Jack Caldwell - Secretary, Department of Natural Resources

Ladies and Gentlemen, your strong presence here this afternoon certainly shows the severity of the disaster that has befallen the oil and gas industry in Louisiana as well as the rest of the country. The Mineral Board has called this forum in order to let you know what government is presently doing to help the situation, some of the proposals as to what government might do, and, most importantly of all, to hear from you and to get your suggestions of what government might do to help the Industry through these critical times. I might say that in my own view the single most significant assistance to the Industy grew out of a summit meeting of the oil and gas states in Oklahoma City last month in which I was honored to represent Governor Foster. And by unanimous consent and since that time with the help of the IPAA and other groups, Congress presently is considering a most helpful marginal well production tax credit. Most of you are familiar with it but I consider this probably the most critical piece of assistance that is likely to get through Congress. There are other proposals but this is the one that seems to me would have the best shot and this one provides for a $3.00 a barrel tax credit up to the first 3 barrels a day produced by stripper wells and defined in this Act as 15 barrels or less. It has strong sponsorship from all of the senators in the producing states including Senator Breaux and Senator Landrieu, of course. And if any of you haven't heard of it, I think this is a great proposal and could really go a long way toward helping the emergency situation that we're in now as opposed to longer term. These are the things that are already being done right here in Louisiana. We have already delayed enforcement of compliance orders, and I believe some of you are not aware of that. But the Department of Conservation on a case by case basis will undertake to grant relief for anyone who is in a bind on meeting compliance orders and we'll postpone that in whatever reasonable manner can be worked out with the Department. So give us a call if you've got a plug and abandon order and you don't feel that you can comply with it because of the economic circumstances that we're in. Secondly, the Mineral Board has already implemented a plan to ease up on development obligations. We're going to do this also on a case by case basis but if anyone is in a bind on a development obligation let us know and we're going to work it out so we can back it off. Those are things that can be done on an administrative basis without going to the Legislature. They have already been implemented so that part is underway. Also, the

Department of Conservation is waiving production fees on incapable wells. That is not a whole lot of money but it is a gesture to help people out because that can be done administratively without necessity for legislative action. The other thing that is part of normal business but we're finding out is helping out some of the people, some of the well service people, is the Oilfield Restoration Act is going full blast and believe me this is helping a lot of people. Already, since July this fiscal year, we have spent $1.3 million and we have – $10 million in the kitty. So, we're going just as fast as we can on oilfield site restoration to keep some of these service companies going. I know it means a lot to them and I'm happy to report we're getting a lot of participation. We're getting a lot of bids and I think we're helping a lot of companies that would really be in a bind for business if it weren't for this oilfield site restoration. Some of the proposals that we're considering and the Mineral Board hasn't voted on it yet but the staff is going to suggest that we implement a program for allowing shut-in oil wells on a basis similar to shut-in gas wells in which a nominal payment will be made for a shut-in. I would say $10.00, $25.00 an acre, whatever the Mineral Board comes up with so that if anybody feels that