

WHO ARE INDEPENDENT OIL AND NATURAL GAS PRODUCERS?

Independent oil and natural gas producers are responsible for getting America's energy resources out of the ground, focused on the upstream side of the business – not to be confused with the major oil companies that have refineries and/or gas stations.

The American "upstream" part of the petroleum and natural gas industry - exploration and production or E&P - is characterized by thousands of companies operating in over 30 states and in the offshore. Overwhelmingly, these "independent" explorers and producers receive revenues only from these upstream activities. Most employ fewer than 20 employees, but collectively, they are the link to future American supply.



What is an Independent Producer? The basic definition of independents is a non-integrated company which receives nearly all of its revenues from production at the wellhead. They are principally in the exploration and production segment of the industry, with little marketing or refining within their operations. The tax definition published by the IRS, states that a firm is an Independent if its refining capacity does not average more than 75,000 barrels per day or if its retail sales are less than \$5 million for the year. Over the last decade, the number of independents (broadly defined) has decreased from over 10,000 to approximately 5,000, while the drilling operators of record count has fallen from over 5,000 to approximately 2,000.



How Many People are Employed in the Industry? Employment in the exploration and production sector of the oil and natural gas industry in 2005 averaged 270,200 up over 43,000 employees compared to 1999. Over the last few decades, the upstream oil and natural gas industry has shed 1,100,000 jobs. This loss of experienced personnel continues to seriously constrain the industry's ability to meet incremental demand challenges. Adding to this problem is the fact that nearly 40 percent of the industry's skilled professionals will reach retirement age during this decade.



Why are Independents Important to the U.S.? American petroleum and natural gas production has changed over the years, particularly since the mid-1980s. Maturing production areas in the Lower-48 states and the need to respond to shareholder expectations have resulted in major integrated petroleum companies shifting their exploration and production focus toward the offshore in the United States and into foreign countries. More and more, these large companies must rely on large producing fields that are found only in frontier areas. Consequently, American production in both the Lower-48 states and in the near offshore are areas where the role of independents is increasing. Today, independents develop 90 percent of the nation's wells. According to the Department of Energy, independent producers are responsible for supplying 68 percent of American oil production and 82 percent of overall American natural gas. These trends will

Independent Producers At-a-Glance...

Number of Independents.....5,000
 Avg. Number of Employees.....12
 Avg. Age of Business.....23 years
 Percent of U.S. Wells
 Developed.....90%
 Operating on Federal Onshore Land.....49%
 Operating Internationally.....11.6%

Total Independents' Percent of U.S. Natural Gas Production.....82%
 Total Independents' Percent of U.S. Oil Production.....68%

Offshore: Independents hold 80% of the Gulf of Mexico shallow water leases and 75% of deepwater leases. At the last four lease sales, independents had the majority of high lease bids.