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PRESIDENT’S Letter
Lisa Ivshin

Fellow members:

Last month’s meeting was great. Charlie Williams, Chairman of Honorary Memberships Committee, and Comittee men Dudley Hughes and Ralph Hines have recommended that Vaughan Watkins be named Honorary Member of the Mississippi Geological Society. Mr. Hines has made a presentation about Mr. Watkins’ life and career. Congratulations, Mr. Watkins.

That same day four (4) outstanding young men and women have become recipients of Boland Scholarship Awards. Congratulations to them

Dave Cate did an outstanding job, and we thank him and everyone who participated in getting it done.

Our Speaker for April GS Meeting is Mr. Bruce J. Martin. Earlier in his career Bruce specialized in gulf coast onshore and offshore operations, ranging from Texas to Florida showing himself as a proven oil and gas finder in these states. Bruce encourages the new generation of geoscientists by mentoring in intern programs and recruiting to universities in the area.

The times we live in are interesting, to say the least. The economy and security of our country are the main issues. Isaiah Berlin famously suggested a leader is a fox or a hedgehog. The fox knows many things, but the hedgehog knows one big thing. In political leadership the hedgehog has certain significant advantages, focus and clarity of vision among them. Most Presidents are one or the other. What is our President (neither)? That is for you to decide.

Once again, please check Mississippi State Oil and Gas Board’s new web site http://gis.ogb.state.ms.us/MSOGBOnline/ and let me know what you think about the new site.

Make plans to be at the April meeting

I look forward to seeing you all there!

Sincerely,

Lisa
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<tr>
<th>When</th>
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<tr>
<td>September 11, 2008</td>
<td>Fall BBQ</td>
<td>Jackson Yacht Club</td>
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<tr>
<td>October 9, 2008</td>
<td>Larry Baria &amp; Ezat Heydari &quot;Shale Layers in the Alabama Smackover Formation and the Implications for Sea Level Change in Regional Correlations&quot;</td>
<td>River Hills</td>
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<td>November 13, 2008</td>
<td>Dudley J. Hughes &quot;The Global Warming Debate&quot;</td>
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<td>MAPL / MGS Christmas Party</td>
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<td>January 8, 2009</td>
<td>Jeff Requarth and John Morris of Savannah Oil &amp; Gas—Perseverance and Technology: Recent Exploration Success—North and South Winchester Field, Wayne Co., MS</td>
<td>Holmes Community College (Ridgeland Campus)</td>
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<td>Tom J. Pickens — An Integrated Approach to Evaluate a Shale Gas Play</td>
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<td>Honors Meeting: Boland Scholarships</td>
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<td>Bruce Martin—Ancestral Basin Architecture – A Possible Key to the Jurassic Haynesville Trend</td>
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<td>May 14, 2009</td>
<td>Spring Fling</td>
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**OFFICERS MEETINGS**

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H. Vaughan Watkins was born November 25, 1938 in Jackson, Mississippi, the progeny of a line of prominent Jackson lawyers. He attended Jackson Public Schools with the exception of his sophomore high-school year at The McCallie School in Tennessee. Vaughan assumed that he, too, would become an attorney but he had a curiosity about the oil business. A neighbor, Mr. W.G. Terry, petroleum landman, told Vaughan that if he truly was interested in the oil business, he ought to (quote), “be a geologist because they are the ones who really know what is going on.”

Vaughan entered the University of Oklahoma in 1956 and earned a BS and MS in Geology. He worked summers at Sun Oil Company in Jackson. Will Knight suggested a Masters thesis topic – Subsurface Study of the Lower Tuscaloosa Massive Sand in a Portion of South Mississippi.

Upon graduation Vaughan accepted a job with Mobil Oil Company in New Orleans. He was transferred later to Victoria, Texas where he did geological studies of the Luling Field dolomite reservoir, his first carbonate experience, which was to serve him well later in his career.

In 1964 Vaughan returned to Jackson where he worked on a retainer for his father’s law firm and several businessmen who wanted to invest in oil prospects. He showed how quickly he had a nose for oil when right away he placed them in a Wilcox discovery, Morgan Creek Field.

Vaughan really hit pay dirt when he was hired as a consultant on the Unitization Committee for Summerland Field at the princely sum of $25 per day plus 10 cents a mile. During this assignment he had the opportunity to work with some of the industry’s best known geologists, namely Dudley Hughes, Will Knight and others. It was an invaluable learning experience for him. As a result of that experience, Vaughan and partners put together a prospect that led to the discovery of South Magee Field in 1966.

