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OKOGA FACT CHECKS OEPA'S CALL FOR THE STATE TO REVERT TO OUT-DATED, JOB-KILLING ENERGY POLICIES

OKLAHOMA CITY – The Oklahoma Oil and Gas Association (OKOGA) today responded to a press release issued by the Oklahoma Energy Producers Alliance (OEPA) that called for a gross production tax increase on the largest job creators and capital investors in the state.

"It's disappointing to see well-respected Oklahomans use such misleading arguments to push for job-killing tax increases," said Chad Warmington, president of OKOGA. **"Those who formed OEPA are not drilling new wells, making new and significant capital investments in the state, or creating new jobs. In other words, they are not currently participating in the type of activity that will lead our state out of two years of a struggling economy. OKOGA member companies have largely contributed to the 2,800 jobs the energy sector created in Oklahoma in January and February. We are supporting policies at the state capitol that will allow this type of growth to continue so that we can close the budget gap and continue to be the top revenue stream for education, roads, and critical services in Oklahoma. For an industry that pays four times as much in taxes per employee as other Oklahoma industries, another tax hike on the state's number one job creator is not the solution."**

OEPA Myth #1: "Oklahoma has the lowest [gross production] tax rate in the nation."

OKOGA Fact Check: Oklahoma's average gross production tax is 3.1 percent according to an economic report published in September 2016 by the State Chamber of Oklahoma Research Foundation. This rate is slightly below Oklahoma's top competing oil producing state, Texas, with an average gross production tax of 3.7 percent. Kansas, Colorado, and Utah have an average gross production tax lower than Oklahoma.

The economic report also notes that "recent changes to [Oklahoma's] severance tax structure will likely raise the average severance tax rate paid beginning in FY'2016." This is referencing when Oklahoma enacted into law a new two-tier, permanent gross production tax structure for all new wells drilled at 2 percent for 36 months and then 7 percent thereafter. This law also sunset several rebates by July 2015. Prior to 2014, the state taxed horizontal wells for two decades at an effective rate of 1 percent for 48 months and 7 percent thereafter.

OEPA Myth #2: Horizontal drillers are "tapping into oil found by" vertical wells and "destroying those wells that are paying a 7 percent tax, replacing it with horizontal wells paying a 2 percent tax."

OKOGA Fact Check: First, it is important to distinguish that all new wells, whether vertical or horizontal, are taxed at 2 percent for 36 months and then 7 percent thereafter.

But since OEPA is comparing an old well to a new well in a hypothetical situation, consider the following scenario: If the price for a barrel of oil is $43, an old vertical well producing 50 bbl a day—a generous estimate—generates <u>$150.50 a day in state revenue</u> at the 7 percent gross production tax rate. A new horizontal well produces an average of 1,000 bbl a day, and generates <u>$860 a day in state revenue</u> at the current gross production tax rate. This is nearly <u>six times the revenue generated from a legacy, vertical well</u>. This horizontal well will be taxed at 7 percent after 36 months of production, the exact same treatment as a new vertical well.

If vertical well producers "found" oil that others are allegedly stealing, why are they not drilling new wells and developing it? Do they not have an obligation to their mineral owners to do so? The reality is that old vertical wells are no longer an effective method for developing oil and natural gas, and these conventional wells will never lead Oklahoma out of the current revenue shortfall. In fact, conventional vertical well production has declined by 110 million barrels of oil equivalent (mmboe) per year. Horizontal well production in Oklahoma surpassed vertical production as of 2015 with a fraction of the surface impact.

OEPA Myth #3: Increasing production tax to 7 percent "demonstrates a commitment" to help solve the state's budget crisis.

OKOGA Fact Check: Drilling new wells and producing oil and natural gas demonstrates a commitment to help solve the state's budget crisis. New capital investments equal new rigs which equals new jobs. All of this activity creates various new and long-term revenue streams for the state to collect taxes. For example, the most active operators in Oklahoma have pledged $5.5 billion in capital investments for this year. As a result, the state has already seen the industry create more than 2,500 jobs in January and February. This activity will soon become revenue streams for the state. Investing in new economic activity is being committed to Oklahoma's future prosperity as well as its current and future tax revenue for critical government services.

The most active operators in the state, who are largely drilling horizontal wells, also pay more in taxes than just a gross production tax. The gross production tax makes up one-fifth of $2.55 billion in state taxes the oil and natural gas industry paid in FY'15, the largest single source of tax funding for public services in Oklahoma. When other Oklahoma industries pay $1 in taxes per employee, the oil and natural gas industry pays $4 in taxes per employee.

OEPA Myth #4: OKOGA's priority bill, Senate bill 284, is a "direct assault on the property rights of every traditional oil and gas producer in Oklahoma."

OKOGA Fact Check: Vertical well and horizontal well operators DO NOT OWN the hydrocarbons**.** A mineral owner possesses the right to drill for, produce, or otherwise gain possession of such substances. Royalty and mineral owners make lease agreements with owner/operators to capture those minerals through the drilling of wells. Mineral owners can earn significantly increased royalty revenues with horizontal drilling verses vertical wells.

The Coalition of Oklahoma Surface and Mineral Owners has endorsed SB 284, the Oklahoma Energy Jobs Act of 2017. The more profit mineral owners generate from wells, the more taxes they pay. The Oklahoma School Land Commission is the largest mineral owner in the state and their earnings go to public schools and higher education institutions.

Furthermore, horizontal drilling is better for landowners as it creates significantly less surface impact. The presence of one horizontal well replaces the need for at least six vertical wells to produce the same amount. This is a major win for landowners who want to protect and preserve the function and beauty of their land while still financially benefiting from the development of oil and natural gas.

OEPA Myth #5: "No other state permits these 'big boys' to just waltz in and drill these long, horizontal wells"

OKOGA Fact Check: Oklahoma is the only state restricting long lateral drilling of horizontal wells by geologic formation. No other state has this unnecessary restriction limiting long laterals to shale-only formations. Most states let technology and regulatory agencies determine the appropriate length of lateral drilling.

Background

The Oklahoma Oil & Gas Association, founded in 1919, is the oldest energy trade association in the United States. Nearly a century later, the association remains dedicated to the advancement and improvement of the oil and natural gas industry within the state of Oklahoma and throughout the nation. It is a non-profit association composed of oil and gas producers, operators, purchasers, pipelines, transporters, processors, refiners, marketers and service companies which represent a substantial sector of the oil and natural gas industry within Oklahoma. The activities of OKOGA include support for legislative and regulatory measures designed to promote both the well-being and best interests of the citizens of this state and a strong and vital petroleum industry within the State of Oklahoma and throughout the United States.

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