



NOC Newsletter

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October 2009

Chairman's Message

We got off to a great start in September with approximately 40 members and guests enjoying an excellent hands on presentation by David Broadbridge covering the "Grabit" computer program.

This month Mike Fein has lined up Art Berman, a SIPES member from Houston. Art who is also the Vice President of the Houston Geological Society, will talk on "Shale plays and Lower Natural Gas Prices: A time for critical thinking". This is a hot topic and it will be interesting to hear his take on the subject.

November 10th will be the annual API Joint Industry Luncheon. The location will be at the newly reopened Roosevelt Hotel, which has undergone a complete renovation since Katrina. This will be an excellent opportunity to see the old hotel since its makeover. The speaker will be Dr. Michael Economides from the University of Houston who has written a number of industry related books including "The Color of Oil". He is an outstanding and entertaining speaker. This meeting is included in your dues, so the only additional cost would be for parking.

Coinciding with the API Joint Societies Luncheon, the SGS will be hosting a morning technical symposium. It will focus on the areas of the United States OCS that may be open to exploration in the near future. Off-shore drilling was a hot topic in the 2008 presidential election, and it promises to be a hot-button issue in the years going forward. Many assumptions and statements have been made about the impact of such drilling, and as a society we feel we could provide a forum to discuss many of these issues.

New data is being shot over areas never before

Arthur Berman



Tuesday
October 20th

Andrea's
Metairie

11:30
Social
12:00
Seating for
luncheon

"Shale Plays and Lower Natural Gas Prices"

Abstract

Doubts about Shale Plays: examples from the Barnett, Fayetteville and Haynesville Shales

Arthur E. Berman and Lynn Pittinger

The investment community now believes that as a result of shale gas plays, the United States has almost an inexhaustible natural gas supply. The balance sheets of many of the key operators in shale plays, however, tell a different story, characterized by substantial debt, ongoing asset sales, and low cash reserves. Our analyses indicate that the reserve levels claimed by certain operators and analysts for shale gas plays are difficult to justify by standard decline-curve methods unless production is projected decades beyond any reasonable economic limit. If we are correct, these companies may be substantially overstating the profitability of shale gas ventures as well as their net asset values based on present accounting practices.

We evaluated the Barnett and Fayetteville shales because these have the longest produc-

Chairman's Message continued

available for leasing. On November 12, 2008 the MMS announced they have "...taken the first step in a multi-year leasing process to hold a sale for acreage offshore Virginia..." Commodity price fluctuations have amplified the need to increase domestic supplies.

Topics to be addressed at the symposium will include regulatory, data and prospectivity issues associated with the new areas.

Offshore Virginia has been opened, what are the next steps? When will the potential lifting of other OCS areas result in drilling? What is the potential for hydrocarbon accumulations? What will the new President and Congress do?

The SGS Symposium will start at 7:30 a.m. with registration and breakfast.

Cost for non-SGS members is \$35. Contact Wayne Cook: wcok@seitel.com or Eric Zimmermann ericz@llog.com.

Don't forget our continuing quest for new members. We start this year by welcoming David Moore as a new member and Ted Wall, who has re-instated his membership.

Reese Pinney has received dues from approximately 75% of you, so a few are still outstanding. Please check your records to make sure you are not delinquent.

Louis Lemarié

Abstract continued

tion history of any of the shale plays, and the Haynesville because it holds the most promise for high rates and reserves. What I found surprised me. The average reserves for Barnett and Fayetteville wells are less than 1 Bcf for horizontal wells, while operators claim an average of 2-3 Bcf/well. The Haynesville Shale evaluation is more tentative because of limited production, but the average per-well reserves are 1.75 Bcf based on early evaluation, although operators claim an average of 6.5-7.5 Bcf/well.

In all of these plays, reserve predictions based on type-curve methods are too optimistic. There is a questionable correlation between initial production (IP) rates and Estimated Ul-

imate Recovery (EUR). Actual average well life appears to be much shorter than predicted, and the volume of the commercially recoverable resource may have been greatly overestimated.

Most companies and analysts use a type-curve approach to calculate and justify their reserve estimates. Operator and investment group pro forma hyperbolic decline curves commonly have hyperbolic exponents that exceed the theoretical limit of hyperbolic curvature, and that are flatter than all of the individual well decline curves that they are supposedly derived from.

The implication of these conclusions is profound. Reserve estimates may be over-stated by 100-450%. Most of the over-estimation is because overly optimistic decline trends are projected years into the future without applying an appropriate terminal decline rate, a practice contrary to standard methods and not supported by observed decline rates. This raises questions about the reporting from companies that claim the reserves as well as the companies that certify them.

Many E&P companies and financial ana-

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Abstract continued

lysts state that shale gas plays are profitable in the \$4-5/Mcf range. Yet stated costs by these same companies in their SEC filings indicate that the marginal cost of production is \$6-8/Mcf. Recent asset write-downs suggest that costs substantially exceed even the hedged-price positions of many companies. It is astonishing that financial analysts rarely challenge shale operators about the cost and profitability of their wells when their public filings appear to present a contradictory view.

It is equally surprising that some investment companies publish similarly misleading statements about cost and profitability in their research reports, and do not consider

Speaker Profile

Arthur E. Berman, Director
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Arthur E. Berman is a geological consultant with thirty-one years of experience in petroleum exploration and production. He is specialist in prospect and play evaluation, reserve

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Speaker Profile continued

assessment, risk evaluation, subsurface geological and geophysical interpretation, and database management.

