



**Texas
Independent
Producers and
Royalty Owners**

WE'RE CHANGING THE CONVERSATION IN WASHINGTON AND TEXAS

Natural Gas is the Key

As reported in the March 19 *Target*, TIPRO leaders traveled to Washington, D.C. and met with Congressional representatives about the concerns Texas independents have regarding the 2010 Fiscal Budget changes proposed by President Obama's Administration. As a result, a rousing letter signed by 16 supportive Congressional leaders was sent to Budget Committee Chairman John Spratt and his Committee who are reviewing budget details. The letter's contents are provided on page 3.

Legislative Director Donna Warndorf explains, "We are changing the conversation in Washington and Texas on the role of oil and natural gas in the energy transition. Natural gas is the key to achieving the Administration's goals of increasing alternative energy and decreasing dependence on foreign oil. The Texas Congressional delegation understands this and we're working with them to take that message to Washington."

Scott L. Anderson, TIPRO Past President said, "The letter sent by Gene Green and his colleagues, many from other producing states, voices our concerns to those in charge of the budget process urging that the tax provisions that have been in place for years, if removed, will cripple our businesses."

With as much as we need our communication to accomplish, we didn't stop there. We sent additional correspondence to the Texas Congressional Representatives who did not sign the March 24 letter urging them to join their colleagues. Time is of the essence and this issue is vital to the future of our industry so TIPRO sent another message to the following leaders urging them to help out, too. (See text on page 4.)

TIPRO wants its members to know we're doing all we can to be sure our concerns are addressed. "We're out there giving it all we've got. They're messing with our livelihoods and they're messing with Texas," added Anderson.

Conversation continued on page 4

THE CARBON ISSUE IS HEATING UP

The debate on CO₂ and climate change has been waging in publications, on TV and even documentaries for years. Now, it officially has hit hot and heavy in Washington, D.C. with the introduction of "The American Clean Energy and Security Act of 2009." The Waxman-Markey energy legislation introduced this week seeks a wide berth over regulation of carbon, promotion of energy alternatives, and conservation measures. The bill is designed to cut greenhouse gases (established from 2005 levels) 20% by 2020 and 83% by mid-century. The legislation also aims to create a national renewable electricity standard that starts with 12% in 2012 and reaches 25% by 2025.

Now that the debate is in lawmakers hands, what could this mean for Texas independents? Plenty. House Energy and Commerce Committee Chairman Waxman is shooting for his panel to approve an energy measure as early as June which will make for some steamy debate this summer in the House.

According to a *Houston Chronicle* article from March 31, "Reps. Henry Waxman, D-Calif., and Ed Markey, D-Mass., would tie the reductions to a mandatory cap-and-trade system, under which oil refineries, manufacturers and other industrial operations could comply with progressively higher limits on carbon dioxide by buying and selling allowances to release the heat-trapping pollutant... In recognition of the political challenges ahead, Waxman and Markey dodged the most explosive issue: how to allocate the allowances that would be bought and sold under the cap-and-trade plan — and whether to give in to industry demands that some of those polluting permits be given away for free."

"Our industry has urged Washington to formulate an energy policy, but this isn't what we were seeking. The Act will present a formidable regulatory challenge to our industry and may substantially raise energy costs for the American consumer. Although the Act has lofty goals, it's unrealistic and unwieldy," said TIPRO President Tad Mayfield, Goldston Oil.

Go to www.tipro.org to view a discussion draft summary of the 648-page draft bill. TIPRO will continue to monitor all the ramifications of this thorny issue and keep members informed every step of the way.

TEXAS LEGISLATIVE SESSION UPDATE

The Environmental Regulation Committee discussed two of the three bills related to the regulation of carbon storage and capture and the impact for the oil and natural gas business. TIPRO has been involved in discussions on all of the bills, especially HB 2669 by Rep. Crownover. We have taken the approach of “doing no harm” to enhanced recovery projects during this Session. We are working on all of the bills to ensure that carbon dioxide used for enhanced oil and gas recovery projects remains available to producers and regulated at the Texas Railroad Commission. We are also working to ensure that whatever program Texas develops does not limit the state’s ability to participate in a federal program on carbon capture and storage that is developed in the near future. We are working closely to ensure that any carbon capture program does not limit the ability of producers to transition to a straight carbon storage project after the enhanced recovery operations are final. In other words, we want to work on the long-term use and work in the oil patch.

