the gas production (Gas-Oil-Ratio) and the oil gravity and oil description determine the classification.

As the industry pushes the commercial limits of the play westward, existing concerns about the location of the oil/gas window are exacerbated by the presence of oil wells in Jack, Palo Pinto and Erath counties. Uncertainty about the exact location of the oil-gas window increases the risk associated with westward expansion of the Barnett.

Go South young man? As the Western acreage has seemingly disappointed, we believe the next trend will be to more aggressively pursue the

(Continued)
Southern acreage in Hill and Bosque counties. Although only a handful of wells have been drilled in these counties... keep watching.

Well spacing — The number of wells that can be drilled will drive ultimate recovery/value from the Barnett Shale. Companies are testing as low as 37 acres in Johnson County, but the well results are still in the early stage to definitively assess if there is an acceleration component to sub-50 acre spacing. Based on preliminary results from EOG’s Johnson county pilot, optimal well spacing is between 50 and 37 acres.

Technology — The Barnett remains a very technically intensive play. Horizontal drilling and multi-stage hydraulic fracturing are driving the expansion of this play. Expect continued tweaking of the completion process to optimize lateral length, number and size of fracture stages, slickwater vs. gelled fracs, surfactants in the frac fluids, and the use of 100 mesh sand. Stay tuned.

Biography
Dave Pursell is research principal at Pickering Energy Partners, Inc. He is responsible for macro energy analysis. He was the Director of Upstream Research at Simmons & Company International, manager of Petrophysics at S.A. Holditch & Associates (now a division of Schlumberger), and worked for Operations and Field Engineering at ARCO Alaska, Inc.

He is the current chairman of the IPAA Supply Committee. He holds both B.S. and M.S. degrees in petroleum engineering from Texas A&M University.

Dave Pursell is a Distinguished Speaker for the SIPES Foundation. A DVD of his talk at the 2006 SIPES Annual Convention in Lake Tahoe “The Oil & Gas ‘Sweet Spot’... How Long Can it Last?” is available to rent through the SIPES Foundation Film Library.

Sources: Pickering Energy Partners, Inc., HIS, Baker Hughes

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Robert M. Leibrock, #994  
1920-2006

Robert M. (Bob) Leibrock was born on April 4, 1920 in Stuttgart, Arkansas and died on April 3, 2006 in Midland, Texas following a long illness. He was reared in DeWitt, Arkansas and graduated from DeWitt High School. He joined a traveling dance orchestra, playing trumpet, until enrolling, at the insistence of his father, in the University of Texas.

He graduated from U.T. with a B.S. degree in petroleum engineering in 1943 and began work for Stanolind Oil & Gas Co. He then served during World War II as a Master Sergeant, 104th Engr. Combat Battalion, U.S. Army Corps of Engineers in the Pacific Theatre (Leyte and Okinawa campaigns) and in Korea (Army of Occupation).

After returning from the Pacific, he resumed work in Tulsa. At the Stanolind Research Facility he met Prudie Pinkerton whom he married in 1946. Their first son, Robert Charles, #1673, was born in 1948. A second son, Eric William, was born in Fort Worth in 1950.

The family moved to Midland in 1953 where Bob formed the consulting firm of Leibrock, Landreth, Campbell and Callaway specializing in petroleum reservoir engineering. In the early 1960s the partners branched out into oil and gas exploration and discovered a large gas field in Alberta, Canada (Olds Field). In the mid-sixties, Bob’s exploratory efforts in Queensland, Australia resulted in the proving up of a major bauxite deposit. This discovery story was presented by Arlen Edgar at the 42nd Annual Meeting, and is available on DVD from the SIPES Foundation Library.

The LLC&C partners founded Elcor Corporation (now Elk Corp.) and Bob continued as a director until 1998. He was also a founder of Tipperary Corporation, originally devoted to farming and oil exploration in Australia.

In 1972 Bob and partner C.F. Marsh III discovered and developed one of Alabama’s largest gas fields, Big Escambia Creek Field. From 1981 Bob and his son, Robert C. were actively involved in oil and gas exploration and production, primarily in the Permian Basin, until Bob’s retirement in 2001.

Bob and Prudie were long-time members of Memorial Christian Church in Midland, where he served in many capacities. In 1978 the Leibrocks established the Harold Glenn Brown Chair at Brite Divinity School of TCU in Fort Worth, honoring Dr. Brown who was the founding minister of Memorial Christian, and later a professor at Brite. Bob served as a Brite trustee for ten years, and in 1999 the Brite student housing complex was named Leibrock Village, in honor of the family.

