

# ***CHALLENGES FACING THE NATURAL GAS INDUSTRY***



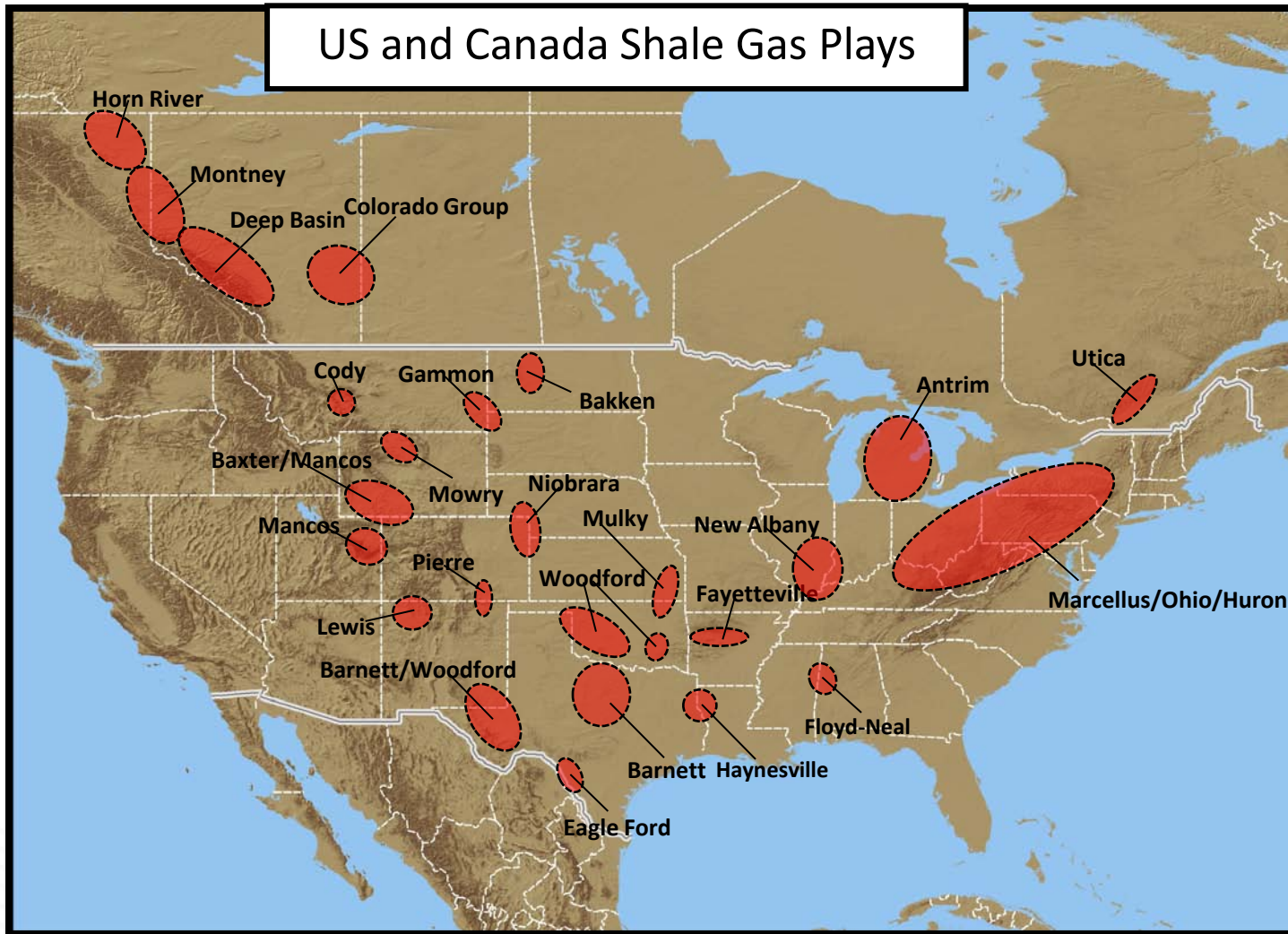
**AMERICA'S  
NATURAL GAS  
ALLIANCE**

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Washington, DC  
September 16, 2009

# AGENDA

- Resource availability NOT a constraint
- Challenges to the industry
  - Increased industry regulation
  - Tax increases
  - Regulation of derivatives
  - Litigation
  - Market concerns
- Steps government can take to expand industry in sustainable way
- Steps industry can take to expand in sustainable way

# RESOURCES AVAILABLE



# GOVERNMENT REGULATION

- Hydraulic fracturing legislation
  - Abundance of data supports environmental safety
  - Drive up cost of U.S. natural gas
  - Delay applications for permits to drill – lifeblood of the industry
  - Effectively being regulated at state level
- Rahall bill
  - Increase royalties from 12.5% to 18.5%
  - Create new federal bureau to act as leasing agent, inspector and auditor for federal renewable/non-renewable energy and mineral leasing

# TAXATION

- Obama administration
  - Talk of increased oil/gas taxes may have subsided
  - Increased taxes = curtailed private sector investment = less jobs and revenue
- Prior administrations
  - Policies encouraged exploration of Gulf of Mexico
  - Deepwater investments led to large discoveries of new oil & natural gas resources
  - Increased revenue, jobs and domestic energy reserves

# DERIVATIVES

- Hedging

- Financial instruments provide access to capital and cash flow that allow independent companies to invest in wells
- Not speculation – involves real, tangible commodities
- Improves reliability of future cash flows that are essential to the funding of drilling programs
  - Independents typically fully reinvest all available cash flow

