

**WHAT'S HAPPENED IN THE RAT HOLE SINCE WE LAST MET**

**PRESENTED AT**

**THE 2007 DUCK LUNCH SEMINAR  
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**THE PRESENTATION OF**

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## **MATTHEW (“Matt”) J. RANDAZZO, III**

Matt’s law practice encompasses all areas of oil and gas and environmental matters from “the cradle to the grave and beyond” such as:

- participating in the initial meeting with the client, landmen, geologists and/or geophysicists for a new prospect or acquisition (onshore, offshore or international) and advising clients in connection with the marketing and leasing strategy for the prospect, selection of the form of legal entity (public vs. private) to promote the prospect and to take and operate the leases, and drafting customized seismic permits, lease options and modern lease forms for the client;
- interacting and negotiating with landowners, non-operators/joint venture partners, creditors, investors, venture capitalists, lenders, federal, state and local agencies and/or their legal counsel;
- examining and opining on title and, when necessary, defending the client’s title in litigation;
- advising the client in connection with well permits and well unitization strategy (both pre-drilled and post drilled);
- negotiating, drafting, reviewing and providing legal and business analysis and advices relating to all necessary agreements including, without limit, financing, security and credit facility agreements, exploration and joint operating agreements, drilling contracts, master services contract, unit and commingling agreements, gas sales, processing and marketing agreements, onshore and offshore facilities use agreements, right-of-ways, servitudes, surface and subsurface agreements and all other relevant forms of transactional documents and contracts;
- investigating alleged violations of governmental regulations, well blowouts, wellsite incidents and death and personal injury accidents, advising clients in connection with compliance issues under state and federal regulations, meeting with personnel on location onshore and offshore, and investigating, representing, and representing clients in adjudication, criminal, and civil fines and/or penalty proceedings before governmental agencies;
- advising clients relative to and negotiating on their behalf with domestic and international insurance companies in connection with obtaining the proper insurance coverage and the acquisition of same and representing clients in disputes with insurers;
- advising clients regarding all types of disputes, claims, suits and related settlements that arise in oil and gas operations and transactions, supervising local counsel in other states, and serving as lead counsel in all types of complex multi-party litigation, arbitration and mediation proceedings;
- advising clients relating to the plugging and abandonment of wells and wellsite restoration and remediation; and
- representing and advising clients in the environmental claims, disputes and litigation brought, sometimes, many years after the last well in the field has been plugged and abandoned.

Prior to attending college Matt managed his family’s gasoline distribution business. At the age of 26 and in less than two and one-half years, Matt graduated *Magna Cum Laude* with a B.A. in Political Science from Loyola University and in 1984 obtained his Juris Doctor Degree *Cum Laude* from Tulane Law School. Matt serves as lead counsel in several complex multi-party oil and gas litigation and arbitration matters and in unitization hearings involving oil and gas fields throughout Louisiana, recently prepared updated oil and gas lease and related forms, advises clients in the formation and permitting of natural gas storage facilities, serves as lead and supervisory counsel in oil and gas transactions in several states including, Louisiana and Texas (onshore and offshore), Oklahoma, Arkansas, New Mexico, Utah and Arizona, is a frequent speaker on oil and gas, environmental, governmental relations and business topics, is a Fellow of the Loyola Institute of Politics, and is a trained mediator and is available to serve as an arbitrator or mediator in oil and gas, environmental, insurance or commercial disputes.

