

Louisiana Oil & Gas Industry Shows Signs Of Renewal

By Dan Larson
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LAFAYETTE, LA.—Oil and natural gas activity in Louisiana shows signs of renewal, industry leaders say, as prices stabilize and hard-won efficiencies guide fresh appraisals of conventional plays.

“We are still taking a cautious approach, but our message this year is positive,” says Bryan Hanks, chairman of the Louisiana Oil & Gas Association. “We are anxious to get back to work.”

Hanks, president and chief executive officer of BETA Land Services in Lafayette, notes that when his industry discussions turn to the near-term outlook, many colleagues cite a perceived market floor for oil at \$50 a barrel as a key factor behind their optimism. “Having an established floor gives operators confidence in their plans and ability to move

forward,” he assesses.

Hanks says he expects merger and acquisition activity in Louisiana to increase this year as private equity investors see the price rebound as an opportunity to realize a return on their investments.

Austin Chalk Revival

For example, Hanks notes that in early January, Amelia Resources of The Woodlands, Tx., sold 85,000 acres in the Austin Chalk play for a reported \$87 million to an undisclosed buyer. The acreage was only recently acquired, according to a statement by Amelia’s president.

Kirk Barrell described the acreage his company sold as “targeting a shallower, normally pressured, oil-rich, porous reservoir across an unfaulted monoclinial dip. With the Tuscaloosa Marine Shale occurring 700 feet below the Austin Chalk, the updip region of the play presents a

potential ‘stack play’ opportunity.”

The Amelia announcement followed one made in late December by PetroQuest Energy that it had acquired 24,600 acres of Austin Chalk leases in Central Louisiana for \$8.7 million, according to a company statement.

And a research firm notes new attention is being paid to the Austin Chalk, based on deals announced last year. This renewed interest, combined with an upswing in asset values in the Haynesville Shale that started in 2016, bodes well for operators and oil field service companies doing business in the Bayou State, Hanks says.

Analysts at PLS Inc. in Houston suggest disciplined capital policies developed during the downturn have led “first movers to the next resource play story: the Austin Chalk—another old play with a technology-driven revival.”

The firm also notes M&A activity in the Haynesville bottomed in 2015 at \$900 million. In 2016, however, activity in the Haynesville rebounded to \$3.2 billion and was followed by a 0.7 percent increase in deal value last year.

The industry’s cautious optimism will be on display at LOGA’s 2018 annual convention, scheduled for March 7-9 at the Golden Nugget Casino and Hotel in Lake Charles.

“Since the market shifted so drastically in 2015, there has never been a more critical time for industry professionals to stay informed,” the association asserts in a preview of the meeting.

LOGA’s meeting is only just days before the start of the Louisiana legislative session, giving members plenty of choices for hallway conversation topics. “March in Louisiana is also prime crawfish season,” Hanks quips, “so we will have that going for us, too.”

Tax Progress

LOGA can claim some important progress during the past year in a long-running dispute between industry and the Louisiana Assessors Association (LAA).

Daron Fredrickson, chairman of LOGA’s Tax Committee and a partner at Merit Advisors, reported last fall that his

LOGA Annual Meeting – Lake Charles, La.

Wednesday, March 7

- 10 a.m. Golf Outing, Gray Plantation
- 4-7 p.m. Annual Meeting Registration, Grand Foyer, Golden Nugget Casino and Hotel
- 5-7 p.m. Welcome Reception, Grand Foyer & Outdoor Pavilion

Thursday, March 8

- 7 a.m. Registration Opens, Grand Foyer
- 7:15 a.m. Breakfast
- 8:15 a.m. Breakfast Keynote Session
Speaker: Stephen Waguespack, Louisiana Association of Business & Industry
- 9:45 a.m. Morning Session
David Blackmon, Columnist, Forbes.com
Anne Idsal, Administrator, U.S. Environmental Protection Agency Region VI
Chris McClendon, Coastal Atlas Project
Coastal Lawsuit Update by Kelly Becker (invited), Liskow & Lewis
Louisiana Severance Tax Valuation Audits & Lawsuits, Randy Songy, Onebane & Donahue
- Noon Keynote Lunch
Speaker: U.S. Interior Secretary Ryan Zinke (invited)
- 1:45 p.m. Afternoon Session
Louisiana State Agency Panel with Chuck