he's got to shut in a well for economic reasons but doesn't want to lose his lease will have a shut-in oil provision. And we'll be implementing that probably next month, right away, because this can be done by Board action alone. Another idea that we have considered that I've talked to with Don Briggs is an idea that I've been kicking around for quite a while – this is being proposed by the staff, it hasn't been voted on by the Mineral Board, is to change our bidding procedures with the idea of increasing cash flow to the operators such as we would have the bidding on a low bonus, fixed bonus of some nominal amount and perhaps allow a payout type of 1/8th royalty. It's to get the cash flow back and have a single variable bid that would be only the after payout royalty and let people simply bid on that. We will design this program and probably we're going to ask for a committee to work this out, if this is something that the operators think would help. The idea being is the State will take its risk on the back end and increase cash flow on the front end to the operators and reduce your cash needs. I feel confident that the Board will go along with that because we have expressed general support for this idea in the past. Lastly, we have undertaken a study to see what would happen if we were to eliminate severance taxes altogether on incapable wells and also reduce royalties down to a 1/8th. As you know, a lot of the other states have been getting publicity for cutting their severance taxes. Governor Keating in Oklahoma announced and his legislature passed a $21 million tax relief bill. Well, we've already done that in Louisiana and I understand Texas is getting ready to do the same thing but we've already done that. So, we've studied the situation as to what additional might be done and I've got some slides I want to run through with you quickly to let you know what we've been doing and might give you some "food for thought". Glenda, would you run up #1 for me. Most of you are familiar with this, this is for the benefit of members of the public who are not familiar with our severance tax structure. At the present time, there is no severance tax at all on the stripper wells because the price is below $20.00. So we've been out of the severance tax business on stripper wells for quite a while. We still have the fifty percent rate on incapable wells below 25 barrels a day. And we still have the 12 1/2% on regular, capable wells. But as you've read before, many of us feel, I know that I do, that the people most in need of help are the marginal well producers because they are the ones that are most price-sensitive to their operations and, as you know, once you shut in some of these stripper wells they are going to be lost forever. So, we wanted to see what we could do to keep some stripper wells producing rather than going out of business or going broke. So, what we did is we tried to get some data on the average cost of operating incapable stripper wells and the figure we came up with is probably on the high side but it was the best we could gather on quick study which is $3500 a month. This is sort of a grab bag figure to do our planning on so you can compare your own operating costs with that figure. Glenda, next one. O.K. Again, this shows the distribution of wells in Louisiana by barrels of production per day. You people who are in the stripper business know this very well but there may be some of you other members of the public who are not aware of the enormous number of wells that produce very little. As you can see, a half a barrel a day is the average rate of production for almost 9,000 wells in Louisiana. That is the big column on the left. So there isn't much that you can do about that category and that is the largest one. After that, there is a huge dropoff all the way down to one and a half barrels is the next figure on there and then it dribbles off to nothing almost going up to 25 barrels which is the incapable wells. So the people who are in trouble, bad