LOGA
LOUISIANA OIL & GAS ASSOCIATION

MIKE MONCLA, *Interim President*

Dr. Gregory Upton
LSU Center for Energy Studies
1071 Energy, Coast, & Environmental Building
Baton Rouge, LA 70803

January 11, 2021

RE: LSU Center of Energy Studies Proposal to the Legislature

Dear Dr. Upton,

The Louisiana Oil & Gas Association has read your legislative report and recommendation to change the tax rate for natural gas. While we appreciate the work you've undertaken to provide data from the LSU Center for Energy Studies, we do not agree with the conclusions the report draws regarding changing the tax rate.

Your report encourages the legislature to increase taxes on natural gas. First and foremost, it is critical to remember that the Haynesville Shale is currently the only economic bright spot in all of Louisiana's upstream industry. Disincentivizing economic activity this way would be detrimental not only to the current activity in the shale play but also any future investment into this area. Louisiana needs to cherish the only active horizontal play in our state. This plan would tax the life out of it.

It has been said that this change in tax structure will be "revenue neutral." In other words, the natural gas players, who are fairly active, will make up the monetary difference for the lack of revenues being brought in by the inactive oil players. According to the Department of the Treasury, for the past three years, Louisiana's revenue from Severance Taxes on oil has declined, from $328,000,000 in 2018, to $285,000,000 in 2019, to $180,000,000 (annualized) in 2020. This revenue loss is a huge problem and indicates structural changes are needed to repair the legal, taxation, and regulatory environment on oil, not punish gas. Investment dollars have been running out of Louisiana for years due to the overly litigious nature of our state. Louisiana should address lawsuit abuse and advance meaningful reform on both Legacy Lawsuits and Coastal Erosion Lawsuits. Using the proposed logic in your recommendation, if the state's revenue on oil continues to decline over the next few years, will we just keep raising the rate on gas again, and then again and again?

Something else to consider is the current market condition of commodity prices. It is possible that market forces will correct the loss in revenues, and they will one day fix themselves. The price of oil has returned to $50/barrel, the Haynesville now has nearly 50 rigs in a $2.50 natural gas price environment, so the state's tax revenues should rebound on their own, without having to needlessly harm the Hayneville Shale companies.

The answer is that Louisiana must be ready to compete with other states on a taxation footing. We have the highest Severance Tax rate in the continental US on oil, and plenty of barriers in existence already for natural gas. In other states like neighboring Texas and Oklahoma, natural gas companies can deduct marketing costs including gathering, processing, transporting, and fees charged by marketing companies from their tax rate. Plus, these other states tax their producers on the amount they receive in the field, not Henry Hub strip (your recommendation uses Henry Hub strip). The combination of the marketing costs and the price differential on gas can cut the proceeds by a significant amount, historically as much as 50%. In this fact pattern, the effective rate would go up to 8% or more in some cases. You illustrate the rate going to 6% on July 1, 2023, so the tax rate could get in the 12% range. This has happened in recent years with the existing tax.

Finally, another significant key component to consider is that gathering, processing and transportation costs are fixed, meaning they do not go down with pricing. Thus, the tax rate under your proposal would increase as a percentage of revenue as prices go down.

We believe there are also some inaccuracies about property taxes and sales taxes. You mention that mineral reserves are not subject to property tax in Louisiana. This is not true. The assessors have found a way to tax reserves under the current law through the taxation of the cost to drill and equip a well. Furthermore, the industry worked with the assessors to try to amend the LA Constitution to allow the taxation of the income approach to value for property tax purposes. This was done because the existing system provided terrible results as the wells matured, with the declines falling faster than the decreases in property taxes. With respect to sales taxes, the total rates in OK and TX (state and county) are in the 5% to 6.75% range, as compared to total rates in the 8.5% to almost 10% in the Haynesville Shale parishes.

Thank you for the industry studies that your department continues to provide. We look forward to hearing back from you regarding our concerns.

Sincerely,

Mike Moncla
Interim President, Louisiana Oil & Gas Association

PO BOX 4069 BATON ROUGE, LA 70821-4069 225.388.9525 800.443.1433 FAX:225.388.9561