Brown, Secretary Department of Environmental Quality; Tom Harris, Secretary Department of Natural Resources; Richard Ieyoub, Commissioner of Conservation; Jack Montoucet, Secretary Department of Wildlife & Fisheries

Louisiana Resource Plays Panel Discussion with Charles Goodson, Petroquest, on the Austin Chalk; and Speakers to be Announced on the Cotton Valley and Haynesville Shale

Louisiana Legislative Panel with (all invited) Senate President John Alario, R-Westwego; Speaker Taylor Barras, R-New Iberia; Senate Natural Resources Chairman Norby Chabert, R-Houma; House Natural Resources Chairman Stuart Bishop, R-Lafayette

- 5 p.m. PAC Meeting
- 6:30 p.m. Evening Cocktail Reception
- 7 p.m. Dinner Event

Friday, March 9

- 8 a.m. Breakfast
- 8:30 a.m. Breakfast Session
Speaker: U.S. Representative Ralph Abraham, R-La.
- 9:30 a.m. LOGA Board of Directors Meeting

group reached an agreement with the LAA on a path forward to revising state valuation rules that could be in place by the 2019 tax year.

“There is a lot of work to do before that time, but barring unforeseen issues, we will get there,” Fredrickson said in a report published in LOGA’s triannual magazine.

At LOGA’s 2017 annual meeting, Fredrickson explained that Louisiana’s constitution forbade mineral taxation for property tax purposes and mostly barred basing property valuations on the income generated (*AOGR*, April 2017, pg. 116). Therefore, oil and gas producing properties are valued according to the replacement cost to drill and equip a well, depreciated over 22 years, which had led to an erratic system that ignores most wells’ real market value.

But in his *LOGA Industry Report* article, Frederickson says a select committee created in 2016 by Louisiana Tax Commission Chairman Lawrence Chehardy has “agreed on an outline of a plan to move forward. The goal is to have everything in place for the 2019 tax year.”

Meanwhile, another tax issue of interest involves taxes levied on construction materials while work is ongoing. This latter issue was the subject of an amendment to the state constitution that won voter approval in elections held last October.

Amendment 1 exempts the cost of construction materials from property taxes until work is completed. Historically, many projects were exempted until construction work wrapped up. However, local tax assessors learned such exemptions were not covered under the state’s constitution and began levying property taxes on projects still being constructed, according to a taxpayer advocacy group.

The issue came to a head in 2016 when the assessor in Cameron Parish sought property taxes from Cheniere Energy on construction materials used in its unfinished \$20 billion liquefied natural gas export facility at Sabine Pass. Published reports indicate the controversy drew enough attention that industry groups, working with state Senator Mike Walsworth, R-West Monroe, were able to successfully push SB 140 through the 2017 legislature. That bill placed Amendment 1 on the October special election ballot, where it passed 66 percent to 34 percent, according to the reports.

“Since construction work in progress was not taxed in the past, Amendment 1 does not take revenue away from local governments,” the reports quote Danny Ford, director of the Louisiana Taxpayer Protection PAC. “If it had not passed, the additional taxes would have put Louisiana out of the running for economic development.”

Coastal Erosion

Louisiana's economic woes persisted through 2017, although genuine optimism was beginning to seep into business discussions at the turn of the New Year, observes Hanks.

"We have been through three tough years," he affirms. "Finally, we are seeing some light after the darkness."

The general slowdown in oil and gas activity since 2015's calamitous drop in oil prices was largely responsible for the loss of jobs, investments and tax revenue the state has experienced, Hanks says.

It also is believed that oil and gas investments have been directed away from Louisiana because of an increase in litigation aimed at the industry, Hanks continues. Over the past three years, a spate of lawsuits against operators were filed related to historical contamination issues and loss of coastal wetlands.

