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## TENNESSEE OIL & GAS ASSOCIATION

### FROM THE PRESIDENT

"Going Deep—Energy companies are finding new opportunities in old rocks. A case in point: Appalachia," the headline shouted from the Oct. 16, 2006, *Wall Street Journal*.

Wow! A year ago the Nashville daily newspaper, *The Tennessean*, realized there really was a vibrant oil and gas exploration and production business in Tennessee, and now the *Wall Street Journal* is following suit. The media is writing headlines about a situation that we have known for years—there really is big oil and gas in Tennessee.

The Appalachian Basin in general and Tennessee in particular really are the place to be to capitalize on a multitude of opportunities in the energy business. These opportunities have been created by ever-increasing world demand reflected in soaring prices.

Our potential was first pointed out in a publication titled *Report by the Appalachian and Illinois Basin Directors of the Interstate Oil and Gas Compact Commission*. "Our most drilled but least explored basins deserve a fresh look," the report concludes.

"Take a second look at the 'most drilled, least explored' basin in the world," a headline in the study recommends.

"The Appalachian and Illinois basins—the birthplace of the modern petroleum industry—are probably the most extensively drilled and mature hydrocarbon basins in the world. Does this mean the oil and natural gas resources from the region are exhausted? The answer is a resounding no," the IOGCC report finds.

"The Appalachian and Illinois basins still contain at least as much oil and natural gas as have been produced to date. Estimates of remaining technically recoverable resources, including proven reserves, are in the range of 4.8 billion barrels of oil and 79 trillion-96 trillion cubic feet of natural gas," the report points out.

Late in 2005, the *Nashville Tennessean*, in a rare article about oil, featured a headline that read, "Prices fuel rejuvenation of area oil, gas industry. Tennessee on pace to issue 48 percent more drilling permits this year, the most since the mid-1980s."

### Gaining National Attention

Tennessee ranks 22nd in oil and gas production among all states, so the oil and gas industry doesn't yet have a major impact on the state's economy. We haven't been a hot topic for the local media over the past 30 years or so. We generally have been ignored by the local media and by the national media as well.

That is why we were really excited when an article in the *Wall Street Journal* stated, "After years of neglect, big energy exploration and production companies (such as) Talisman Energy are returning to the Appalachian Basin, an enormous region that stretches from New York to Tennessee. It is known mostly for its abundant coal, but energy companies are hoping to find large pockets of natural gas there."

While we are pleased with the headlines, it is the action in the fields of Tennessee that is far more exciting. We are now attracting larger firms. A CNX subsidiary, Knox Energy, is developing a several-thousand-acre lease program with Atlas America. They have a major drilling program under way and plan to drill 250 wells in the coming year.

Chesapeake Energy Corp. has joined the Tennessee Oil & Gas Association, and if what it is doing in Ohio and Kentucky is any indication of what the company plans for Tennessee, things could heat up quickly. We have also have had queries from other firms that are watching Chesapeake and making plans to follow.

And our own Kentucky and Tennessee firms are not standing by and watching the newcomers capitalize on all the opportunities presented here. Daugherty Petroleum of Lexington, Ky., which now is NGAS, is leasing and drilling in Tennessee. Ariana Energy LLC has restructured and is expanding its drilling activities in both Kentucky and Tennessee. Miller Petroleum believes it identified at least 80 commercial locations for Chattanooga Shale and Big Lime gas during its 2006 drilling program on its massive Koppers lease in Campbell County, Tn.

Ky-Tenn Oil Inc., a Helenwood, Tn.-based independent with a 40,000 acre lease position in Fentress, Morgan and Scott counties, is drilling two new offset wells a month in its own oil- and gas-producing Fort Payne and Monteagle Gas fields. The firm also is running seismic to identify Trenton-Black River targets. Kentucky-based Young Oil Corporation indicates it plans a significant increase in the number of Tennessee wells it will drill in 2007.

My own firm, Signature Oil Corporation, is drilling in both Kentucky and Tennessee, and expects to more than double its activity in the coming year.

### **Enormous Potential**

Throughout the state of Tennessee, leasing activity is up as are wildcat plays, enhanced recovery efforts, deep drilling efforts, and stimulation of overlooked formations, with excellent results.

Of Tennessee's 95 counties, our members have been active in only 11 or 12. We haven't eliminated the other counties by drilling dry holes; we simply haven't gotten around to them yet. We know the potential is there. There are hundreds of thousands of acres of sedimentary basins in Tennessee that haven't seen a drill bit in years, if ever.

There are, of course, lease plays developing in some of the counties surrounding those that already produce oil and gas. Every other day or so, we hear of another absolute wildcat lease play kicking off in a county miles from any current exploration activity or production.

I believe what makes Tennessee attractive is the great attitude of the landowners. They are, for the most part, ready and eager to lease and see some activity, so lease costs can be relatively low.

One thing driving this leasing activity is the second look folks are giving the Chattanooga Shale, which underlies most of mid-

dle and eastern Tennessee. Until very recently, we considered the Chattanooga Shale only as a marker below the prolific Fort Payne formation we were drilling in Fentress, Morgan and Scott counties. In most cases it was only 40 feet thick, so we didn't believe it had much potential to produce gas in commercial quantities, although a handful of wells produced naturally from the shale. Now we know it can be an excellent gas producer after stimulation.

Many operators are looking at some 4,000 abandoned wells, many of which have the shale exposed. These wells can be acquired, stimulated and put into a pipeline at a very low cost. We see this trend expanding in the coming months and years.

Not too long ago, the theme of the Tennessee Tourism Bureau was "Follow Me To Tennessee." Bigger than life photos of Dolly Parton were splashed across the sides of semi-trailers, on billboards and in national magazines, asking folks to "Follow Me To Tennessee."

Well, we don't have Dolly Parton working for us. But we do have lots of undrilled acreage; low-cost, high percentage, shallow drilling targets; Chattanooga Shale plays; Trenton-Black River plays; and much more.

We are not a closed shop. We need a lot more oilmen and folks ready to drill wells, build gas gathering systems, and work with us to develop Tennessee's tremendous potential.

Come take a look for yourself. And bring your wife. She will love visiting and living in Tennessee. Give us a call at 615-371-6137. We don't stay in the office, but you can leave us a message to let us know what you may be interested in learning more about. One of our TOGA Board of Director members will return your call and help arrange your visit.

Take my advice, and that of Dolly Parton—"Follow Me To Tennessee." □