That same year, Vaughan formed RaeMac, a partnership with Richard McRae and Benton Vernon. Soon after in 1967 Wyatt Craft, renowned Wilcox geologist, offered RaeMac an opportunity to invest in a Wilcox prospect. Vaughan liked what he saw and RaeMac, along with Craft and other operators, proceeded to drill 22 straight successful multipay Wilcox wells as they developed the 5 million barrel Tom Branch Field. Ultimately there were 28 producing wells in Tom Branch. Following Tom Branch, they drilled another Wyatt Craft prospect and found Corbin Branch, a also a Wilcox Field.

Vaughan went on his own and in 1973 drilled a one-half million barrel extension of Dinan Field. He found East Knoxville Field, completing in a one and a half foot Wilcox sand to produce 250,000 barrels. Then, with Hood Goldsberry, found East Oldenburg, a two and a half million barrel discovery.

One anecdote from this period is worth sharing. Con Maloney, long-time friend and investor, and Vaughan were driving to Natchez to log a Wilcox well. Con said to Vaughan, “The closer we get to the well-site, the slower you drive. What’s the reason?” Vaughan replied, “Con, you haven’t committed to the interest yet.” At which point, Con said, “I’m in.” They walked up on the rig floor to look at the log – dry hole.
In the early 70’s Vaughan went hunting for Smackover in Alabama after seeing the exploratory successes of Dudley Hughes and others. He partnered with Midroc Oil Company and proceeded to drill numerous rank wildcat dry holes. During this period, Midroc-Watkins sold a Smackover drilling deal to a well-known Texas oilman – W. A. Moncrief in Dallas. The well was running structurally low and Vaughan’s partner, Bill Guffy, called from Dallas to tell him Moncrief was ready to quit drilling. Vaughan responded that Moncrief had a contract. Guffy told him, “Well, in that case, Mr. Moncrief would assign you 100% of the well.” So, guess what? Vaughan immediately ordered the plugging of the well.

Surprised and disappointed by his lack of success, Vaughan asked Dudley what could he do to find Smackover oil. Dudley quickly responded, “Drill more wells.” That advice soon paid off and Vaughan became known as the “geologist who found the oil that Dudley missed.”

In the mid 70’s Vaughan with Midroc had a string of prolific Smackover successes: Mill Creek, Little Mill Creek, West Bend, Wimberly, Chappel Hill and Buccatunna Creek. To find Stave Creek Field, Midroc – Watkins joined with Les Aultman and Harry Spooner. Gwinville Deep and Holiday Creek were also successfully drilled.

After parting with Midroc, Vaughan continued to prospect for Smackover in Alabama. As is almost always the case in the independent world, he prospected and/or participated with other independents to put together drilling deals. He extended Blacksher with Billy Powell; he participated with Larry Baria, Harry Spooner and Bill Guffy to drill Jones Mill; then Monroeville with Baria, Guffy and Johnny Palmer; North Monroeville with Guffy. In Louisiana, he participated in Bayou Darbonne (Unionville) and Dykesville fields.

Vaughan is recognized as a deep geological thinker. He is an oilman who truly loves the rocks. To enhance his geological knowledge, he has spent many days and weeks studying outcrops on the surface including the Grand Canyon. Vaughan has taken 14 field trips, many with well-known stratigrapher Ward Abbot, formerly with Shell research and Occidental to study outcrops in Mexico, Utah, Arizona and California. To this day, he continues to pursue this lifelong desire to learn more and more from the study of surface outcrops.

Vaughan always stands ready to help a friend-in-need. I know of one instance where he told a friend exactly where to look for a drillable prospect. The prospect turned into a new field discovery. He also gives of his time for other causes having served on the Board of Directors of Piney Woods School for 20 years.

Vaughan still likes to look for large carbonate reservoirs. He has spent several years right up to the present time chasing the reefs at Baxterville.

Vaughan has been an active member in the Mississippi Geological Society since 1964. He is a long term member of Sipes and he is a Trustee Associate of AAPG which he joined in 1962.

