Don Briggs - President, Louisiana Independent Oil & Gas Association

There are, in the State of Louisiana, approximately, I would guess, say roughly 1800 operators of record in the State of Louisiana. In LIOGA, we represent many of those people. We also represent a big part of the service sector of the industry. My friends with Mid Continent did a great job of presenting to you the overview of the industry and the way it looks. No time in history has our oil sold for less when it is adjusted for inflation but the element of the agonizing fear and pain that a man or a woman feels when they have lost or they're anticipating losing their job, is there. The anguish that filters through his or her home, the sleepness nights, the quiet dinners, the self-inflicted shame, and worst of all, the feelings of helplessness and hopelessness. I work with my constituents across the country, in Oklahoma, in Texas, in the Rocky Mountains, and the pain that is being felt there in those other states is very similar to ours here. You read about Texaco and you read about Amoco and you read about so many of these but you don't read about the Hogan Exploration in Columbia, Louisiana and the many, many companies up in Caddo, and the many, many people who are being laid off today. The bottom line in all of this – when we get back to the bottom line and what we can do – and there are things, Ladies and Gentlemen, that we can do, that you can do and the State can do – but the bottom line is we have to outlast OPEC. We have got to outlast them. They will not hang in there forever. You know, as one individual said when he was testifying before the Senate Committee in Washington the other day, that we are seeding the oaks today of the motherlode of oil price increases because it's going to happen. When they kill off a few million barrels out of the domestic oil and gas industry and we'll be importing 65-70% of our crude oil from foreign countries, then there'll be a price increase and we won't see these cheap prices again. Where my focus is in these items that I'm going to talk about briefly here with you are items that the Mid Continent group and ours have been working on for some time. But what we need to do – you need to think of each lease, each oil well, as a small business. And as Jim Porter put up on the screen up there, it's obvious, you know, we're not making a profit and we've got to look at what we can do to make that happen. If we go out of business, if you shut wells in, you know, the State loses, it trickles down, and I know that you all know and have heard the impact to this State is in the billions and billions of dollars and the jobs – So, what I want to do is just briefly with your indulgence – you have a list before you. First of all, we want to redefine stripper well status which is normally 10 barrels or less and redefine it to 25 barrels or less. Now, what that will do, that will help and pick up some of the incapable wells and we want to redefine incapable well status which is 25 barrels to 10 barrels and increase that to 35 to 25 barrels. Now, incapable wells pay half the severance tax which is 6.25%. Now the impact of the first item - redefine the stripper wells to 25 barrels or less – we have talked to the Governor about that – it's about $2.8 million impact to the State – he did not have a problem with that at all. I do not know what the fiscal note on the second item will be but we will have that here very, very soon. Additionally, we want to create a new category and call it the "incapable gas lift oil well" and that will be 50 barrels or less. Now, to give you an example, a gas lift oil well costs roughly $12,625.00 (these are actual numbers) to operate. A standard flowing oil well is $3,770.00 a month. To break even at $9.15 oil you have to make at least 67 barrels of oil a day just to break even of a gas lift oil well. If we can get a break by redefining 50 barrels or less it will be a tremendous help to the industry. We, also, and we have talked to you about this again but it's on our list – amend the state mineral lease form to allow a producer to temporarily shut-in an oil well for six months and not lose his lease which is very important to many operators today that are operating wells that they really need to be shut-in. And we're losing a natural resource when we do that and also funds that we can't afford to lose anymore but we don't want to lose that lease. And as Secretary Caldwell alluded to earlier, create an "incentive lease plan" - i.e. minimum royalty maybe for the first 100,000 barrels, fixed bonus, that type of thing. Secretary Caldwell has been talking about that for some time. I only wish now, Jack, we had done that earlier when you wanted to do it because I think some sort of incentive like that would be very, very helpful to the industry. Another item that is a real problem to us – it has been touched on – Wildlife & Fisheries charges, as many of you know already, $60 an acre for access on state wildlife managed lands to shoot 3-D seismic. We certainly feel in industry that the permit to shoot 3-D that we get from the Mineral Board gives us access. Our attorneys feel that way and it is our opinion that the Wildlife & Fisheries charge has no statute authority. Now, it appears that we are going to have to introduce legislation for this upcoming session to get this clarified and to get it straightened out. Wildlife & Fisheries doesn't want to change it. They like what they're doing and that's their business, however, access according to the law and according to everyone that I've talked to in our legal staff, that your permit that you give gives you access. And we need your support on that. Revise the proposed 1999 Louisiana Tax Commission Rules. In that meeting this past year, a few months back, one of the Tax Commission members said "well, this is a bad time to be doing that". Well, he sure the heck was right. And, of course, it increased our taxes, our values, by 25%. Now, I have been told, and Bob Gravolet who is the Tax Assessor from Plaquemines parish is here today to talk and we've been at odds a lot of different times, however, he is going to speak on this and I'm very pleased to say that they are – they being the tax assessors who are looking at this and willing to work and want to work with industry. I welcome his comments and am very, very pleased that he is taking that initiative. Bob is Chairman of the Louisiana Tax Assessors Oil & Gas Committee. Another item is exempt sales tax on utility charges used for the production of oil and gas. Texas does not have a sales tax on their utility charges for pumping wells and stripper wells. Now, this is primarily to help the small independent producers in north Louisiana. There's over 16,000 to 17,000 stripper wells up there. The number one cost that they have to operate their wells is the electrical charge that they get from the utility companies for pumping their wells. We also would like to have on sales tax on E&P (exploration and production) operations, should be paid to the State by the vendor, when collected from the operator. It doesn't sound like much ya'll but, you know, service companies have to pay the sales tax when they invoice a company, then the following month on the 20th they have to pay that state sales tax. Now, that's been a standard for some time. Those companies are actually having to go out and finance the sales tax and pay interest on that until they collect it from the vendor. It doesn't sound like much but a little bit helps, every little piece helps, and that one there would help a great deal. Also, we're asking the State Department of Revenue to re-evaluate its current policies regarding use taxes on fuel used to power production and processing equipment. We've been at odds with the Department of Revenue for some time on this particular issue. In other words, if I'm using a compressor on my lease and I use my own gas to power that compressor, I don't feel I should have to pay a sales tax on it. All three of these items on sales tax – Secretary Kennedy is aware of them, he is looking at them, and willing to work with us but once again the support of you and the support of our Governor is very important on these three issues. We also – another issue that is important to your north Louisiana producers is to work with the Public Service Commission and the state electric utility companies on emergency rate structure for marginal well producers. I have been in touch with the presidents of Entergy and also SWEPCO in north Louisiana. SWEPCO handles the northern part of the State and Entergy is in the central part of the State around the Tullis area, that area. I'm trying to see if it is possible for them to create an emergency rate structure to help and reduce the cost of producing for the marginal well producers in that part of the State. They're working on it, they're doing it but we'll need your support again with the Public Service Commission. And last, just a continuation of Governor Foster and his administration to work with the IOGCC and a congressional delegation on a national level to bring stability to our industry. It's very frustrating in this industry today to be a producer, to be a lobbyist, and to be so vulnerable to the whims and the ways of foreign countries and it's difficult for us to understand why we import 600,000 barrels of Iraqi crude into our country every day when we're spending billions of dollars over there. It's hard for us to handle those kinds of things and it's difficult for us to watch our own government turn its back on an industry that's so vital, and Jim Porter pointed out the economy of this country is doing well and a big part of it is because of these low oil prices. When gasoline was at a $1.25, it wasn't terrible and that's when oil was at $20 a barrel. We appreciate very much and I would like to say, and I meant to when I opened up, that I commend you, all of you, Secretary Caldwell, for putting this forum together, Mr. Allerton, Madame Chairman. It was a great idea and we appreciate it very much. Thank you.

