

1996 Profile of Independent Producers

The 1996 Profile of Independent Producers provides insight on the latest domestic oil and natural gas industry trends such as the fastest growing areas of the industry and the most popular external means of financing projects. Major conclusions about the industry are drawn from this comprehensive survey of independent oil and natural gas producers in the domestic oil and natural gas industry.

The 1996 Profile of Independent Producers confirms the increasing role of independent oil and natural gas producers in the domestic oil and gas industry.

Independent producers drill 85 percent of the nation's wells in 33 states with oil and gas production. They produce 65 percent of the natural gas and nearly 40 percent of the oil consumed by Americans. These independent producers have become a major player in developing the resource base in areas onshore, offshore and in the international arena. Armed with advanced technologies, a new generation of independent producers is leading the way in U.S. oil and gas production.

The survey was conducted by the Independent Petroleum Association of America in association with Industry Insights, Inc., Columbus, Ohio.

The following summarizes the results of the survey's ten major components, with highlights including: demographics, company profile, capital formation, technology, international operations, public lands—onshore, public lands—offshore, oil and gas operations, marginal well operations and taxes.

The major conclusions of the survey include:

- Although independents range in size from small one-or-two person companies up to very large public firms, the typical independent is a highly efficient small-business owner who has been established for many years.
- The offshore area continues to be one of the fastest growing domains of the independents. Slightly less than 11 percent of responding independents currently operate in federal waters, while 16.2 percent operate in state waters; an increase from the 1994 survey of three percent and nearly five percent, respectively.
- Slightly more than 14 percent of responding firms currently operate internationally, which is an increase of three percent from the 1994 survey. Approximately one-quarter of responding firms plan to pursue international opportunities within the next five years.
- Approximately one-fourth of responding independents expect to participate in horizontal drilling ventures in 1996.
- The most common forms of organization for responding firms are C Corporations and S Corporations.
- Slightly more than one-fifth of responding independents are publicly traded firms, with their stock being traded somewhat evenly between the AMEX, NYSE and NASDAQ exchanges.
- Independents have shown a fundamental change in external financing of projects, acquiring more of their capital from banks, an increase of over five percent from the most recent survey.

- Independents tend to be well-educated with a large majority holding a degree from some level of higher education. One-half of independents surveyed possess a professional background in either engineering or geology.

The following summarizes the results of the survey’s nine major components, with highlights including: demographics, company profile, capital formation, technology, international operations, public lands—onshore and offshore, oil and gas operations, marginal well operations and taxes.

Demographic Summary

Demographic Summary	All Valid Respondents
Position In Company	
Owner	35.1 percent
President	18.4 percent
CEO	13.5 percent
Vice President	9.4 percent
CFO	6.9 percent
Manager	5.7 percent
Other	5.7 percent
Partner	4.1 percent
COO	1.2 percent

Demographic Summary	All Valid Respondents
Age Group	
20-39	10.7 percent
40-49	36.9 percent
50-59	19.7 percent
60-65	13.9 percent
66 and over	18.9 percent

Demographic Summary	All Valid Respondents
Level Of Education Completed	
High School	7.3 percent
Bachelor's degree	54.7 percent
Master's degree	31.4 percent
Doctorate	6.5 percent

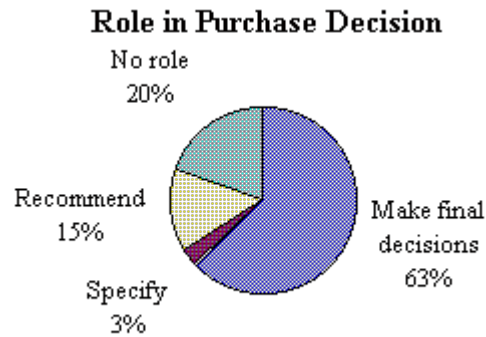
Demographic Summary	All Valid Respondents
Professional Background	
Engineer	31.3 percent
Geologist	26.1 percent
Accountant	13.9 percent
Landman	9.6 percent
Economics	8.3 percent
Marketing	4.8 percent
Banker	2.6 percent
Lawyer	2.6 percent
Communications	0.4 percent
Government relations	0.4 percent

*Throughout this report, a distinction will be made between numbers expressed as a percent of the total sample size of 251 versus numbers expressed as a percent of the valid, non-missing responses. As illustrated in table 1, "Position in Company", 6 surveys had missing or invalid information. Therefore, the percents shown are based on 245 responses rather than 251. This "valid" percent will be used throughout the report unless otherwise noted.