Bob actively supported his alma mater and established a scholarship in the U.T. College of Engineering. In 1995 he was honored as a Distinguished Graduate of the College. In 1999 he and Prudie established the first endowed professorship in the newly-created Department of Biomedical Engineering at U.T.

He was also a founding member of the Midland College Board of Trustees, and served in this capacity for ten years. He served as a trustee of the Abel Hanger Foundation from 1979-1996. Bob was also a fifty year member of SPE and served as chairman of the Permian Basin Section. He was also a founder of the Permian Basin Petroleum Association and served as its second president. In 2003 he was honored as “Top Pioneer” by the Permian Basin Petroleum Pioneers. For many years, Bob was also very active in Buffalo Trail Council of the Boy Scouts of America, and served as Vice President for Finance/Endowment for ten years.

Bob was honored by all who knew him as a loyal friend, a hardworking and brilliant business partner, a staunch Christian, and a devoted family man. He is survived by his wife of 59 years, Prudie; two sons and their wives; three granddaughters; as well as his sister.

James E. Vause, Jr., #1514  
1928-2006

Houston Chapter Member James E. Vause passed away on February 27, 2006 in The Woodlands. He was diagnosed with a brain tumor, and had surgery in April 1997. He made the very best of his limited abilities during the next nine years.

Jim was born in Apalachicola, Florida in 1928, and received both his B.S. and M.S. degrees in geology from Florida State University. After graduation, he worked for Carter Oil, which evolved into Humble Oil, and then into Exxon. He lived and worked in Shreveport, Durango, Jackson, Grand Isle, New Orleans, and finally in Houston. He left Exxon in 1979 to become an independent consultant, and joined SIPES in 1985. He was also a member of AAPG and the Division of Professional Affairs.

Prior to his illness, he was an active participant in chapter events. He and his wife, Elizabeth, were also regular attendees at the SIPES Annual Meetings. The Houston Chapter presented a memorial gift to the SIPES Foundation in his memory.

Elizabeth Vause &  
SIPES Houston Chapter

Robert M. Leibrock was born on April 4, 1920 in Stuttgart, Arkansas and died on April 3, 2006 in Midland, Texas following a long illness. He was reared in DeWitt, Arkansas and graduated from DeWitt High School. He joined a traveling dance orchestra, playing trumpet, until enrolling, at the insistence of his father, in the University of Texas.

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Bob was honored by all who knew him as a loyal friend, a hardworking and brilliant business partner, a staunch Christian, and a devoted family man. He is survived by his wife of 59 years, Prudie; two sons and their wives; three granddaughters; as well as his sister.
Past SIPES President John J. Amoruso, #335, of Houston, Texas will receive AAPG’s Michel T. Halbouty Outstanding Leadership Award at the group’s 2007 convention in Long Beach California on April 1st. AAPG Honorary Membership will be presented to Daniel L. Smith, #1647, of Houston, Texas; he has served as a past president of the SIPES Foundation, and as a national director. Valary L. Schulz, #2284, of Dallas, Texas, also a past SIPES Director, will receive AAPG’s Distinguished Service Award.

Several SIPES Members are candidates for office in AAPG for 2007-2008. Neil F. Hurley, #2754, of Cambridge, Massachusetts, is a candidate for president. John M. Armentrout, #3068, of Damascus, Oregon, is a candidate for AAPG Vice President - Sections. Dallas member Terence G. O’Hare, #2692, is a candidate for secretary. In AAPG’s Division of Professional Affairs Valary L. Schulz, #2284, of Dallas, Texas is a candidate for vice president. Current SIPES Director and past president of the SIPES Foundation, Paul W. Britt, #2249, of Houston, Texas is a candidate for secretary.

Houston Chapter members Sandra M. Barber, #2767 and George R. Bole, #2801, are both candidates for chairman-elect of AAPG House of Delegates.

2) Foundation Seminar – George Littell and Russell Wright will discuss forecasts for Peak Oil and product price projections for oil and gas in this Monday afternoon seminar.

3) Spend Tuesday evening with cocktails and dinner while we recognize SIPES members’ contributions to our organization and society. An added bonus this year is entertainment by the jazz quartet, Andrea’s Fault. From swinging jazz standards to blues, rock and ballads, this group’s wide ranging repertoire includes songs from the likes of Nat King Cole, Cole Porter, The Rolling Stones, The Drifters, Jimmy Reed, Mose Allison, and Bessie Smith. This is a must attend event.

