



NEWS

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Surging Costs Cause U.S. Producer Spending to Nearly Triple Since 2003, NGSA Says

(Washington)... During the last three years, U. S. producer spending has nearly tripled largely because of the increased cost of finding and producing natural gas, the Natural Gas Supply Association (NGSA) said today.

“A combination of increasing activity along with higher per unit service and technology rates led U.S. producers to spend about \$156 billion last year alone in response to continuing tight supply and strong energy demand,” said Chris Conway, chairman of NGSA, who participated in a joint media briefing with the Canadian Association of Petroleum Producers (CAPP). “Compared to the \$56 billion for 2003, that’s an increase of almost 200 percent.”

Although there are indications that some near-term costs may have temporarily peaked, as the market comes back into balance after the 2005 hurricanes, finding and supplying natural gas for U. S. consumers is generally becoming more expensive because of a shift to more non-conventional exploration and production, which can often come at a higher cost, Conway said. International competition for offshore rigs, deeper resource recoveries and an expanding onshore fleet have also all had a part in the increased producer spending, he said.

“There is intense global demand for existing offshore rigs, causing day-rates to skyrocket. Also more onshore rigs and wells have been needed as a way of compensating for accelerating decline rates among existing wells,” he said. “Given government access restrictions, available geology is also becoming much more challenging, fueling higher technology costs.”

As a result, U.S. natural gas well completions continue to increase and, in fact,

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hit another all-time high last year of 31, 587, according to an overall supply analysis performed for the association by EEA/ICF International. Consumer energy demands also have led to a three-year doubling of the number of onshore rigs in the field, now totaling more than 1,400, which in turn has resulted in a steady, ongoing increase in U.S. proved gas reserves, from 158 trillion cubic feet (Tcf) in 1999 to 196 Tcf by the end of 2005.

Non-conventional natural gas reserves, such as shale, tight sands and coal-bed natural gas, went from 18.4 Tcf in 2004 to 19.9 Tcf in 2005, according to the review.

“Reserve changes between 2004 and 2005 indicate that most of the lower-48 increase has been tight- and shale-gas,” said Conway. “The Rockies and eastern Texas dominate recent tight-gas reserve additions. The Barnett play in northern Texas dominates shale-gas reserves.”

Conway, who also is president, gas and power, ConocoPhillips, said all of these trends indicate that U.S. producers are responding aggressively to ongoing customer demands.

“It is important to recognize that these costs represent only a portion of any end-use bill, which also reflects the fair market prices paid for immediately available supply,” he said. “Relying on these signals and incentives results in a win-win for buyers and sellers alike, as efficient market responses continue to assure reliable deliveries, reflected for instance in an unprecedented hurricane recovery and annual natural gas production that remains constant at 50-54 Bcf/day.

“It also allows customers to benefit from additional conservation and efficiency gains, not only preserving our supply and demand balance but also serving to mitigate and moderate future costs.”

NGSA represents integrated and independent companies that produce and market natural gas in the United States. NGSA is actively involved in pursuing regulatory and legislative issues that affect the association's members. Established in 1965, NGSA encourages expanded use of natural gas and supports regulatory and legislative actions that foster competitive markets.