The vast majority of survey respondents are either owners of the reporting company or hold a high level management position within the company. As depicted in the demographic summary table to the left,

the highest percentage of valid respondents, 35.1 percent, are owners of the reporting company, with an additional 18.4 percent holding the position of president. A comparison of age groups indicates the largest percentage of respondents, 36.9 percent, are between 40 and 49 years of age. An additional 19.7 percent were between 50 and 59, while 18.9 percent of respondents were 66 and older. Independents tend to be well educated with 54.7 percent of respondents possessing a bachelor's degree, and an additional 37.9 percent possessing degrees beyond the undergraduate level. Engineering and geology are the predominate areas of professional background, representing more than half of the total respondents.

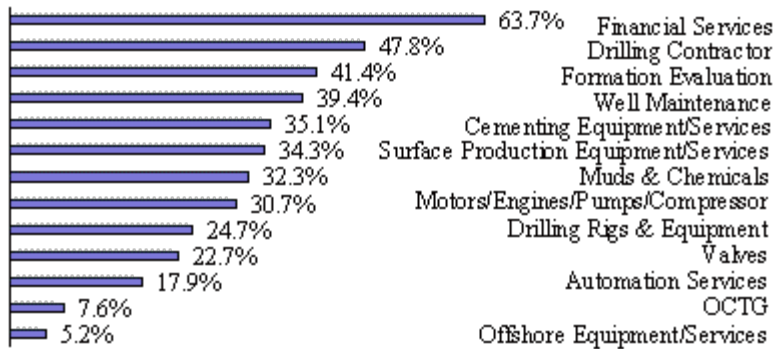
The respondents hold a high level of authority. Nearly 63 percent of the respondents report that they are responsible for making the final decision in the company's purchase of oil field services and supplies, an additional 17.5 percent play some role in the decision process [Graph 1].



Of the services typically recommended by respondents, 63.7 percent report they recommend financial services, 47.8 percent recommend drilling contractor services and 41.4 percent recommend formation evaluation/well completion services [Graph 2].

A comparison of age groups indicates the largest percentage of respondents, 30.0%, are between 40 and 49 years of age. An additional 22.7% are 66 and over, while 21.7% of respondents are between 50 and 59. Entrants into the industry tends to closely track crude oil prices, whereas the largest age group was during the last extended period of higher prices. An effort must be made to attract new employees into the industry or the current human resource problem will be exacerbated.

Services Typically Recommended

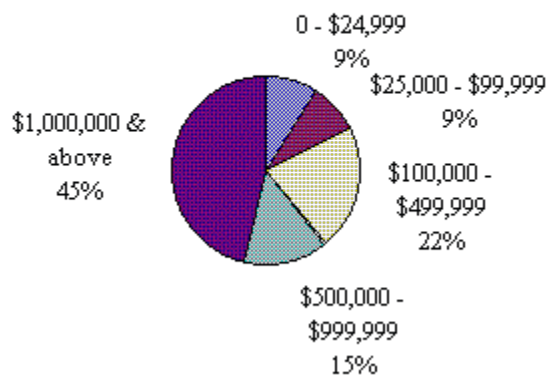


Company Profile Information

The company profile indicates that the typical responding company has been in business for 22 years and has gross revenues of \$2,888,000 and net income of \$250,000. In addition, the typical independent employs 10 full-time and 3 part-time employees. As these figures indicate, independents are small businesses that help fuel their regions' economic activity.

As is expected, the dominant business activity of association members is exploration and production with 76.6 percent responding. The remainder of the membership is comprised of service-supply firms at eight percent, while consultants, financial providers and royalty owners each represent three percent of membership from the survey results.

