

SUMMARY of STATEMENT

Charles Davidson
Noble Energy, Inc.

on

Natural Gas and Heating Oil for American Homes

Subcommittee on Energy and Air Quality

November 2, 2005

To provide the best potential for near- and longer-term natural gas supplies and prices for consumers, we must see the following actions:

- **Industry and government must work together to restore as quickly as possible production that has been shut-in as a result of Hurricanes Katrina and Rita.**

This intensive and costly work is well underway, with creative approaches to increasing near-term supply for consumers.

- **Immediate, visible and responsible action by our federal land management agencies to improve and speed processing of energy permitting.**

On multiple-use lands administered by the Department of the Interior's Bureau of Land Management alone there is a backlog of more than three thousand applications for permits to drill (APDs) that are awaiting final approval. Working off this backlog and improving and speeding permitting processes can have real supply benefits, even in the nearer-term.

- **Immediate action by Congress and the Administration to see leasing of the remaining Sale 181 area in the Eastern Gulf of Mexico as early as next summer.**

Leasing of the remainder of the original Sale 181 area could lead to increased production from an area of high potential and relative market accessibility.

- **Immediate action should be taken to begin allowing selective removal of prohibitions against energy exploration, development and production offshore.**

The natural gas resources in current moratoria areas that prevent exploration and production off approximately 90 percent of our coasts outside of Alaska could be tremendous.

Finally, while there is great concern about the current high prices for natural gas, we need to recognize that this is not only a short-term problem, but also long-term as well. Long-term natural gas prices as reflected in the futures markets have also risen substantially, implying that there is a market perception that natural gas supplies will be tight for a long time. There is currently an opportunity to change this perception by taking meaningful and visible action on the recommendations presented here today.

Statement of
Charles Davidson
Chairman, President and CEO
Noble Energy, Inc.
and
Chairman, Domestic Petroleum Council
on
Natural Gas and Heating Oil for American Homes
also on behalf of
Independent Petroleum Association of America
International Association of Drilling Contractors
before the
Subcommittee on Energy and Air Quality
Committee on Energy and Commerce
U.S. House of Representatives

November 2, 2005

Mr. Chairman, I am Chuck Davidson, Chairman, President and CEO of Noble Energy and the Chairman of the Domestic Petroleum Council (DPC) that represents the largest U.S. independent exploration and production companies.

Today I am testifying on behalf of my company and the DPC, and also for the Independent Petroleum Association of America and the International Association of Drilling Contractors.

I am very pleased to be here to discuss the current natural gas supply and price situation – and how we might improve it for the nearer, as well as the longer, term.

We – government and the exploration and production industry – have potential to improve even this winter's natural gas situation for our consumers. But we must have prompt action.

I will explain actions in four areas that can help, perhaps very significantly.

First, however, we need to remind ourselves that the current tight natural gas market should not surprise us. Many in our industry, in trade associations and in think tanks have been warning of such a market for years. In 1999 and again in 2003, for example, the National Petroleum Council told us in the most comprehensive studies of their times that we had to make policy changes to fulfill our gas supply potential and ensure the best future for consumers. By and large the detailed recommendations of those and other studies have, until recently, been ignored.

Now we have more attention to our natural gas supply situation that provides a solid basis for reaching consensus on overdue supply actions. Unfortunately that is because

of current and projected high prices, industrial demand destruction and consumer hardship.

Clearly conservation is the most immediate and effective action that can offset some of what we see in today's natural gas market. We support it wholeheartedly. We are seeing increased efforts by governments and natural gas consumers across a broad spectrum to focus more attention on conservation. (And we support increased congressional appropriations for the Low Income Home Energy Assistance Program (LIHEAP) to aid our most vulnerable consumers while we work to ensure wise gas use.)

In addition, as this Committee and others have heard clearly, current and projected prices are causing businesses and industrial users to not only reduce gas demand by process improvements and fuel switching, but also by planning to make future investments overseas where natural gas costs less. These actions highlight that, while conservation is good and even necessary, it is not enough – and the more dramatic forms of conservation can have economic effects as manufacturing and investment in the United States decreases.

The bottom line is that there must be a market recognition and understanding that more natural gas supply is on the way.

Recommendations

To provide that market recognition and understanding, we must see the following:

- **Industry and government must work together to restore as quickly as possible production that has been shut-in as a result of Hurricanes Katrina and Rita.**

According to the MMS, as of last Friday, October 28, 2005, there was still one million barrels of daily oil production (1.0 MMBpd) and 5.5 billion cubic feet of daily natural gas production (5.5 Bcfpd) shut-in in the Gulf of Mexico as a result of Hurricanes Katrina and Rita. This shut-in production represents approximately 68% of the daily oil production and 55% of the daily gas production from the Gulf of Mexico.

As we look for additional supplies of natural gas near-term, there can be no more obvious source than gas currently shut-in as a result of these hurricanes. The industry knows this and is investing unprecedented funds that may ultimately reach billions of dollars to repair and replace damaged infrastructure. In the meantime, not only money, but also a lot of creativity is being expended to find ways to accelerate the return-to-production.

An example from my company relates to a new deepwater gas well that was about to come on production just as Hurricane Katrina hit. Even though the gas sales line to shore was intact, this well had to remain shut-in because damage to downstream oil pipelines resulted in there being no outlet for the liquid condensate that was to be produced with the gas. As a solution, we and our partners secured a barge and produced the condensate into the barge so that natural gas could flow from this high-rate well.

