OKLAHOMA
OIL & GAS ASSOCIATION

PRESS RELEASE

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Oil and Gas Organizations Launch Campaign

Effort provides facts to correct misinformation amid debate over taxing horizontal drilling in Oklahoma

Oklahoma City, OK May 12, 2014– The Oklahoma Independent Petroleum Association (OIPA) and the Oklahoma Oil and Gas Association (OKOGA) launched a campaign today supporting a responsible plan that will ensure Oklahoma's exploration and production activity remains strong for years to come. The campaign also responds to inaccurate claims made by special interest groups calling for a historic 700 percent tax increase on the oil and gas industry.

"Oil and gas already generates nearly a quarter of the revenue flowing to the state," said Chad Warmington, head of OKOGA. "No industry is taxed more in Oklahoma than oil and gas. Our industry has carried more than its fair share from the billions of dollars of capital invested in Oklahoma to fund oil and gas exploration. That investment has created thousands of jobs, many in rural Oklahoma communities. Therefore, if you raise taxes on the industry that is the backbone of the state's economy, it is important to understand how such action will affect jobs and investment. That is what this campaign underscores."

Oklahoma is second in the nation with 192 active rigs drilling behind Texas with 895. Gross production taxes are up 17.9 percent over the last year, generating $831 million in revenues to the state, counties and education. The industry employs nearly 350,000 Oklahomans, with the majority employed by over 3,000 small oil field service and supply companies located throughout the state.

Industry leaders from Oklahoma's three largest independent energy companies, representing a large percentage of the drilling in the state, recently met with state leaders. They discussed adjusting the taxes for the first 48 months of production from 1 percent to 2 percent. The plan would also include vertical wells, an important part of Oklahoma's rural energy development.

Opponents of the plan presented by industry leaders cite higher tax rates on oil and gas activity in North Dakota and Texas as proof a tax increase will not affect job creation and capital investment in Oklahoma. "They are wrong," Warmington said. "This oversimplified comparison assumes economic and geological conditions are analogous among states. They're not. The costs of drilling vary among states. Oklahoma must remain competitive; otherwise, rigs will move to other states where returns are quicker and greater. The responsible plan presented by the industry will ensure Oklahoma can keep competing for capital investment."

OIPA President Mike Terry said, "Oklahoma has good drilling conditions, but compared to the geology of drilling in North Dakota and Texas, most companies are able to recover more oil and gas in those regions for significantly less investment than in Oklahoma. One thing I know, if we put in place a favorable tax policy, the revenues to the state will continue to climb."

The state's current tax provision for horizontal wells expires July 2015, and legislative inaction would trigger a tax increase from 1 percent to 7 percent noted both Terry and Warmington. By creating a permanent, reduced gross production tax for new Oklahoma wells, lawmakers will continue to encourage the production and development of the state's oil and natural gas.

Terry said, "Energy producers are developing 2015 budgets this fall to determine where they will invest capital next year. If there is no permanent solution in place, producers have an obligation to their boards and shareholders to assume taxes may increase to seven percent. Rigs will move out of state if the legislature does nothing this year, taking jobs and investments with them."

Warmington added, "Conversely, we have tabulated the economics of the two percent plan which will provide certainty and stability. This is a responsible plan that will not hinder economic growth or job creation."

In 2010, when the nation experienced a devastating recession, state leaders at the time asked the oil and gas industry for help by suspending payments owed under the horizontal and deep drilling provisions. The industry agreed to forego tax refunds, netting the state more than $290 million at a time when Oklahoma faced a serious shortfall and potentially fatal cuts to programs and services. The state agreed to pay back the industry over a three-year period. This situation contributes to the lag in gross production tax that state leaders cite as a need to increase taxes. However, when the loan is finally re-paid next year, the revenues from gross production taxes will balloon an estimated $100 million per year.

Terry added, "There is no revenue shortfall for state government. Tax collections this year exceed last year's tax collections, and even the state's General Revenue Fund has more taxpayer money in it than last year. What we have in Oklahoma is a spending and budgeting problem."

Warmington closed with, "We recognize the state has services and programs it must fund. However, Oklahoma's oil and gas employers have a tax burden that is four times greater than the average business on a per worker basis. Our question is when will enough be enough? Perhaps Oklahomans would be better served if officials would examine the budgeting process and how we forecast and allocate the billions of dollars our economy generates, versus seeking to return to the trough of the industry that has built this state."

EDITORS — To view the first commercial from the OIPA and OKOGA campaign, visit http://youtu.be/9vA2qHYx0j0

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