## ❖ RECENT OIL AND GAS LITIGATION AND LEGISLATION

### ➤ *WEYERHAEUSER CORP. V. HINTON, ET AL*, (U.S. 5<sup>TH</sup> CIR. 2007)

- This case, in which we represented the defendants (the former shareholders of Davis Bros. Lumber Company), was brought by the large timber company Weyerhaeuser seeking to annul and terminate several mineral servitudes located in four North Louisiana Parishes on the grounds that the recorded instruments acknowledging and interrupting the ten-year liberative prescription of non-use running against the various servitudes were illegal and against public policy.
- The sale of the surface of the lands at issue were sold in 1971 with a reservation of minerals to Willamette. The parties recognized that Louisiana law provided that the mineral reservation would be subject to the ten-year prescription of non-use but, nevertheless discussed the desire of the parties to have the minerals reserved until 2021 or fifty years. Willamette then sent a unilateral letter to our clients stating that it recognized applicable Louisiana law and nevertheless wanted to allow the sellers to own the minerals until 2021 and would, when requested by the sellers and it being legal at the time of the request, execute a waiver of accrued prescription – thus starting the 10-year period all over. Under Louisiana law, accrued prescription can be waived but not future prescription. Thereafter, every seven years, the attorney for the Sellers sent a written request to Willamette requesting that it execute a recordable instrument waiving, as to all servitudes, the prescription which had accrued as of the time of the request. A duly executed instrument was executed and recorded in 1978, 1985, 1992 and in 1998. Sometimes around 2001 Willamette merged into Weyerhaeuser and several key officers of Willamette became key officers of Weyerhaeuser. As was the custom and practice of the sellers’ attorneys, in the summer of 2005 a letter was sent to Weyerhaeuser requesting that the prescription that had accrued since the last recorded instrument in 1998 be waived by Weyerhaeuser, as successor of Willamette. Each letter recognized that Willamette and then Weyerhaeuser was not bound to waive the accrued prescription and that was why the requests were made, in each instance, three years before the prescription would have expired so that if a request was denied the sellers would have three years to commence operations on the servitudes that had not been already maintained by operations and/or production. Weyerhaeuser responded to the 2005 letter and refused to execute the waiver of accrued prescription and further sought to terminate all servitudes (not being maintained by operations and/or production) as of the date of its letter claiming that the past waivers were illegal and against public policy.
- Weyerhaeuser then requested a meeting with our clients in their hometown of Ruston and essentially told our clients and me that if our clients did not agree to settle with Weyerhaeuser by giving up 90% of their interests and the remaining interests in August of 2008 that it would drag the matter out in litigation that would make the outcome irrelevant and more importantly, outlast the lives of most of the people in the room (most of our 90+ clients were beyond the age of 70

with many in their 80s and a few in their 90s). Our clients having faith in their position and refusing to take the insulting offer and succumb to the threat of prolonged litigation, unanimously refused to accept the offer and made a more reasonable offer to avoid litigation. Weyerhaeuser's response was to file a Declaratory Judgment action in Federal Court in Shreveport and file no notice in the public records of the four parishes where the servitude was located so as to not cloud the title of our clients. This strategy precluded a counterclaim for clouding the title and appeared to give Weyerhaeuser the desired result as word of the lawsuit was quickly spread and all offers to lease our clients affected servitudes were withdrawn. We knew that getting this case to final judgment had to be done before August of 2008 when the servitudes would naturally expire by operation of Louisiana. We decided to avoid traditional litigation practice and procedures and move quickly for a summary judgment that as a matter of law the waivers were valid and enforceable under Louisiana and that the servitudes in question were still valid. Therefore keeping the issues to a minimum, without taking any discovery or filing an answer and counterclaim (which could have injected fact issues or delay). We asked for expedited consideration and Weyerhaeuser tried every way to stretch the litigation hoping to get to August of 2008 (as they said "getting to August 2008 would make the outcome of the case moot – even if we had won thereafter).

- After the matter had been submitted for decision for several months, the Court granted our Summary Judgment upholding the servitudes and the validity of the waivers of prescription that had been executed over the years. Weyerhaeuser again tried to delay and ultimately at the last minute filed an appeal to the Fifth Circuit. We moved and successfully obtained an expedited briefing and oral argument schedule from the 5<sup>th</sup> Circuit.
- Within one hour of the conclusion of the oral argument before a three-member panel of the Fifth Circuit – a per curium decision was rendered upholding the ruling of the District Court.
- We never heard from Weyerhaeuser after that except to pay the court-ordered appeal costs. Although we anticipated an appeal to the U.S. Supreme Court, a writ requesting review by the Supreme Court was never filed and the decision became final with approximately one year still remaining before the August 2008 expiry date.
- Once our decision was final and unappealable, our clients have had no problem leasing all undeveloped servitudes and such leases require operations and/or production be obtained on each one of the servitudes before the expiry date