"Louisiana often is labeled as one of the most litigious states in the country," Hanks remarks. "That resonates in the board rooms of our industry, and we are seeing direct results in a lack of investment here."

The industry won an important victory last year when a federal appeals court turned down a request to rehear a case filed in 2013 seeking billions from the industry.

The lawsuit brought by the Southeast Louisiana Flood Protection Authority-East (SLFPA-E) contended that more than 80 companies—ranging in size from small operators to international oil companies such as ExxonMobil, Shell and BP—were responsible for damage to the state's coast. That case was dismissed in February 2015 by a U.S. district court judge, who noted the companies were not contractually obligated to restore the wetlands (*AOGR*, March 2015, pg. 16).

That decision was upheld last March by a three-judge panel of the U.S. Court of Appeals for the 5th Circuit, which agreed with the lower court that SLFPA-E's complaint failed to offer viable causes of action against the defendants (*AOGR*, April 2017, pg. 17).

When the same appeals court declined to rehear the case in April, that legal avenue appeared closed, according to a report published in *Courthouse News*.

"The favorable ruling at the federal level seems to have kept some of these parish lawsuits at bay," Hanks observes.

Governor Intervenes

In the meantime, Louisiana Governor John Bel Edwards announced in Sep-

tember 2016 that he would join lawsuits against the industry and litigate through state courts. He also urged all coastal parishes to file as a means of raising funds to support the state's \$50 billion, 50-year coastal management master plan, according to published reports.

The governor, however, appears to have moderated some of the anti-industry statements made during his 2015 election campaign, Hanks says.

"Governor Edwards has gotten strong pushback from industry and from many of his supporters who may not be in the industry, but have constituents whose jobs were lost in the downturn," Hanks reveals. "Still, we are looking for a change in direction or a change in administration."

Nevertheless, the reported erosion of thousands of acres of coastal areas, from a variety of sources and not only oil and gas activity, continues to draw headlines and concern from lawmakers. In late December, a report published by Bloomberg said the state was finalizing a plan to relocate residents of coastal areas.

New home construction in coastal areas deemed "high-risk" would be prohibited, homeowners would be bought out, and taxes would be raised for those refusing to leave, the Bloomberg report stated. Nonresidential and commercial building would be allowed, but bonds would be required to pay for eventual demolition, it said.

The report prompted the Louisiana Office of Community Development to issue a statement the next day that denied it was working on such a plan. The office noted it had begun a series of discussions with community leaders in six coastal parishes to explore ways to prepare for the changes occurring along the affected region.

"We must create a process for adaptation and to strategically respond to the changing landscape," the OCD declared.

Legacy Liability

Hanks says the flip side to the legal challenges facing the industry in Louisiana are the ongoing battles companies are fighting against what are referred to as legacy lawsuits.

The question that continues to be litigated centers on who is responsible for cleaning up contamination that originated from a different operator under a different regulatory regime, he explains.

"We have cases where a company operated 50 years ago and was in compliance with the regulations in effect at that time," he points out. "This latest wave of lawsuits goes after the current operator on the premise that he inherited the cleanup responsibility when he ac-

quired the acreage."

In a statement published in December, LOGA President Donald Briggs urges Louisianans to join the call to reform the state's legal system. "We must clean up the polluted legal environment that Louisianans and business leaders are forced to deal with," Briggs declares. "We have heard many times that the reason oil and gas companies are not willing to invest in Louisiana is the legacy and coastal lawsuits.

"This issue is not dictated by geopolitical matters or the global market. It has been instigated and encouraged by the governor of our great state," he adds. "We must change the way our state leaders conduct the business of our state."

Briggs' views were supported in a report released in December by the American Tort Reform Foundation (ATRF) that ranked Louisiana as number eight on a list of states for "unbalanced courts" and "excessive litigation."

In explaining the state's ranking, ATRF cites Governor Edwards' involvement in lawsuits against the oil and gas industry and his hiring of a political fundraiser to represent the state in anticipation of new lawsuits.

