MUSINGS FROM THE OIL PATCH

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Note: *Musings from the Oil Patch reflects an eclectic collection of stories and analyses dealing with issues and developments within the energy industry that I feel have potentially significant implications for executives operating oilfield service companies. The newsletter currently anticipates a semi-monthly publishing schedule, but periodically the event and news flow may dictate a more frequent schedule. As always, I welcome your comments and observations.* Allen Brooks

The Windfall Profits Tax Issue Won't Go Away

The hearings for oil company executives before Congress last week was merely a ruse to keep the gasoline price issue in the forefront of public sentiment

The energy industry remains under attack by politicians in Washington, D.C., who see the public's mood for retribution over $2.50-$3.00 per gallon gasoline prices supporting their efforts to alter taxes to extract greater government revenues from the oil companies. The recent hearing for oil company executives before Congress was merely a ruse to keep the gasoline price issue in the forefront of public sentiment, as pump prices are now lower than they were early last fall after Hurricane Katrina swept through the Gulf Coast states. The outrage that swept the country then has dulled as time and weaker crude oil prices have weakened pump prices and consumer memories. While last week's hearings focused on the issue of the impact of oil company mergers on industry competition, there was an undertone of indignation that oil companies are not aggressively working to lower everyone's fuel bill. Why aren't the companies building new refineries? What about getting more gasoline supplies to consumers? No industry answers can suffice, since the pols are really asking the "When did you stop beating your wife?" question. However, proposals to alter the accepted accounting methodology for valuing oil company inventories, designed to boost the income subject to federal taxes, i.e., increase government tax receipts, and to impose windfall profits taxes, continue to limp along in the Congressional legislative mill.

There are plenty of other examples of politicians – domestic and foreign – interested in tapping the bulging coffers of the oil and gas industry

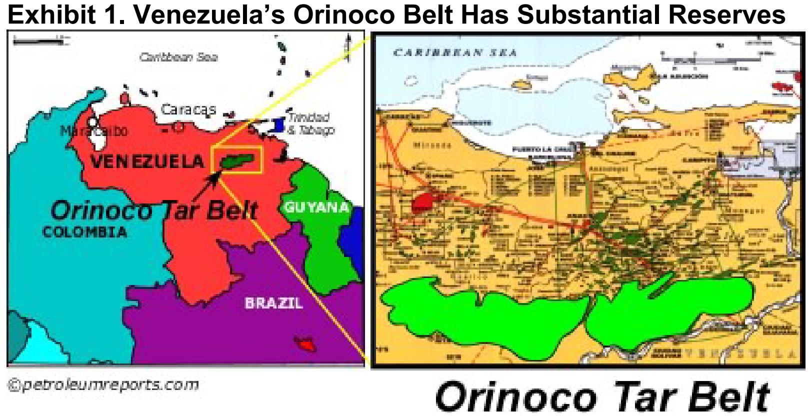
While most of us are focused on Washington politicians, there are plenty of other examples of politicians – domestic and foreign – interested in tapping the bulging coffers of the oil and gas industry. (In a separate story in this issue of the *Musings*, we relate the potential for imposition of impact fees by a Colorado county government.) Recently we have seen a story from an industry news service discussing the potential for increasing royalty and severance taxes in the United States due to high oil and gas prices and expanded industry profitability, in response to the need to rebuild Gulf coast wetlands impacted by operations of the energy industry. Besides domestic tax revenue seekers, the energy industry is being attacked by various foreign governments, also after more tax revenues. The most visible tax grabber is Venezuela.

In Venezuela, the government has been aggressively challenging the western oil companies operating there to yield more of their profits through higher taxes as oil prices have moved up. Many of these efforts have been ex-post, or after-the-fact interpretations of existing oil laws, or through the unilateral imposition of new laws. President Hugo Chavez's government, to stay in power, has expanded the country's social welfare program and is funding the cost by taking a greater share of state oil company, Petroleos de Venezuela, S.A's. (PdVSA) revenues, and through boosting income and royalty tax rates on western oil companies operating there.

Venezuela is considering boosting the corporate tax rate applicable to oil companies producing synthetic oil from the Orinoco region from 34% to 50%

Along with taking more of PdVSA's income, Chavez's government is squeezing more money from the oil companies. Venezuela is considering boosting the corporate tax rate applicable to oil companies producing synthetic oil from the Orinoco region from 34% to 50%, after it previously raised royalty rates on this production. The royalty on Orinoco production was increased to 16.7% from the prior 1% in early 2005, as the government claimed the higher rate was mandated by the new hydrocarbons law that trumped existing contracts negotiated by the companies with the government. Now there is talk about further boosting the royalty rate to 30%, which would bring these heavy oil projects within the "80:20" formula. That means the government gets 80% of the profits and the balance is left for the producer. This formula is in line with profit sharing arrangements negotiated between oil companies and oil producing host countries around the world. The problem with the Venezuelan tax changes is that they ignored existing contractual arrangements.