trouble, are the ones way over on the left which is about one and a half to two and a half barrels a day or less. Next one, Glenda. This shows the percentage of wells producing less than 25 barrels a day and as you can see over 50% of all the wells are a half a barrel a day or less. Next one, please. On the other hand, another remarkable figure shows that just a few wells produce almost all of the oil in Louisiana. Over on the right, shows that wells producing more than 95 barrels a day are producing almost 80% of the production in Louisiana. About 80% of it is produced by a small number of wells. So, although we have a huge number of incapable and stripper wells they don't produce very much oil. We probably have the most severe situation of any of the producing states in that regard. Next one, Glenda. So, what we did was to take this $3500 a month operating costs for a well, convert that into barrels per day and see what would happen if we completely eliminated severance taxes and cut down royalties to 1/8th on all state leases. And this is what we came up with. The first screen here shows the number of incapable wells whose life would be extended as a result of cutting severance and royalty. And this would be about 2 barrels a day equivalent. We would save an additional 230 wells in the State of Louisiana which otherwise are going to be operating below costs, assuming our $3500 is accurate. Of course, if it is lower, you would save more wells than the 230. Next one, Glenda. We wanted to see how many barrels of oil would be saved by this action of reducing royalties and eliminating severance taxes and we get 591,000 barrels would be the result of this extra 2 barrels per day. The smaller figures show the effect of cutting the severance tax rate by 50%. The second little column shows the effect of eliminating the severance tax and the third one shows the effect of reducing royalty and eliminating the severance tax. Finally, and most importantly, for Louisiana – next one, Glenda – is the effect on jobs. Again, the small figure shows the 50% severance tax reduction, the second one shows severance tax eliminated, and finally both severance tax elimination and royalty reduction surprisingly would only increase the number of jobs by 66 on a direct basis. Of course, there is a multiplier effect that you would have but this would only save 66 jobs based on the best data that we could get. On the other hand, if we took this action it would cost the State, would it not? It would cost the State lost revenue both from royalties and severance taxes. Next one, Glenda. And cutting severance tax 50% would cost $4.2 million, eliminating the severance tax would cost $8.5 million, and reducing the royalty in addition would cost $9.05 million in lost revenue to the State. That is on a gross basis but, of course, if we had this increased production as a result of giving up this revenue we would have an offset by the increase in severance tax and the increase in royalty. Those figures would amount to about a half a million on severance tax and a small amount of royalty on the state leases involved so the net costs to the State would be about $8.5 million to save this 600,000 barrels that we have up here. So, the problem with that –

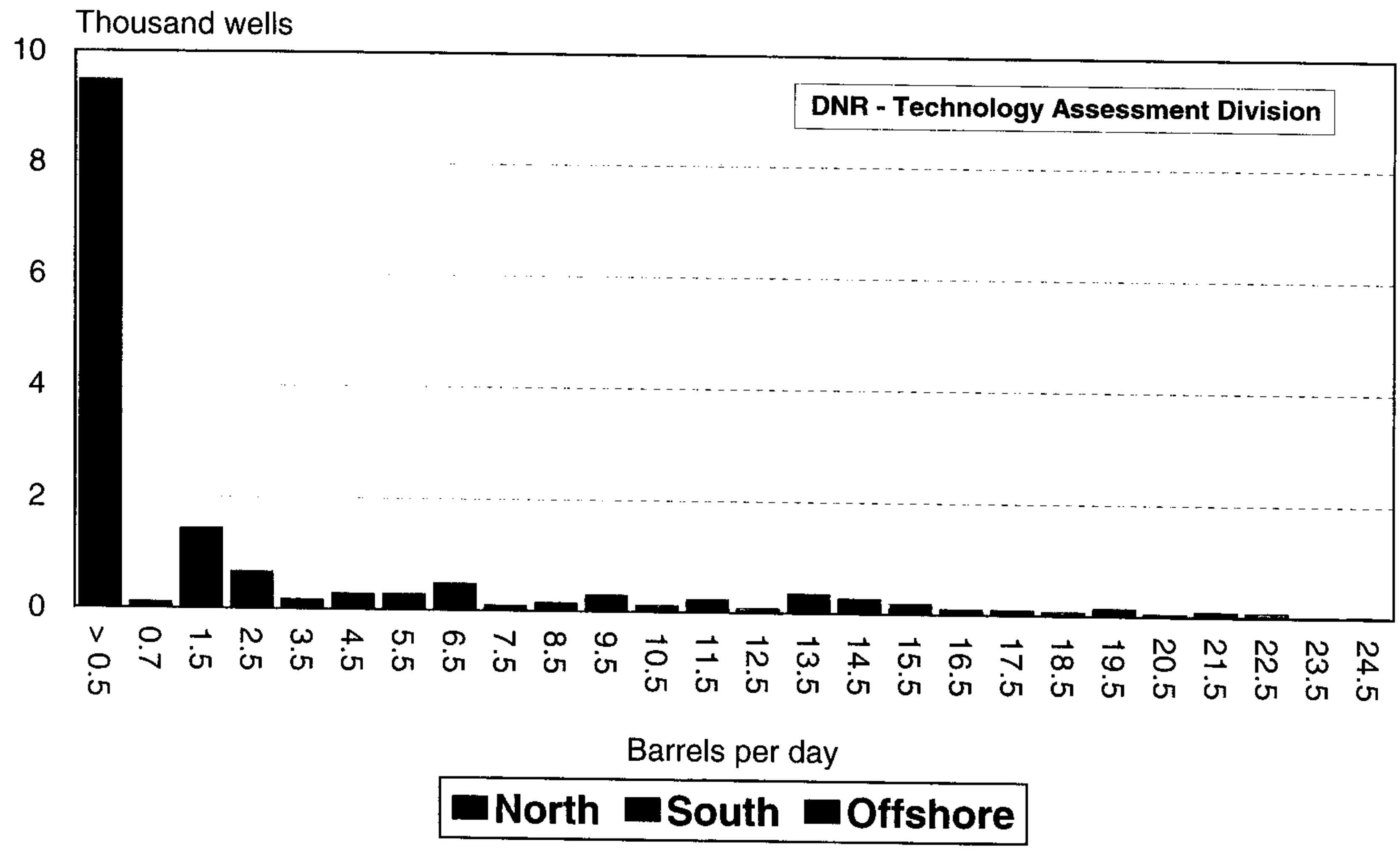
the cost is very high. And this is something that the Legislature is going to have to consider, this type of proposal. The State economy would get, as I said, another 600,000 barrels of oil and this would be worth $7 million dollars to the general economy. But the cost to the State of generating this would be $104,000 per well increased and $130,000 per job. So the cost would be pretty high if we cut the severance tax and the royalty. So, I just want you to have the benefit of this rather quick analysis that my staff made but I think you can see what the conclusion is, based on just the general structure of the oil industry in Louisiana. So, that concludes my remarks Madam Chairman and Bill and I appreciate your attention.