Mr. Allerton: Are there any questions of the panel? Secretary Caldwell?

Secretary Caldwell: The Mineral Board, with regard to the seismic access, the Mineral Board has adopted a resolution specifically affirming that its seismic permit does include a right of access. So that is on record already. We adopted that several months ago. I think it's with respect both to the seismic permit and the mineral lease. Both of them carry a right of access.

Mr. Briggs: Great. Then, maybe, Mr. Secretary, that when we have this bill before the legislature maybe one of y'all could testify to that. I'd appreciate it very much.

Secretary Caldwell: I helped draft the Mineral Code which specifically includes the right to explore as part of the mineral lease and, to me, exploration includes access.

Mr. Allerton: Mr. Briggs, for the record, could you give us an estimate as to how much business has left Louisiana as a result of that $60 charge.

Mr. Briggs: I have those numbers in my office, but I can tell you this, it's in the millions and millions. I mean, one company was twenty-six million dollar plan – they took their money and they pulled theirs and went to Texas and spent that. Two plots that were pulled were two 11,000 acre shoots. They left an area right in the middle of a whole 3-D shoot. Jim Porter and I were talking about it just the other day and, I don't know, it's many millions of dollars. Now I do know that there are at least two shoots on standby right now. In fact, I got a call on one of them this morning to see what the status of this was because they're not coming in here at $60. I mean, they can't afford to. The economics didn't work at $20 oil for $60. All along we've gone along with the $20 but he doesn't – Wildlife and Fisheries does not have statute authority for even $20, but the economics weren't so terrible at that. We've offered to agree to the $20 but that's gone now. I talked to the Secretary of Wildlife and Fisheries just yesterday before I put down my little list here hoping that there would be a withdrawal of that. But there's not, so we'll just go to the legislature with it and fix it.

Proposed Relief Actions
for
Louisiana's Oil & Gas Operators

- ❑ Redefine "stripper well" status from 10 bbls or less, **to 25 bbls or less**.

- ❑ Redefine "incapable well" status from 25 bbls to 10 bbls, **to 35 bbls to 25 bbls.**

- ❑ Create a new category **"incapable gas lift oil well" – 50 bbls. or less**.

- ❑ Amend the state Mineral Leases form to allow a producer to temporarily shut in an oil well for six months and not lose his lease.

- ❑ Create an **"Incentive Lease Plan"**– i.e. minimum royalty of 1/8 for the first 100,000 bbls with a fixed bonus up front.

- ❑ Wildlife & Fisheries charges $60 per acre for access on state wildlife managed lands to shoot 3-D seismic. The permit obtained from the Mineral Board for a 3-D seismic shoot allows access. In our opinion, the Wildlife & Fisheries charge has no statute authority.

- ❑ Revise proposed 1999 Louisiana Tax Commission Rules. "This is a bad time to be doing this", a statement made by a LTC member during the Tax Commission's rule making meeting. The Tax Commission raised values on surface and subsurface equipment by more than 25% for 1999. There is certainly no validity in raising ad valorem values and taxes on producers.

- ❑ Exempt sales tax on utility charges used for the production of oil and gas.

- ❑ Sales tax on E&P (exploration & production) operations, should paid to the State by the vendor, when collected from the operator.

- ❑ State Department of Revenue re-evaluate its current policies regarding use taxes on fuel used to power production and processing equipment.

- ❑ Work with the Public Service Commission and the state electric utility companies on emergency rate structure for marginal well producers.

- ❑ Governor Foster and his administration to continue to work with IOGCC and our congressional delegation at a national level to bring stability to one of our nation's most valuable industries.