

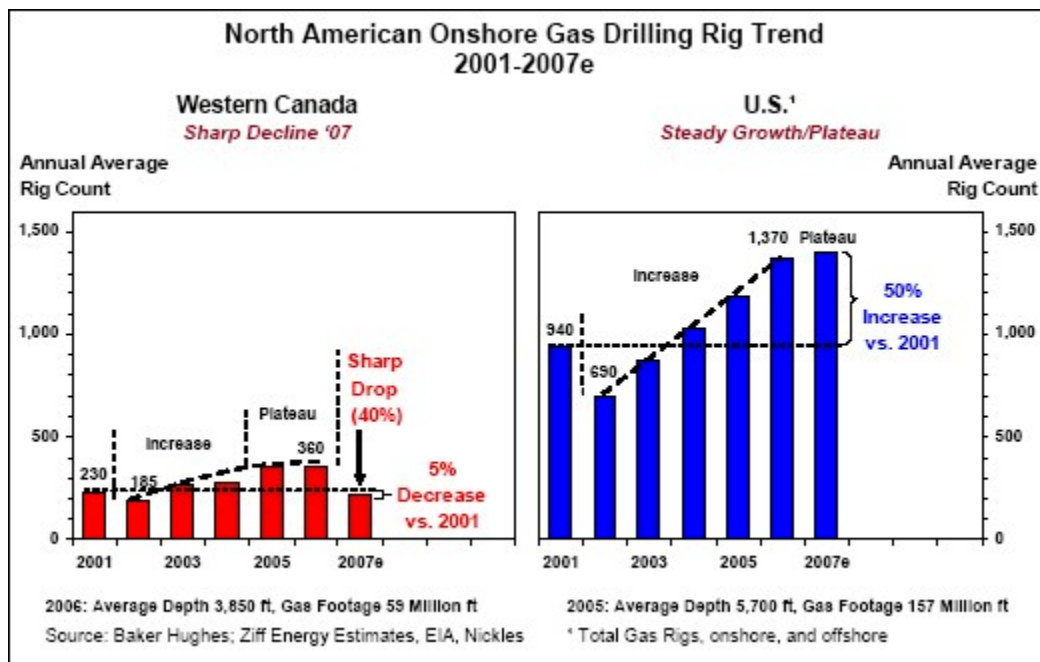
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Energy Consultant Challenges Alberta Energy Conclusions On Natural Gas Profitability

While the issue of oilsands royalties dominated the headlines during the recent Alberta royalty review, natural gas had a lower profile although there were calls for the need to acknowledge the increased challenges in extracting unconventional gas.

A Calgary-based energy consultant, though, is raising questions about whether the government has accurate information required to make a correct decision on conventional gas. **Ziff Energy Group** says its experience contradicts some of the information in an Alberta Energy Department technical report for the royalty review panel whose report is to be released Tuesday.

"Our main concern is that accurate information be available," **Paul Ziff**, the company's chief executive officer, said in an interview. "It is quite concerning that there is even a possibility that the (panel) report will be influenced by such unusual analysis," he said. "I hope this will not result in a truly bizarre fiscal regime."



Citing a study by **IHS/CERA**, the government technical report concludes that "despite the increase in costs in recent years, there is evidence in Alberta that costs are still competitive." It further notes that "Alberta is still ranked below average in terms of costs and above average in terms of profitability in North America."

However, Ziff's results, which are based on actual cost and production data collected continuously over several decades, "present a very different conclusion," according to the company.

In relying on the Energy Department's technical report, the government and the Tory caucus "could get entirely the wrong idea and that could have a negative impact on what is being decided," said Ziff. "Everybody should want to have a good quality gas industry with a fiscal regime based on true realities."

The analysis posted on the Alberta royalty review webpage by the Alberta Department of Energy (Technical Royalty Report OG#2) includes references to an IHS/CERA study of United States and Canadian gas basin economics. According to the report, the consultants analyzed the all-in long run costs for all new natural gas wells in 2005 in their study, *Diminishing Returns: The Cost of North American Gas in an Unconventional Era*.

"IHS/CERA reports that the average total cost including capital, operating, return on capital, severance tax and royalties for these new wells was \$6.83 (U.S) per mcf," says the Alberta Energy report. "In fact, much of Alberta's resources are shown to be substantially below the average cost ... four of the six Alberta areas identified by IHS/CERA are in the lowest seven (costs)."

Another government report, Technical Royalty Report OG#1, cites the IHS/CERA study which ranked 76 areas in North based on costs and profitability. The study included six areas in Alberta -- three conventional and three unconventional gas areas. "The study shows much of Alberta's resources are ranked near the lowest cost," according to the report.

In critiquing some of the findings, Ziff singled out the ranking of Alberta gas plays relative to U.S. plays. "The IHS/CERA conclusion that the Alberta Foothills gas play is the lowest cost and most economically attractive gas play in Alberta flies in the face of both empirical knowledge and Canadian E&P (exploration and production) industry experience," Ziff said in a news release.

The Foothills deep gas play has never been the lowest cost gas play since Ziff began calculating finding and development (F&D) costs for specific Alberta and Western Canada gas plays in the mid-1990s, said the company. "To the contrary, Foothills gas has had the highest F&D of any gas strategy," it said.

"In a good year, it may make the middle of the road," said Ziff in an interview. "In a bad year, it's the worst or almost the worst" because of the time needed to bring on Foothills gas. "Even the big companies strike out more than they strike it rich."

If the quoted study conclusions were accurate, gas production in the Foothills region should be increasing, said Ziff. "In fact, very few companies engage in Foothills grass roots exploration and development which entails very high costs and risks, even for the largest, most technically sophisticated companies."

Ziff Energy also questioned the report's suggestion the other five Alberta gas plays are among the lowest one-third in cost. "It appears that the information may be somewhat dated (2005) and the foreign exchange is not current," Ziff said. "This is a major and obvious issue when comparing the economics of U.S. and Canadian plays."

Ziff noted that its detailed spending and reserves data is gathered from a number of explorers in each region/play type, and analyzed by employees experienced in exploration in Western Canada.

"Consequently, we believe that our use of empirical data for a multi-year period from the explorers themselves reveals a far more accurate picture than the processing of cumulative industry technical statistics, and inferred costs," said the company.

"I don't think one could find a single company in town that would say that Canada had the best netback in North America or that the Foothills is the best place to be," said the Ziff CEO.

In a recent presentation to the **Canadian Association of Drilling Engineers**, Ziff also showed that Canadian gas completions are down 19% this year and gas rig activity is down 40% while U.S. rig activity has remained constant.

"If Alberta gas economics were superior, then the reverse would be true - Alberta gas drilling would be outperforming U.S. gas activity," he suggested. "Current Canadian gas rig activity is barely above the levels of six years ago while U.S. drilling activity is 50% higher."