We get some answers suggested in chart 48, where we relate capital expenditures for exploration and development as a percentage of these two factors: (1) wellhead value; that is, the actual value of production of oil and gas at the well, and (2) related to cash income, cash income being the sum of net income in the writeoffs, almost the same as cash flow but not quite. So you can see the decline over this period of years which indicates that the incentive to spend more has been ample.

The actual capital spending for exploration and development is shown on chart 49. Again, we have a 5-year moving average. You can see the increase in spending for a period of time, then peaking out, and then dropping down and reaching a plateau.

We have 5 years of history plotted here in 1965. We can move back 3 years, pick up those 3 years and add the results for 1966, and for 9 years the domestic petroleum industry has spent on the average $4.25 billion annually for this purpose. The expenditure in 1966 dropped below the $4 billion mark.

We have related these expenditures to the reserve additions reported each year. That produces the trend language you see up in the corner. It appears that the domestic industry has been able to add 1½ barrels of petroleum reserves for each dollar of capital spending, and this barrel and a half is almost divided between dry gas reserves and liquid reserves which you can see on the chart. This trend has stayed right at the 50 percent point.

I want to emphasize that we should not conclude from this that this is the cost of adding reserves. We do not know that; but this is the relationship. This is what the industry has been able to add in terms of what it has spent. Because of the stability in the recent trends we have a reasonable basis for making a projection, and I want to emphasize again a projection rather than a forecast.

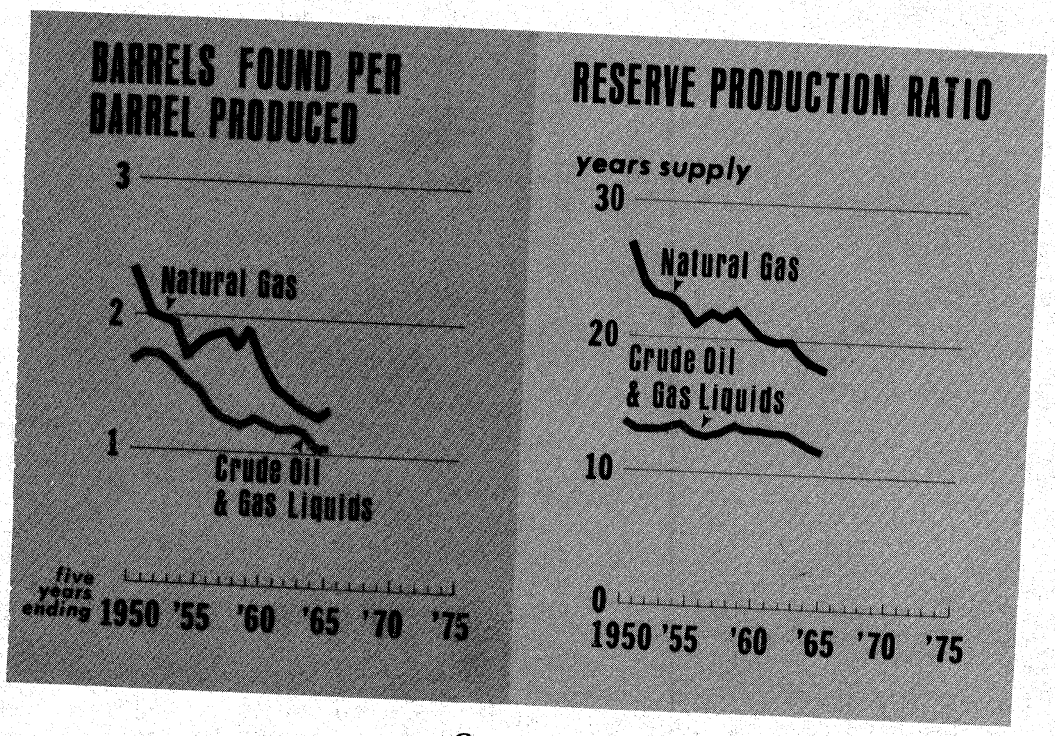

CHART 47