



Southwestern Energy
Company

horizon



Winter 07 | an informative quarterly for Arkansas land and royalty owners of Southwestern Energy Company

Welcome
to the first edition of a
newsletter designed for you
– Southwestern Energy
Company's royalty owners.

Our goal is to provide helpful information concerning your interests in natural gas production in your area. We look forward to sharing information about a range of exploration and production topics, answering many frequently asked questions (FAQs), and providing contact information for Southwestern Energy. We welcome your feedback. Please share your comments with us by going online to www.swn.com/ownerrelations.

the issue

Working together

Arkansas Legislative Session under way
Arkansas' legislature meets in regular session every two years, and the 86th General Assembly is now under way. Southwestern Energy Company monitors legislation and regulations that affect you as a royalty owner, and we will be sharing relevant information with you throughout the session. If proposed legislation has the potential to affect you, you should contact your State Senator and your State Representative to let them know of your opinion.

It's easy to contact your legislators either by email or phone. First, you can find out who your senator and representative are by going online to: <http://argis.uar.edu/website.districtfinder/viewer.htm>. On the right side of this page, select the map to display Arkansas, Counties, Cities, Roads and either House or Senate districts. You can zoom in on your location and determine your House or Senate district number.

You can then go to www.arkleg.state.ar.us. Select Legislators and Committees, then choose either Senators by District Number or Representative by District Number. Select your Senator or Representative by clicking on their name beside your district number. Information on that legislator will be displayed. If there is an envelope icon beside their name, click on that icon to send them an email.

You can also call your legislator during the legislative session at the following numbers:

Senate 501-682-2902; **House** 501-682-6211.



the inside

Our state

The Fayetteville Shale Play

One of the biggest projects in the works at Southwestern Energy Company is the Fayetteville Shale play, an unconventional gas reservoir located on the Arkansas side of the Arkoma Basin. Southwestern Energy has placed a major focus on the exploration and production of the Fayetteville Shale. From inception through the end of 2006, Southwestern has invested approximately \$600 million toward developing the play.

In addition to offices in Fayetteville, Arkansas, and Houston, Texas, the company has a rapidly expanding office in Conway, Arkansas, which services the around-the-clock activities in an 11-county region comprising the company's Fayetteville Shale focus area. Employees work on various teams including: SEECO, Inc.; DeSoto Drilling, Inc.; DeSoto Gathering Company, Southwestern Energy Services and corporate employees.

Why is it called the Fayetteville Shale?

The shale is a Mississippian-age shale that is the geologic equivalent of the Caney Shale found on the Oklahoma side of the Arkoma Basin and the Barnett Shale found in north Texas. It is named after Fayetteville, Ark., where it was first

described in an outcrop in 1891 by Frederic William Simonds, assistant geologist in the Arkansas Geological Survey.

The unconventional gas reservoir ranges in thickness from 50 to 550 feet and in depth from 1,500 to 6,500 feet within the company's area of operations. Shale is a tight, finely grained rock that requires hydraulic fracture stimulation to produce economic quantities of gas. It has only been in recent years that shale has become an economic source of gas supply due to better completion and drilling technologies and higher natural gas prices.

Western Arkoma Basin Operations in Arkansas

Southwestern Energy also operates a natural gas drilling and production program in the Arkoma Basin, specifically in western Arkansas and eastern Oklahoma. The company's operations have focused on finding and producing natural gas found in reservoirs ranging from 3,500 feet to 8,000 feet in depth.

The company began production at the White Oak Field in Franklin County in 1943 and has maintained continuous operations in the basin since that time. Today, the company's activities are still focused in the "fairway" portion of the basin, as well as in non-fairway areas such as its Ranger Anticline development area located in Yell and Logan counties.



at work

In the county

Southwestern Energy Company currently has thousands of owners to whom it issues checks each month. In order to manage all the owners in our system, we assign each owner a unique owner number. We also assign to each well a unique property number.

Your owner number and the associated property number will appear on all

correspondence from us, such as a division order or a check detail attached to any payment we make to you for production from the well or wells in which you own an interest. So that we may better assist you, please include your owner number and property number in any correspondence addressed to us.