Rumblings from the Barnett Shale continue to drive large numbers of hostile legislation and our greatest concerns. Bills to limit the location of well sites, notice provisions to elected officials, and the siting of pipelines are all on the table in the House Energy Resources Committee. Emotional testimony from constituents on HB 1533 (notice for drilling permits and 14-day delay), HB 1535 (restrictions on eminent domain for pipelines) and HB 1537 (extensive, new pipeline safety requirements) by Rep. Burnam, HB 3402 (prohibition to drill within 500 ft of a residence) by Rep. King and HB 1420 (transport of drilling mud) by Rep. Orr has all garnished mounting support over industry opposition, including TIPRO’s. More bills on local authority versus RRC authority will be heard in coming weeks. These issues will not be dismissed by Legislators and reflect the rural-to-urban shift in our Legislature and business areas. We continue to work with the members from Tarrant County and the members of the Committee on solutions that do not cripple the industry or cost jobs, but address the unique concerns presented by exploration activities in urban settings like the Barnett Shale.

Other bills recently heard in House Energy Resources Committee include HB 1231 by Rep. Farabee to reduce the number of Railroad Commissioners from three to one, which was opposed by TIPRO. TIPRO worked with Rep. Farabee and supported HCR 67, a resolution directed at Congress to leave regulation of hydraulic fracturing to the states. This resolution will be included with resolutions from other states being compiled by IPAA. HB 4247 by Chairman Keffer clarifies that cash deposits and other funds required for financial assurance must be accounted for separately within the Oilfield Cleanup Fund. This will help show lawmakers how much is not part of the fund balance before they’re tempted to use the Fund for other purposes and TIPRO supported the measure. The Committee also heard HB 3410 by Rep. Chisum, which proposes a “loser pays” provision for certain formal complaints against certain gas utilities. It would require the utility to pay attorney and expert witness fees if the complaint was resolved against it in whole or in part. TIPRO was neutral on this bill as filed because it is placed in a section of law that appears only to apply to LDCs (local distribution companies). TIPRO members also

had concerns that there is no discretion in the award to account for egregious versus very close findings and if only a portion of multiple counts were resolved against the utility. We will keep you updated on its status.

Full-day hearings were held by both House and Senate committees on a variety of eminent domain bills. These hearings were often provocative as citizens described their experiences and named companies they’d dealt with. Bills TIPRO could support included HB 1483 by Pitts, HB 2685 by Callegari, HB 1125 by Corte, and SB 18 by Estes with Senator Harris’s amendments. Bills TIPRO opposed included HB 4 by Orr, HB 1385 by Davis, HB 1534 and 1536 by Burnam, and SB 533 by Duncan. Each bill has a different configuration of topics and they are changing constantly. In general, TIPRO supports an objective standard of what constitutes a “good faith” or “bona fide” offer, reasonable timelines and exchanges of information such as appraisals, fair standards for valuations and providing a bill of rights document to the landowner. TIPRO opposes mandates on valuations such as throughputs or unquantifiable possible future uses, excessive hearing extensions and one-sided abilities to delay or make challenges to the proceedings.

A multitude of bills on injection wells, disposal well and groundwater district rules have begun and will continue in the coming weeks. Some have been acceptable changes but the majority are not and will likely be worked out as a group as the Session progresses. As always, TIPRO continues to work on your behalf and will keep you informed throughout the Session!

