

ENERGY FORUM
Petroleum Reserves Roundtable
Houston, TX
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“Now, Everyone is a Reserves Expert!!”

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Who are the players?

- United States Securities and Exchange Commission (SEC)
- Public Company Accounting Oversight Board (PCAOB)
- The US Congress (House of Representatives)
- Financial Accounting Standards Board (FASB)
- Public accounting firms
- Society of Petroleum Engineers (SPE)



Who are the players? (cont'd)

- Society of Petroleum Evaluation Engineers (SPEE)
- World Petroleum Congress (WPC)
- American Association of Petroleum Geologists (AAPG)
- Energy Information Agency – Dept of Energy (EIA)
- International Energy Agency (IEA)
- International Accounting Standards Board (IASB)



Who are the players? (cont'd)

- Alberta Securities Commission (ASC)
- United Nations (UN)
- Integrated oil companies worldwide
- Investors
- Independent reservoir engineering consultants



Independent reservoir consulting firms

- Many competent firms. Several have established reputations with industry, financial firms and regulators.
- Most firms have diligently tried to stay abreast of SEC reserves reporting requirements.
- Primary role is to offer services that ensure that clients comply with reporting standards. Role is not to take lead in reforming regulatory guidelines.
- “Not enough expert certification companies to go around...” – *Platts Oilgram News*, July 26, 2004



Investors

- Ultimate beneficiaries of reliable and meaningful reserves reporting which is the goal of the Sarbanes-Oxley Act
- Represented through various financial institutions and investor groups
- Will come to expect and demand clarity and integrity in financial reporting
- May become more proactive in class action lawsuits if significant corporate governance issues arise in the future



Integrated oil companies

- Subject to periodic series of “comment letters”
- Comment letters to be made public (announced by SEC, June 24, 2004)
- Some answers likely to be deemed confidential by company and redaction sought for certain responses
- Ongoing, face-to-face discussions with SEC
- Expressing confidence in use of technology
- Progress?

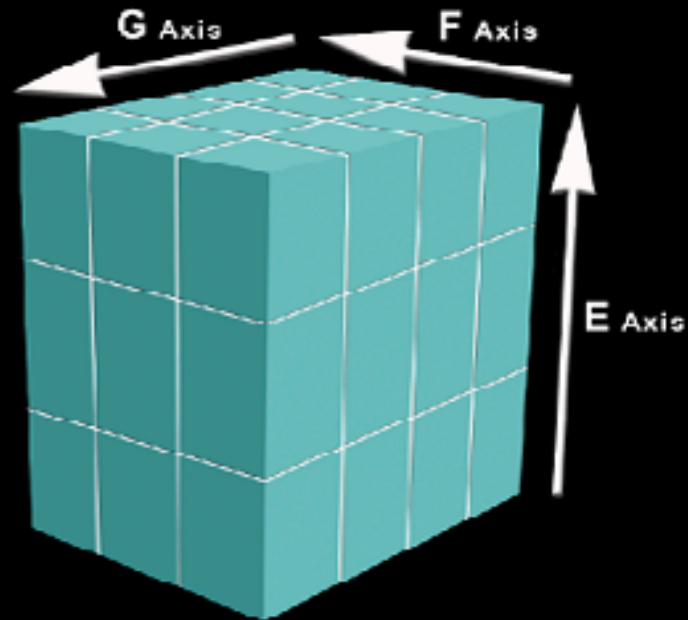
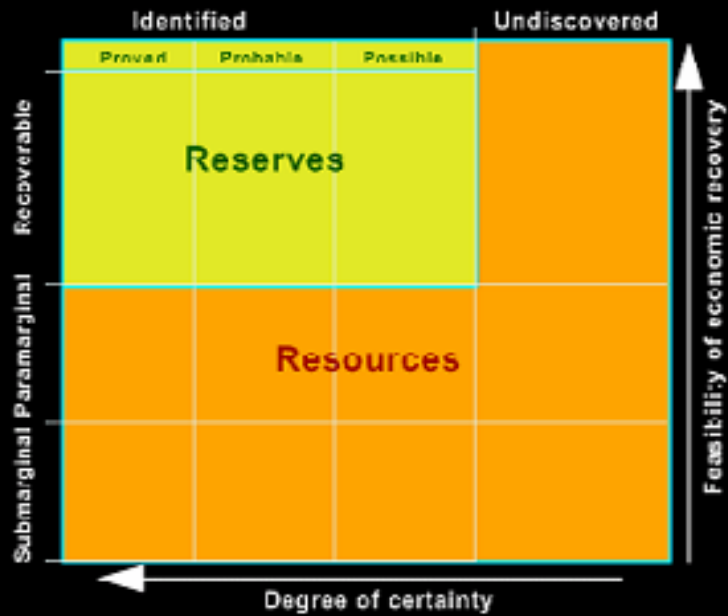