While at Oklahoma University, Vaughan fell in love and married Mary Shebester, a pretty co-ed from Ardmore, Oklahoma. They have enjoyed owning and raising thoroughbred quarter horses and they participated in quarter-horse racing in tracks such as Riudosa Downs in New Mexico and in El Paso, Texas. The Watkins are parents of three girls: Debbie, Teri and Angie.
The Mississippi Geological Society awarded its annual L. F. Boland Scholarship to four students at the March 12 meeting. This foursome makes a total of 104 students to be honored by the Society for outstanding achievements in the geoscience field since the awards began in 1982. The students were awarded $1,000 each, a framed certificate denoting their achievement and a copy of Dudley Hughes’ DVD on the Global Warming Debate.

**Liz Boland Patterson with Master of Ceremonies Dave Cate.**

**Bradley Winton, Millsaps College.** Brad is from the Dallas area and is a senior at Millsaps with a 3.86 GPA in his geology major. He is preparing for a career in the petroleum industry either by attaining a M.S. degree or by direct employment in the business through an offer from a large independent oil company. Brad has received numerous honors and awards during his college career including the Deans List and the Dudley Hughes Exploration Internship. He recently received 1st place in the student division of the 2009 Mississippi Academy of Science meeting for his presentation of “Shale Layers in the Alabama Smackover Formation” of which he was a co-author.
William Bryan, Mississippi State University. Will is from Huntsville, Alabama and is a senior at Mississippi State with a 3.5 GPA in his geology major. He intends to pursue a M.S. degree in Planetary Geology with the career goal of working at NASA assisting with future manned and unmanned space missions. His particular interests are the geomorphology of Mars and the Moon. Will has been an active member of the Air Force ROTC at State and has received several awards from that organization plus the Sistrunk Endowed Scholarship from State. He is currently an Assistant Research Associate in the Geosystems Research Institute as well as a student member of the GSA and AIPG.

Will with professor Karen McNeal

Mallory Crandall, University of Mississippi. Mallory is from Shreveport and a senior at Ole Miss with a 3.5 GPA in her geological engineering major. Her career goal is either exploration geology or drilling/completion engineering and she is considering either pursuing a M.S. degree or taking a direct employment opportunity in the petroleum industry. She has been on the Dean’s Honor Roll and the Chancellor’s Honor Roll at Ole Miss and is a current member of the Shreveport Geological Society and the Society of Women Engineers. Mallory has interned the past three summers and holidays for two Shreveport oil companies where she gained experience in all phases of the business.

Mallory with professor Larry Baria

Michael Hopkins, University of Southern Mississippi. Michael is from Biloxi and is a senior at USM with a GPA of 3.73 in his geology major. After graduating in December, he plans to pursue his M.S. degree in geology at USM. His particular interests are Marine and Petroleum Geology and he is planning for a career in the petroleum industry with a particular interest in offshore exploration. Michael is a recipient of the McCarty Scholarship at USM and he received the Presidential Award at Mississippi Gulf Coast Community College prior to enrolling at USM. He is currently a Teaching Assistant in the Physical Geology lab and also assists with Geology 101 lectures.

Michael with professor Maury Meylan
Ancestral Basin Architecture –
A Possible Key to the Jurassic
Haynesville Trend

Ancestral U. S. gulf coast basin architecture is responsible for defining much of the Jurassic Haynesville - Bossier mudstone trend. Differential basement block movement and rifting resulted in the numerous separations of the regional Jurassic salt basins of the gulf coast. Allochtonous blocks which separated the basins acted as broad platforms during the deposition of the Haynesville and Lower Bossier mudstone reservoirs.

While poorly identified in literature the ancestral Sabine platform acted as the nucleation site of the unique characteristics of the Haynesville – Bossier mudstone reservoirs being exploited in North Louisiana and East Texas. Characteristic deep water upwelling along the steep eastern flank of the ancestral Sabine platform provided thick siliceous mudstone reservoirs rich in organic carbon.

Additional Jurassic salt movement induced faulting along reactivated basement trends which provided pathways for possible hydrothermal fluid acting as localized heat sources. There is also evidence to suggest hydrothermal fluids resulted in a diagenetic event which affected both Haynesville carbonates and mudstones reservoirs.

Operators focused on Haynesville mudstone and carbonate targets may lack the overall scope of the petroleum systems involved should basin architecture not be part of the exploration efforts. Numerous areas across the U. S. gulf coast provide similar basin architecture and may result in regional extensions of this rapidly growing resource.