LOUISIANA HAS CREATED MORE SEVERANCE TAX RELIEF CATEGORIES THAN MOST OF THE PRODUCING STATES

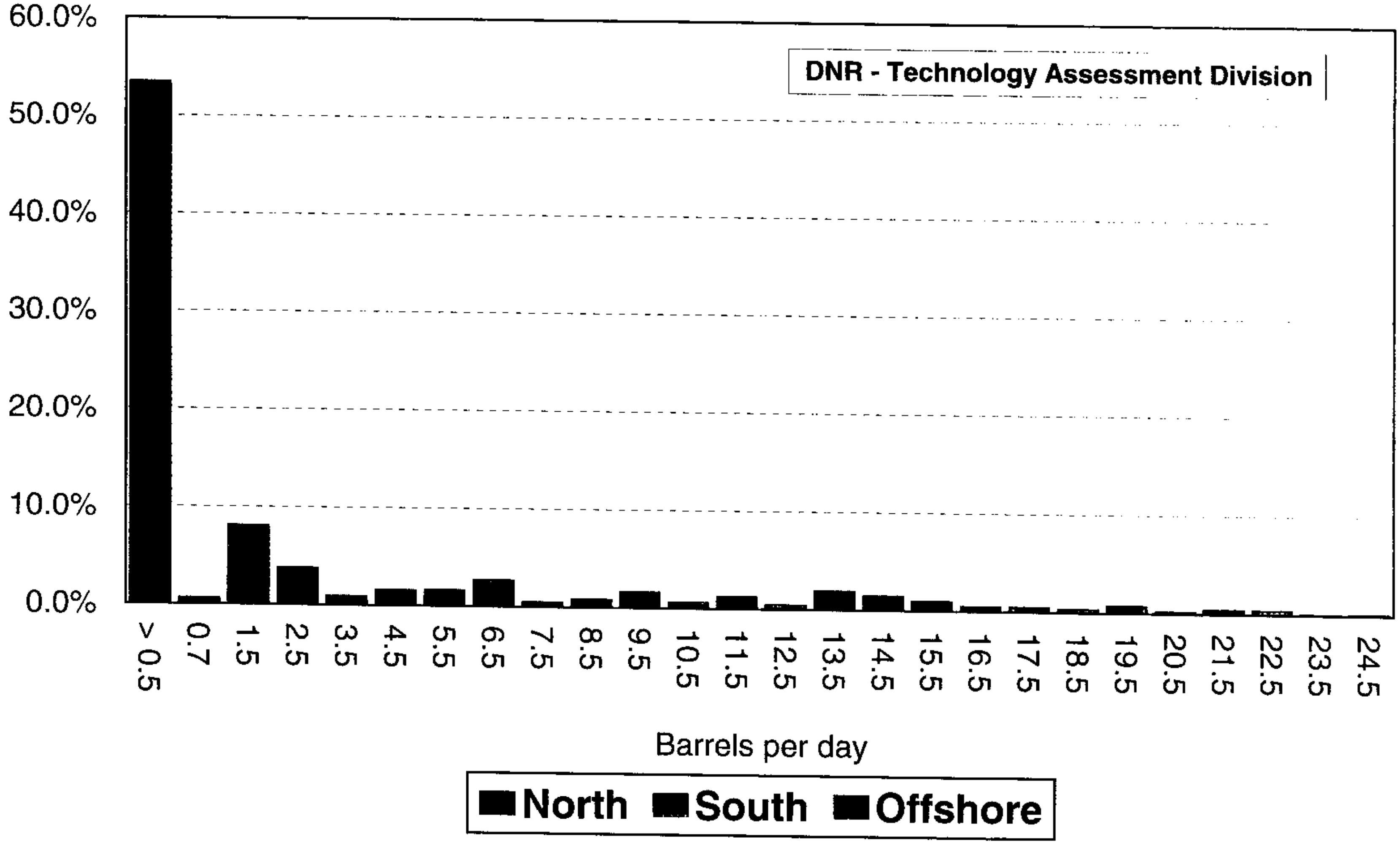
SEVERANCE TAXES RATES

CATEGORY	OIL	GAS
Fully Capable Wells	12.500%	7.0 cents per MCF, indexed annually