Exhibit 1. Venezuela's Orinoco Belt Has Substantial Reserves



Source: RigZone.com

The most interesting new development is the demand (allowance) for the oil companies to pay their 16.7% royalty with crude oil production. This would force the companies to boost production by that amount by year-end, the expected start date for the collection of royalty oil. This would help Venezuela in its efforts to sustain its production, which has been declining in recent years and is well below the country's OPEC quota. If this rule is implemented, it would mark only the second time the country has ever collected royalties in kind, the other time being in the mid 1940s.

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Venezuela is also considering increasing the tax paid by private companies producing natural gas to 50% from 34%. It would also limit the amount of tax-deductible expenses the companies can claim. These projects also pay a royalty of 20% on the value of the gas produced. These changes would have an impact on crude oil production as almost 70% of the gas produced in the country is used in secondary recovery of oil and 90% of all Venezuelan gas is associated, meaning it is commingled with crude oil reserves.

In Bolivia, the government has moved to charge three former presidents with violating the constitution for signing more than 70 contracts with foreign oil companies over the past decade. The operating contracts, drawn up in accordance with a 1996 privatization law, should never have been allowed to exist because they were not ratified by the Congress, according to media reports of statements made by Bolivia's attorney general, Pedro Gareca, to the Supreme Court. While the recent president sent operating contracts to the Congress, the lawmakers decided to pass a new hydrocarbons law mandating compulsory renegotiation of the operating contracts. Several of the foreign oil companies working in Bolivia have indicated their desire to enter into negotiations with the new leftist-government of President Evo Morales.

Occidental Petroleum Corporation (OXY-NYSE) is attempting to resolve a dispute in Ecuador over the transfer of part of its oil concession to another company without government approval. As part of its settlement offer, OXY is offering up to $1 billion in disputed taxes, investments and extra revenue from its crude oil output. The unique idea is to get the transfer approved and the contract life extended by seven years to 2019 in exchange for at least an extra $600 million in oil revenues over the next 13 years. The proposal includes a mechanism that allows it part of any revenues OXY earns above an agreed benchmark because of soaring crude oil prices.

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Back in the United States, the most recent battle over oil-related tax revenues was between the State of Louisiana and the federal government. Prior to Central Gulf of Mexico lease sale 198, Louisiana's governor, Kathleen Blanco, suggested that the state and the U.S. Minerals Management Service (MMS) needed to come to an accommodation regarding the impact of oil and gas drilling along the outer continental shelf (OCS) offshore Louisiana. While noting the beneficial economic impact to the state of oil and gas drilling, she also pointed out that the energy industry has severely damaged the coastal wetlands that provide a natural barrier from storms such as hurricanes Katrina and Rita, and that the federal government needs to pay more to protect and restore them. While Blanco implied that future leases could be rejected, something that has never happened and didn't happen with respect to Sale 198, if the MMS does not come to some agreement; nothing has happened.

While Gov. Blanco did not make a specific proposal, the Louisiana congressional delegation has offered one. Under its plan, Louisiana would receive 50% of royalty payments, the same as for onshore wells, for all oil and gas produced from wells over 3 miles offshore of the state's coast. In 2005, Louisiana received $32.4 million in federal royalties based on 100% of the royalties from wells up to 3 miles offshore, 27% of the royalties from wells up to 6 miles offshore and none from wells beyond 6 miles. The Louisiana congressional delegation estimates that the state would receive an additional $2 billion annually if the royalty payments for offshore production covered wells out to 200 miles offshore and were increased to 50%.

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In addition to offshore royalties, Louisiana gets additional oil and gas money directly through its severance tax on production. In 2004, the state collected $858 million of severance payments from production on leases up to three miles offshore and another $38 million on leases from three to six miles offshore. The problem the state faces is that these funds pale in comparison to the estimated costs to repair the wetlands damage, which range between $32 billion and $40 billion. How can Louisiana close this gap?

One way would be to increase the state's severance tax

One way would be to increase the state's severance tax. The rate has been 12.5% for over 30 years. However, changing this tax runs the risk of biting the hand that feeds the state. In 2003, the oil and gas industry was the third-largest source of Louisiana's output, contributing over 10%. With higher oil and gas prices, economists estimate that the oil and gas business may now be Louisiana's largest economic contributor. The better option may be to tap the federal government's royalty income, thus the congressional proposal to extend the limit from 6 miles to 200 miles and to boost the state's share to 50%. While the MMS is reluctant to yield any of its income, it is considering raising the royalty rate on gas transported on the proposed Rockies Express pipeline, so it might be willing to do the same thing in the Gulf of Mexico.