Bruce J. Martin (BS, Earth Science 75, Louisiana State University of New Orleans; MS Geology 79, Tulane University). After a thirty year career as a geoscientist, manager, Bruce joined EnCana Oil & Gas (USA) Inc. in role of Geoscience Advisor to the North Texas teams in February 2008, which focuses on Fort Worth Basin Barnett Shale play.

In previous assignments Bruce has worked with exploration teams throughout the domestic U.S. on unconventional plays, including Haynesville, Marcellus, and Monterrey. He has had the pleasure of working with many of the primary unconventional shale operators such as Chesapeake, Devon, and Mitchell Energy. Earlier in his career Bruce has specialized in gulf coast onshore and offshore operations, ranging from Texas to Florida showing himself as a proven oil and gas finder in these states.

Bruce uses his level of experience to encourage the next generation of geoscientist by mentoring in intern programs and recruiting to universities in the area. While being active in Houston Geologic Society, GSA, SEG, and, AAPG, to foster geosciences across the board.
MISSISSIPPI GEOLOGICAL SOCIETY JOINS THE MAPS IN SCHOOL PROJECT

The Maps In Schools project, initiated by Owen Hopkins of the Corpus Christi Geological Society, is distributing framed USGS’ Tapestry of Time and Terrain Maps’ to schools throughout the United States.

The project, supported by the GCAGS (by contributions of $1000 seed money to each society to initiate the project), has the stated goal of planting the “seeds of geologic curiosity” in students by encouraging an interest in science in general and geology in particular. We think this framed map donated by the Mississippi Geological Society (MGS) to local schools will initiate this curiosity for many years to come.

The MGS team, initially, distributing these maps statewide consists of Danny Harrelson and Nalini Torres. Currently, they will be visiting schools in the Vicksburg and Clinton areas and expanding to statewide this fall.

The map depicts both the topography and geology of the United States and is to date the most detailed (and accurate) portrait of the U.S. land surface and ages of its underlying rocks. The map resembles traditional 3-D landscape drawings, but includes the fourth dimension, geologic time displayed in color.

If you would like to recommend a school or need any more information about the Mississippi Geological Society’s Maps in School Project or to donate $200 per map--please contact Danny Harrelson (601-634-2685) or Email: Danny.W.Harrelson@ERDC.USACE.ARMY.MIL or visit www.ccgeo.org/maps

Additional details may also be found in the March 2009 AAPG Explorer (p. 38-39) http://www.aapg.org/explorer/2009/03mar/difference.cfm, which has a short article describing the project.
New Natural Gas and Oil Taxes Would Crush America’s Clean Energy and Energy Security

Natural gas and oil provide 65 percent of America’s energy. New wind energy and solar energy require new natural gas turbines to run when the wind doesn’t blow and the sun doesn’t shine. American natural gas is essential to meeting any clean energy agenda associated with global climate. American natural gas and oil are essential to any energy security plan. America’s independent natural gas and oil producers develop 90 percent of US wells, produce 82 percent of US natural gas and produce 68 percent of US oil. Independent producers reinvest over 100 percent of American oil and natural gas cash flow back into new American production. Lower natural gas and oil prices and the tight credit market are limiting investment capital; drilling activity is down over 25 percent since a year ago.

The Obama Administration’s budget request would strip essential capital from new American natural gas and oil investment by radically raising taxes on American production. American natural gas and oil production would be reduced. It runs counter to the Administration’s clean energy and energy security objectives.

**Intangible Drilling and Development Costs (IDC)** – IDC tax treatment is designed to attract capital to the high risk business of natural gas and oil production. Expensing IDC has been part of the tax code since 1913. IDC generally include any cost incurred that has no salvage value and is necessary for the drilling of wells or the preparation of wells for the production of natural gas or oil. Only independent producers can fully expense IDC on American production. Eliminating IDC expensing would remove over $3 billion that would have been invested in new American production.

**Percentage Depletion** – All natural resources minerals are eligible for a percentage depletion income tax deduction. Percentage depletion for natural gas and oil has been in the tax code since 1926. Unlike percentage depletion for all other resources, natural gas and oil percentage depletion is highly limited. It is available only for American production, only available to independent producers, only available for the first 1000 barrels per day of production, limited to the net income of a property and limited to 65 percent of the producer’s net income. Percentage depletion provides capital primarily for smaller independents and is particularly important for marginal well operators. Eliminating percentage depletion would remove over $8 billion that would have been invested in maintaining and developing American production.