Incapable Wells	6.250%	1.3 cents per MCF for gas well 3.0 cents per MCF for oil well gas
Stripper Wells	3.125%	
Stripper Wells when Oil Price is less than $20 per barrel	0.000%	

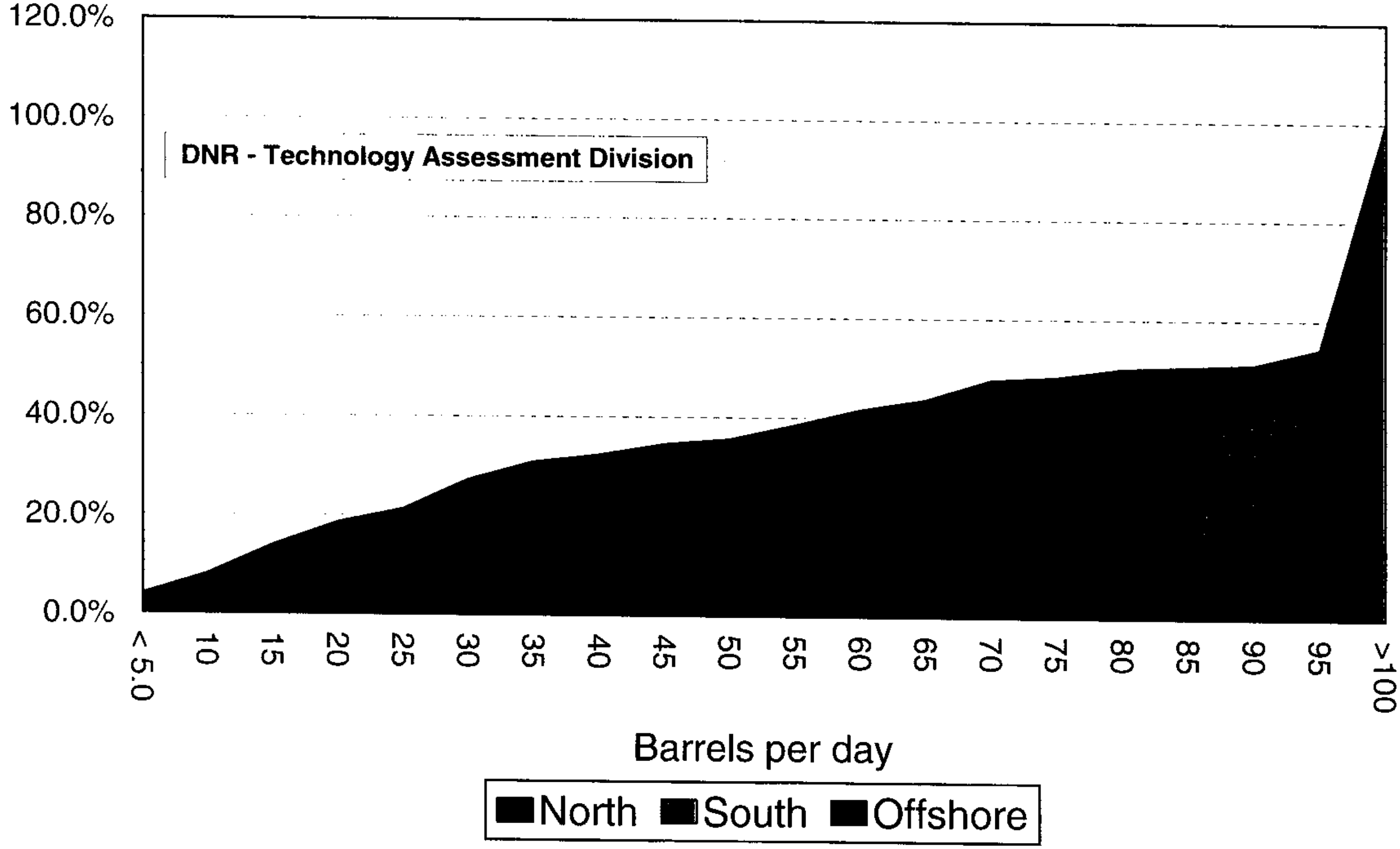
