CENTER FOR ENERGY STUDIES
LOUISIANA STATE UNIVERSITY
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NEWSLETTER

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April 1994

CES ANALYZES GOVERNOR'S PACKAGE

Governor Edwards publicly announced on March 19th at LIOGA's Annual Meeting a five point oil and gas package that he will submit to the legislature. The package includes lower tax rates for specified periods to stimulate drilling for exploratory, horizontal, inactive and deep formation wells. In addition, he proposes to exempt stripper wells from severance tax when oil is less than $20/bbl. The package also contains a resolution urging the federal government to adopt policies that will make deep water OCS development economically competitive.

CES conducted a fiscal and economic analysis of the package which was submitted to DNR Commissioner Herb Thompson on March 29, 1994. At current wellhead prices, the CES analysis estimated the package would be revenue neutral to slightly revenue positive during its first year of implementation and generate or save some 900 jobs. Local governments should experience a positive fiscal impact, due to sales taxes generated by the drilling activity and also due to revenue sharing from state royalties.

ENERGY REVENUE AND PRODUCTION ESTIMATING GROUP

CES hosted its second annual meeting for staff involved in various aspects of projecting energy revenues and energy production for the state. Members of the informal group assist one another in preparing aspects of the state budget and assessing fiscal impacts of legislation. The group seeks consensus on baseline numbers in order to minimize differences in projecting fiscal impacts of proposed legislation. Specific pieces of legislation, when known, are also discussed.

The meeting was attended by representatives from the Department of Natural Resources, Division of Administration, Department of Revenue and Taxation and the Legislative Fiscal Office, in addition to CES. Consensus was achieved on oil and gas prices and production. $15/bbl was the concensus estimate for projecting royalty and severance tax revenues and $2/Mcf was the concensus estimate for projecting natural gas royalties. DNR announced that the FY 93/94 severance rate for insurance alternatives, if available, exceeded their profits. After publication of Mr. Hebert's testimony, operators and official representatives of five other states (AK, CA, NM, NY and OK) requested advice from CES as to how they could make similar calculations for their own respective states.

PETROLEUM TECHNOLOGY TRANSFER CENTER

The U.S. Department of Energy plans to fund a national program to establish ten regional Petroleum Technology Centers. The program will be administered through the Petroleum Technology Transfer Council (PTTC) which is a new Washington-D.C.-based, non-profit corporation and is a spinoff from the IPAA. The IPAA's involvement was deemed critical in order to make the program producer driven. Deborah Rowell is the PTTC Executive Director and is also a Vice-President of the IPAA.

After considerable deliberation, it was decided that Louisiana will be its own region and is officially known as the Central Gulf Region. A local Producer Advisory Group (PAG) has been established and is chaired by Bob Chebul of LL&E. He will also serve on the National PTTC Board. Other members of the Louisiana PAG include Don Briggs of LIOGA, John Crancer of Delta Seaboard, Henry Pfeffer, Jr. of South Oak Production, Chuck Rutland of Badger Oil & Gas, John T. Palmer of Palmer Production, Don W. Solanas, Jr. of Arrowhead Exploration Co. and Gary Prehoda of Dowell Schlumberger. Jerry Ham of DOE's Metairie Office and Herb Thompson, Louisiana's Commissioner of Conservation are ex-officio members. Membership on the PAG is open but implies a willingness to devote some time, especially during this formative period.

The Center for Energy Studies has been selected to be the Regional Lead Organization (RLO) whose responsibilities include getting the program established, carrying out the wishes of the PAG and interacting with the National Council. There are three main components to the program:

1) **Problem**

"shifted" and either paid by consumers of the product or the workers or owners of the resources employed in the business. (The Center's work dealt only with state and local taxes paid by gas and oil E&P operations in 11 states.)

Measuring energy taxes on an ultimate-incidence rather than tax-collected basis makes a big difference for many states. For example, Alaska collected $1.15 billion in severance taxes in 1993, but because most of this was shifted and exported to consumers in other states in the form of higher prices of products refined from Alaskan crude, the amount of severance tax collected by Alaska, that was allocated to the Alaskan tax burden was only $130 million. California, on the other hand, which has no state severance tax to speak off, was allocated $558 million as a consequence of severance taxes shifted on to products purchased by California consumers.

Despite making such adjustments to reflect the incidence of energy taxes, households in energy-producing states still bear the heaviest energy tax burden--this is primarily because workers and resource owners in energy industries also bear a sizable chunk of the ultimate tax burden once it has been shifted. On a per household basis, the states with the heaviest, total energy tax burden were: 1) Alaska, 2) Wyoming, 3) Louisiana, 4) Texas, and 5) New Mexico.

Copies of the ten page study are available for $5 from the Tax Foundation, 1250 H Street NW, Suite 750, Washington DC 20005. (Phone: 202/783-2760).

RESERVE REPLACEMENT VIA DRILLING ACTIVITY IS DECLINING IN LOUISIANA

Low wellhead prices of recent years have severely reduce drilling activity in Louisiana. As a result, new petroleum reserve additions have declined significantly. According to the Energy Information Administration, crude oil reserve additions declined from a high of 54 million barrels in 1987 to an all time low of 20 million barrels in 1992. Natural gas liquid reserve additions fell from a high of 44 million barrels in 1990 to 25 million barrels in 1992, and new dry gas reserve additions also declined from a high of 165 million barrels of oil equivalent in 1990 to 69 million BOE in 1992.

Despite declining petroleum production in the state, on average, only 24 percent of crude oil produced has been replaced by new reserve additions via drilling since 1988 as shown in Table 1. The comparable five year average replacement ratio for natural gas liquids is 45 percent and the ratio for dry natural gas is 44 percent.

Louisiana's replacement ratios for oil and dry gas are below those for Texas. For dry gas, Louisiana's replacement ratio is also nearly 10 percent below the national average.

MISCELLANEOUS

Bob Baumann has been appointed to the LA Department of Natural Resources Advisory Committee by Secretary John Ales.

Governor Edwin Edwards presented BP America's $24,000 donation to CES for OCS studies during his weekly press conference on March 16, 1994. Governor Edwards also mentioned the donation during his luncheon address at LIOGA's Annual Meeting on March

1994.

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Louisiana Land and Exploration Co. is CES's newest Industry Associate member. LL&E's donation will be used to support our energy policy analysis research.

We regret the problems with our phone service. CES no longer has control over the employee answering its main phone number - (504)388-4400. If no one from CCEER is at the front desk to operate the phone, calls will be switched over to the Assistant to the Executive Director. If she is away from her desk, the answering machine will give you instructions on direct line access and/or take a message.

Advertising policy - We have had a couple of inquiries regarding advertising. Presently, we do not allow advertising although we do allow, but