Memorandum

To: Members of the House of Representatives

From: Charles Davidson
Chairman - Domestic Petroleum Council
Chairman, President and CEO – Noble Energy, Inc.

Date: January 16, 2007

Subject: Energy Policy: Natural Gas Investment, Supply and Price Effects of Policy Choices

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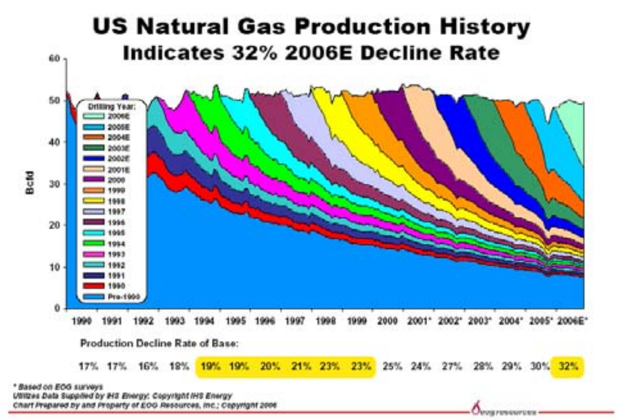
As Congress considers energy policy changes this week it must be aware that increased tax and royalty costs placed on energy producers – even to fund future conservation and alternative energy efforts that are good for the country – will have near-term supply effects, especially for natural gas, that cannot be good for consumers.

The largest US independent natural gas and oil exploration and production companies that make up the Domestic Petroleum Council <u>invest more than they earn each year – over the past five years twice their earnings</u> – to apply leading-edge technology to find and develop energy supplies that are essential for our economy and our consumers. They are exploration and production leaders from the densest onshore shale formations to the deepest wells in the deepest waters of the Gulf of Mexico.

The good news is that especially with respect to natural gas we have abundant resources in North America. With access to them, and with stable tax and other policies we can approach self-sufficiency. We are making progress. Drilling is at record levels. Reserves are growing. Production is essentially holding steady. There is movement toward accessing more promising areas that will make substantial improvements in our energy outlook (including the offshore as a result of the Gulf of Mexico Energy Security Act passed by Congress and signed into law late last year). And our energy permitting and related processes are becoming more efficient. We must do more in all these areas, not slow our progress or reverse it.

Current mild weather is masking a delicate natural gas supply/demand balance that fortunately allows time for us to continue and increase pro-supply momentum. Because of our past inability to explore more promising areas, efforts and technology have been focused on smaller reservoirs and more difficult to produce formations. The result is that well decline rates are now 32% per year and accelerating. That means we must drill more wells every year just to maintain production levels. We are meeting that challenge.



DPC companies have recently experienced massive increases in drilling and other service costs as they pursue these challenging projects. Unfortunately, their earnings, which had finally reached a level for adequate returns after years of underperformance are now headed downward due to lower oil and natural gas prices. Increasing taxes and royalties on these companies now will almost certainly force reductions in drilling budgets. That will quickly lead to falling production and higher prices for all gas consumers from industrial users to those who rely on natural gas to heat their homes.

More costs on energy producers for potential longer-term alternatives will have near-term negative effects.

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