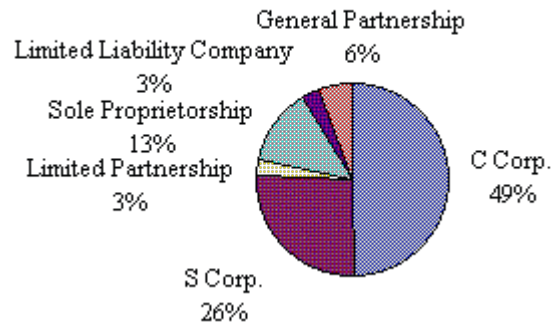
Annual Oil Field Services and Expenditures



A large percentage of independents were organized as C Corporations and S Corporations at 49.8 percent and 25.7, respectively. A total of 92.6 percent of companies are classified as independent (versus integrated) for tax purposes. Slightly less than a quarter of responding companies reported their stock was publicly traded. Of these firms, they were fairly evenly split among the major exchanges, with

NYSE and the NASDAQ slightly ahead at 33.3 percent each, followed closely by the AMEX at 31.3 percent [Graph 4].

Form of Business Organization



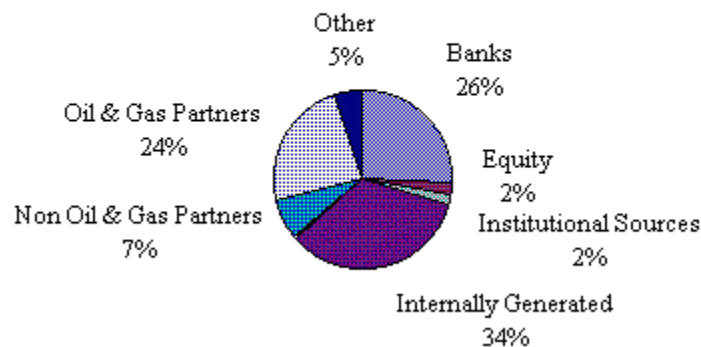
Industry Image

More than ninety percent of responding independents felt a national campaign to educate the public and policy makers about the domestic oil and gas industry was important. A total of 74 percent of firms are willing to contribute time or money to such a campaign.

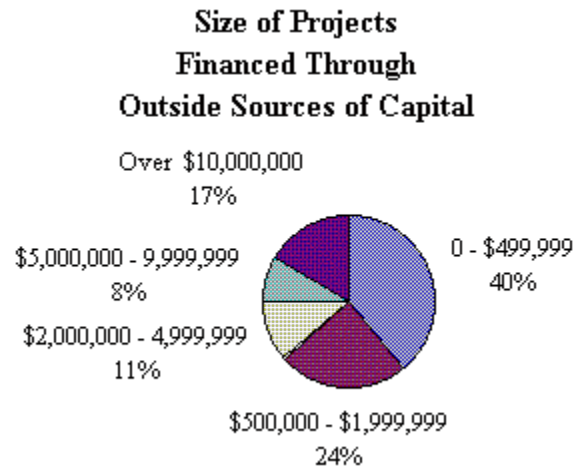
Capital Formation

The capital formation section surveyed the financing of independents' projects. The most frequently mentioned source of capital was from internally generated sources at 33.8 percent, followed by banks at 25.8 percent and outside investors (oil & gas partners) at 23.9 percent. Bank participation has increased significantly in financing of independents projects. It grew by six percentage points from the 1994 Profile survey and has nearly tripled from the 1992 Profile survey. After looking at the capital providers, it is not surprising that private debt is the leading financial instrument used, followed by industry partnerships and private equity [Graph 5].

Percentage of Capital From Various Sources



The largest percentage of projects financed through outside sources are relatively small, with 39.3 percent of projects being \$0 - \$499,999 and an additional 24.4 percent being \$500,000 – \$1,999,999, for a total of 68.7 percent under \$2 million. Since the 1994 Profile survey, financing over \$5 million increased from 19.8 percent to 25 percent. Over 85 percent of the private companies using outside financing were under \$5 million, compared with publicly-traded companies, which had 63 percent with external financing over \$5 million. This is compared to the 1994 findings of over 90 percent for privates and nearly 80 percent for public companies, respectively [Graph 6].



Price expectations play a large part in the budgeting process for exploration and production. The 1995-96 winter crude oil and natural gas prices showed relative strength which was reflected by increased expectations on capital expenditure budgets. Median capital expenditures for 1995 were \$1,000,000 and median budgeted capital expenditures for 1996 were up to \$1,500,000. As might be expected, capital expenditures increase with company gross revenues. Budgeted expenditures for 1996 ranged from \$100,000 in the smallest firms to \$50,000,000 in the largest firms. Volatility of prices is something all producers face, and the financial instruments most frequently used to guarantee price levels were long term contracts, futures and options.