- Financial reform

- Possible changes to hedging as part of larger regulatory reform
- Unintended consequences - baby out with the bath water
- May restrict access to capital, decrease investment

# LITIGATION

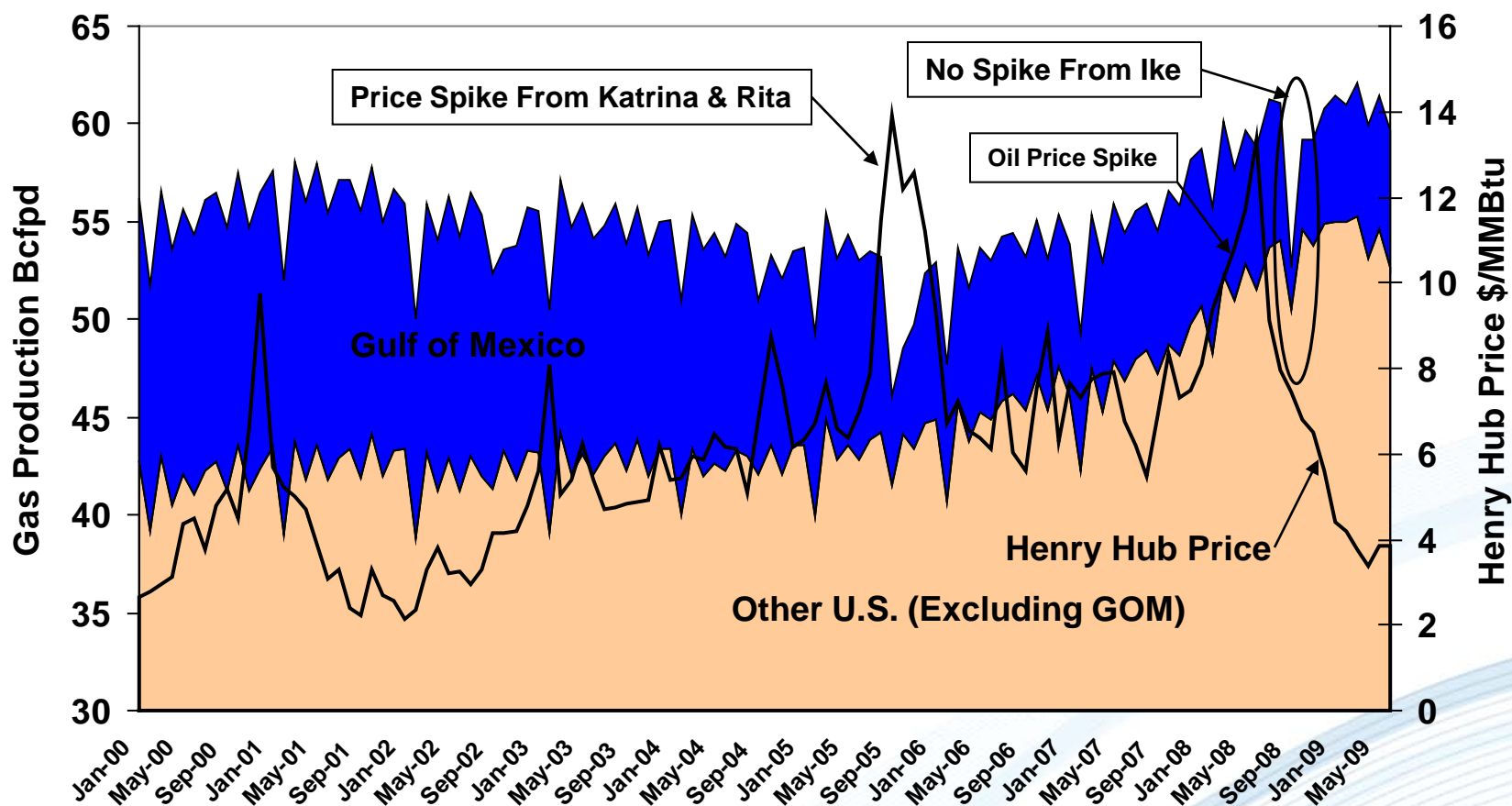
- Federal projects more difficult than need be
  - Any lease will be challenged
    - Not unique to specific project – blanket/standard challenges
  - Almost every environmental impact statement challenged in court
  - Drives up business costs, increases project times

# MARKET CONCERNS

- Price volatility
  - Abundance and diversity of supply greatly mitigates
- Stimulating demand
  - Does the market realize that supply has and will continue to increase?
  - Climate change legislation could stimulate – or inhibit – demand
- Health of supply companies

# Growth in U.S. Onshore Natural Gas

## Reducing Volatility Through Greater Supply Diversity



Source: EIA & Bloomberg

# WHAT CAN GOVERNMENT DO?

- Clear, consistent national energy policy
  - Stable regulatory environment at all levels allows large investments to bring resources to market
- Natural gas = reduced carbon emissions
  - For true impact, natural gas must be larger part of energy mix
  - Incentivize natural gas use in power generation, transportation, industrial uses (bridge credit)
- Reform National Environmental Policy Act
  - Reduce frivolous lawsuits

# WHAT CAN INDUSTRY DO?

- Educate the public and opinion leaders
  - Increased supply, allows for reduced emissions (ANGA)
  - Effects of litigation
- Address market concerns
  - Consider long term contracts to alleviate price concerns
- Stimulate new markets, i.e. natural gas vehicles
- Invest in R&D, ensure companies are poised to respond to increased demand