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Oil and Gas Field Operations Costs Reach New High; IHS CERA Upstream Operating Costs Index Up 5% in Last Six Months

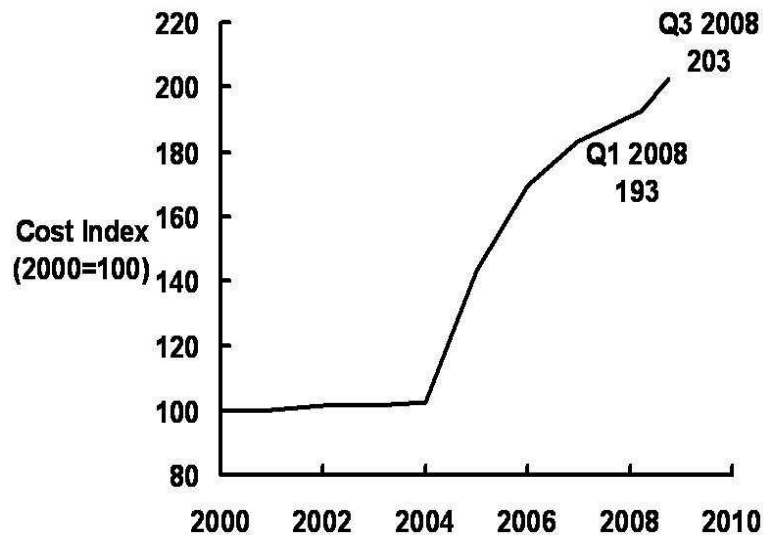
New IHS CERA Index Predicts Cost Drivers to Continue

CAMBRIDGE, Mass. (December 11, 2008) — Continued high project activity, high resource utilization and continued tightness in the supply markets and distribution of raw materials drove the new IHS CERA Upstream Operating Costs Index (UOCI) to 203 points in the third quarter of 2008 – a 103 percent increase since its 2000 benchmark year and a five percent increase in the last six months.

The IHS CERA UOCI is a proprietary measure of cost changes in the oil and gas field operations arena similar in concept to the Consumer Price Index (CPI). It provides a benchmark for comparing costs around the world and draws upon proprietary IHS and CERA databases and analytical tools. Values are indexed to the year 2000, meaning that a project that cost \$100 in 2000 would cost \$203 today.

“The new IHS CERA Upstream Operating Costs Index offers an additional avenue for examining the dramatic effects of rising costs on the energy industry, as well as the growing impact of the global recession,” said Daniel Yergin, CERA chairman and IHS executive vice president.

IHS CERA Upstream Operating Costs Index



Source: CERA

Increases in costs, and the resulting index values, continue to be comparatively higher for offshore projects in the representative portfolio than for onshore projects. Offshore project rates are driven primarily by the high utilization rate for marine vessels and workover rigs, as well as the rising costs for consumables as a result of high oil prices. The IHS CERA UOCI Onshore Index rose from 149 points to 153 points, indicating a two percent increase in the past six months, whereas the IHS CERA UOCI Offshore Index rose from 277 points to 296 points, a seven percent increase.

“All of the projects in the representative portfolio experienced cost increases over the past six months, though onshore projects showed the slowest rate of increase in comparison with other groups,” said Jeff Kelly, associate director for the Operating Cost Analysis Forum, an on-going research project of CERA. “Activity in the facilities inspection and maintenance market remained high, but costs were kept under control because labor rate increases were modest, despite personnel shortages.”

Costs for the global marine inspection and maintenance market rose eight percent over the past six months as demands for vessels remained strong. Market increases ranged from lows in the two to three percent range in the aircraft and personnel markets, to highs of eight percent in the consumables and marine inspection and maintenance markets.

Kelly notes that skilled labor shortages are the key driver of increases in the personnel market as companies continue to try and simultaneously maintain current operations and invest in production optimization activities, though as of the end of the third quarter, currency fluctuations have begun to ease cost escalation.

The increase in consumables costs reflects a strong demand for chemicals in tandem with a constant rise in current feedstock and energy costs, including diesel consumption and fuel for power generation – which are both responding to oil price increases. The aftermath of Hurricane Ike has also driven up demand for maintenance services in the Gulf of Mexico, putting pressure on costs by raising the demand level for service and support vessels.

“In the short-term future, the effects of the current credit crunch on the global construction market are not expected to have much impact on the oil and gas operations market,” added Kelly. “Fields already in production are unlikely to be shut-in in most regions. In time, if low prices persist, they are more likely to move to production optimization, increasing the need for in-field services. This approach should maintain pressure on the already constrained market for skilled personnel, and maintain high utilization rate of the vessels required for inspection and support.”

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About the IHS CERA Upstream Operating Costs Index (UOCI)

The IHS CERA UOCI measures cost changes in the oil and gas field operations arena. It is similar to the consumer price index (CPI) in that it provides a clear, transparent benchmark tool for tracking and forecasting a complex and dynamic environment. The UOCI can be tracked on the IHS Index Web Site: www.ihsindexes.com. The UOCI is a work product of CERA's Operating Costs Analysis Forum for Upstream. For information on the Operating Costs Analysis Forum for Upstream, contact Jeff Kelly at jkelly@cera.com.

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Cambridge Energy Research Associates (CERA), an IHS company, is a leading advisor to energy companies, consumers, financial institutions, technology providers and governments. CERA (www.cera.com) delivers strategic knowledge and independent analysis on energy markets, geopolitics, industry trends, and strategy. CERA is based in Cambridge, MA, and has offices in Bangkok, Beijing, Calgary, Dubai, Johannesburg, Mexico City, Moscow, Mumbai, Oslo, Paris, Rio de Janeiro, San Francisco, Tokyo and Washington, DC.

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