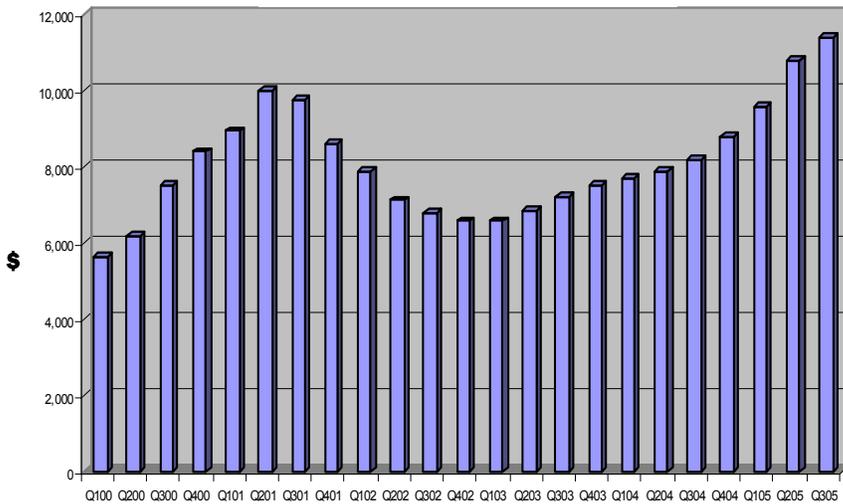




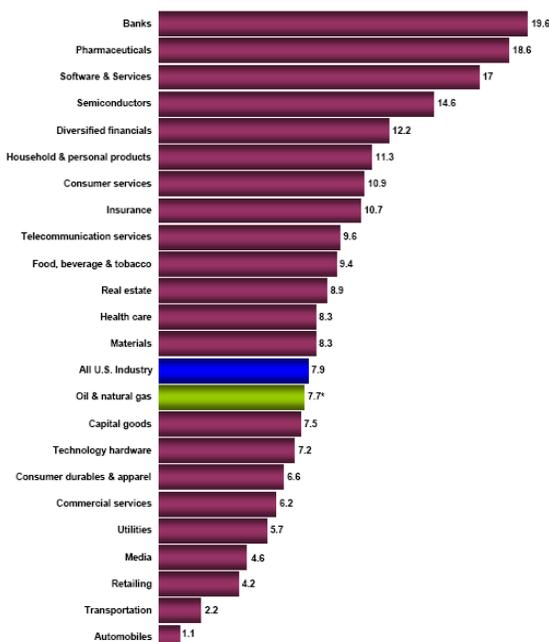
# Cost, Investment & Profit Facts

Average Reported Day Rates



The daily — or day rate — for renting a drilling rig has doubled over the past two years. In the first quarter of 2000, the average daily rig rate was \$5,625 compared to an estimated \$11,400 for the third quarter of 2005. (Data courtesy of *Land Rig Newsletter*.) Other costs have risen as well — such as bonds, insurance, employees and materials (steel). (Data courtesy of *Land Rig Newsletter*.) Over the past year, oil equipment costs have risen by 19 percent, according to the Energy Information Administration.

Earnings of Major Industries (cents per dollar of sales)



The industry's earnings are very much in line with other industries and often they are lower. According to the American Petroleum Institute, For the second quarter of 2005, the oil and natural gas industry earned 7.7 cents for every dollar of sales compared to an average of 7.9 cents for all U.S. industry. Many industries earned better returns in the second quarter than the oil and gas industry. Banks realized earnings of 19.6 cents on the dollar. Pharmaceuticals reached 18.6 cents, consumer services earned 10.9 cents and insurance saw 10.7 cents for every dollar of sales.

## DRILLING COSTS AND INVESTMENT

The oil and natural gas industry spent \$37 billion drilling new wells in 2003. The average cost of a new oil well is more than \$1 million and the average cost for a gas well is \$1.1 million — but they can run as much as tens or hundreds of millions of dollars, especially offshore.

Investment and capital are very important in the development of new oil and gas supplies. Any government burden that decreases this investment or takes capital away from the industry — such as new taxes — must be avoided. For example, the “Windfall Profits Tax” enacted in the mid-1980s, extracted \$44 billion from the industry, which otherwise could have been used to bolster American oil and gas supplies. Independent producers typically reinvest 150% of their domestic cash flow into new projects here at home.

Source: Based on company filings with the federal government as reported by *Business Week* and the *Oil Daily*.