Partnering with you

We're proud to be a growing part of communities throughout Arkansas. From environmental causes to educational opportunities, we are partnering with organizations to help make a positive impact on the quality of life in our region. Some of our partnerships include:

United Ways of Faulkner, Conway, Cleburne and White counties So much good is done for so many people through the United Way in communities across our state. For many years, we have supported the United Way where we have had long-standing operations such as Washington and Benton counties. This year, Southwestern Energy has donated an additional \$25,000 to the United Ways in the Fayetteville Shale region where our new operations are located and where many of our new employees live and work.

Partnership with University of Arkansas Community College at Morrilton New jobs and careers are under way for dozens of students enrolled in the new petroleum technology

program at University of Arkansas Community College at Morrilton, thanks to Southwestern Energy. The company has pledged \$200,000 to fund the establishment of the new program, which kicked off this fall semester. The college now offers the Associate of Applied Science degree in petroleum technology, which gives students specialized education in oil and gas exploration, production, and development particularly designed for individuals pursuing jobs and careers in the Fayetteville Shale play.

Read about our new partnership with the Arkansas Game and Fish Commission and the U.S. Natural Resources Conservation Services on pg. 5.

the inside

Our state

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in touch

Online for you

www.swn.com/ownerrelations

Southwestern Energy has created a new section on its web site for royalty owners. The site includes information about a variety of things including: the payment process and payments related to production on your leased mineral property; instructions on how to make changes in ownership of your royalty interest; frequently used forms; a list of commonly asked questions; links to industry web sites; and other items of interest. You can also email questions to us through our web site. We encourage you to visit the site often, and please let us know how we can make it more helpful to you.



on our minds

Frequently asked questions

In each issue of this newsletter, we will share some questions commonly asked by royalty owners. Please visit www.swn.com/ownerrelations for more FAQs.

What is an oil and gas lease?

An oil and gas lease is a written agreement in which a mineral owner (the "lessor") allows another person or company (the "lessee") to explore for, drill, and produce oil or gas on specified lands for a certain period of time in exchange for the payment of royalties. The lease provides a legal description of the property, the amount of royalty to be paid (typically expressed as a fraction, e.g., 1/8 or one-eighth), the length of the lease (also known as the "primary term," typically for a specific number of years), and the rights and obligations of the lessor and lessee. The lease remains in effect as long as commercial production is maintained or continuous operations are conducted as set forth in the lease.

What are royalties?

Royalties are the mineral owner's share of production as reserved in an oil and gas lease. The royalty amount is usually expressed as a fraction of the total amount of hydrocarbons produced from the leased premises (or the proceeds attributable to such production).

What is "clearing title?"

Before obtaining an oil and gas lease, drilling a well, or making payments under a division order, the operator must determine who owns title to the surface, minerals, and royalty and working interests in the land. This is done to ensure the operator has the legal right to drill, and so the operator will know which parties have a legal right to production or royalties. Title is typically determined by a title opinion, which is an attorney's written legal opinion based upon an examination of the real property records in the county where the land is located. The opinion will often recommend that curative instruments be obtained before the property interest is purchased, drilled on, or otherwise dealt with. This process may take several months and may involve a period of time between the drilling of the well and actual payment of royalties.

Who is an operator?

An operator is the party responsible for the day-to-day management of all oil and gas activities related to the exploration, production and marketing of oil and natural gas. Southwestern Energy and other companies like it can be operators.

What is a division order?

Once title has been "cleared" (i.e., verified by a title opinion) and a producing well has been drilled, a division order authorizing the sale of

production from the well is sent to all royalty and working interest owners for their signatures. The division order sets forth the decimal interest of production owned by each party, their addresses and tax identification numbers or social security numbers, and a legal description of the property on which the well is located. Once the royalty owners and working interest owners have signed the division order, they may be put into a "pay status" to begin receiving royalty payments.

What are some of the more common interest types shown on my check and what do they mean?

Interest types are represented by a numeric code on Southwestern Energy Company's check detail. Code explanations are shown below.

- 1. Working Interest:** The exclusive right granted to the lessee to explore for and to produce and own the oil and gas located under the lands covered by the oil and gas lease. The working interest owners bear all costs of exploration, development and operation.
- 2. Royalty Interest:** Lessor's share of production as set forth in the oil and gas lease.
- 3. Overriding Royalty Interest (ORRI):** An interest in production that is created and payable out of the working interest. Usually, the term of an ORRI is for the life of the oil and gas lease.

