'Honor System' Doesn't Work for Oil and Gas Companies, Louisiana Says

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Louisiana has filed 30 federal lawsuits seeking millions of dollars from oil and gas companies it accuses of grossly underreporting oil and gas production. It claims the oil industry has cheated the state by lying in a tax reporting system that relies upon an honor code.

By SABRINA CANFIELD

NEW ORLEANS (CN) -

About 1,546 oil and gas wells and other production facilities operate in Terrebonne Parish, on the Gulf of Mexico. Below the surface of the Gulf and in the coastal lowlands lie some of the major oil and gas fields in the United States. The inshore and offshore fields have been extensively developed and minerals have been extracted from them for decades.

Oil and gas production companies must pay severance taxes to the state on all minerals and gas extracted and removed from Louisiana. Taxes are based on the volume of minerals and gas that pass through valves that measure and control the flow. Oil and gas companies periodically report the volume to the Louisiana Department of Natural Resources.

The state's lawsuits say that before 2008, gas and mineral reporting was done on a well-by-well basis. Since then, to make things less complicated, the reporting is done by land - operators file a single report for all wells operating on a parcel of land.

Under the new system, the state has no way of determining whether production from a particular field is comprised of production from all, some, or only one well within that field and - the state says - visible inspection by assessors is generally not feasible, as assessors have "neither the manpower nor the resources to conduct visual inspections of the thousands of wells and other facilities located in the fields." For that reason, the Louisiana Tax Commission developed "a system of self-reporting" where "the assessed value of oil and gas property is determined solely on the basis of reports filed under oath."

The state says the many defendants substantially underreported the fair market value of the oil and gas extracted from 1998 to 2008. Often, the state says, the defendants did not report production from some wells at all. Sometimes they reported they their wells were "shut in" and not producing, and yet they reported to other sources that those very wells were "producing" during the same times.

The state demands back taxes and damages for RICO violations and mail fraud.