

THE AMERICAN OIL & GAS REPORTER[®]

JANUARY 2006

The "Better Business" Publication Serving the Exploration / Drilling / Production Industry

The Presidential Papers

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TENNESSEE OIL & GAS ASSOCIATION

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FROM THE PRESIDENT-ELECT

"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."

That headline dominated the front page of the business section of the Nov. 18 edition of the *Nashville Tennessean*.

Those in the oil business in Tennessee had a great year in 2005 and expect 2006 to be even better, but the Tennessee media rarely pays any attention to us, unless we have a spill.

While I was starting to draft my first Presidential Paper for *The American Oil & Gas Reporter*, I was surprised to receive a phone call from a *Nashville Tennessean* business writer, who asked how the higher oil and gas prices were impacting our business in Tennessee.

Although my company headquarters in Lexington, Ky., I have been active in the Tennessee oil business for more than 20 years. This was the first time a reporter had ever called to ask how our industry might impact the state's economy.

Tennessee ranks 22nd in oil and gas production among all states, so oil and gas don'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.

As I answered the reporter's questions, I realized that finally, Tennessee was being recognized for what those of us in the business have known all along: Tennessee

has immense potential as an oil and gas producing state.

This fact is pointed out in a report by the Appalachian and Illinois Basin directors of the Interstate Oil & Gas Compact Commission. "Our most drilled but least explored basins deserve a fresh look," their report concludes. "Take a second look at the 'most drilled, least explored' basin in the world," a headline in the study recommends.

The report continues, "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 that the oil and natural gas resources from the region are exhausted? The answer is a resounding no.

"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 . . . 4.8 billion barrels of oil and 79 trillion-96 trillion cubic feet of natural gas," the report finds.

All Indicators Up

While the IOGCC report and *The Tennessean* article focus on new drilling as the measure of increased activity, that certainly isn't the only positive indicator of how rapidly the oil and gas industry is expanding in Tennessee.

Leasing is up, as are wildcat plays, enhanced recovery efforts, deep drilling, and stimulation of overlooked formations—all with excellent results.

There are 95 counties in Tennessee, yet there is only exploration activity ongoing in 11 of them. The other 84 counties have not been eliminated because of too many dry holes; we just haven't gotten around to them yet. 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 lease plays in many of the counties surrounding the producing counties. Every other day we hear of another absolute wildcat lease play kicking off in a county miles from any other exploration activity or production.

Clay County in middle Tennessee on the Kentucky border is an excellent example of an overlooked opportunity. It was a hotbed of activity right after oil was discovered in Pennsylvania by Colonel Drake. But when the big Texas fields came in, Clay County and Tennessee were all but forgotten.

There were five wells drilled last year in Clay County, including one by my company, Signature Oil Corporation, that had initial production of 12 barrels an hour after treatment. Teaming with Young Oil Corp., we have a strong lease



position around our discovery and plan to drill many more wells in this new area.

Although Clay County is bordered on three sides by counties with oil production (Pickett and Overton, Tn., and Cumberland and Clinton, Ky.), it is wide open for leasing and drilling.

The two counties to the west, Macon and Jackson, Tn., also have had oil and/or natural gas production decades ago. There is no known leasing activity in Macon County, but there is a major deep test slated for Jackson County, Tn., with several thousand leased acres. There has been no oil and gas drilling in Macon County for decades, yet last fall, a crew looking for water hit gas at 30 feet that blew for several hours before it could be plugged.

Geologists tell us that all reservoirs leak, so there must be a reservoir somewhere in Macon County that leaked within 30 feet of the surface.

Eastern Tennessee

Wildcat plays and leasing activity aren't limited to middle Tennessee. In the eastern portion of the state, there were 40 drilling permits issued for Anderson County in 2005 through October. There were only 10 for all of 2004. The reason is that Ariana Energy LLC and Atlas America Inc., which has teamed with Knox Energy, a division of Consol, have massive exploration in full swing in that area. Knox Energy and Atlas America expect to drill 50-100 wells in Tennessee this year.

Campbell County had only four permits in 2004, but there were 15 through October in 2005. Miller Petroleum Inc.,

a Huntsville, Tn.-based public company, is leading the effort in Campbell County.

Miller also had an oil and gas discovery in a wildcat well in Roane County. The firm has a strong lease position and plans a major developmental drilling program.

Only Hancock county has been explored farther east on the overthrust. Knoxville, Tn.-based Tengasco is producing natural gas from the area, which is being sold through a Tengasco pipeline to an Eastman factory 60 miles away. There are several counties along the pipeline with excellent gas potential that has not been tapped.

The fact is that oilmen from around the nation are only now finding Tennessee, and they like what they are finding. The state expects drilling to be up 48 percent for 2005 and we expect it to double in 2006.

Enhanced Recovery

In addition to the drilling activity, Tennessee oilmen are getting into secondary recovery and are looking at the natural gas potential from the Chattanooga Shale for the first time.

Ky-Tenn Oil Inc. has acquired 40,000 acres of leases, held by production, in Fentress, Morgan and Scott counties. At one time, this area was the heart of the Tennessee oil play, but the unavailability of leases slowed exploration to a trickle. With the KTO acquisition of leases and gathering systems, the area is opening.

Signature Oil has partnered with Young Oil to develop a large shallow gas field in

Fentress County, and has built an eight-inch pipeline to get its gas to market. We plan to increase this area substantially in the coming months.

KTO has built the first waterflood in the Fort Payne formation, and is awaiting final Environmental Protection Agency approval before kicking off what is expected to be a 300 barrel-a-day flood when fully operational. KTO is planning six more waterfloods.

Several firms, including KTO, Atlas America and Ariana Energy, have been very successfully stimulating the Chattanooga Shale with nitrogen and sand. Initial production rates are in the 70-350 Mcf a day range, from a shale section that is less than 100 feet thick.

Until very recently, we have considered the Chattanooga Shale only as a marker below the prolific Fort Payne formation. In most cases it is only 40 feet thick, and we didn't believe it had much potential, 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 the state's 4,000 abandoned wells, many of which have the shale exposed.

Between extensive leasing, wildcat plays, development drilling, waterfloods and shale stimulation, there is a lot going on in Tennessee. We certainly are not a closed shop; there is always room for more.

The most drilled, least explored basin deserves another look. Come see for yourself. Call the Tennessee Oil & Gas Association office at 615-371-6137. You are always welcome in Tennessee. □