

Tom Blank - Vice President, Union Pacific Resources

Fred, thank you. Members of the Board, good afternoon. Once again, my name is Tom Blank and I'm the Vice-President of state regulatory and public affairs for Union Pacific Resources group. As a member of Louisiana Mid Continent, we strongly endorse the program that Fred laid out and would like to see the Board take it seriously and go forward on those proposals. What I am here today is to tell you a little bit about our company as an example of a large independent, a different kind of company from many of the others that you may hear from today. We think what specifically makes us different is that during this period of 50-year lows in hydrocarbon prices, we have not only made a commitment of hundreds of millions of dollars to developing the oil and gas resources of Louisiana, we have tried very hard to make a commitment as full as possible to developing the resources of the United States of America, exclusively as far as our company is concerned. Now, in 1994, the Wall Street Journal carried a front page story about our company. The headline read "Union Pacific Resources - Home Alone" which as I said means that we are the one large, independent company that has made the commitment to stay home in North America to explore for and produce oil and gas. The result of that commitment is that we have been the No. 1 domestic driller in the United States for the past 7 years, and, in fact, this is a distinction that we have kept for 1998 although we did so by operating less than 35 rigs - about half of what we operated in 1997. Our plans for 1999 call for operating about 15 rigs domestically - about 70% less than we did just 2 years ago. And, in 1998, 5 years after the Wall Street Journal article appeared, the economics of the domestic industry caused us to abandon the "home alone" strategy and export precious capital investment dollars and put them to work abroad - in Canada and Latin America. In Louisiana in 1998, we operated over 200 wells. Today our operations are concentrated in Beauregard, Vernon and Rapides parishes where we kept 3 rigs running full time last year drilling 12 wells. This year we will drill one or two wells. Last year we invested over \$200 million dollars in the Louisiana oil and gas sector - 90% of that is eliminated this year and we expect to spend only about \$20 million. And yes, part of that reduction is the result of properties in this State that we have recently sold. Overall though, our revenues from Louisiana operations will shrink by over \$55 million with a corresponding reduction in taxes paid to the State and parish governments. As a

regulated industry, we recognize that the public has a significant interest in what we do from many perspectives including tax revenues and jobs generated to environmental impacts. I'm here today to tell you that we are proud to help serve the public interest in our industry and in our company. We recognize that the leadership of this State, both elected officials and executive branch officers, are doing an outstanding job keeping the Louisiana economy growing and healthy. We view State government as a partner in helping to achieve economic objectives and want to express our gratitude for the job you are doing. We take conservation of natural resources and environmental protection as an obligation in conducting our operations. During this industry downturn, we are not seeking any reduction in environmental regulations as relief. However, we are asking that in order to keep production moving, that processing of environmental permit applications, especially air permits, be given priority status. We feel we are facing an emergency situation. We don't need relief from the standards but we could use some priority handling and processing by various government agencies of permits so that we can reduce delay, increase efficiency, and keep the capital dollars that we are spending, producing jobs, generating tax revenues. As an example, during the active life of a well we change compressor engines used to lift oil and gas, many times. Today, we must get a permit each time we do this which causes delay and increases costs. While we can obtain a general permit from the DEQ, the delay in processing because of the current backlog in a whole variety of permits at the agency, makes this avenue unattractive. The cost and delay in keeping production moving is a problem for us. There are other examples where making the environmental permitting for oil and gas operations a priority based on industry conditions would help relieve the economic problems that we face today. And no reduction in the current level of environmental protection afforded by these state programs would need to be a part of what we are asking. And any progress on improving the electronic data processing capability of state government to accept online filings will speed the process and keep rigs running and wells producing. Finally, we want to offer a strong endorsement for the Office of Conservation's proposal for deep reservoir development. Our company is arguably the leader in horizontal drilling technology which is one reason we were able to stay "home alone" for so long. It's also arguably the reason why Mr. Baumann's stats for the impact on Louisiana were mitigated to a certain degree. Deep reservoirs are expensive to drill and the Office of Conservation's proposal for unitization goes a long way

toward making the economics of developing these resources workable. Our experiences in the Austin Chalk has led us to discover hydrocarbon resources in formations even deeper than the Chalk which we routinely drill to 15,000 feet. If we are to keep Louisiana and the U.S. producing oil and gas, we will need to develop these deep resources economically. This proposal is an important step in the direction of accomplishing that and we're hopeful that the Legislature will favorably consider it in the upcoming session. And we ask the Board to favorably consider endorsing the Office of Conservation's proposal and becoming an advocate for it before the Legislature in the months ahead. With that, that concludes my comments.