➤ ***M. J. FARMS, LTD. v. EXXONMOBIL CORPORATION, ET AL (7<sup>TH</sup> JDC, CATAHOULA PARISH, LA - ONGOING)***

- This case was brought by the surface owner against several mineral servitude owners seeking remediation and damages caused in connection with mineral

exploration and production operations conducted by the mineral lessees of the mineral servitude owner.

- It is alleged in the litigation that under the Louisiana Mineral Code a surface owner can require a mineral servitude owner to restore the surface to its original condition as soon as the operations/production cease and that the existence of an unexpired mineral lease is not a bar to such action.
  - It is also alleged in the litigation that Act 312 of the Louisiana Legislative Session does not apply in this case and/or it is unconstitutional. More on Act 312 from Loulan. The District Court declared Act 312 unconstitutional and on appeal to the Louisiana Supreme Court the Court denied ruling on Act 312 because of a procedural defect in the manner of the lower court's ruling. The District Court has once again declared Act 312 unconstitutional after purportedly correcting the procedural defect in the prior ruling and, once again, an appeal has been taken to the Louisiana Supreme Court for a ruling on the constitutionality of Act 312.
  - Act 312 is a major piece of legislation and was passed as a result of the Corbello decision and the lack of statutory authority in Louisiana regarding the landowners' rights to seek and keep damages for alleged contamination of groundwater. Again, more on Act 312 from Loulan.
  - There are several other similar cases brought by surface owners against mineral servitude owners as well as several cases brought by landowners against mineral lessees (known as Legacy Cases because such cases are brought many years after the lessees have plugged and abandoned wells and the leases under such wells were drilled have terminated) all of which could be significantly impacted by the decision of Louisiana Supreme Court in the *M. J. Farms* case.
- ***KERR MCGEE OIL AND GAS CORP. V. C. STEPHEN ALLRED, ASSISTANT SECRETARY FOR LAND & MINERALS MGT., AND THE DEPT. OF THE INTERIOR.*** (U.S.D.C. W.D. LA 10/30/2007)
- The decision by Judge Patricia Minaldi of the U.S. District Court for the Western District of Louisiana addresses deepwater MMS leases issued between 1996 and 2000 and held that the Department of Interior was barred from arbitrarily ending royalty waivers when oil prices are high. The court decision involved the interpretation of the 1995 Deep Water Royalty Relief Act which provided for royalty waivers. The law, written at a time when oil prices were low, was intended to spur costly deepwater projects by waiving royalties on large amounts of gulf oil and gas production.
  - The Department of Interior has already said that an appeal is likely.
  - Several U.S. Senators have already criticized the decision and in a letter being circulated for signatures of various Senators to be sent to the President the

Senators maintain that the court decision would allow royalty waivers that were not intended under the 1995 Deep Water Royalty Relief Act. The letter goes on to state that “We must contemplate the real possibility that the 1995 act will be implemented in a way Congress never intended and in a way that would shock the sensibilities of most Americans” and that the potential for reduced royalty collections comes at a time of rising concerns about tight federal budgets and high energy prices. Meanwhile, the Senators observe that, energy companies “already have every fiscal incentive imaginable to produce more oil and gas.”