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Suite 29
Houston, Texas 77060
(281) 999-5579
 - 11811 112 East
Suite 430
Houston, Texas 77028
(713) 320-0761
 - 809 Decker
Suite 124
Baytown, Texas 77520
(281) 420-0562
- www.house.gov/green

Congress of the United States
House of Representatives
 Washington, DC 20515-4329

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- SUBCOMMITTEE ON THE MIDDLE EAST AND SOUTH ASIA

DEMOCRATIC AT-LARGE WHIP

March 24, 2009

The Honorable John M. Spratt
 Chairman
 Committee on the Budget
 U.S. House of Representatives
 207 Cannon House Office Building
 Washington, DC 20515

Dear Chairman Spratt:

As you continue work on the Fiscal Year 2010 Budget Resolution, we respectfully urge your committee to develop a budget resolution that increases our national energy security.

We support President Obama's goals to end our addiction to foreign oil, invest in clean, renewable energy and transition to a low-carbon economy while creating U.S. jobs. In addition, we believe America needs a national energy policy that recognizes the role that all forms of domestic energy can play - including American natural gas and oil - in order to provide reliable and affordable supplies of energy to American consumers and businesses.

We are also concerned with the impact budget proposals may have on domestic energy production and job growth. Increasing the costs of producing energy would further strip essential capital from new domestic investments and reduce our energy supplies. Lower energy prices and the tight credit market have already shed thousands of energy -industry jobs nationwide, which disproportionately impacts small, independent U.S. energy producers.

America's independent natural gas and oil producers develop 90 percent of U.S. wells and produce 82 percent of U.S. natural gas and 68 percent of U.S. oil. The average independent producer company has twelve employees, and almost two million jobs are attributed to American energy production and its closely related industries. Increasing costs on the energy industry could jeopardize these small business jobs, export production overseas, and increase our reliance on foreign sources of energy.

American natural gas is also essential to addressing global climate change. Clean-burning natural gas is required to make energy-efficient products, make wind turbine blades and solar panels, provide back-up power to renewable energy projects, and to run biomass facilities. If we make it more expensive or difficult to produce natural gas domestically, it will hinder our ability to meet our clean energy goals while also increasing natural gas prices for all Americans.

We look forward to working with you to develop a budget resolution that meets our national energy security needs, reduces our dependence on foreign oil, provides affordable supplies of energy to consumers and businesses, and helps us move toward a cleaner energy future.

Sincerely,

The letter was signed by the following Congressional Legislative Representatives:

Gene Green, Charlie Gonzalez, Dan Boren, Solomon P. Ortiz, John T. Salazar, Ciro Rodriguez, Mike Ross, Al Green, Jim Costa, Ruben Hinojosa, Sheila Jackson-Lee, Harry Teague, Henry Cuellar, Charlie Melancon, Neil Abercrombie, and Michael E. McMahon.

Conversation from page 1

Dear Rep. Lloyd Doggett, Rep. Chet Edwards, Rep. Eddie Bernice Johnson, and Rep. Silvestre Reyes:

During our visit to Washington, D.C. earlier this month, we visited your staff and explained how important independent producers are to this country in supplying natural gas as a bridge to alternative fuels for the future. As we stated in TIPRO's March 12 letter to President Obama, "We have many of the same goals you have: reducing dependence on foreign oil, keeping jobs at home, stimulating the economy and we are the small businesses you're trying to protect. And as you work to create jobs, don't forget or hamstring American companies that are still providing good jobs." Your Congressional colleagues have signed the enclosed letter to Budget Chair Spratt alerting him to these issues. We have also included the text of an article appearing in the *Houston Chronicle* about this issue and the text of TIPRO's letter to the President. (See www.tipro.org.)

As President Obama's budget is being reviewed and will be voted on soon, we urge you to support our livelihoods by helping to ensure certain provisions are incorporated in the budget before it is slated for passage. We need your support. Please join your colleagues and send the attached letter to Chairman Spratt and the other committee members. The letter explains how vital our industry is and how detrimental the tax provisions would be on our businesses if they are passed.

TIPRO members are working hard in your congressional district and many are your constituents. TIPRO members' businesses employ thousands and greatly contribute to the Texas and national economy. They are absolutely essential to provide the backup energy needed to allow larger conversions to wind and solar power. The ramifications of the losses they will suffer if the budget is passed as-is, is devastating. Our members in your district also will write to you to reinforce the jeopardy their companies are in and the urgency of our request.