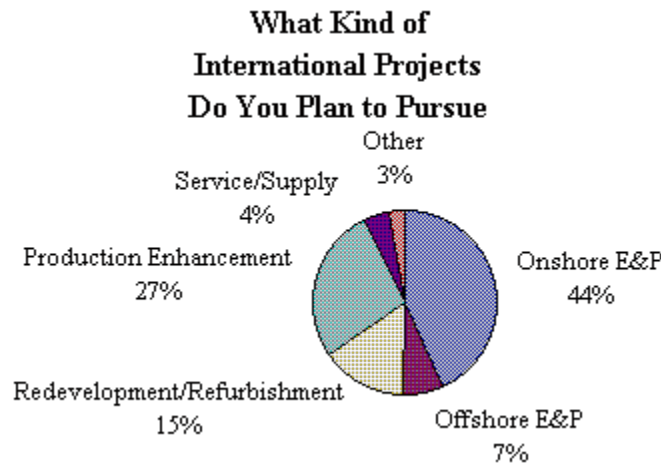
Technology

Besides company personnel, in many cases the use of technology is the second biggest contributor to the independents' relative success. Technology can contribute significantly to a company's bottom line in the forms of improved efficiency and reduced costs. The survey highlighted the following two technologies — horizontal drilling and 3-D seismic. With 37 companies responding, the typical firm participated in a median number of three horizontal drilling ventures in 1995, with 25 percent of the 205 respondents expecting to use horizontal technology in 1996. Median averages for horizontal drilling were much greater for public companies averaging 10 horizontal wells, whereas private companies averaged two wells in 1995.

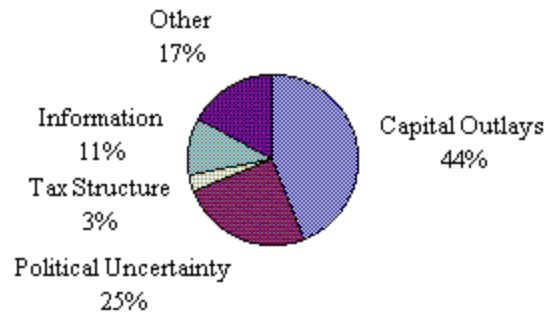
The median budget for seismic activity of companies in 1996 is \$250,000, with the range of the median averages of companies from \$35,000 at the smallest companies to \$8 million at the largest. The use of 3-D seismic is now more prevalent, outpacing 2-D. 4-D seismic, which is 3-D seismic that is time lapsed to show fluid movements, is not being significantly used by independents at this time. The 1996 seismic budgets represented a median increase of 72.5 percent over 1995 levels. 3-D seismic is becoming an extremely important exploration and exploitation tool that has become more competitively priced due to the increased speed and memory of the computer.

International Operations

The international arena is an area where many independents are considering risking relatively small amounts of their exploration budgets for large reserve payoffs. In 1996, 14.2 percent of responding firms reported participating in international operations, an increase from 11 percent in the 1994 Profile survey. Of those independents that did not participate in international operations, a total of 25.4 percent of firms plan to do so within the next five years—this is also an increase of over 5 percent. The projects responding independents will be pursuing internationally are onshore E & P and production enhancements [Graph 7]. The biggest hindrances to international operations were the necessary capital expenditure and political uncertainty [Graph 8].



Biggest Hindrance in Operating Internationally



Public Lands—onshore

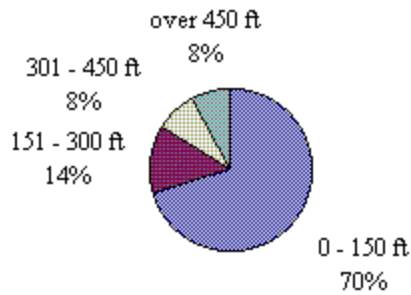
Slightly more than 42 percent of responding independents reported they currently hold federal or Indian leases. Of those who hold such leases, the median number held is 10. The median daily federal production of crude oil was 100 bbls per day, while the median daily federal production of natural gas was 800 MMcf per day. The median percentage of U.S. production that federal production represents is 8 percent of their total production. Typical independents with leases operate five marginal crude oil wells and four marginal natural gas wells on federal/Indian lands. A total of 34.6 percent of firms responded the graduated royalty rate for marginal wells has been very useful, 28.4 percent felt the royalty rate was somewhat useful.

