

GROWING PROSPECTS

M. Ray Thomasson talks about his exploration and business philosophy and prospect generation in today's world.

INTERVIEW BY
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M. Ray Thomasson heads Thomasson Partner Associates Inc., one of the premier prospect-generating shops in the business. The Denver-based association of about 30 geoscientists generates onshore U.S. prospects. The company specializes in large projects, starting at half a trillion cubic feet of gas equivalent.

Thomasson's career has been dedicated to exploration. After two years in the U.S. Air Force as an intelligence officer, he earned a Ph.D. in geology from the University of Wisconsin. He enjoyed a 17-year turn at Shell Oil Co., from 1959 to 1977, culminating in his position as chief geologist.

Post-Shell, Thomasson was vice president of McCormick Oil and Gas Inc., president of Spectrum Oil & Gas Inc., and president of Pend Oreille Oil & Gas Co. He moved to Denver in 1986 and worked as a consultant until he founded Thomasson Partner Associates in 1991, which offices in an 1890s-era Denver mansion.

Professional service has been a hallmark. Thomasson has held many volunteer positions with the American Association of Petroleum Geologists, and served as its president. Additionally, he is a past president of the American Geological Institute.

Thomasson has published and lectured widely on petroleum geology and geophysics; his original goal was to work in the oil industry for five years before returning to academia to teach. But then he fell in love with exploration and never left. Here, he talks with Oil and Gas Investor about prospecting.

Investor What is your business philosophy?

Thomasson I am passionate about teamwork. At Shell, I learned what synergy could do. In 1970, as division exploration manager of the offshore, I started the first teams in Shell Exploration in which geologists, geophysicists, petrophysicists, paleontologists, geochemists and reservoir engineers worked together. More importantly, everyone worked on more than one team and more than one project at the same time. This increased productivity exponentially, and this is the model we follow at Thomasson Partner Associates.

Investor What is a typical workday like?

Thomasson We are a pure generating shop,



and we are unique in the industry. At TPA, you eat what you kill. We have more than 30 associates who work on spec and only four paid staff. About half of the associates work full time, and the rest vary.

Everyone in TPA participates in every project in which they are involved. Each project has a play manager, and that person might be managing two or three projects and working on two or three others, all at the same time.

Fees and overrides earned from the sale of a project are divided among the project team, with a slice off the top for overhead. And, 20% of the overrides go into a royalty pool, and everyone is part of that based on their contribution.

We don't have a hierarchy. No one reports to anyone. It's as if you were on a raft trip on a river. People know what needs to be done, and they do it.

Investor What is your focus?

Thomasson Our main focus is on large, high-impact projects that have the potential of more than half a trillion cubic feet equivalent (Tcfe). Currently, six of our Rocky Mountain projects include approximately 600,000 Thomasson-interest acres. We have international and domestic companies, ranging from majors to medium-size independents, pursuing these deals. We also have several other large projects, and multiple low-risk opportunities.

Investor What is TPA's track record?

Thomasson Since 1992, we have sold 99 projects and prospects comprising 4.6 million acres. About half of those have been drilled to date. Through 2006, estimated expenditures on all projects is \$400 million, and we have discovered proved reserves of 789 billion cubic feet of gas equivalent (Bcfe), net to investors.

To date, our estimated finding and development cost is \$0.51 per thousand cubic feet, based only on proved reserves. Added to that is approximately 500 Bcfe of probable net to investors, for a total of 1.3 Tcfe in 2P reserves. We have had 560 wells completed out of 639 drilled on our projects during the past 15 years.

Investor What are the hot plays?

Thomasson Today at TPA we concentrate on the Rockies, Midcontinent and Eastern U.S.

M. Ray Thomasson's oil-industry career began at Shell Oil Co., culminating in the position of chief geologist. Post-Shell, he worked with independent oil companies and founded his own prospecting firm in 1991.

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M. Ray Thomasson, Thomasson Partner Associates Inc.

Generally, projects are somewhat easier to sell now than seven or eight years ago. Up until 2005, we sold an average of 5.5 projects per year. In 2006, we sold 11, and last year we sold six and optioned two.

