Written Testimony
Of
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Before the
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Madam Chairperson, members of the committee, thank you for the opportunity to speak with you today about capital strategies that independent producers employ as small business owners and their overall role in contributing to our energy economy. My name is Joe LeBlanc and I am a co-founder and Senior Managing Director of PerPetro Energy, LLC.

PerPetro Energy, L.L.C. is a start-up independent oil and gas company headquartered in Lafayette, Louisiana. The Company was formed in 2011 with the goal of maximizing the value of Gulf Coast Basin legacy properties as an aggressive consolidator, renovator and developer of producing assets with attractive exploitation, exploration and development opportunities.

Prior to founding PerPetro Energy, I served as Associate Director of the Tulane Energy Institute and as a Clinical Professor at the A. B. Freeman School of Business at Tulane University. Prior to joining Tulane, I served as Principle Financial Officer, Treasurer, Planning and Marketing Director of Energy Partners, Ltd (EPL) and as Manager of Finance & Business Development with McMoRan Exploration Company, Derivatives Trader with Shell Oil Products, Equiva, Motiva, and Equillon companies. In addition, I have worked as a Commodities Risk Manager, Planning Coordinator, and Audit Coordinator with the Louisiana Land and Exploration Company and I am a Certified Public Accountant.

As a co-founder of new independent oil and gas company headquartered in Lafayette, Louisiana, I would like to describe how current and proposed tax and BOEM regulations have increased the difficulty of attracting investment capital into the Gulf Coast region which increased the barriers to entry for new companies and increased our cost of capital. It should come to no surprise that the larger E&P companies are seeking to exit the shallow waters of the Gulf of Mexico, primarily as a result of increased regulations and more favorable economics in other basins around the world. As such, the majority of capital providers, including the public equity markets, do not look favorably to the gulf coast region as the basin is relatively mature with extensive abandonment liabilities and a higher-cost operating environment.

To give the Committee perspective on how this issue impacts PerPetro Energy's access to capital, it is important for you to know that our company is finalizing commitments from outside investors for approximately $500 million. However, our capital providers are very concerned about the uncertainty related to proposed changes in the tax code and the inconsistency between the IRS and BOEM regulations. However, if these issues are resolved, our company will be positioned to aggressively move forward with executing its strategic vision to revitalize the shallow Gulf which would directly and indirectly employ over 100 high quality new jobs next year in this immediate area.

1. The current inconsistency:

A. BOEM requires companies to provide financial assurances that oil & gas abandonment liabilities will be performed

B. Surety providers AND the BOEM are currently requiring 50% to 100% of such liabilities to be funded, in cash, immediately upon the acquisition of any oil & gas property.

C. The IRS deems oil & gas abandonment liabilities to be considered as “contingent liabilities” and that the deductibility of such liabilities are only allowed when such abandonment work is actually performed and such costs are expended.

As such, companies are required to PAY to the BOEM for all future abandonment liabilities without ANY tax relief or any tax basis in the “liability” assumed.

Example: PerPetro purchases an oil & gas property for $100 cash that has $25 of future abandonment liability. BOEM requires that $25 be secured via a bond or cash in an escrow immediately upon acquisition of the property. IRS regulations allow only a $100 basis in the property for depreciation vs. a $125 basis since the IRS deems abandonment liabilities to be “contingent liabilities”. Repayment of the $25 escrow funding, PerPetro must earn $35 to generate $25 after tax proceeds. Then, at the end of the field’s life, PerPetro must have earned an ADDITIONAL $35 of net income to generate ANOTHER $25 of after tax proceeds to pay for the actual abandonment expenditures. ONLY AFTER such abandonment expenditures are completed will the BOEM release the cash held in escrow and are any deductions provided for the abandonment expenses provided. The mining industry is provided with a tax basis for all abandonment liabilities assumed. Not the oil industry.

2. The Proposed Regulation Change – Capitalizing IDC:

A. A major component of Intangible Drilling Costs represents the salaries and wages of my employees (or the employees of service companies) working to develop oil and gas reserves. We are actively looking at acquiring several service companies as part of our renovation strategy. As such, such a proposal would be asking me to CAPITALIZE my payroll expenses and depreciate such costs over 5 years.

B. The simple mention of such a regulatory change causes most capital sources to negatively react towards such investments increasing the risk of their investment and accordingly, increasing my cost of capital to compensate for such risks.

C. Let's repeat this out loud: "There is a proposal to require Louisiana energy companies to capitalize it payroll expenses"

If the question is "How can we create jobs in Louisiana?" then the answer is "Create an environment that encourages capital investment here." The energy industry has always been a very capital intensive industry needing to continuously re-invest all of its free cash flow back into the ground in order to replace and grow the rapidly depleting reserve base, particularly in this region. Most other basins around the world have regulatory environments that provide for the complete capital recovery PLUS a minimum rate of return BEFORE royalties and taxes are imposed. In this region, we have a mature asset base and a regulatory structure that provides no incentive for cost recovery BEFORE royalties and taxes are imposed AND a provision to require that funding be posted for abandonment liabilities without any tax relief.

Correcting these inconsistent and overly burdensome matters will lower the entry barrier to oil & gas investments and should help to re-vitalize the Louisiana oil & gas industry resulting in the creation of numerous new jobs for our State.