Louisiana has suggested only re-directing the royalty payments that are already being collected, and has even had the support of the head of U.S. exploration and development for Royal Dutch Shell (RDS.A-NYSE), but no one has suggested boosting the royalty payment rate, yet. Bandersnatch Research LLC, an energy research firm focusing on the pipeline and refining businesses, is suggesting that maybe it is time for the federal government to reassess the fairness of taxes paid and tax relief offered to the energy industry.

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Bandersnatch points out that as a percent of revenue, U.S. severance taxes paid by Exxon Mobil Corporation (XOM-NYSE) have declined from 9% in 2003 to 6.4% in 2005. Excise taxes paid to foreign governments also declined, but from 10.5% in 2003 to

9.5% in 2005. ExxonMobil's tax bill in 2005 was $98.62 billion, but 83.4% was paid to foreign countries and 16.6% was paid to the United States. This tax split compares to the fact that a third of the company's sales and operating profit was realized in the United States. As Bandersnatch puts it, "One might fairly conclude that U.S. state and federal governments, and taxpayers, are underwriting XOM's foreign operations by imposing such low tax rates."

Given the magnitude of industry profits in 2005 (nearly $100 billion) it is hard to argue that the industry needs more incentives, tax breaks and low taxation rates to encourage more supply

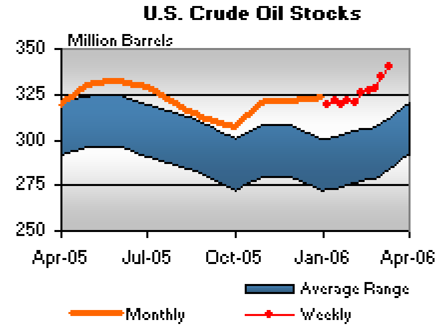
In looking at the broader picture of state support of the oil and gas industry, Bandersnatch believes that given the magnitude of industry profits in 2005 (nearly $100 billion) it is hard to argue that the industry needs more incentives, tax breaks and low taxation rates to encourage more supply. They also believe that government is protecting the industry. Government is working to prevent any long-term erosion of energy demand by not enforcing more strict automobile mileage requirements and providing only minimal support to alternative energy projects beyond ethanol, which may really be considered a farm subsidy program. In addition, government is supporting the industry in its efforts to open protected areas for exploration and development. As they conclude, "U.S. policy is skewed toward preventing the demise of the oil business, mainly because of its size and importance to the overall economy." I wonder whether the oil executives testifying on Capitol Hill the other day see the world the same way Bandersnatch does.

Tipping Point Soon for Oil Prices?

Oil prices jumped around a lot last week as geopolitical events counterbalanced the downward pressure on prices from a reported large crude oil inventory build. Prices started the week slightly below $60 per barrel, but then jumped by almost $2 per barrel on Monday due to tensions over possible UN sanctions of Iran due to its nuclear plans and its possible threat to use oil as a weapon to battle sanctions. Oil futures prices climbed another $1.20 on Tuesday; dropped $0.84 on Wednesday when petroleum inventory numbers were released; jumped up $1.41 on Thursday due to political pressures; and eased $0.63 on Friday.

The U.S. Department of Energy reported last Wednesday that crude oil inventories rose by 4.8 million barrels to 339.9 million barrels, or roughly 10% ahead of a year ago supplies and the highest they have been since May 1999. While the crude oil build was offset by a 0.9 million barrel decline in gasoline inventories and a 3.9 million barrel drop in distillate inventories, both refined product inventories remain above the upper end of their five-year averages.

Exhibit 2. Crude Oil Inventories Build



Source: DoE/EIA

The IEA and OPEC cut their oil demand outlooks for 2006

Also during the week, both the International Energy Agency (IEA) and OPEC cut their oil demand outlooks for 2006. The IEA's reduction was the most significant, since it lowered the 2006 demand growth forecast by 16% to 1.49 million barrels per day (b/d) from the prior projection of 1.78 million b/d. It also revised its demand forecast for the fourth quarter of 2005 to a near-100,000 b/d contraction. In making its adjustments, the IEA acknowledged that high oil prices had sapped demand growth, especially in Southeast Asia where energy subsidies had become too expensive for several countries. Warm weather in the first quarter in North America also contributed to the lower demand estimate. With its new forecast, it now appears that OPEC demand will be flat with 2005, and could possibly decline due to projected non-OPEC supply growth.

How many more barrels are needed in inventory before the market calls it a glut?