This is just one of many examples of creative actions being taken everyday as companies look for ways to accelerate the restoration of Gulf of Mexico production. In my view, nothing should have higher priority than these efforts.

- **Immediate, visible and responsible action by our federal land management agencies to improve and speed processing of energy permitting.**

On multiple-use lands administered by the Department of the Interior's Bureau of Land Management alone there is a backlog of more than three thousand applications for permits to drill (APDs) that are awaiting final approval.

An analysis done for the Domestic Petroleum Council -- and a similar analysis done for the Department of the Interior that has yet to be released -- demonstrates that adequate funding and resources to process and clear out those backlogged pending APDs could increase natural gas reserves in the Rocky Mountain region by several trillion cubic feet -- some of which would begin flowing soon and would make a difference in today's tight market.

The DPC analysis shows that in the first year of increased work to clear the backlog we could see as much as 105 -- billion cubic feet of additional natural gas production from the Rockies. That's enough natural gas to supply one and a quarter million additional households in that first year.

We know that the BLM has made significant progress in permitting -- and is processing more permits than ever. That progress needs to continue, but the demand for permits to meet natural gas consumer needs continues to rise, so we must see further processing improvements, including reduction of permit restrictions that are not essential for environmental protection, and speed.

Other agencies, especially the Department of Agriculture's U.S. Forest Service, have even further to go and must follow the BLM lead.

The prospect of such action would be recognized and understood in the natural gas market.

- **Immediate action by Congress and the Administration to see leasing of the remaining Sale 181 area in the Eastern Gulf of Mexico as early as next summer.**

The original Sale 181 area was administratively reduced before bids were received on the remainder in 2001. Discoveries in the portion that was leased provide much better understanding of the energy potential of the unleased portion. First production from what is expected to eventually be trillions of cubic feet of additional discovered reserves could probably begin flowing to market within 18-months-to-two-years of a lease sale.

Such a lease sale, based on appropriate congressional findings and direction, and based on the environmental work already done, could be held as early as next summer.

The prospect of such action – and more gas coming to market as additional Rockies supply also ramped up – would be recognized and understood in the natural gas market.

- **Immediate action should be taken to begin allowing selective removal of prohibitions against energy exploration, development and production offshore.**

The natural gas resources in current moratoria areas that prevent exploration and production off approximately 90 percent of our coasts outside of Alaska could be tremendous.

In fact, Atlantic and Pacific natural gas resource estimates are approximately what we believed to be in the Gulf of Mexico in the mid-70s. But in the area of the Gulf in which we have been allowed to search for oil and gas we have produced three times the 70s'

amount and we estimate five times more remaining. The more we explore, the more we know.

We must change our decades-old moratoria policy in view of both our growing energy demand and our 21st century offshore exploration and production technology that allows clean, safe extraction of oil and gas from deeper and deeper waters, with seabed wells and fewer facilities

At a minimum states should be allowed to opt out of moratoria off their coasts and share in resulting revenues generated by production. The House Resources Committee has taken bold action on such an approach by including the Ocean State Options Act in its budget reconciliation package.

Action by the Congress to approve such legislation – with its prospect of more natural gas supply coming to market in addition to more from the Rockies and the expanded Sale 181 area -- would be recognized and understood in the natural gas market.

Conclusion

One final point -- on prices. We in the exploration and production sector are price takers, selling our oil and gas into world and national markets in which forces well beyond our control determine price levels.

Higher prices do give us greater financial strength. This is essential in a business that may be somewhat less risky because of better technology, but in which much higher capital requirements (a billion dollars for one offshore project, for example) and

operating costs make our risks every bit as important as theirs were to the wildcatters of bygone eras.

But, in common with consumers, we are not well served by volatile prices. Planning for future investment requires ability to reasonably assume or project prices to support that investment. The prospect of volatility clouds our view of what we can afford to prudently spend in the future for new supply. More supply reduces the volatility that we see in markets such as today's and is in everyone's interest.

While there is great concern for the current high prices for natural gas, we need to recognize that this is not only a short-term problem, but also long-term as well. Long-term natural gas prices as reflected in the futures markets have also risen substantially, implying that there is a market perception that natural gas supplies will be tight for a long time. There is currently an opportunity to change this perception by taking meaningful and visible action on the recommendations presented here today.

Working together on supply, as well as conservation, government and industry can make real differences in the natural gas outlook for our country.

But policy action such as I have outlined is needed now.

Thank you.

I would be glad to answer questions.

Charles D. Davidson – Noble Energy, Inc.

Charles D. Davidson is chairman, president and CEO of Noble Energy, Inc., a leading U.S. independent energy company. Following its recently completed merger with Patina Oil & Gas, Noble Energy's North American operations include major producing assets in the Rocky Mountains, Mid-continent, Gulf Coast and Gulf of Mexico. In addition, Noble Energy operates internationally in Argentina, China, Ecuador, Equatorial Guinea, Israel and the North Sea. He has a bachelor's degree in chemical engineering from Purdue University and a master's degree in management from the University of Texas in Dallas. He is a member of several professional societies, community organizations and trade associations including the Domestic Petroleum Council, the Independent Petroleum Association of America and the Gas Technology Institute. He currently serves as the Chairman of the Domestic Petroleum Council and Chairman of the IPAA Offshore Committee.