But remedies to the wave of legacy lawsuits are available, maintains Vice President Gifford Briggs. Litigation could be avoided if the state conducted permit reviews that considered allegations of rules violations against an operator, he insists. The state then could issue compliance orders that would allow the operator to address the complaints before a lawsuit was filed, he says.

Hanks agrees, noting that his firm and others in the land business offer clear advice and "kick the tires" when companies come into Louisiana.

"We now have language in lease agreements to help address some of the potential legal matters up front," Hanks states. "We make it clear for both sides that the operator is responsible for his actions and he is not responsible for what a predecessor may have done."

Association Events

Leading up to its annual meeting, LOGA hosts a series of "state of the industry" sessions across the state and in Texas. Kicking off with a meeting Feb. 1 in Houma, La., state-of-the-industry sessions were scheduled in Houston, New Orleans, Baton Rouge, Lafayette and Shreveport, La.

Intended to inform LOGA members, local elected officials and civic leaders, state-of-the-industry discussions focus on the "impact of low oil prices and whether Louisiana will be ready when the market

recovers,” according to an association statement. Also included in the sessions are a review of 2017 and opportunities for business in the new year.

“These meetings draw a good crowd,” Hanks observes. “Don Briggs and Gifford Briggs have been doing them for years, and they always do a great job capturing what happened in the past year and a preview of the year ahead.”

Hanks also announces that Stephen Waguespack, president and CEO of the Louisiana Association of Business and Industry, has agreed to keynote this year’s annual meeting breakfast session on Thursday, March 8 at the Golden Nugget Casino and Hotel in Lake Charles. As the state’s chamber of commerce and manufacturer’s association, LABI represents more than 2,200 business members and 324,000 employees, Hanks notes.

According to the convention schedule, U.S. Representative Ralph Abraham, R-

LOGA Transitions To A New President

BATON ROUGE, LA.—The Louisiana Oil & Gas Association announced in January that Donald G. Briggs, president of association since 1992, is transitioning from his role to pursue other interests. Briggs is being succeeded by Vice President Gifford Briggs.

During his tenure as president, LOGA says, Briggs helped guide the association through political crises and natural disasters. It was the industry’s response to the devastation caused by Hurricane Katrina that Briggs says he is most proud of.

“We raised more than \$1 million to provide housing, fuel and transportation for families affected by this horrendous hurricane, Briggs recalls. “I can, in full confidence, hang my hat on the accomplishments of LOGA and the advancements in the oil and gas industry.”

“Don is a living legend in the history of Louisiana’s oil and gas industry, and I am proud to have served as chairman under his leadership,” offers LOGA Chairman Bryan Hanks. “Don could always be found on the front lines fighting for our members, our industry, and for the great state of Louisiana.”

The association notes that Vice President G. Briggs will assume the role of association president at LOGA’s 2018 annual convention, March 7-9 in Lake Charles, La. D. Briggs will be awarded with the title of president emeritus in acknowledgement of his years of service to LOGA, its members and the industry. □

La., is the speaker for the Friday morning, March 9, breakfast session, and U.S. Secretary of the Interior Ryan Zinke has been invited to address the Thursday luncheon.

LOGA’s annual meeting gets under way with a golf outing on Wednesday morning, March 7 at the Gray Plantation Golf Club in Lake Charles, the association says. Convention registration opens at 4 p.m. in the Gold Nugget’s grand foyer, followed by a welcome reception at 5 o’clock.

Among the speakers and presentations on tap for Thursday’s morning business session, LOGA reports, are Forbes.com

columnist David Blackmon, U.S. Environmental Protection Agency Region 6 Administrator Anne Idsal, and updates on Louisiana’s coastal lawsuits and severance tax valuation audits. The afternoon business session consists of the annual state agency panel, a discussion of Louisiana resource plays and a state legislative panel.

Thursday’s events wrap up with a political action committee meeting, evening reception and dinner. An open Board of Directors meeting at 9:30 a.m. Friday concludes annual meeting activities. □