**Geological and Geophysical (G&G) Amortization** – G&G costs are associated with developing new American natural gas and oil resources. For decades, they were expensed until a tax court case concluded that they should be amortized over the life of the well. In 2005 Congress set the amortization period at two years. Later, Congress extended the amortization period to five years for large major integrated oil companies and then extended the period to seven years. Early recovery of G&G costs allows for more investment in finding new resources. Extending the amortization period would remove over $1 billion from efforts to find and develop new American production.

**Marginal Well Tax Credit** – This countercyclical tax credit was recommended by the National Petroleum Council in 1994 to create a safety net for marginal wells during periods of low prices. These wells – that account for 20 percent of American oil and 12 percent of American natural gas – are the most vulnerable to shutting down forever when prices fall to low levels. Enacted in 2004, the marginal well tax credit has not been needed, but it remains a key element of support for American production – and American energy security.

**Enhanced Oil Recovery (EOR) Tax Credit** – The EOR credit is designed to encourage oil production using costly technologies that are required after a well passes through its initial phase of production. For example, one of the technologies is the use of carbon dioxide as an injectant. Given the increased interest in carbon capture and sequestration, carbon dioxide EOR offers the potential to sequester the carbon dioxide while increasing American oil production. Currently, the oil price threshold for the EOR tax credit has been exceeded and the oil value is considered adequate to justify the EOR efforts. However, at lower prices EOR becomes uneconomic and these costly wells would be shutdown.
Manufacturing Tax Deduction – Congress enacted this provision in 2004 to encourage the development of American jobs. All US manufacturers benefitted from the deduction until 2008 when the oil and natural gas industry was restricted to a six percent deduction while other manufacturers will grow to a nine percent deduction. While many producers’ deductions are capped by the payroll limitation in the law, it is another tax provision that provides capital to America’s independent producers to invest in new production.

Excise Tax on Gulf of Mexico Production – American independent producers hold 90 percent of the OCS leases in the Gulf of Mexico. Offshore federal lands produce 27 percent of America’s oil and 15 percent of America’s natural gas. Producers pay royalties as high as 16.67 percent on their production. A portion of this production is produced without royalty payments until it reaches a set volume that was designed to encourage – and effectively so – development of deep water areas. Creating a new tax designed to add a $5 billion burden on US offshore development will drive producers from the US offshore reducing new American production of natural gas and oil.

Passive Loss Exception for Working Interests in Oil and Gas Properties – The Tax Reform Act of 1986 divided investment income/expense into two baskets – active income/loss and passive income/loss. The Act exempted working interests in oil and natural gas from being part of the passive income basket and the treatment of IDC’s, in particular, was deemed to be an active loss that could be used to offset any type of active income. If, in the future, income/loss, arising from the ownership of oil and natural gas working interests, is treated as passive income/loss, the primary reason for individuals to invest in oil and gas working interests would be significantly diminished. Taken together, these tax changes would strip over $30 billion from US natural gas and oil production investment. As President Obama has said:

The energy challenges our country faces are severe and have gone unaddressed for far too long. Our addiction to foreign oil doesn't just undermine our national security and wreak havoc on our environment – it cripples our economy and strains the budgets of working families all across America. America needs an energy policy that recognizes the roles that all forms of energy supply can play. American natural gas and oil are essential elements – natural gas should be part of any clean energy initiative; natural gas and oil should be part of any energy security strategy. The Administration’s budget request could cripple the American producers that are pivotal in developing US natural gas and oil.

"I know these steps won't sit well with the special interests and lobbyists who are invested in the old way of doing business, and I know they’re gearing up for a fight as we speak. My message to them is this: So am I."
- President Barack Obama on defending his budget

Sign petition at: http://www.loga.la/obama-budget.html
Who are these MGS members?