➤ ***EXXON MOBIL CORPORATION F/K/A EXXON CORPORATION V. ALABAMA DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES ET AL., (S.Ct. ALABAMA, 11/1/07)***

- The decision of the Alabama Supreme court addresses ExxonMobil’s (“Exxon”) appeal from a judgment in favor of the Alabama Department of Conservation and Natural Resources (“DCNR”) and the commissioner of DCNR (hereinafter referred to collectively as “the State”) in a declaratory-judgment action filed by Exxon. The State filed a counterclaim in that action alleging breach of contract and fraud in Exxon’s performance under certain State of Alabama oil and gas leases. The award exceeded \$100 million in compensatory damages (including interest) and \$3.5 Billion in punitive damages after the trial court ordered a remittitur of \$8.3 Billion of the punitive-damages award of \$11.8 Billion.
- The appeal dealt with three separate issues:
  - (1) Claims for breach of the terms of the leases regarding calculation and payment of royalties;
  - (2) Claims that Exxon committed fraud in its dealings with the State; and
  - (3) The award of punitive damages.
- As to the finding of the jury that multiple breaches of the leases resulted in purported underpayment of royalties in the amount of \$63,769,568, the Supreme Court reversed the jury verdict and entered and ordered that such damages should be only in the principal amount of \$51,907,634 plus interest, in an amount consistent with the Supreme Court’s opinion.
- As to the finding of fraud by the lower court, the Supreme Court held that as a matter of law, that the State failed to offer substantial evidence of the elements of fraud. The two key factors cited by the Court in reaching its decision was: First, a letter of the DCNR dated January 26, 1995, to Exxon and a DCNR internal memorandum dated March 24, 1995, clearly showed that DCNR had early knowledge of Exxon’s position regarding the calculation of royalties; and Second, there was no evidence of detrimental reliance by the State. Therefore, the trial court’s finding on the fraud claim

was improper because the finding of fraud was unsupported by legally sufficient evidence and was reversed.

- As to the finding of punitive damages, reduced to \$3.5 Billion by the lower court, the Supreme Court held that because of no finding of fraud there could be no punitive damages awarded.

➤ **U.S. SUPREME COURT DECIDES TO HEAR THE APPEAL OF EXXON IN THE EXXON VALDEZ LITIGATION**

- Whether the award of punitive damages was constitutional (8<sup>th</sup> amendment prohibition against cruel and unusual punishment).

➤ **FILING OF MEMORANDUM OF LEASES AND JOINT OPERATING AGREEMENTS**

- After a year of uncertainty - it is once again permissible under Louisiana Law to record a Memorandum of an Oil, Gas and Mineral Lease
  - In the 2007 Louisiana Legislative Session La. R. S. 44: 104 was amended and reenacted making it permissible to file a Memorandum of an Oil, Gas and Mineral Lease.

**La. R.S. 44:104**

**Notice of lease; requirements and effect**

- A. (1) In lieu of recording a written lease or sublease or any amendment or modification thereof, as provided by Civil Code Article 3338, a party may record a notice of lease or sublease, signed by the lessor and lessee of the lease or sublease.
- (2) Recordation of a notice makes the lease or sublease and any subsequent amendment or modification thereof effective as to third persons to the same extent as would recordation of the instrument evidencing it.
- (3) The notice of lease must contain the following:
- (a) A declaration that the property is leased, and the names and addresses of the lessor and lessee.
  - (b) A description of the leased property.
  - (c) The date of the lease, its term, and the provisions of any extensions and renewals of the term provided for in the lease.

**(d) A reference to the existence of an option, right of first refusal, or other agreement of the lessor to transfer all or any part of the leased premises.**

**(e) If of a sublease, the notice shall also contain reference to the recordation information of the primary lease or notice of lease that is subleased; however, the omission of this information does not affect the efficacy of the notice.**

**B. A notice of lease may also designate a person authorized to certify in writing on behalf of a party the terms of the lease, whether it is in full force and effect, and the extent to which the obligations of the lease have been performed. The certification shall have the same effect that it would have if it were signed by the person on whose behalf it is made.**

**C. (1) A change in a lease with respect to any matter that is required to be included in a notice of lease is not effective as to a third person unless the parties record a signed amendment to the notice that describes the change.**

**(2) If the amendment is of a transfer of a party's rights, the notice shall be signed by the transferor and transferee.**

**(3) If the amendment only designates a different person to certify the matters described in Subsection B of this Section, the amendment need only be signed by the person on behalf of whom the certification is to be made.**