Number of Louisiana Wells Producing Less Than 25 Barrels Per Day



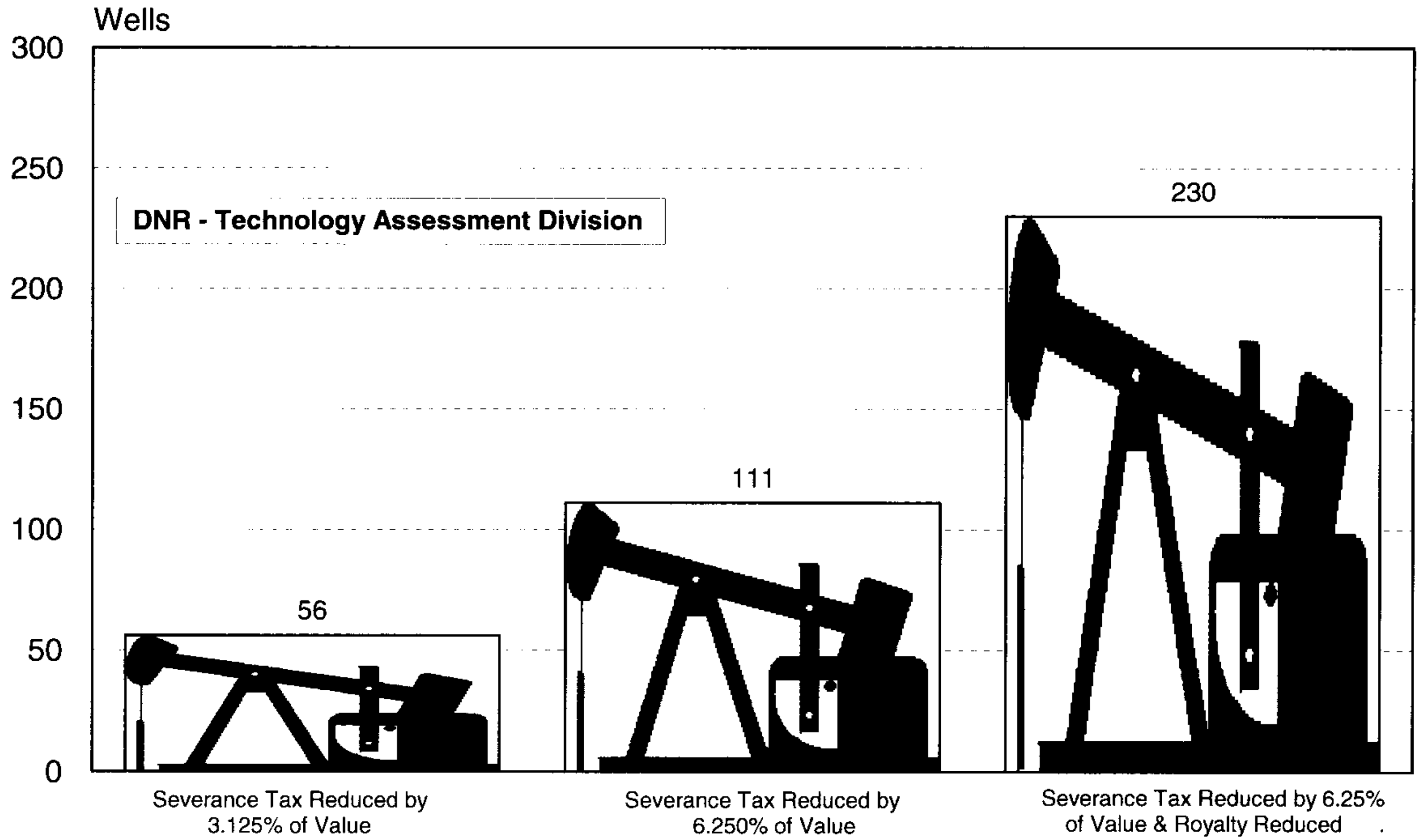
Louisiana Percentage of Crude Oil Wells Producing Less than 25 Barrels per Day



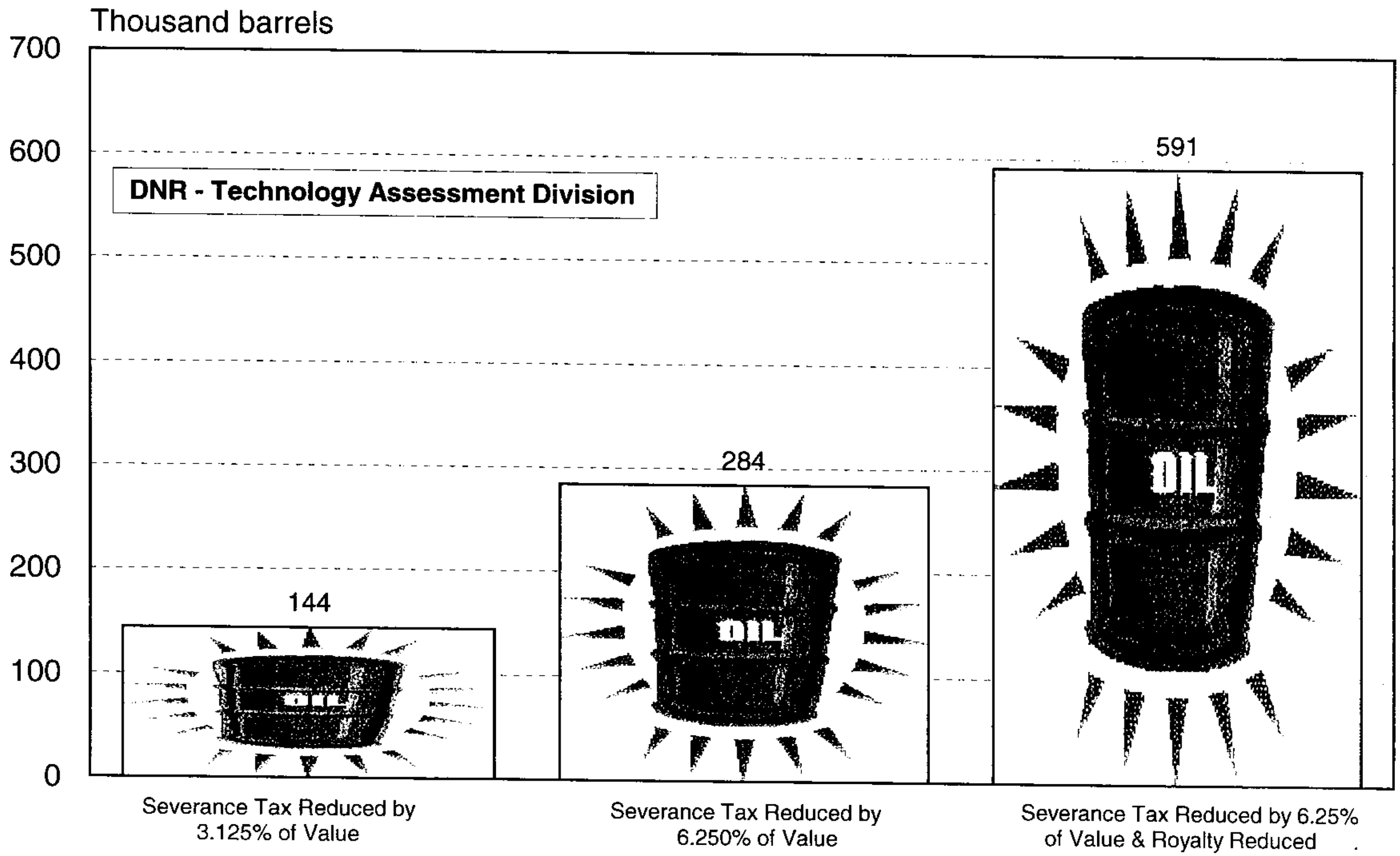
Cumulative Louisiana Percentage of Crude