Hint: 1962

Answers on last page
MEMBERSHIP APPLICATION / RENEWAL FORM

MISSISSIPPI GEOLOGICAL SOCIETY
P.O. BOX 422, JACKSON, MISSISSIPPI 39205-0422

2008-2009

Membership year is June through May

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<td>James Michael</td>
<td>Steve Walkinshaw (o)</td>
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<td>Bryant Miller</td>
<td>Vaughan Watkins,Jr. (H)</td>
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<td>Dean Miller</td>
<td>Stewart W. Welch (H)</td>
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<td>Max E. Gilpin</td>
<td>Lew Murray</td>
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<td>David Hancock</td>
<td>Jeanne Phelps</td>
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(H) = Honorary Member  
(O) = Officer
MGS ADVERTISING ORDER FORM

September 2008 – May 2009

I. Bulletin Advertisements:

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<th>Size</th>
<th>Rate/Year</th>
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<td>1/4 Page Ad (3” x 4”)</td>
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<tr>
<td>Business Card Ad (1 1/2” x 3”)</td>
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<tr>
<td>Professional Listing (1/2” x 3”)</td>
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II. Web Page Advertisements (www.missgeo.com):

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<td>Professional Listing/Link</td>
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(Note: Please contact Steve Walkinshaw at (601) 607-3227 or mail@visionexploration.com for details concerning placing your ad on the MGS web site.)

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MGS BOLAND SCHOLARSHIP FUND

The Society’s L. F. Boland Scholarship Fund is open to donations (tax deductible) year round. Your contribution will help the Society recognize and reward outstanding earth science students at its annual Honors Day meeting on March 12, 2009.

Since inception in 1980, the Society has honored 112 students with the Boland Award. If you would like to contribute, please contact Dave Cate at 601-718-9397 or mail your check (L. F. Boland Scholarship Fund) to him at 217 W. Capitol St., Jackson, MS 39201.

The MGS gratefully acknowledges this years contributors to the L. F. Boland Scholarship Fund for the 2008-2009 year.

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March 16 (Bloomberg) -- Natural gas drillers from Devon Energy Corp. to XTO Energy Inc. are idling rigs at the fastest pace since 2002, setting the stage for this year’s worst commodity to almost double as supplies drop faster than demand.

About 45 percent of U.S. rigs have been shut since September, which means fourth-quarter gas production will tumble 5.2 percent, faster than the 1.9 percent decline in use, the Energy Department forecast. Prices will rise to $7 per million British thermal units by January from $3.89 today on the New York Mercantile Exchange, according to a Bloomberg News survey of 20 analysts. The gain would be the largest since the first half of 2008.

The last time drillers stopped rigs at this pace was seven years ago, when futures advanced 86 percent. The world’s biggest hedge funds have already started to close bets on a drop in prices, government data show. Natural gas tumbled 30 percent this year, the worst start since 2006, as sales weakened with the recession.

“When the recession ends and the economy starts booming, we’re going to have less natural gas than we do today and prices are going to spike back up,” said Larry Nichols, chief executive officer of Devon Energy Corp., the largest independent oil and gas producer.

Devon and Chesapeake Energy Corp., both based in Oklahoma City, slashed 2009 drilling budgets as gas prices tumbled more than 70 percent from a July high. The companies lost a combined $7.68 billion in the fourth quarter, mostly from writing down the value of gas and oil properties to reflect falling prices.

‘Steep’ Decline

“The drop in supply will be so steep, it could easily catch up to where demand has dropped to before the recession ends,” said Nichols, who declined to give a price forecast.

Devon has declined 62 percent in New York trading to $45.17 on March 13 since the fuel set a 2008 high of $13.694 on July 2. Chesapeake tumbled 78 percent to $15.46 and XTO lost 55 percent to $29.70.

The number of exploration rigs in the U.S. has fallen to 884 from a record 1,606 in September, according to Baker Hughes Inc., the third-largest oilfield-services provider, based on data through March 13.

XTO of Fort Worth plans to cut its rig count to 60 by the end of this month from 73 in the fourth quarter and keep it at that level for the rest of 2009, the company said Feb. 19.

Declining Demand

Companies are idling rigs just as President Barack Obama spends $787 billion to revive the economy by improving roads, bridges and related public works. The effort will kick in later this year and accelerate in 2010, Michael Moran, chief economist at Daiwa Securities America Inc. said March 12.

Demand from industrial users, which accounted for 29 percent of U.S. consumption last year, declined 5 percent in the fourth quarter from a year earlier as the recession deepened, according to the Energy Department. The decline would be the largest since 2005 should it last through the year.

By the fourth quarter, analysts expect the economy to expand. Gross domestic product will grow 1.6 percent in the final three months of 2009 and 1.8 percent in 2010, according to the median estimate of 61 analysts surveyed by Bloomberg.