**D. The effect of recordation of a notice of lease ceases:**

**(1) Upon recordation of an instrument signed by the parties to the lease or their successors declaring that the lease has terminated; or**

**(2) On the date that the lease may finally terminate as set forth in the notice of lease.**

**E. This Section shall apply to mineral leases that are subject to the provisions of the Louisiana Mineral Code. As to mineral leases, in addition to the other requirements provided under this Section, the notice shall include the primary term of the lease, as well as any additional period during which the lease may be maintained by the payment of rentals.**

- Filing of a Memorandum of Joint Operating Agreement – now part of the Mineral Code since July 2006.**

### **31:216. (Article 216 of the Mineral Code) Filing**

An agreement entered into by or among the owners of mineral rights for the joint exploration, development, operation or production of minerals thereunder shall be binding upon third persons when the agreement is filed for registry in the conveyance records of the parish or parishes where the lands affected by the mineral rights are located.

### **31:217. (Article 217 of the Mineral Code) Declaration in lieu of agreement**

In lieu of filing an agreement as provided in R.S. 31:216, the parties thereto may file a declaration signed by them, or signed by any person designated in the agreement as the general operator or agent of the parties, describing the lands affected by the mineral rights that are the subject of the agreement, stating in general terms the nature or import of the agreement, and stating where the agreement may be found. The recording officer of the parish in which the declaration is filed may copy into his records only the declaration, without the exhibit attached thereto. The declaration when so filed shall serve as full and complete notice of the agreement to the same extent as if the original agreement had been filed and recorded. The recording officer shall charge only the fees for filing and recording the declaration.

#### **➤ LOULAN WILL DISCUSS ACT 312 OF THE 2006 LOUISIANA LEGISLATURE**

- **Dealing with environmental remediation and damage claims.**

#### **➤ U. S. CONGRESS PROPOSED 2007 ENERGY LEGISLATION**

- **Senate Energy and Natural Resources Committee Chairman Jeff Bingaman, D-N.M., said this past Monday he does not expect the Senate to take up an energy bill before December at the earliest. With lawmakers soon to be recessing and leaving town at the end of next week for a two-week Thanksgiving break, Bingaman was quoted as saying, “I just don't see how we get it done.” In the House, Speaker Nancy Pelosi, D-Calif., has said repeatedly she hopes to have an energy bill to send to President Bush by the end of the year. The Democratic leaders in the House and Senate are trying to craft an energy package that can pass muster in both chambers. But they are working from two very different energy bills passed out of the House and Senate earlier this year. The House bill would rescind \$16 billion worth of tax breaks for oil and gas companies. It also would require utilities to generate 15 percent of their electricity using renewable energy sources by 2020. The Senate bill would raise fuel mileage requirements for cars, trucks and sport utility vehicles to an average 35 miles per gallon by 2020 and mandate greater use of renewable energy sources.**

❖ **SOME IMMEDIATE ACTION WHICH SHOULD BE TAKEN WHEN YOU BECOME AWARE OF A POSSIBLE CLAIM OR THAT A LAWSUIT HAS BEEN FILED AGAINST YOUR COMPANY**

- Get attorney involved as soon as possible to coordinate all action taken from this point forward in order to preserve all possible legal defenses, privileges and protections allowed by law and so as to preserve all relevant evidence.
- Notify all possible insurers – too much notice (i.e. notice to companies that you are not sure of their policy period or the extent of their coverage) does not hurt and can preclude denials of coverage for late or no notice.
- Do not issue any press releases or give any interviews to the media or anyone else without first consulting with your attorney.
- Notify all appropriate company personnel.
- Consult with your attorneys about immediately retaining one or more appropriate experts
- Locate all relevant documents within the company and from third parties who are under contract to your company (such as pumpers, seismic company, drilling company, service companies, suppliers of goods and/or services – mineral lease, contractual documents, relevant correspondence (including electronic stored information) and/or test results.
- Suspend any document retention provisions regarding the destruction of documents that are related to the claim or litigation (don't destroy any documents even if it is the time to do so under your company's Document Retention Program).
- Identify and have your attorney interview any potential witnesses including, but not limited to, any potential company or contract personnel or consultants
- Despite any good relations that may have existed between you and the claimant and/or its attorney, because a claim has been made any communication with the claimant and/or their attorney should be through or with your attorney.
- Any settlement discussions should be clearly expressed as such so that anything said can not be used in the litigation against your company.