Respectfully submitted,



Walter G. "Tad" Mayfield, TIPRO President

Dear TIPRO Member,

Changes in taxes in the proposed Fiscal 2010 Budget will have dire consequence on independent's businesses if they are approved. We are urging you to write to your own Congressional representatives describing how vital our industry is and how detrimental the tax provisions would be on our business if they are passed.

Please take the following information and write your own letter to your respective Congressional Representatives so the voice of independent producers will resound in the halls of Washington, D.C. and our ability to explore for and produce natural gas and oil will not be stolen from us.

[Date]

[Congressional Representative Address Block]

[Dear Congressman _____:]

It has been brought to my attention as a member of the Texas Independent Producers and Royalty Owners Association (TIPRO) that changes in tax provisions in the proposed U.S. Fiscal 2010 Budget will have detrimental consequences that will negatively affect [Name of Your Business] if they are approved.

[Name of Your Business] is working hard in your congressional district. We employ [Number of Workers your Business Employs] and greatly contribute to the Texas and national economy. The ramifications of the losses will be devastating if the budget is passed as-is.

If Intangible Drilling Costs, Geologic and Geophysical Deductions, and Percentage Depletions are revoked, [Name of Your Business] will have less capital to use for future exploration operations. We will not be able to contract with businesses for work, we will not pay royalties and taxes on production, and we may be forced to eliminate jobs as we adjust to the new provisions. [Add other examples of how your business will be personally affected].

Independent producers are vital to this country in supplying oil and natural gas as a bridge to alternative fuels for the future. We have many of the same goals the Obama Administration has: reducing our dependence on foreign oil, keeping jobs at home, and stimulating the economy. [Name of Your Business] is the type of small business the Administration says it is trying to protect.

We are relying on your help to educate the new Administration to our industry. As well, we urge you to vote accordingly to assist independent oil and gas producers who make such a positive difference in this country and are necessary partners for new energy sources.

Respectfully,

[Your Signature]

To join the Call to Action, download this sample letter at www.tipro.org.

ENERGY RHETORIC VS. REALITY

This article is reprinted from the American Petroleum Institute's website: http://energytomorrow.org/Energy_Rhetoric_vs_Reality.aspx
Policymakers are talking a lot about energy and energy policy. The following are some of the current claims and proposals, along with realities that need to be considered when evaluating these claims.

RHETORIC: Taxes need to be raised to help address the growing federal deficit and stimulate job creation.

REALITY: Raising taxes in a time of economic decline is a recipe for disaster. President Hoover did it in the 1930s, President Carter did it in the 1970s and President Obama wants to do it now. This is simply the wrong choice. Tax hikes kill existing jobs and can depress future job creation. According to a preliminary estimate based on Center for American Progress data, thousands of oil and gas jobs would be destroyed by the Administration's new taxes and fees.

RHETORIC: Taxes targeting the oil and natural gas industry are okay because they don't affect consumers or other industries.

REALITY: The Administration's tax plan puts the economic burden on hardworking Americans and their families. Higher industry taxes could result in less, not more, job security, make health care more expensive for American workers and threaten other benefits. Higher taxes steal money from the American household and are a burden felt throughout the entire economy, discouraging business expansion, investment and job creation.

RHETORIC: Most Americans want the federal government to pursue alternative and renewable sources of energy.

REALITY: A recent poll found that 61 percent of Americans who voted in the 2008 presidential election support increased access to offshore oil and natural gas resources. The Administration is not listening to the majority of Americans who want a stronger economy using our own vast oil and natural gas resources. While other countries are providing incentives to develop their own energy resources, the U.S. is the only country actively discouraging it. Higher taxes would also rob the industry of additional capital needed to invest in alternative and renewable fuels.

RHETORIC: The Administration says it wants to make America less dependent on foreign oil.