“The next big move for gas is obviously going to be up,” said Stephen Schork, president of the Schork Group Inc. in Villanova, Pennsylvania, an energy markets consultant. “If we are higher, I’d expect to see us at $7 by the start of next winter.”
Speculators’ Positions

Speculators, who anticipated lower prices more than two years ago by increasing short positions, are signaling the worst may be past. A speculative short is a bet that prices will decline. Large speculators trimmed their net short positions in gas by 11 percent to 114,064 futures in the week ended March 10, the smallest total since July, Commodity Futures Trading Commission data show.

Any recovery depends on a rebound in the U.S. economy, which may not happen until next year, said Tom Orr, research director at Weeden & Co., a brokerage in Greenwich, Connecticut.

“A lot of the stimulus spending is going to be on the construction side, but that’s going to take a while to feed back into the main economy,” said Orr. “The market is operating on a show-me first basis, and you need a ton of things to work to lift prices.”

OPEC Cuts

Weeden forecast in January that natural gas would average $5 per million British thermal units in the fourth quarter and into 2010, with a supply glut weighing on the commodity. Total marketed U.S. production soared 7.2 percent to 21.5 trillion cubic feet in 2008, while consumption gained 0.8 percent, according to the Energy Department.

The decisions to reduce gas production are similar to steps by the Organization of Petroleum Exporting Countries to end a flood of crude. OPEC reduced output three times, and crude oil gained 37 percent from a December low to $46.25 a barrel on March 13. Gasoline futures have rallied 34 percent this year to $1.3529 a gallon, leading commodities tracked by the S&P GSCI Index.

OPEC agreed at a meeting yesterday in Vienna to keep production quotas unchanged, deciding against a further cut that risked damaging the ailing global economy. The group will aim to complete last year’s reductions and meet again on May 28 to review the policy. The decision led oil futures to plunge as much as 5.2 percent to $43.85 a barrel in New York and the April contract was trading at $44.31 at 11:39 a.m. in London.

Price Rebound

Natural gas futures for delivery in January 2010 are trading at a 33 percent premium to the April contract, indicating speculators, industrial consumers and utilities anticipate higher prices. A year ago, the January 2009 contract traded at a 12 percent premium to the April 2008 futures.

“We’re starting to see a downward production trend” for natural gas, said Martin King, an analyst at FirstEnergy Capital Corp., a Calgary-based brokerage.

Lower supplies coupled with a rebound in demand will push natural gas to an average of $7.75 in 2010, he said. Gas fell to $3.759 per million British thermal units on March 12, the lowest in more than six years. Natural gas for April delivery was trading at $3.908 per million Btu, down 0.6 percent, at 11:31 a.m. in London.

Should the number of rigs drop more and stay there, production by the end of 2009 may be as much as 4 billion cubic feet a day less than a year earlier, King said.

Spending on U.S. exploration and production will drop an estimated 40 percent to $22.5 billion this year, Theresa Gusman, the head of equity research for Deutsche Bank AG’s DB Advisors unit, said in New York.

“These dramatic cutbacks in capital expenditures are going to lead to shortages as we move through this recession and come out the other end,” she said.
God was missing for six days. Eventually, Michael, the Archangel, found Him resting on the seventh day. He inquired, "Where have you been?"

God smiled deeply and proudly pointed downwards through the clouds, "Look, Michael; look what I've made."

Archangel Michael looked puzzled, and said, "What is it?"

"It's a planet," replied God, "and I've put life on it. I'm going to call it "Earth", and it's going to be a place to test Balance."

"Balance?" inquired Michael, "I'm still confused."

God explained, pointing to different parts of earth. "For example, northern Europe will be a place of great opportunity and wealth, while southern Europe is going to be poor. Over here I've placed a continent of white people, and over there is a continent of black people. Balance in all things."

God continued pointing to different countries. "This one will be extremely hot, while this one will be very cold and covered with ice".

The Archangel, impressed by God's work, then pointed to an attractive spread of land and said, "What's that one?"

"That's Washington State, the most glorious place on earth. There are beautiful mountains, rivers and streams, lakes, forests, hills, and plains. The people from Washington State are going to be handsome, modest, intelligent, and humorous; and they are going to travel the world. They will be extremely sociable, hardworking, high achieving, carriers of peace, and producers of software."

Michael gasped in wonder and admiration, but then asked, "But what about balance, God? You said there would be balance."

God smiled. . . "There's another Washington; Wait till you see the idiots I put there."