❖ **SOME ADDITIONAL IMMEDIATE ACTION WHICH SHOULD BE TAKEN WHEN YOU BECOME AWARE OF A WELL CONTROL ISSUE, A BLOWOUT, AN ENVIRONMENTAL INCIDENT, OR AN ACCIDENT INVOLVING A DEATH, PERSONAL INJURY OR DAMAGE TO PROPERTY**

- Notify all appropriate governmental agencies (such as MMS, DNR, Your state's Emergency One Call, Coast Guard, OSHA, Louisiana Oil Spill Coordinator's Office, local authorities).
- As soon as I am retained in these types of incidents, besides retaining an expert engineer to join me at the site, I go to the blowout site to try and taken statements from as many of the witnesses as possible.
- I meet and coordinate with the professionals handling the incident (such as well control experts, spill containment/prevention experts) in order to determine how

best to do their job while preserving as much of the physical evidence as possible.

- I try to interview as many eyewitnesses as possible.
- I meet with all governmental personnel on site to assure cooperation of my client but to also make sure to protect the company's interests since anything said to investigators could be used against my client.
- As soon as possible away from the site, I try to take sworn statements (before a court reporter) of the key personnel from the company, drilling crew and/or others on the scene to preserve their memory of events and to have a contemporaneous sworn statement in order to accurately preserve their recollection and to make sure that their stories don't change later. Remember, as to third parties who are under contract to your company, you should be entitled to take such statements even though there may be attempts to block such action. IN other words, don't be dissuaded from taking such action.
- It is paramount that Operators keep the Non-Operators apprised of all incidents and provide "real-time" information, as the situation allows, so as to permit the Non-Operators to take necessary action such as notifying their insurers and key personnel. Daily information should be provided to the Non-Operators and regular meetings should take place to discuss the ongoing incident or the claims and/or litigation that are brought in connection therewith.
- Whenever possible take control of key evidence and be involved (through company personnel, your attorney and your expert) in the selection of storage and testing facilities.
- Provide your attorney with all relevant contracts so a determination of your company's rights under such contracts can be made.
- Assemble a representative from all affected departments in your company to be the contact person for your attorney and experts to deal with so as to have a coordinated effort and to have those selected always aware of what information is needed and who is to provide same.
- Take all action described above in the previous section.

#### ❖ SOME OF MY RECENT ACTIVITIES SINCE WE LAST MET

- I HAVE BEEN ASKED BY SOME TO BRIEFLY STATE WHAT I HAVE BEEN DOING SINCE RE-LOCATING TO OUR LAFAYETTE OFFICE IN MARCH OF 2007 AND I DO APPRECIATE THE INTEREST
  - I am continually revising the new oil, gas and mineral leases and related agreements that I prepared in light of the fact that the old standard form leases are outdated and lead to unnecessary litigation and disputes.

- I have been lead counsel in transactions involving onshore and offshore Louisiana and Texas mineral rights, lead counsel and supervising local counsel in the formation of entities, preparing joint venture documents, preparing mineral leases, assignments, seismic agreements, option agreements and purchase and sale agreements and other documentation in connection with the acquisition of oil and gas properties (for conventional and resource prospects) in Oklahoma, Arkansas, New Mexico, Arizona and Utah.
- I have continued to examine title to Louisiana properties.
- I have continued to serve as lead attorney in several major oil and gas and environmental litigation matters.
- I have worked on gas storage projects in connection with salt dome and depleted reservoir projects.
- I have served as a legal consultant on litigation pending in other states.
- I continue to be involved in unitization matters before the Commissioner of Conservation.
- I have been involved in the purchase of surface sites as an alternative to entering into surface leases.
- I continue to advise clients on numerous day-to-day oil and gas operational, contractual and legal matters.
- I continue to help clients negotiate mineral leases, joint operating and related agreements, drilling and service company contracts, facilities use agreement and any other agreements necessary to the business of oil and gas.
- I continue to work with lawyers in all four of our offices on a variety of matters.
- I continue to stress to governmental officials and the public how important the oil and gas industry is to Louisiana by offering to write or speak whenever possible.