United Nations

- Protracted ongoing discussions with SPE/WPC
- Have “adopted” 1997 SPE/WPC definitions
- Made a part of integrated “Energy Definitions” including coal and uranium
- Much resistance from petroleum side because of increased complexity – see next 3 slides



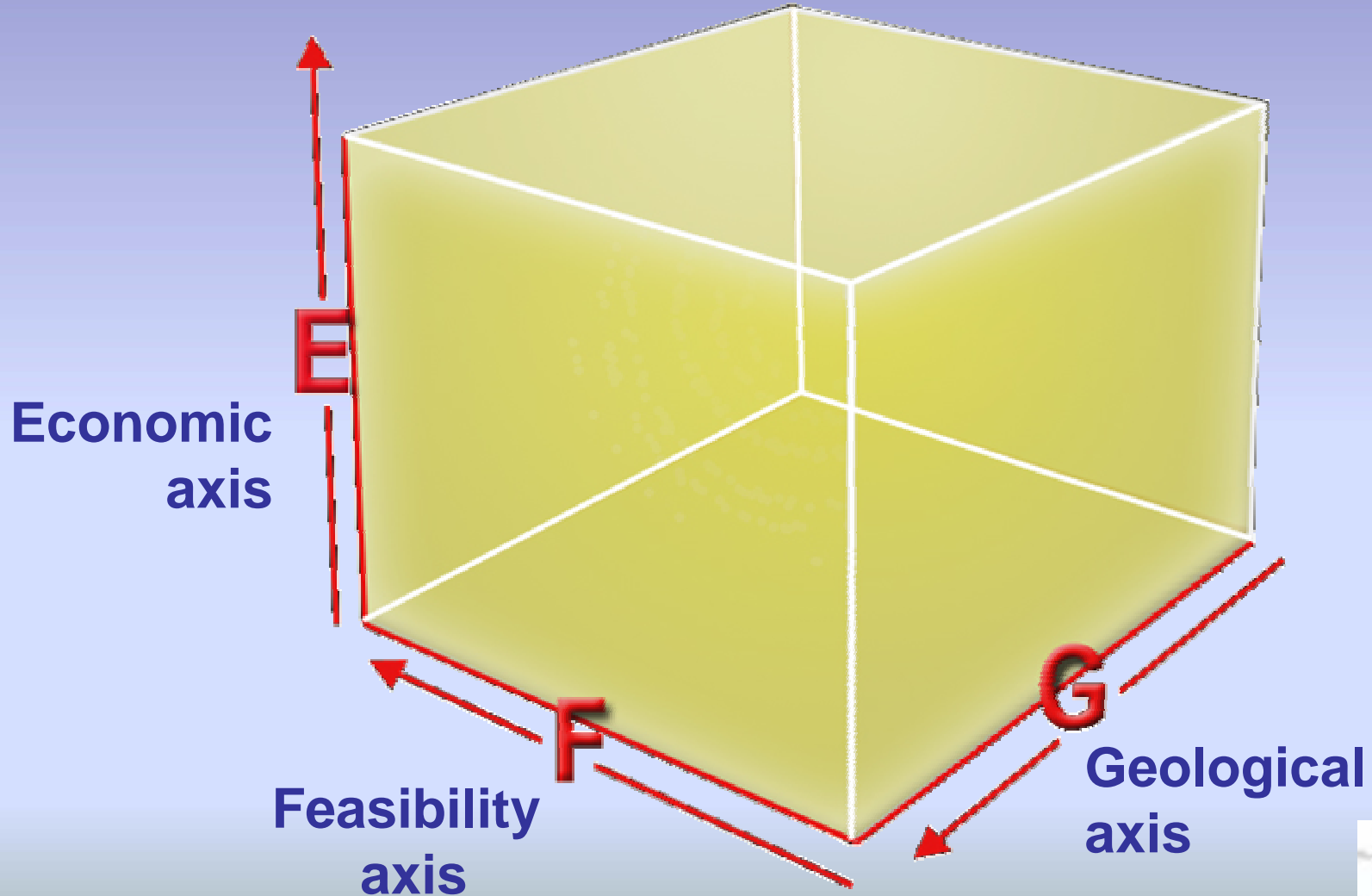
McKelvey diagram

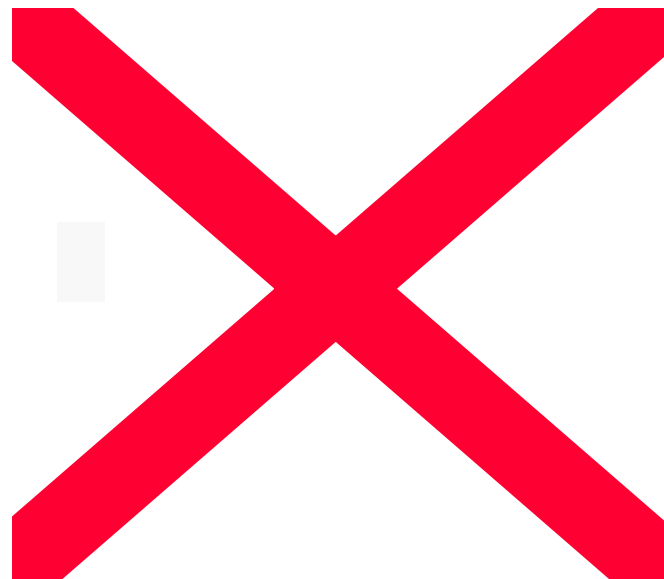


UNFC-Basic cube



UNFC – basic principles





Alberta Securities Commission (ASC)

- Recently instituted National Instrument 51-101 to require annual reserves reporting in Canada under stricter standards.
- Requires reporting of Proved and Probable reserves as well as Possible reserves as optional.
- Mandates third-party reserves audits or reserves studies for most companies. (some exemptions)
- Establishes principle-based reserves definitions as contrasted with rule-based definitions.
- Compliance monitoring by one staff engineer and one staff geologist, both well qualified and recognized.
- In frequent contact with U.S. SEC



International Accounting Standards Board (IASB)

- Functional equivalent to U.S. FASB
- Aggressively cooperating with European regulators, IEA and UN to establish common reserves reporting definitions and requirements.
- January 1, 2005 is issue date of new reporting standards to EU, Australia and S. Africa.
- “Leaning” toward SPE/WPC (& UN) definitions.
- Maintains communication with U.S. SEC



International Energy Agency (IEA)

- Organization consisting of 26 European countries
- Headquartered in Paris
- Recently called for institution of worldwide reserves reporting standards. To reveal plans in October 2004.
- Not aware of any current cooperative effort outside IEA other than IASB.
- Chief economist Dr. Fatih Birol: “There are no consistent rules on oil reserves.”



Energy Information Agency – U.S. Dept of Energy (EIA)

- Sister agency to U.S. SEC
- Has adopted 1997 SPE/WPC reserves definitions and has urged SEC to do so.
- Charged by U.S. Congress to maintain ongoing studies of oil and gas reserves of the U.S. and world.



American Association of Petroleum Geologists (AAPG)

- Approximately 33,000 members worldwide
- Co-sponsor of year 2000 Petroleum Resource Definitions along with SPE and WPC
- Expected to be asked to cooperate in consolidation of 1997 SPE/WPC reserves definitions and 2000 SPE/WPC/AAPG resource definitions (with possible revisions).
- Has active committee studying option to certify petroleum reserves evaluators.