4) Ice Breaker – This Monday evening gathering is a great way to get started networking and meeting old friends. Cocktails and hors d’oeuvres will be available to get your evening started.

5) Field Trip to San Andreas Fault – If you have never lived on the "fault line," take a guided trip to see this fault zone and maybe feel some rumbles. An additional stop at a winery for lunch should make this a great excursion in the beautiful California countryside. Also, a Wednesday afternoon trip provides a chance to view turbidite outcrops and the Big Sur Wilderness just south of Monterey.

6) Golfing – World famous golfing is only a few minutes from the convention hotel. Book a tee time and invite other SIPES members to join you.

7) Sightseeing on Monterey Peninsula – 2 blocks from the hotel is the renowned Monterey Bay Aquarium. Also available are whale watching, kayaking and shopping. Check out the seals and sea otters in the bay.

8) Spending time with old friends – Catch up with other SIPES members to see what they are doing. Interaction with members from other chapters can open up opportunities for buying or selling deals as well as consulting possibilities.

9) Meeting new earth scientists – One of the best ways to meet SIPES members from other chapters is to attend an annual meeting. You get the chance to hear about business dealings in other cities and network for the future of your business. There is no better place to accomplish this than in Monterey.

10) Give your spouse a chance to get away to a destination location. You’ll be a hero for spending time with your family while taking a break from our busy work schedules.

I hope you can find the time to come to Monterey. It should be an outstanding event. I want to thank Brian Calhoun and the Corpus Christi chapter for their efforts in co-hosting this meeting.

Until next quarter,

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I. Wayne Woolsey
* $26 - $49
Norman K. Barber
Edward F. Haye
Carlsbad Caverns Guide
Eugene J. Lipstate
Perry O. Roehl
Jon B. Selby
*
## SIPES Officers

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
<th>Location</th>
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</thead>
<tbody>
<tr>
<td>President</td>
<td>Michael N. Austin</td>
<td>Denver</td>
</tr>
<tr>
<td>Vice-President</td>
<td>George S. Johnson</td>
<td>Amarillo</td>
</tr>
<tr>
<td>Vice-President of National Energy</td>
<td>E. Bernard Brauer</td>
<td>Corpus Christi</td>
</tr>
<tr>
<td>Secretary</td>
<td>Clifford A. Walker</td>
<td>Dallas</td>
</tr>
<tr>
<td>Treasurer</td>
<td>H. Jack Naumann, Jr.</td>
<td>Midland</td>
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## SIPES Directors

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<thead>
<tr>
<th>Position</th>
<th>Name</th>
<th>Location</th>
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<tbody>
<tr>
<td>Chapter Participation/Honors &amp; Awards</td>
<td>Raymond N. Blackhall</td>
<td>Houston</td>
</tr>
<tr>
<td>Technology Communication</td>
<td>Paul W. Britt</td>
<td>Houston</td>
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<tr>
<td>Professional Enterprise Management</td>
<td>Lanny O. Butner</td>
<td>Wichita</td>
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<tr>
<td>Professional Society Liaison</td>
<td>Michael G. Cruson</td>
<td>Denver</td>
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<tr>
<td>Conventions/Nominating Committee</td>
<td>David A. Eyler</td>
<td>Midland</td>
</tr>
<tr>
<td>Membership Committee/Public Relations</td>
<td>Joseph M. Finger, Jr.</td>
<td>San Antonio</td>
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<td>Directory</td>
<td>J. Don Haynes</td>
<td>Austin</td>
</tr>
<tr>
<td>Honors &amp; Awards/Membership Committee</td>
<td>Woodruff G. Leel, Jr.</td>
<td>Dallas</td>
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<tr>
<td>State Legislative Affairs</td>
<td>Lee M. Petersen</td>
<td>Fort Worth</td>
</tr>
<tr>
<td>2008 Annual Meeting</td>
<td>Jeanne S. F. Phelps</td>
<td>New Orleans</td>
</tr>
<tr>
<td>Advertising</td>
<td>Thomas J. Smith</td>
<td>Oklahoma City</td>
</tr>
</tbody>
</table>

## SIPES Vision Statement

To be the pre-eminent organization for furthering the professional and business interests of independent practitioners of the earth sciences. In achieving this vision, emphasis will be placed on:

1. professional competence,
2. professional business ethics, and
3. presenting a favorable, credible and effective image of the Society.

Adopted by the SIPES Board of Directors
September 21, 1990

Return to:
SIPES
4925 Greenville Avenue, Suite 1106
Dallas, Texas 75206-4019

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