#### ❖ **RECENT IMPORTANT INFORMATION HEARD IN THE RATHOLE**

- Platts in Washington is reporting that US natural gas proved reserves rose 3% to more than 211 Tcf in 2006, the highest level since 1976, citing information provided this past Monday from the US Energy Information Administration (“EIA”). US proved reserves of crude oil, however, declined 4%, the result of downward revisions and fewer new discoveries, EIA said in its “Advance Summary: US Crude Oil, Natural Gas, and Natural Gas Liquids Reserves 2006 Annual Report.” Proved reserves at two of the largest US oil producing areas – the Gulf of Mexico Federal Offshore and Alaska – fell in 2006 by 10% and 7%, respectively, EIA said. Reserve additions replaced 136% of dry natural gas produced in 2006, EIA said, adding that last year was the eighth consecutive year that US natural gas proved reserves have risen.

Texas led the US in natural gas reserve additions in 2006, with a 9% increase because of rapid development of Barnett Shale reservoirs in the Newark East Field. Advances in horizontal drilling hydraulic fracturing technology and relatively high natural gas prices supported the development, the agency said. In 2006, Utah reported the largest increase in crude oil proved reserves, adding 78 million barrels, a 30% increase from 2005, EIA said. Colorado and New Mexico were second and third, respectively, in proved oil reserve gains. US gas output provides about 21% of the total energy consumed in the US, the agency said, adding that gas production rose in 2006 because of output increases in at Texas' Barnett Shale, Louisiana and the Rocky Mountain states of Colorado, Wyoming, Utah and Montana. Gas production in the Gulf of Mexico declined the most, however, falling 6%. Crude oil output in the US declined 5% in 2006, mainly because of lower production in Alaska. Part of the decline resulted from an August 2006 shut-in of producing wells in half of the Prudhoe Bay Field for inspection and repair of corrosion in the gathering system. In 2006, Montana had the largest oil production increase -- up 20% or 6 million barrels -- for the second year in a row because of continued development of the Bakken Formation in the Elm Coulee Field. EIA said Elm Coulee is a relatively new, and difficult, oil field that requires cutting-edge technology for economic production.

➤ **FROM THE *HOUSTON CHRONICLE* - NO BULL: TEXAS PLANT MAKES NATURAL GAS FROM COW MANURE**

- The nation's largest manure-to-natural gas plant got up and running Monday in the heart of Texas dairy country, a project expected to produce enough energy to power 11,000 homes a year. In a high-profile example of the growing need for alternative energy, Huckabay Ridge gets manure from local dairy farms, processes it with grease and other restaurant waste, purifies it and turns it into natural gas. "The beauty is that you take the waste products and you create a useful form of energy," said Richard Kessel, president and CEO of Portsmouth, N.H.-based Environmental Power Corp. Its wholly owned subsidiary, Microgy Inc., owns the facility. "We look at these as non-depleting gas wells with a long-term supply of renewable energy."

➤ **WORLD'S LARGEST STOCK EXCHANGE LISTED OIL COMPANY**

- PetroChina, China's largest oil and gas producer, replaced ExxonMobil as the world's largest listed company by market value on Monday as its share price surged 163% to close at 43.96 yuan on its first day of trading on the Shanghai Stock Exchange

❖ **ADDITIONAL COMMENTS BY AND PANEL DISCUSSION WITH TERRY KNISTER AND LOULAN PITRE**