CENTER FOR ENERGY STUDIES

NEWSLETTER

August, 1993

TOWARDS STANDARDIZATION OF OIL AND GAS PROJECTIONS

CES met with representatives from the Department of Natural Resources, the Department of Revenue and Taxation and the Legislative Fiscal Office on July 7th to examine data sources and methods for projecting oil and gas production, prices and severance and other related oil and gas taxes. The informal group's goal is to reach consensus in making the projections in order to standardize fiscal notes on proposed legislation. The group will meet again prior to the next regular or any special session to update projections.

SEVERANCE TAX EQUIVALENCY

In response to some informal requests, CES has been examining severance tax rates and collections as well as some other oil and gas taxes. An old idea that we have been asked to revisit is what common severance rate on oil and natural gas would be required to result in an overall revenue neutral impact. The table included below provides the necessary full rates (rounded up to the nearest ¼%) that would have to be imposed on both oil and gas given various prices of those commodities. The estimates include proportionately lower rates for stripper wells and incapable wells as is currently established by various statutes. Impacts to state royalties are accounted for in estimating revenue neutrality. Production estimates used were from the Louisiana Department of Natural Resources Production Model.

Oil and Natural Gas Severance Tax Equivalency (% value)

Natural Gas Price $MCF	Oil Price $/Barrel		
	17	19	21
1.70	8 1/2	8 3/4	9
1.90	8	8 1/4	8 1/2
2.10	7 1/2	7 3/4	8

To achieve a revenue-neutral common severance rate, the severance on natural gas has to increase and the severance on oil has to decline. The overall equivalency rate required increases with increasing oil prices and decreases with increasing natural gas prices. To give an example, if Louisiana had elected to convert this fiscal year, natural gas severance would have had to increase from the current 7.5 cents/MCF to 16.0 cents/MCF and the full rate on oil severance would decline from 12.5 percent of value to 8.0 percent of value assuming acceptance of the official Revenue Estimating Committee's forecast of prices, production rates and oil and gas severance and royalty income. Overall, the required severance equivalency rate has declined since our previous analysis and testimony before the House Ways & Means Committee in the mid 1980's when an equivalency rate would have had to have been 9.8 percent. This is due to the fact that Louisiana oil production has declined at a rate faster than that of natural gas and, that the ratio of the value of natural gas to oil has improved since that time.

ELECTRICITY AND FEDERALISM AT PRINCETON

Allan Pulsipher was one of about thirty policy analysts invited from academia, government and business to participate in a symposium organized to discuss evolving regulatory roles for federal and state governments in the rapidly changing and increasingly competitive electric utility industry. The symposium was organized and hosted by Princeton University's Program in Science, Technology and Public Policy. Pulsipher discussed how the federally owned Tennessee Valley Authority might be affected. He also published a recent article on TVA in the Energy Monitor and his analysis of TVA has been used in related stories published in Energy Daily, Washington Monthly, Southeast Power Report, Houston Chronicle and several Tennessee and Alabama newspapers.

BAUMANN NORTH TO ALASKA FOR ENERGY

COUNCIL

Bob Baumann presented the results of a survey of energy trends and indicators to the members of the Energy Council recently in Anchorage, Alaska. The Energy Council is an organization of state legislators from the major energy producing states and Canadian provinces. Baumann's presentation summarized national energy trends and policy developments as well as those trends and developments most important for each member state or province. His presentation was based on a 56 page report prepared by CES that was distributed at the meeting. The report was requested and financed by the Energy Council--as was Bob's trip.

CES AND THE BTU TAX

CES prepared a report analyzing the likely effects of "the" BTU tax, (that is, the BTU tax initially proposed by the Clinton Administration and passed by the House of Representatives) on Louisiana. The analysis emphasized the impact the tax would have on the petroleum industry (both production and refining) and the state and local government sector. The conclusion was that the tax as initially proposed would have serious, if unintended, effects that would disproportionately and negatively, affect Louisiana's economy--especially its refining industry. As is often the case with current policy issues our analysis rather quickly became dated. In fact, some of the problems we identified were addressed even before the tax was passed by the full House of Representatives. Subsequently, the Senate scrapped the BTU tax in its entirety in favor of a gasoline tax. Nevertheless, we believe the effort was worth it since it surfaced problems that may not have been apparent to those not familiar with Louisiana's unique, energy intensive economy. The report was requested by the American Energy Alliance. Since AEA is a national rather than a state organization, in accordance with CES policy, we were reimbursed for all time spent on the report. Of course, CES retained complete editorial and analytical control over the project.

NATIONAL PUBLICATIONS

Two recent CES reports have evolved into national publications. An article based on the update of CES's comparison of State and Local taxes paid by the E&P industry (summarized in the February, 1993 Newsletter) will be published soon in the Oil & Gas Journal and an article based on CES's study of residential and commercial natural gas prices in Louisiana (summarized by Wumi Iledare in the May, 1992 Newsletter) will be published in the October 15, 1993 Public Utilities Fortnightly.