We found some comments by Tim Evans of IFR Energy Services, a commodities firm, insightful and somewhat amusing in their simplicity. On Thursday, oil prices closed up $1.41, after having dropped earlier by $0.52 from Wednesday's close, extending the downward trend following the inventory report. Evans' analysis of the jump in prices was, "Basically we hit some support levels … and if it can't go down, it's got to go up." On the direction of futures prices, there is this sage wisdom, "There is so far an insatiable appetite for holding more inventory. We're still not recognizing it as a glut." How many more barrels are needed in inventory before the market calls it a glut?

Americans Fear an Oil Crisis

Americans are also dissatisfied with the energy industry – including the cost of electricity, gas, natural gas and other forms of energy

A new poll conducted by CNN, USA Today and the Gallup organization found that 12% of Americans surveyed considered the current energy situation in the United States a crisis while 49% said it is a "major problem." Americans are also dissatisfied with the energy industry – including the cost of electricity, gas, natural gas and other forms of energy. Approximately three-quarters of Americans feel that a major terrorist attack on oil installations will occur somewhere in the world within the next year. The poll showed that 77% of Americans feel oil supplies will not be able to keep up with global demand, which is projected to rise by 40% over the next

20 years, driven by an increase in both U.S. consumption and in growing economies such as China and India.

Fear of energy shortages and increasing concern about climate conditions is helping drive greater interest in environmentally-friendly fuel sources and technologies, along with renewable fuels

Maybe the results of this poll explain what is behind the growing acceptance/enthusiasm for new nuclear power plants and other forms of energy. Fear of energy shortages and increasing concern about climate conditions is helping drive greater interest in environmentally-friendly fuel sources and technologies, along with renewable fuels. As we have discussed before, we need to watch the American public's mindset to try to gauge the impact of current conditions and views on future energy demand growth.

Is Mexico On The Venezuela Road?

Oil plays a significant role in the Mexican economy as it supplies more than a third of the government's total revenues

Last Saturday, Mexico celebrated the 68th anniversary of its nationalization of the oil industry. Today, the country ranks as the world's fifth largest oil producer and the ninth largest exporter. Oil plays a significant role in the Mexican economy as it supplies more than a third of the government's total revenues. The national oil company, Petroleos Mexicanos (Pemex) controls all aspects of the oil industry, from exploration through refining and retail. Gasoline prices in Mexico are controlled and are set well below world market levels. That contributed to an almost 6% demand growth in 2005. Gasoline demand is growing rapidly due to the strength of the local economy, helped by low interest rates that have also made car loans cheap and stimulated auto sales.

The head of Pemex, Director General Luis Ramirez Corzo, said last week that the company will need to invest $37.5 billion in the next 20 years to develop the Chicontepec oil fields. Chicontepec is a large onshore expanse of complex geology containing both oil and gas reserves scattered across the states of Veracruz and Puebla. The quality of the oil ranges from heavy to extra light, but recovery rates are quite low. This spending would support the drilling of upwards of 20,000 wells. The aim is to boost Chicontepec's crude oil production from 25,000 b/d in 2005 to 1 million b/d along with 1.5 billion cubic feet a day of natural gas.

The Cantarell field currently produces about 1.9 million barrels per day (b/d), or roughly 56% of the country's total production

On March 14, Mexican President Vicente Fox, accompanied by Pemex's director general, flew to an offshore site 60 miles off the coast of Veracruz in the Gulf of Campeche, to announce the potential discovery of a 10-billion barrel oil field, Deep Coatzacoalcos. The field, if it meets these preliminary estimates, would be larger than the country's primary oil producing field – Cantarell. The Cantarell field currently produces about 1.9 million barrels per day (b/d), or roughly 56% of the country's total production.

Exhibit 3. New Deepwater Discovery Holds Promise

Source: Stratfor.com

The Cantarell field is in the early stage of a significant decline in production

The Cantarell field has been the primary source of Mexico's crude oil production for many years, but new studies reported on by the media suggest that the field is in an early stage of a significant decline in production. Earlier projections of production declines for Cantarell have proven wrong, but Pemex has consistently admitted that the field will experience a significant production decline at some point. They have been engaged in various engineering efforts in the past decade to stem that decline. However, the latest reservoir information, reported in an article in *The Wall Street Journal* last month, suggested that the oil bearing zone is only about 825 feet thick and shrinking at between 248 and 363 feet per year. The report calls for Pemex to scrap drilling 26 of 30 new wells planned for the northern section of the field due to the incursion of gas into the reservoir.

Last week, Pemex released its latest reserve estimate. Pemex is one of the few national oil companies that have its reserve estimates verified by independent experts. According to the report, Mexico's proved oil and gas reserves dipped to 16.47 billion barrels of crude oil equivalent (boe) at the end of 2005 from 17.6 billion boe a year earlier. Those reserves would sustain the country's current production rate for 11 years. Some 72% of the proved reserves are pure crude oil.

