

Office of the Governor
State of Louisiana

JOHN BEL EDWARDS
GOVERNOR



P.O. Box 94004
BATON ROUGE, LOUISIANA 70804-9004
(225) 342-7015
GOV.LA.GOV

November 11, 2020

Honorable Clay J. Schexnayder
Speaker of the House
Louisiana House of Representatives
Post Office Box 94062
Baton Rouge, Louisiana 70804-9062



RE: Veto of House Bill 29 of the 2020 Second Extraordinary Session

Dear Speaker Schexnayder:

Please be advised that I have vetoed House Bill 29 of the 2020 Second Extraordinary Session.

House Bill 29 purports to create a new severance tax exemption on oil produced from certain oil wells, but contains a number of practical shortcomings:

1. The exemption would apply to an "orphaned, newly drilled, or newly completed well that is undergoing or has undergone well enhancements." However, newly completed wells do not typically undergo an enhancement, because, as the technical name suggests, the well is newly completed and generally not in need of an enhancement. Recompleted wells, on the other hand, are the result of enhancements, but would not qualify for this exemption although it appears the legislative intent was to include recompleted wells.
2. Historically, oil severance exemptions commence with production from the well. In a departure from longstanding standards, House Bill 29 was amended to establish the exemption commencement date as the first day of the month after the operator notifies the Department of Revenue that new or post enhancement production has commenced. Because there is no requirement that the notice be provided within a certain time frame after production actually commences, the calculation of any payout is rendered administratively impracticable because (1) there will be at least one month in which taxable production occurs prior to the implementation of the exemption and (2) there exists an indeterminable delay in the start of the exemption at the discretion of the operator.
3. In attempting to ensure regulatory compliance, House Bill 29 provides that an operator is ineligible for the exemption if the operator violates Statewide Order 29-B. However, this provision raises uncertainties as to whether the exemption is revoked if a violation occurs during the exemption period and as to the effect of a violation that is later corrected. If the

Honorable Clay J. Schexnayder
November 11, 2020
Page Two

exemption is revoked for a violation, can the exemption be reinstated and how does that impact the calculation of payout and the maximum exemption period?

Well-vetted tax legislation would have foreseen and addressed these types of technical issues; instead, House Bill 29 creates compliance uncertainty for operators and administrative burdens for the departments of state government.

During a legislative session wrought with limited access for the public to meaningfully comment on bills, proponents of this new exemption averred that the exemption would increase oil production and create jobs. Yet no legitimate evidence or testimony supports this assertion, other than the testimony of those with a vested interest through enactment of a new exemption. In fact, according to research by the LSU Center for Energy Studies, production is relatively unresponsive to price changes. As stated in committee hearings, the bill's author explained that his intent was to "put people back to work," but there exists no requirement that the drilling operator certify that it employed Louisiana residents to the extent possible in production activities, unlike the New Discovery Well statutes enacted in the mid-1990s. Further, any potential benefits of this legislation must be balanced against the resulting \$38 million dollar hole left in the State's budget for the current and next four fiscal years.

Lastly, this bill was one of several bills introduced in this most recent session unrelated to the ostensible and claimed reason for the session – COVID-19 response and hurricane recovery. There will be a fiscal session of the Legislature in the Spring of 2021 where this plan, and other tax measures can be fully debated and considered. I look forward to continuing discussions with industry representatives about way that we can continue to make Louisiana competitive for our oil and gas partners.

Sincerely,

A handwritten signature in black ink, appearing to read "John Bel Edwards", is written over the printed name and title.

John Bel Edwards
Governor

cc: Honorable Patrick Page Cortez
Louisiana Senate President