REALITY: Historically, higher taxes have resulted in less domestic energy – and restrained supplies often lead to higher energy costs for consumers. In today's economy, that could stifle a recovery and make Americans more dependent on foreign oil and natural gas. New taxes will make it more expensive for oil and natural gas companies to expand or initiate new exploration and development programs, putting our nation further behind in the race for more energy.

NATURAL GAS IS THE ULTIMATE FUEL

"Any consistent energy plan for this country is incomplete unless we use natural gas as its foundation," said Cimarex Energy's Stephen Bell at the TIPRO luncheon in Dallas March 24. "As we work with the new industries emerging and the plans that are being proposed, our industry is still the bridge to the future since natural gas storage is full," said Bell. "In the long term, natural gas is the ultimate fuel."

Bell supported his belief in the cause of promoting natural gas with details from a slide presentation demonstrating the growth in proved reserves and production of natural gas at Cimarex. He pointed out key investment considerations his company uses are: **Solid base of proved reserves** – 82% proved developed; 8-year reserve life; **Portfolio-based drilling program** – Low/moderate risk gas drilling in the Mid-Continent and oil in the Permian Basin; Gulf Coast enhances returns – Growing horizontal drilling and unconventional resource plays – Quickly adaptable to economic environment; **Long track record of profitable growth & conservative use of leverage.**

With production predominantly in the Permian Basin, Mid-Continent and Gulf, Cimarex is holding strong thanks to prior year's management through a clean Balance Sheet. However, after seeing 2008 flourish with a great cash flow they, as many in the industry, suddenly saw a significant write down in the last few months. Bell reflects on the issue, "As prize-fighter Mike Tyson once replied when asked about fighters lining up to dethrone him, 'Everyone has a plan until they get hit.' Well, we had a "black swan" hit the industry," said Bell. "Cimarex alone saw 43 rigs in August plummet to 3 today. We pulled the plug on production and are now living within our Cash Flow. We have never been a hedger but found ourselves hedging 1/3 of production because of the events over the last few months." Bell says as 2009 progresses Cimarex will grow horizontal drilling and unconventional resource plays and adjust according to service costs and commodity prices.

Upcoming Events

APRIL 8, 2009

HOUSTON – IPAA/TIPRO
Leaders in Industry Luncheon,
11:30 a.m. Houston Petroleum
Club. For info call
(512) 477-4452.

APRIL 29, 2009

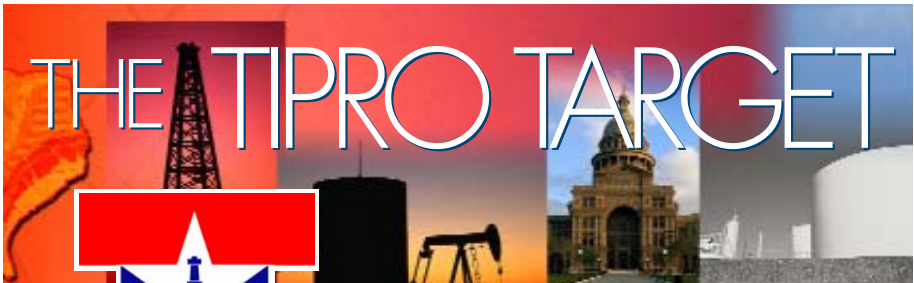
Ft. Worth – TIPRO Tuesday
Luncheon, 11:30 a.m.
Ft. Worth Petroleum Club.
For info call
(512) 477-4452

MAY 13, 2009

HOUSTON – IPAA/TIPRO
Leaders in Industry Luncheon,
11:30 a.m. Houston Petroleum
Club. For info call
(512) 477-4452.

MAY 19, 2009

Dallas – TIPRO Tuesday
Luncheon, 11:30 a.m.
Dallas Petroleum Club.
For info call
(512) 477-4452.



THE TIPRO TARGET



Texas Independent Producers and Royalty Owners Association

With more than 2500 members, TIPRO is the nation's largest statewide association representing both independent producers and royalty owners. Our members include small family-owned companies, the largest publicly traded independents and large and small mineral estates and trusts.

www.tipro.org

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