



Report: F & D costs have soared over past 5 years

By Gary Taylor

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Average costs for finding and developing new oil and gas reserves have surged 122% for the major integrated oil companies and 76% for the independents over the past five years, with every indication they will continue to move higher, according to a report Friday from Oppenheimer analyst Fadel Gheit.

“Resource access restrictions as a result of politics, government policies or safety concerns are forcing companies to spend more on costly non-conventional resource plays in a challenging environment,” Gheit said in a review of reserve-replacement results last year for the eight largest integrated majors and 10 largest independents.

“As a result, we expect finding and development costs to continue to rise in the next few years, with the productivity gains from wider applications of advanced technology expected to mitigate some of this impact and slow down the cost escalation,” Gheit wrote.

His review found that average F&D costs for the eight majors jumped to \$19.55/barrel of oil equivalent and \$14.77/boe for the independents, up from respective averages of \$8.81/boe and \$8.41/boe five years ago.

In addition, Gheit found that the majors as a group replaced 121% of their production in 2007, led by ConocoPhillips and Hess, which both had a reserve replacement rate of 167%. XTO Energy led the independents with a rate of 514%.

During the past three years, Gheit determined ExxonMobil led the majors with an addition of 6.1 billion boe of reserves while Anadarko Petroleum led the independents with 1.6 billion boe.

“Although total industry spending on reserve replacement increased sharply in recent years, it significantly lagged the rise in oil prices, earnings and cash flow,” he wrote. In addition, Gheit noted that the majors have boosted spending in North America, where rising oil and gas prices have more potential to improve profit margins.

“Replacing reserve, let alone expanding it, has become more challenging in recent years as rising nationalism and increased government regulations in oil and gas-rich countries are limiting access to new resources, while rising costs in a highly uncertain energy price environment have made investment decisions in large projects more difficult,” the report concluded.