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Response to Comments from the Louisiana Midcontinent Oil and Gas Association (LMOGA) and the Louisiana Oil and Gas Association (LOGA)

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companies and landowners in different ways. Notably, the Haynesville Shale region in northern Louisiana produces natural gas and takes advantage of the horizontal drilling exemption.

Several industry stakeholders voiced their concerns with the recommendations of the Report[1] ³, I ZH ZHU

to create a severance tax system from scratch, the system you propose makes a lot of sense. But the political reality is that proposing a tax increase on *anyone*

/RXLVLDQD¶V tax structure and comparison with other states. Section 4.1 focuses on the severance tax rate and provides comparisons to other states. Section 4.2 provides a discussion of the deductibility of transportation costs for oil compared to natural gas that is taxed at a volumetric rate. Section 4.5 discusses the overall competitiveness RI /RXLVLDQD¶V WD[VWUXFWXUH IRFXVLQJ RQ WKH WD[EXUG A more detailed discussion of the inherent tradeoff between a value-based rate allowing for deductions compared to a volumetric rate indexed to a market price is discussed in Section 8. We agree that a simple comparison of tax rates is not sufficient to fully assess the tax burden and our report recognizes the complications of simple comparisons.

Second, LMOGA comments on property taxes as follows: ³$OWKRXJK WKH &RQVWLWXW taxation of reserves and below-ground equipment, the taxation of the cost to drill and equip a well effectively serves as a means of levying tax on reserves and below-ground equipment.´ We appreciate this perspective; however, the Report does not recommend changes to the property tax assessed on oil and gas equipment. Notably, a Constitutional amendment was passed in November of 2020 DOORZLQJ IRU D ZHOO¶V RLO considered when valuing it for property tax assessment.[2] This amendment was passed after the release of the Report and was supported by LMOGA.

Third, LMOGA comments that the state and local sales tax rate in Louisiana is higher than surrounding states. This Report¶V VFRSH LV OLPLWHG WR severance taxes. The Task Force on Structural Changes in Budget and Tax Policy recommended a reduction in the sales tax rate as well as a broadening of the sales tax base[3] and generally acknowledged that Louisiana has a higher combined state and local sales tax rate relative to other states.[4] The state and local sales tax applies regardless of how oil and gas is taxed. We are focusing on improving the taxation of oil and gas.

LMOGA expresses a concern about the potential ramifications of disassociating production taxes from production value in favor of a volume-based tax, stating: ³6SHFLILFDOO\ LI JDV SULFHV G its revenue drop, but not its tax burden. In extreme cases, the tax burden could exceed the revenu leaseholders will realize impacts to the present value of their assets ±assets in which companies and individuals LQYHVWHG XVLQJ WKH FXUUHQW WD[UHJLPH DV WKH EDVLV IR We have addressed this explicitly in the proposed legislation. Specifically, if implemented, existing wells will continue to pay the current tax rate. Thus, a property owner with currently producing wells will not be impacted in this way. Second, new wells drilled in regulatory units that are currently receiving the horizontal, tertiary, and deep well exemptions will be grandfathered. Thus, a company that is actively developing a field utilizing one of these exemptions will not suddenly see the removal of the exemption for future wells.

Response to LOGA Comments:

if implemented existing wells continue to pay the current tax rate. Thus, all currently producing wells in the Haynesville will not be impacted in this way. Second, new wells drilled in regulatory units that are currently receiving the horizontal, tertiary, and deep well exemptions will be grandfathered.

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