Mexico's total 2005 reserves slipped to 46.418 billion boe from 46.914 billion boe at the end of 2004

Mexico's total 2005 reserves (proved, probable and possible) also slipped to 46.418 billion boe from 46.914 billion boe at the end of 2004. Total reserves would support current production for 29 years. Within the total reserve figures, probable reserves are estimated at 15.784 billion boe, essentially flat with the prior year, while possible reserves rose to 14.159 billion boe from 13.4 billion boe last year.

Pemex officials expect the replacement rate to be at 75% in 2006 and at 100% in 2010

One of Pemex's challenges has been its reserve replacement rate. Clearly, if Mexico's total reserves are falling, Pemex has not been finding more reserves than it is consuming. However, the replacement rate has improved as it was estimated at 59% for 2005, up from 57% in 2004. Pemex officials expect the replacement rate to be at 75% in 2006 and at 100% in 2010. Part of that future success may be this potential new discovery.

Pemex has little experience in drilling wells in deepwater and no experience in producing from these depths

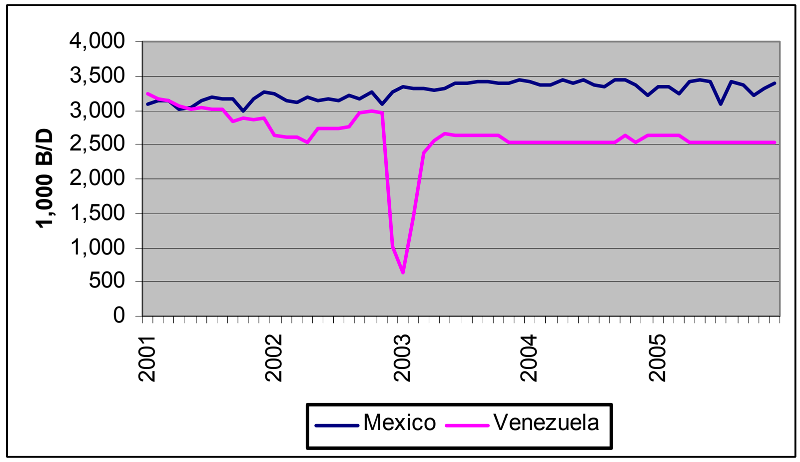
There are a number of challenges for Pemex with respect to this potential new discovery. The well was drilled in over 3,000 feet of water and to a depth of about 13,200 feet. The technical challenges of operating in this deepwater province are largely beyond Pemex's capabilities. It has little experience in drilling wells in deepwater and no experience in producing from these depths. The ability to develop this field, assuming the additional drilling required confirms the field's size, will necessitate that Pemex seek help. The easiest way to acquire this expertise would be for Pemex to form a joint venture with an experienced western oil company with substantial deepwater exploration and development expertise. Under the Mexican constitutional mandate that only the state can own oil reserves, Pemex's ability to structure an attractive arrangement for a western oil company is limited.

We suspect that Vincente Fox's trip offshore was designed with multiple objectives. First, the announcement of a potential new 10-billion barrel oil field helps blunt the release of the reserve report showing another decline. Second, given the widely reported and speculated upon impending collapse of production from the Cantarell field, the new field holds out hope that Mexico will be able to offset declining production. This would provide comfort to the world's oil market that Mexico is not about to start traveling down the road Venezuela is on – declining crude oil production with little hope of reversing the trend. Mexico has repeated many of the same policy missteps of Venezuela, including bleeding its national oil company of funds necessary to undertake new exploration and development and relying heavily on income from the oil and gas company to fund the government and its expanded social programs. However, Fox has tried to correct some of these mistakes.

Pemex has embarked on a restructuring plan designed to improve operational performance and efficiency

In addition, Fox staked much of his presidency on trying to deal with the problems of Mexico's energy sector, including liberalizing the electricity and gas sectors and trying to liberalize the oil sector. Pemex has embarked on a restructuring plan designed to improve operational performance and efficiency. Fox also saw to it that Pemex upped its capital budget, even if its financial shortfalls had to be financed with debt pushing its total debt to $50 billion, in order to fund greater exploration. Pemex has invested more than $6 billion over the past five years in exploration, and the Deep Coatzacoalcos is the first significant discovery from that stepped-up spending effort. It will likely be another two years before Pemex can establish just how large the field is and prepare a development plan. As a result, production from this field cannot be expected before another eight to ten years.

Exhibit 4. Mexican Production Following Venezuela's Lower?



