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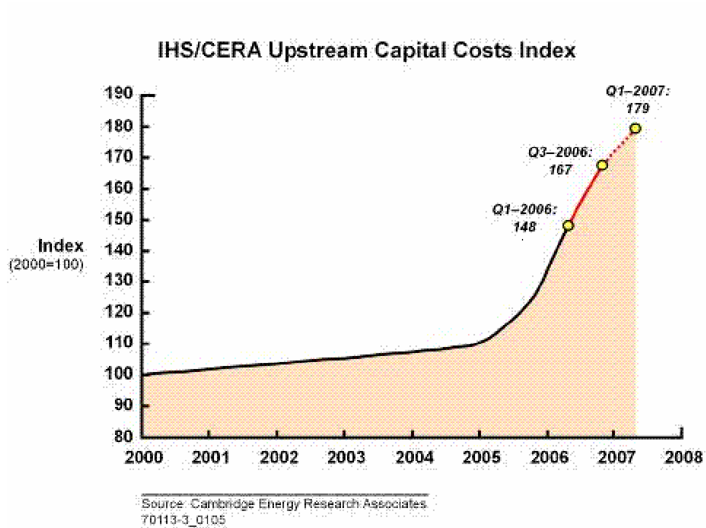
News Release

MEASURE OF OIL & GAS PROJECT COSTS REACHES NEW HIGH, BUT INFLATION RATE SLOWING; IHS/CERA UPSTREAM CAPITAL COSTS INDEX (UCCI) UP 7 PERCENT TO 179 POINTS

Are Project Costs Near the Top?

HOUSTON, May 8, 2007 – The dramatic cost surge in the oil and gas industry continues, but the rate of growth shows some signs of slowing, according to the latest update of the IHS/CERA Upstream Capital Costs Index (UCCI) released today. The UCCI, a key measure of cost inflation for oil and gas projects, reports that costs climbed seven percent to 179 points during the six months ending March 31, 2007. This compares with an increase of more than 13 percent in the previous six-month period. Since 2000 the UCCI has risen 79 percent, with most of the increase in the past two years, while the Producer Price Index-Commodities for finished goods (excluding food and energy) moved up just 16 percent during the same period.

"This new point indicates an annual rate of project inflation of 14 percent, which is high, but this is the second consecutive period of deceleration in the rate of increase," said Richard Ward, senior director for cost research at Cambridge Energy Research Associates (CERA). "In 2006, the UCCI measured annual rate of project inflation was 30 percent. This leads us to think that if this deceleration trend continues, it is possible that a cost plateau may be reached in 2008.



"Capacity constraints in the markets continue to be the biggest factor behind the increases, with equipment and service suppliers struggling to meet demand," Ward added. "Project delays and lengthening of project delivery schedules, often to accommodate later delivery of equipment is beginning to provide a natural balance. However, the shortage of experienced personnel is still a major factor. Are we at the top of this period of costs increases? The answer is, not yet. Based upon these trends, any significant relief on cost increases will not be seen until late 2008/09."

According to the CERA report, even with oil consistently above $50 per barrel providing a strong demand signal, the high cost levels are starting to have an effect on project announcements, scheduling, start-up delays, and, in one or two cases, outright cancellations. This effect is even more pronounced in gas projects.

Across the board all types of projects have seen a moderation in the rate of cost increases. Of the nine primary drivers of project capital development costs tracked by CERA on a global basis, all are continuing to respond to the high level of oil and gas activity; while in some regional markets, there has been a downturn for specific items such as rigs. Additionally, the continued strength of the global economy has maintained pressure on commodities and other generic equipment and services.

The impact of rising costs on people extends beyond design and project management personnel, as experienced workers are needed throughout the industry. The high number of complex, highly technical projects under construction demands top-flight, seasoned personnel. The market continues to see movement between companies and attempts to bring in staff from parallel industries such as refining and power.

Not all components are increasing at significant rates. For the first time since 2005, some areas are seeing relatively moderate increases in cost, including: processing and utilities equipment; installation vessel day rates, and yard construction activity. The only area to show some cost decline is rig day rates in specific regions.

"Capacity constraints continue to drive project costs," Ward said. "However, it appears that the industry could be coming to a balance on the seesaw of demand and ability to supply. The fact that this new 2007 point is showing a lower rate of increase is a result of demand beginning to come into balance with the ability to supply equipment and services, rather than adding further premiums for faster delivery.

"Analyzing the projects already committed over the next two to three years, we can see that the demand for equipment and services will remain at these levels for the immediate future," Ward added. "Additional market capacity that is currently planned will not be sufficient in most markets to bring very much relief to high costs during this time period."

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About the IHS/CERA Upstream Capital Costs Index (UCCI)

The IHS/CERA UCCI tracks the costs of equipment, facilities, construction materials, and personnel used in a geographically diversified portfolio of more than two dozen onshore and offshore oil and gas development projects. It is similar to the consumer price index (CPI) in that it provides an easy to understand tool for tracking and forecasting a complex and dynamic environment. The UCCI is unique in that it leverages the proprietary cost database and cost modeling tools of the IHS QUE$TOR™ suite of software. It also provides the platform for CERA's Capital Costs Analysis Forum. The UCCI can be tracked on the IHS Index Web Site: www.ihsindexes.com. For information on the Capital Costs Analysis Forum, contact Richard Morris at rmorris@cera.com

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