He is a contributing editor and columnist for World Oil, and writes two monthly columns called "What's New in Exploration" and "Exploration Discoveries". He is also an associate editor of the AAPG (American Association of Petroleum Geologists) Bulletin. He is a past-editor of the Houston Geological Society (HGS) Bulletin (2004-2005) and past-Vice-President of the HGS (2008-2009).

He has published over 50 articles on geology, technology, and the petroleum industry during the past 10 years. Publication topics include petroleum exploration, oil and

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Development and Management
of Petroleum Ventures

Speaker Profile continued

gas price trends and cycles, petroleum play evaluation, sequence stratigraphy, coastal subsidence, earthquakes, tsunamis, and petroleum geopolitics. He has published 8 articles on shale gas plays including the Barnett, Haynesville and Fayetteville shales.

During the past several years, he has given technical presentations and keynote addresses to the AAPG; GCSSEPM (Gulf Coast Society for Sedimentary Geology); Houston Geological Society; Houston Geophysical Society; GCAGS (Gulf Coast Association of Geological Societies); SIPES (Society of Independent Earth Scientists) Austin, Houston, Dallas, and Corpus Christi chapters; South Texas Geological Society; Association of Engineering & Environmental Geologists; San Antonio Geophysical Society; Ohio Oil and Gas Association; Dallas Geological Society; Pioneer Oil Producers Society; Unocal Alumni Club; and Argus Americas Crude Oil Summit.

Mr. Berman has an M.S. (Geology) from the Colorado School of Mines and a B.A. (History) from Amherst College.

Abstract continued

consider that recent asset write-downs are noteworthy. Is it any wonder that investors and politicians believe there is an unlimited supply of low-cost natural gas that can be produced profitably in the United States?

The Barnett and Fayetteville Shales are marginally profitable plays at best, and the Haynesville Shale will be unprofitable if current decline projections continue. None are commercial at current gas prices. Many companies that have bet on shale plays rely on public markets for financing, and must resort to asset sales to repair their balance sheets and service debt. How can they say that they are profitable if they cannot run their businesses from cash flow?

At some point, the companies that claim success in shale plays, the investment companies that promote their stock and publish favorable reports about their activities, and the engineering companies that certify their net asset values must be held accountable for their conclusions based on results. I have published challenges to these claims for several years but have not gotten any material response from the parties involved. I interpret that to mean that they either do not take my position seriously, or do not contest it.

Data provided courtesy of IHS Inc. However, the analysis and opinions expressed here are solely those of the author and do not represent those of IHS or any other organization.

Lynn Pittinger collaborated on the Haynesville and Fayetteville Shale evaluations and his contribution is gratefully acknowledged.

Upcoming Conventions, Conferences and Expos

TITLE	DATES	LOCATION
GTW - GIS Applications in Oil & Gas	TBA November 2009	Dallas, TX
AAPG International Conference & Exhibition	15-18 November 2009	Rio de Janeiro, Brazil
API Delta Section Joint Meeting	10 November 2009	New Orleans - Roosevelt
European Region Annual Conference	23-24 November	Paris-Malmaison, France
APPEX	02-04 March	London, UK
AAPG - Annual Convention	11-14 April 2009	New Orleans
GCAGS Annual Convention	10-12 October 2010	San Antonio
SIPES - 47TH Annual Meeting	21-24 June 2010	Colorado Springs, CO
AAPG 2011 Annual Meeting	10-13 April 2011	Houston
AAPG Rocky Mtn Meeting	25-29 June 2011	Casper, WY
GCAGS Annual Convention	October 2011	Mexico (Venue TBD)

SIPES Foundation Scholars

Dallas, Texas – The SIPES Foundation, administering the scientific, educational and charitable programs of the Society of Independent Professional Earth Scientists, is very pleased to announce that nine outstanding earth science students have been selected to receive scholarship awards this year. Applications were accepted from upper-division or graduate students in any field of earth science or engineering who had a cumulative grade point average of 3.5 or higher.

Receiving \$2,000 awards from the **Marvolene Speed Bennett and Carleton D. Speed, Jr. Endowed Fund**; the **Stephen E. Collins Scholarship Fund**; and the **Edward A. McCullough Endowed Fund** are **Ben Benedetto**, a undergraduate student in geological engineering at the University of Mississippi; **Elizabeth Stice**, an undergraduate student in petroleum engineering at the University of Texas at Austin; and **Kurtus Woolf**, a Ph.D. candidate in geology at the University of Texas at Austin.

\$1,250 scholarship awards were presented to **Anne Yanni**, a master's degree student in ge-

ology at West Virginia University; **Jonathan Funk**, a master's degree student in geology at the University of Oklahoma; **Alexandra Fleming**, a master's degree student in geology at Colorado School of Mines; **Peter Graham**, a master's degree student in geology at Colorado School of Mines; and **Sarah Harris**, an undergraduate student in petroleum engineering at the University of Oklahoma.

A \$1,000 award, funded by donations from the SIPES Houston Chapter, was presented to **Davin Wallace**, a Ph.D. candidate in earth science at Rice University.

Since its establishment in 1981, the SIPES Foundation has awarded scholarships to more than 170 promising earth science students. Funding for the 2009 awards was made available through donations from SIPES members; a bequest from the estate of **Marvolene Speed Bennett**, widow of the society's founding member, **Carleton D. Speed, Jr.**; the **Stephen E. Collins Scholarship Fund**; and the **Edward A. McCullough Endowed Fund**. The SIPES Foundation also conducts and films educational seminars, contributes funding to earth science publications and continuing education programs, and also

maintains an extensive library of earth science films.

The Society of Independent Professional Earth Scientists is a national organization of more than 1250 self-employed geologists, geophysicists and engineers engaged primarily in domestic energy exploration and development. SIPES has eleven chapters located in oil and gas centers of the United States.

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