Source: EIA, PPHB

The outcome of this scenario might not be favorable for either Mexico's financial health or that of its leading oil customer – the United States

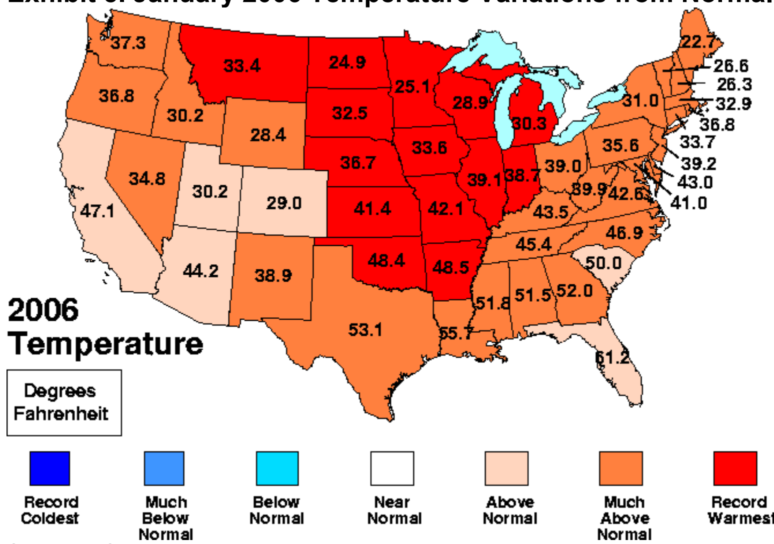
For Fox, the trip enabled him to showcase the success his efforts are bringing on the energy front, especially in the face of substantial resistance from opposition politicians. With Mexico's July 2 presidential election merely three months away and Fox's party trailing by about ten percentage points, Fox is hoping for a boost by showcasing success for some of his long-term efforts. Fox's party's presidential candidate is trailing an opposition party candidate who is signaling a tone of authoritarianism with moralistic overtones, as reported by Mary Anastasia O'Grady of *The Wall Street Journal's* op-ed page. O'Grady believes that Andres Manuel López Obrador, the candidate representing the far-left Democratic Revolutionary Party (PRD), is laying the groundwork for an assault on the private sector, which he sees as the main impediment to his agenda. If elected, this would suggest that Pemex would be prevented from embarking on a program to develop closer ties with more-technically capable western oil companies. It also suggests that energy costs would be held low, which would stimulate demand and further exacerbate the supply/demand challenge for Pemex. The outcome of this scenario might not be favorable for either Mexico's financial health or that of its leading oil customer – the United States.

Wonder Why Natural Gas Prices Are Weak?

The decline in natural gas prices since last fall has been the result of the warm winter most of the country has experienced

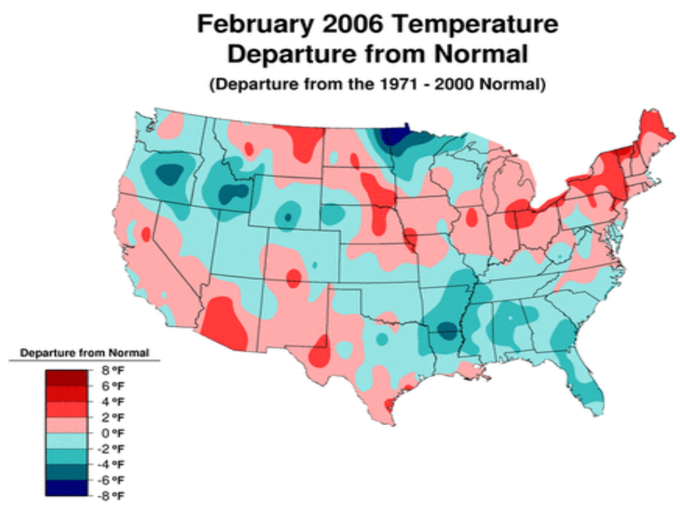
The decline in natural gas prices since last fall has been the result of the warm winter most of the country has experienced. With spring due to arrive this week, maps of the country's temperature variations from normal for January and February help to explain why spring may not seem any different than winter. We know that January was a record for warm temperatures across the country, but February was also quite mild in the Midwest and Northeast and also among a few areas of the mid Atlantic states. That may surprise people who are thinking of the early February snow storms that blanketed these regions. Cooler temperatures were experienced in the Southeast and Southwest, but these regions generally experience fairly mild