But selling is still hard—increasingly, we find that companies have become more adverse to risk. We have to find the right fit, especially in frontier provinces. We deal with more than 1,000 companies.

Hot plays at the moment are the Bakken in North Dakota, Black River in New York, Barnett in Texas and Midcontinent shales. In the Rockies, people are very interested in several basin-center gas plays and Niobrara and Mowry basin-center oil plays.

No one knows what will happen to oil and gas prices, so we try to keep our mix 60% gas and 40% oil.

Investor What are the biggest challenges in the present environment?

Thomasson In the late 1980s, I selected the Rockies as our focus area because it was under-explored, susceptible to new technology, offered cheap and available acreage, and most major companies had left the region. Today, there are lots of new entrants, both majors and smaller companies. Less acreage is available, and what is out there is more expensive.

That said, the Rockies are still somewhat underexplored and great opportunities remain. Also, new technologies are making tremendous impacts. All this means it's tougher for us to compete. We have suffered because we are under-capitalized.

Investor How is exploration for resource plays different from exploration for conventional accumulations? Is the skillset different?

Thomasson Structural geology is more important in conventional plays, while petrophysics is important to both but is vital to unconventional exploration. Also, unconventional plays require more land and it's crucial to get in early. Another difference is that it takes more wells to condemn an unconventional project, and once you prove that you are going to be successful, the scale is enormous. The skillsets aren't that different between conventional and unconventional exploration, however. In both cases, you must understand the analog.

Investor What traits should an aspiring explorationist possess?

Thomasson Curiosity, enthusiasm, problem solving, creativity and a willingness to work hard are traits I look for. Honesty is paramount—honesty with data, themselves, peers and partners. The person has to be very intelligent and have a strong ability to work well with others. And he or she should be well rounded. Plus, a positive outlook is key.

Investor What is the best improvement in the industry during your career?

Thomasson Technologies have constantly improved, and that has opened massive new plays,

such as basin-center gas and oil, coalbed methane and shale gas. In seismic processing, for instance, improvements have been remarkable and have allowed new looks at old plays.

Investor What's the worst change?

Thomasson It's much more difficult now to have a handshake deal. The structure of companies has changed to the extent that people reviewing prospects and projects don't have authority to take them.

Investor Do you still have time to generate prospects yourself?

Thomasson No! But frequently when we start projects I will see opportunities that the others have not seen. That's when I get excited. The most fun of all is making a wildcat discovery, and I still think I'm the best interpretive geophysicist here.

Investor Of what are you most proud?

Thomasson I have gotten the most satisfaction from keeping TPA together and helping people survive career-wise through the 1990s. When I formed TPA, most people couldn't get a job in Denver. I convinced some very talented people to get together, and that created the critical mass that we needed.

Investor Who are the people who helped you and mentored you in your career?

Thomasson Many people taught me different aspects of the game. Ron McAdams guided my career through Shell; Sandy McCormick taught me how important creative business thinking can be. Academically, I'm indebted to Walter Keller at Missouri University and Lowell Landon at the University of Wisconsin. Inspirationally and professionally, I'd like to acknowledge Charles Weiner, Bill Fisher, Bob Gunn and Bob Weimer.

Investor What are the three most important things you have learned during your career?

Thomasson Much of the time, our technology—as good as it is today—will give us incomplete or incorrect answers. We should not science ourselves out of a good play. Also, it's important to surround yourself with people who are either smarter or know more than you do.

Finally, never give up! Persistence pays off.

Investor What are your plans for TPA?

Thomasson It's paramount that we continue to stay abreast of technologies as they develop. I help us do that through journals, meetings and personal contacts. We have brown-bag lunches where we have experts talk to us.

We also have to bring on younger staff. We need to do that to maintain our quality into the future. Finally, we're interested in operations. We have a close association with a new operating company and we hope to grow that.

Investor What about personal hobbies?

Thomasson My wife and I love skiing and hiking in Colorado and world travel. I love gardening. We have a home outside of Asheville, North Carolina, and we are landscaping the side of a mountain. Every year since 1980, we have planted a minimum of 2,000 daffodils. □