When are checks issued?

Southwestern Energy Company typically issues checks on the 25th of each month. Please allow time for postal delivery. Lessee and royalty payments are from SEECO, Inc., or Southwestern Energy Production Company, both of which are wholly owned subsidiaries of Southwestern Energy.

When can I expect my first royalty payment?

Typically, the first revenue distributed by Southwestern Energy Company is 60 days after the first month of sales. Therefore, if a well begins producing in January the first revenue to be distributed would be in March. Checks are usually mailed on the 25th of each month. However, several things may affect the issuance of an owner's first royalty check. The first distribution of revenue may be delayed if clear title to the property has not been received. Also, checks are issued if the owner's total royalty is greater than \$100. If an owner's total royalty is less than \$100, a check will be issued once a year. Occasionally, wells may be capable of producing gas but lack adequate pipeline connections. Therefore, production will begin pending connection to a pipeline. Once production begins, the 60-day revenue distribution will apply.

our partners

Reforming Arkansas's quail habitats

A partnership between Southwestern Energy, Arkansas Game and Fish Commission and U.S. Natural Resources Conservation Service

This partnership will create a new quail habitat on 9,700 acres of private land in the Damascus area of north-central Arkansas. The first work will be done on the Cove Creek Boy Scout Reservation in northern Faulkner County, just west of Damascus. We have also helped build several miles of new trails on the reservation for scout use. This project also will include planting of native warm season grasses and forbs, which provide food and cover for quail, throughout the habitat as well as along natural gas production pipelines in the area.



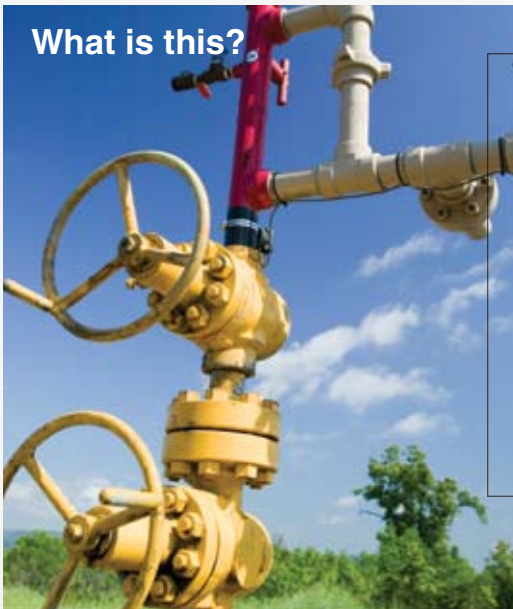
in a word

glossary of terms

In each issue we will share the definitions of some common oil and gas industry terms.

Fracture stimulation

This is a method used to extract natural gas using pressure applied deep beneath the earth's surface to the geological formation, such as shale, where natural gas is stored. Once a well is drilled, steel pipe (called casing) is placed and cemented into the hole, isolating the target formation and protecting shallow formations which may be used as water sources. A water solution containing sand is pumped under high pressure down into the well and through designed holes or perforations in the casing. This process causes small microfractures or tiny cracks in the shale, and the natural gas trapped in the rock formation is released to flow freely back up the well, where it is processed on the earth's surface and placed into pipelines to be sold.



What is this?

A "Christmas Tree" is the term given to the series of pipes and valves that sits on top of a producing gas well.

Contact Us

Southwestern Energy Company

Attn: Division Orders/Lease Records
2350 N. Sam Houston Parkway
East, Suite 300
Houston, TX 77032

On the web:

www.swn.com/ownerrelations

Or e-mail Southwestern Energy Company at:

ownerrelations@swn.com

Or contact Southwestern Energy Company by phone:

Owner Relations: 1-866-322-0801
Fax: (281) 618-4757

We realize it may be frustrating to phone into a prompt system where you do not speak with someone personally. However, by leaving a voice mail on the prompt system, you allow us to better serve you by looking up your information in preparation for response to your questions. By phoning you back, we also hope to save you time and expense in long-distance calling. We appreciate your patience and assure you we strive to return all calls within 48 hours of receipt.

Office Hours:

Monday through Friday 7:30 a.m. to 4:30 p.m. Central Time.

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