Exhibit 5. January 2006 Temperature Variations from Normal



Source: NOAA

Exhibit 6. February 2006 Temperature Variations from Normal



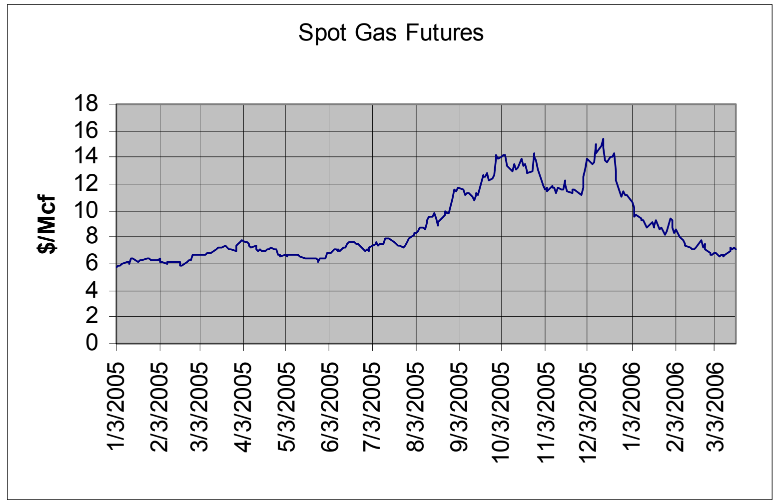
Source: NOAA

temperatures during the month of February, so there wasn't as much of an impact on energy demand.

Unless we have some extreme heat this summer, the outlook for a recovery in natural gas prices is not encouraging

Unless we have some extreme heat this summer, the outlook for a recovery in natural gas prices is not encouraging until either a hurricane takes out more offshore supply, or we get an early blast of cold winter weather. Gas storage volumes will likely not be drawn down much this summer since a substantial volume of the stored gas was purchased at higher than current gas prices. Suppliers will resist drawing down any of this high-priced gas since it would be sold at a loss. If we were to get a cool, rather than normal or hot

Exhibit 7. Gas Prices Are Still Above Last Year's Level



Source: EIA

The potential for the energy industry experiencing the shut-in of some gas wells exists

summer, the potential for the energy industry experiencing the shut-in of some gas wells exists. If that happens, watch out for Wall Street's reaction with energy stocks since investors believe we have a chronic gas shortage and all the gas we can produce should be able to be sold. One thing to keep in mind is that even though gas prices have retreated significantly from the levels experienced last fall, they still remain above year-ago prices.

Hurricane Forecast Moderated

The Atlantic basin and US landfalling tropical cyclone activity are forecast to be close to 40% above the 1950-2005 norms this year

The March Tropical Storm Risk (TSR) forecast prepared by Professor Mark Saunders and Dr. Adam Lea of the Benfield Hazard Research Center at University College London still projects an active hurricane season this summer, but it's slightly lower than the last forecast. The Atlantic basin and US landfalling tropical cyclone activity are forecast to be close to 40% above the 1950-2005 norms this year. They project a high (74%) likelihood that activity will be in the top one-third of years historically. The forecast is based on two predictors: the July-September 2006 forecast of trade winds speed over the Caribbean and tropical North Atlantic waters, and the August-September 2006 forecast of sea surface temperatures in the tropical North Atlantic. The trade winds forecast influences cyclone vorticity, or the spinning up of storms, in the main tracking region. The sea surface forecast provides an estimate of the heat and moisture in the main tracking region. At the present time, the forecasts for these two predictors suggest that they will have a slight to moderate enhancing effect on activity.

The UCL forecast calls for a total of 14.6 tropical storms with 7.8 of them become hurricanes and 3.5 being intense

The UCL forecast calls for a total of 14.6 tropical storms with 7.8 of them become hurricanes and 3.5 being intense, meaning Category 3 to 5 storms. This forecast has moderated from the early February forecast, which had increased slightly from the January and

December forecasts. This new forecast is below the most recent forecast prepared by William Gray and Philip Klotzbach of the Atmospheric Science department at Colorado State University, which called for 17 named storms, 9 hurricanes and 5 major storms. The Klotzbach and Gray (the authorship has been reversed starting this year) forecast will be updated on April 4, 2006.

Exhibit 8. 2006 Hurricane Forecast Reduced Slightly

		Ace Index	Intense Hurricanes	Hurricanes	Named Tropical Storms
Average Number (±SD) (1950-2005)		102 (±61)	2.7 (±2.0)	6.2 (±2.6)	10.3 (±4.0)
TSR Forecasts (±FE)	6-Mar-2006	144 (±47)	3.5 (±1.7)	7.8 (±2.6)	14.6 (±4.1)
	6-Feb-2006	172 (±53)	4.1 (±1.7)	9.1 (±2.9)	16.4 (±4.5)
	4-Jan-2006	170 (±59)	4.0 (±1.8)	8.8 (±2.8)	16.2 (±4.3)
	6-Dec-2005	162 (±60)	3.9 (±1.8)	8.5 (±2.8)	15.7 (±4.5)
Gray Forecast	6-Dec-2005	-	5	9	17

Source: University College London

The forecast of US landfalling prepared by UCL expects 4.5 tropical storms and 2.1 hurricanes this year

The forecast of US landfalling prepared by UCL expects 4.5 tropical storms and 2.1 hurricanes this year. That would be above the average of the 1950-2005 average, but below the storm activity experienced in 2005. If this forecast comes true, it would represent some much needed relief for emergency preparedness officials and coastal residents. Of course, wherever the storms hit land will still experience what many of us went through last year.

