ACCOUNTING & AUDIT

Ernst & Young study finds that oil and gas producers are building up historic oil reserves

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June 05 — U.S. oil and gas producers, including some in Tulsa, are spending billions to develop historic levels of new reserves despite a downturn in profits due to lower natural gas prices, according to a study released Tuesday by national accounting firm Ernst & Young's oil and gas division.

The study showed how dozens of upstream energy companies handled capital expenditures and developed proved reserves. Among those included in the study were Tulsa-based WPX Energy Inc. and Laredo Petroleum Holdings Inc., as well as those that have a strong Tulsa presence, such as Apache Corp. and QEP Resources.

All those companies are working hard to offset the impact of low natural gas prices by increasing the oil mix in their drilling efforts.

"We have grown reserves by investing in oil projects, primarily the Permian Basin" of west Texas, Laredo Chief Financial Officer Rick Buterbaugh said. The Permian is where Laredo has taken its "expertise into proven areas for oil development and applied new techniques that enable us to efficiently extract oil from the shales."

Overall, according to Ernst & Young, U.S. oil and gas producers significantly increased exploration, development and acquisition spending in 2012 despite a 58 percent decline in after-tax profit. Total capital expenditures for the 50 companies hit $185.6 billion — highest in the study's seven-year history.

WPX Energy, which was spun off from Williams Cos. Inc. and taken public 17 months ago, also increased its oil and gas drilling stakes for 2012 and this year.

"Last year we invested $1.5 billion on drilling and development activity," WPX spokeswoman Kim Averill said. "In the process, we increased our oil production in North Dakota by 98 percent and our natural gas volumes in Pennsylvania by 320 percent.

"All told, we participated in a total of 548 new oil and gas wells across the United States last year. We also reported proved domestic reserves of nearly 4.5 trillion cubic feet equivalent."

Apache and QEP Resources are based in Houston and Denver, respectively, but maintain Tulsa offices. The companies combined invested more than $11 billion on U.S. operations last year, according to the study.

Apache and QEP also drill in the Granite Wash tight-sands play of western Oklahoma and the Texas Panhandle. Overall, Ernst & Young noted that increased tight oil and liquids activity drove exploration and development spending to $26.3 billion and $103.4 billion last year, respectively.

"The increased exploration and development spending we're seeing in this year's study speaks to the incredible opportunity unfolding in tight oil from shale formations and the high cost of developing these unconventional resources," Marcela Donadio, Ernst & Young's leader for Americas Oil and Gas, said in a statement. "Everyone wants in and they are paying a premium to play."

The fall in natural gas and natural gas liquids prices, however, forced many companies to take accounting write-downs in the most recent quarters. The 7 percent rise in oil and gas production could not offset the $26.4 billion in property impairments due to low prices.

WPX reported a $116 million net loss in the first quarter of 2013 despite a 31 percent increase in oil revenue from the same period a year ago. Laredo's first-quarter net income fell to $1.41 million from $26.2 million same time last year, despite higher revenue.

The U.S. drilling upsurge among the 50 companies in the study rose to 23.2 billion barrels for 2012. They elevated their oil production replacement rate to 258 percent, according to the study.

"For years, people said the industry would struggle to replace U.S. oil reserves," Donadio said. "The steady rise in extensions and discoveries as well as oil production replacement rates changes that story."

Tulsa oil and gas producers

Company U.S. revenue U.S. oil reserves U.S. gas reserves Total U.S. capital expenditures

WPX Energy* $2.09 billion 186.9 million barrels 3.37 TCF $1.27 billion

Laredo Petroleum* $583.6 million 98.1 million 0.54 TCF $953 million

Apache Corp.** $6.23 billion 893.3 million 3.19 TCF $9.24 billion

QEP Resources** $1.39 billion 218.9 million 2.62 TCF $2.73 billion

— Tulsa-based company. ** Outside company with Tulsa offices. Source: Ernst & Young Oil and Gas Study

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