World Petroleum Congress (WPC)

- 57 member countries
- Active co-sponsor with SPE in definitions and resources
- Has active role in SPE Oil & Gas Reserves Committee as observer.
- WPC endorsement important to any reserves initiative



Society of Petroleum Evaluation Engineers (SPEE)

- 600-member organization
- Author of Monograph for applications of 1997 SPE/WPC definitions
- Represented within SPE Reserves Committee through designated observer.
- Sponsor of annual Forums 2000-2003 created to better understand SEC definitions and reporting requirements.
- Has active committee studying option to certify petroleum reserves evaluators (along with AAPG).



Society of Petroleum Engineers (SPE)

- 60,000-member organization
- Sponsor of reserves definitions 1964, 1981, 1987 and 1997 through nine-person Oil and Gas Reserves Committee (OGRC)
- Presently working with UN to incorporate SPE definitions into unified UN Energy Definitions.
- Made standing offer to SEC (letter to Roger Schwall) to serve as technical resource – no response yet.
- Declined sponsorship of certification of petroleum reserves evaluators but will contribute through committee participation.



Public accounting firms

- Historically charged with responsibility of accurately and reliably auditing financial condition of public companies.
- Reduction in number of companies along with increasing responsibilities through Sarbanes-Oxley
- Responsibility may include reporting on companies reserves process and reserves volumes.
- Much internal discussion at present about future course of action
- Subject to disciplinary action of PCAOB



Financial Accounting Standards Board (FASB)

- Private organization to establish standards of financial accounting and reporting
- Authority granted by SEC
- FASB 69 – Nov 1982 – Governs reporting of reserves, costs, standardized measure using 12/31 pricing



U.S. Congress (House of Representatives)

- Sarbanes-Oxley Act of 2002 (SOX) requires transparent processes and procedures in all financial reporting.
- SOX is product of House Committee on Financial Services.
- July 21, 2004 hearing focused on “Shell Games: Corporate Governance and Accounting for Oil and Gas Reserves.”



U.S. Congress (House of Representatives) cont'd

Witnesses included

1. Eric Knight - Knight Vinke Asset Mgmt LLC – on behalf of CalPERS
2. Matt Simmons – Simmons & Company – Inv. banking
3. Jonathan Duchac - Associate Accounting Professor – Wake Forest Univ.
4. Bala Dharan, Accounting Professor (Graduate level) – Rice University



U.S. Congress (House of Representatives) cont'd

- Recommendations range from more detailed field-by-field disclosures to certification of petroleum evaluators to mandatory third-party reserves audits to separation of audit consultants and consultants for other reserves purposes.



U.S. Congress (House of Representatives) cont'd

- Letter dated May 4, 2004, from Congressman John Dingell (House Commerce and Energy Committee) to DOE, FERC, FASB and SEC.
- Numerous questions of FASB and SEC about how the Shell “debacle” could have occurred and demanding answers about steps being taken to avoid future similar problems.
- More recent follow-up letter from Dingell stating his disappointment with “weak” response from SEC staff and asking for more answers. (Note: Dingell committee has no direct authority over SEC)



Public Company Accounting Oversight Board (PCAOB)

- Five-member board established by Sarbanes-Oxley
- Serves under general oversight of SEC.
- Oversees public company audits.
- Establishes audit standards.
- Empowered to impose sanctions or disciplinary actions upon registered firms “and their associates.”
- Expected to grow into huge organization rivaling size of SEC



United States Securities and Exchange Commission (SEC)

- Observing 3-year review cycle mandated by Sarbanes-Oxley through “comment letter” process.
- Current review process is refinement of that begun in 1999.
- Initial focus on smaller producers with limited portfolios of reserves.
- Current focus seems to be directed to major oil companies.
- Maintaining 3-year cycle is challenge to existing staff



Conclusions and observations

- Unprecedented level of attention being drawn to reserves and reserves reporting issues.
- Certification of Petroleum Reserves Evaluators is likely to be given higher level of attention – optional, not mandatory.
- Expect recommendation from certain industry segments – primary financial and political, not SEC – to require some level of third party reserves audits focused on (1) process and/or (2) volumes.
- Anticipate some clarification from SEC – perhaps through Web site – on several remaining reserves matters that are not yet clearly understood.



Thanks for listening

Your questions and comments are invited