Exhibit 9. Landfall Index Moderates

		Ace Index	Hurricanes	Named Tropical Storms
Average Number (±SD) (1950-2005)		2.5 (±2.2)	1.5 (±1.3)	3.1 (±2.0)
TSR Forecasts (±FE)	6-Mar-2006	3.7 (±1.7)	2.1 (±1.5)	4.5 (±2.0)
	6-Feb-2006	4.5 (±1.9)	2.4 (±1.5)	5.2 (±2.0)
	4-Jan-2006	4.4 (±1.7)	2.4 (±1.3)	5.1 (±1.9)
	6-Dec-2005	4.2 (±1.8)	2.3 (±1.3)	4.9 (±1.9)

Source: University College London

Colorado Gas Producers to Pay Impact Fees

Rio Blanco County, Colorado, has informed a number of oil and gas producers of its intent to impose emergency impact fees for wear and tear on roads caused by heavy equipment used in the gas fields in the region. As a result of the heavy use of county highways in recent years by this equipment and the damage caused to them, the county is short of funds for maintaining and upgrading the roads. The county is running short of funds because the oil and gas companies are not paying county use taxes, plus there is a risk that Colorado may redistribute some of the state's severance taxes to Front Range communities.

The county is running short of funds because the oil and gas companies are not paying county use taxes

County commissioner Kim Cook said it could cost as much as $1 million per mile to upgrade some of the heavily-used county roads to proper standards. To help raise the necessary funds, the county is considering levying a "rig-moving fee" of $1,000 per rig, an impact fee of $1,500 per well for wells less than 5,000 feet deep and an impact fee of $4,500 per well for deeper depth wells. The county is also considering raising its special use permit fee for large infrastructure projects like gas plants and pipelines. The proposed fees are subject to adjustment and will probably be enacted by the middle of May.

If oil and gas prices stay high, look for this industry to be faced with higher taxes in one form or another

The financial health of state and local communities as a result of federal cutbacks on revenue sharing and the additional spending mandates being passed down from Washington is necessitating a search for additional sources of income. The drilling boom over the past few years in the Rockies, coupled with the escalation in commodity prices and improved profitability of the oil and gas producers, has made the idea of creating special taxes to fund expenditures that directly benefit producers more acceptable. If oil and gas prices stay high, look for the oil and gas industry to be faced with higher taxes in one form or another.

Hurricane and Climate Battle Continues

A new climate study says that rising ocean temperatures around the world are to blame for the increase in intense hurricanes

A new climate study, authored by a group of scientists including two who issued a similar report last fall, says that rising ocean temperatures around the world are to blame for the increase in intense hurricanes hitting the U.S. and elsewhere over the past several years. The group of scientists, all from Georgia Institute of Technology, analyzed data on all hurricanes recorded from 1970 to 2004 in the Atlantic, Pacific and Indian oceans. They concluded that the sharp increase in the number of very intense hurricanes cannot be attributed to a normal weather cycle or other natural explanations.

The study concluded that while the number of hurricanes worldwide wasn't increasing, the number of intense (Category 4 and 5) hurricanes had doubled. To overcome possible challenges on the data, the scientists said they performed two statistical analyses – one including all regions of the world and the other excluding data from the North Indian Ocean, which has the most frequently questioned data. Both analyses reached similar conclusions that hurricane intensity rose sharply. They also examined whether other factors such as humidity in the lowest part of the atmosphere and large air circulation patterns contributed substantially to the changes, but concluded that they didn't.

The study has already been the subject of a challenge

The study has already been the subject of a challenge from Chris Landsea, of the National Oceanic and Atmospheric Administration's National Hurricane Center, who responded by email to a reporter with *The Wall Street Journal* saying that the new study relies on inconsistent data, caused by variations in how hurricane intensity was measured and recorded in different parts of the world over the past several decades. He also questions whether there has been a doubling in the intensity of global storms in the past 35 years. The debate between those scientists who believe increased man-made greenhouse gases are warming up the globe and contributing to the severe weather we have experienced recently and the scientists who believe it is merely the normal cyclical weather pattern, but due to increased media attention it seems worse than it really is, continues and is likely not to be settled anytime soon.

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