Oil Volume by Well Production Rate (Barrels per Day)



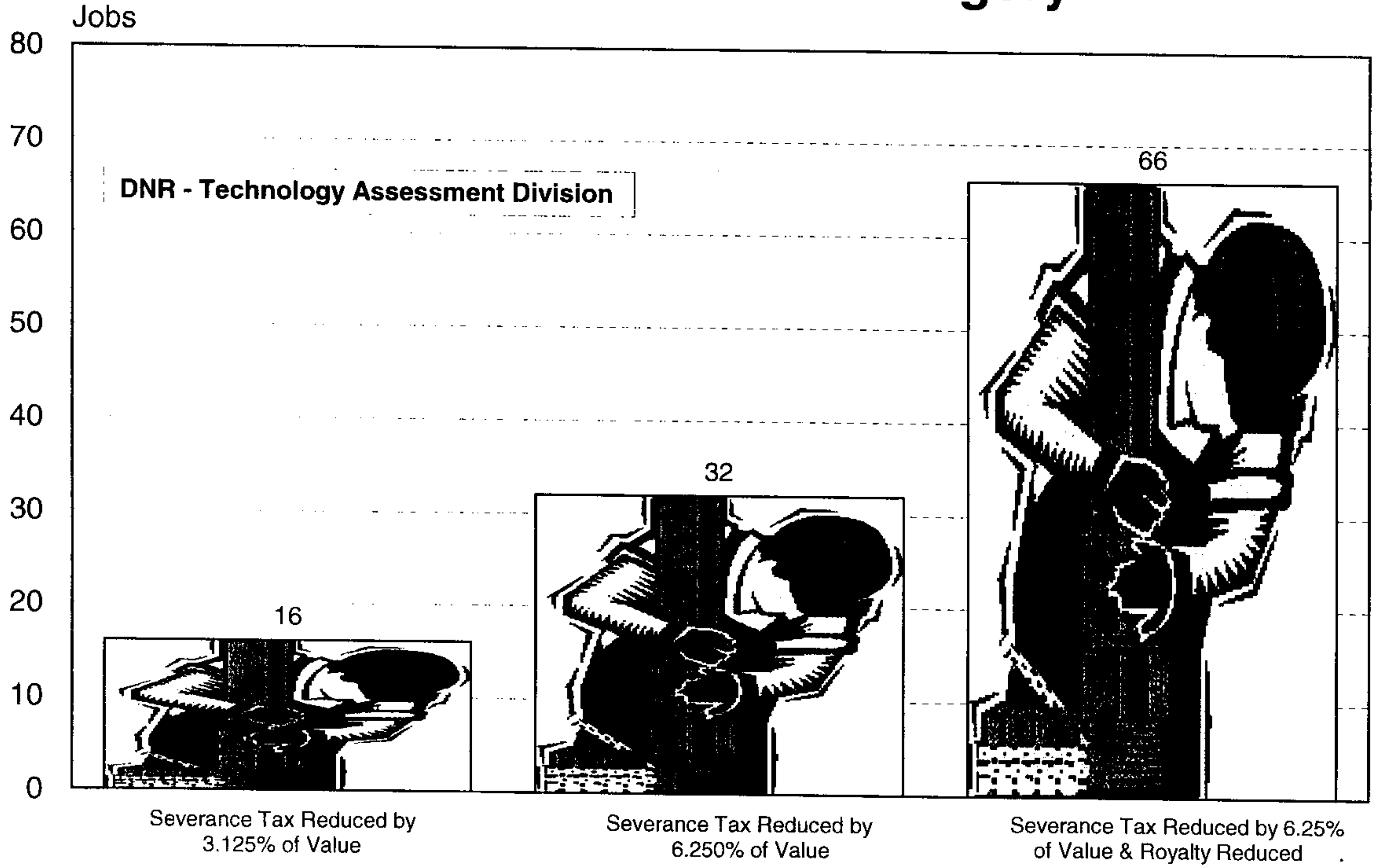
Number of 11-25 BOPD Wells Extended by Severance Tax and/or Royalty Relief Granted



Volume of Production Extended by Severance Tax and/or Royalty Relief Granted for 11-25 BOPD Well Category



Number of Jobs Saved by Severance Tax and/or Royalty Relief Granted for 11-25 BOPD Well Category



Revenue Loss to State by Severance Tax and/or Royalty Relief Granted for 11-25 BOPD Well Category