Offshore

The offshore area continues to be one of the fastest growing domains for independents, who drilled 59 percent of the wells in the Gulf of Mexico in 1995. Slightly less than 11 percent of responding independents currently operate in federal waters, while 16.2 percent operate in state waters. These are significant increases — from 7.8 percent in federal waters and 11.9 percent in state waters from the 1994 Profile survey. Another 16.4 percent plan to operate offshore in the next five years, again about a three percent increase, and the biggest hindrances to those who will not are government regulations, environmental costs and financial constraints.

A total of 10.3 percent of independents reported having drilled wells in federal waters in 1995, while 9.5 percent drilled wells in state waters. Of those firms who drilled wells the median number of wells was six in federal waters and two wells in state waters. The median offshore crude oil and natural gas production for 1995 was 175,759 bbls and 21,393 MMcf, respectively. Independents tend to operate in the shallow waters of the Gulf of Mexico, with nearly 85 percent operating in water of less than 300 feet and about 8 percent operating in more than 750 feet [Graph 9].

Independent's Offshore Operations by water depth



Oil And Gas Operations

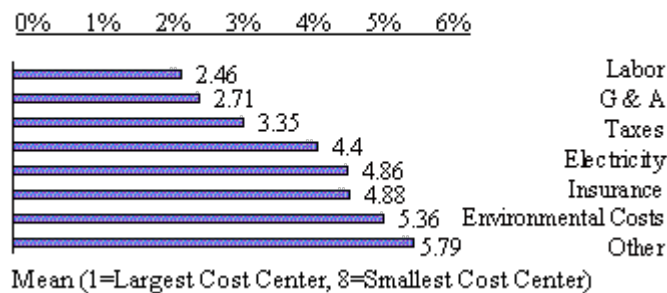
The typical respondent reported a median gross crude oil production per day of 360 barrels and a net production per day of 221 barrels. The typical respondent also reported a median gross natural gas production of 3,000 million cubic feet and net production of 2,000 million cubic feet. The largest percentage of independents would increase their exploration budgets in 1996 for crude oil at \$21.00-\$22.99 per barrel and their exploration budget for natural gas at \$2.10-\$2.24.

The typical responding independent currently operates 50 gross and 37 net crude oil wells and 30 gross and 24 net natural gas wells. The typical responding firm drilled four crude oil wells and five natural gas wells in 1995 and plans to drill five crude oil wells and six natural gas wells in 1996.

The largest percentage of natural gas, 35.2 percent, is gathered through intrastate pipelines, followed by interstate pipelines at 30.5 percent and independent gatherers at 19.9 percent. The remaining 14.3 percent is gathered through a producer/gatherer.

The largest percentage of responding firms, 40.8 percent, reported "labor" as their largest cost. This is followed closely by general and administrative expenses as the largest cost center of 33.1 percent of responding firms. The cost center identified as the largest by the least number of respondents was insurance, at 1.8 percent [graph 10].

Ranking of Cost Centers



Marginal Wells

Crude oil production from marginal wells accounted for large quantities of total production in nearly every size company. A marginal well is a well that produces less than 15 bbls per day of crude oil or less than 90 Mcf per day of natural gas. Marginal wells represent 60 percent of total crude oil production and 40 percent of total natural gas production from respondents. Marginal oil accounts for 75 percent of all crude production for small independents, between 30 percent and 50 percent of mid-sized independents and up to 20 percent for large companies.

Responding independents reported operating a median of 33 gross and 25 net marginal crude oil wells and 18.5 gross and 15 net marginal natural gas wells. As expected, the biggest concerns of marginal well operators are crude oil and natural gas prices. Other concerns listed were environmental costs, produced water, and the costs associated with decommissioning a well [Graph 11]. Responding independents further reported they operated a median of 12.5 wells that broke even or lost money in 1995. The median cost to operate a marginal well was \$10.00 per barrel of oil equivalent, excluding taxes and corporate overhead expenses. The median cost to decommission a 5,000 foot well was \$7,500 and \$15,000 to decommission a 10,000 foot well.

