



**Texas
Independent
Producers and
Royalty Owners
Association**

PRODUCERS PREVAIL: SUCCESSFULLY STOP JOINT AND SEVERAL LIABILITY

TMLA, FARM BUREAU, CATTLE RAISERS LOSE 119-21

Our industry took on the fight of the session this week when the inactive well bill was almost hijacked by groups pushing joint and several liability for wells, which would destroy bonding as we know it and make operators and working interest owners liable for wells into perpetuity.

HB 2259 by Rep. Crossover and joint authors Rep. Chisum, Rep. Farabee, Rep. Gonzalez Toureilles, Rep. Hardcastle, and Rep. Keffer sets up a system of conditions to extend the plugging deadline on inactive wells that builds upon the current bonding system. It includes options for proving the value of the well or adding financial assurance, and a schedule of surface clean-up responsibilities based on how long the well has been inactive. It has been developed over two years by all five producer associations, four historic Texas ranches, legislators and other stakeholders. It has been through 6 public hearings and 3 mark-ups with the Railroad Commission. The bill was scheduled for debate on the House floor last Monday.

But organizations including the Texas Land and Mineral Owners Assn., the Texas Cattleraisers Assn., the Texas Farm Bureau, and Forestry Association mounted an effort to nullify, not only the proposal, but the current system of bonding and financial assurance entirely. Their amendment, championed by Rep. Gattis (R-Georgetown) and Rep. Gallego (D-Alpine), would have abolished blanket bonds for all wells, not just inactive ones, and imposed joint and several liability for all past and current operators and working interests of a well until it is plugged. They had previously supported prohibiting the transfers of inactive wells, which was rejected by the Inactive Well Study Group in developing the bill.

With so much ignorance in general about this issue, wildly inaccurate arguments had the early momentum. The bill was postponed until Tuesday when the arguments continued. Speakers criticized the bill for regulations it didn't include without either knowing or caring what they were omitting because they are already current law: bonding, water protection regulations, etc. Speakers made arguments based on abandoned wells, rather than inactive wells, which is what the bill addresses. But when it came down to it, Rep. Gattis made it clear that the heart of the argument was disagreement with the entire bonding system in lieu of TLMA's proposal, which was rejected back then and was rejected during the study process of the last two years.

Industry had its work cut out, starting the day with only 45 confirmed votes. Associations united and memberships got involved. Before the day was over, TIPRO, TXOGA, TAEP, PPROA, PBPA, NARO, ARC, Texans for Lawsuit Reform, Texas Civil Justice League and the Conservative Coalition were united in a full-court-press. Ranches that supported the bill included 6666, Coldwater Cattle Co., Batson/Bivens minerals and the Mastersons. Leadership and support came from every one of the members of the House Energy

LIABILITY continued on page 5

TIPRO CONTINUES WORK ON CARBON ISSUES IN WASHINGTON AND AUSTIN

The destiny of the carbon issue is being played out in a series of hearings in Washington DC that TIPRO is monitoring and are grateful to have Reps. Gene Green (D-TX), Charlie Melancon (D-LA) and Charles A. Gonzalez (D-TX) in our corner for the fight. TIPRO EVP Adam Haynes says, "We're encouraged with the work being done by Texas Democrats and other representatives in oil and gas producing states who are working to ensure that the W-M proposal doesn't devastate American energy production."

As a result, more hearings will be held on climate change legislation on May 1 focusing on one of the most important aspects of the bill that hasn't been discussed thoroughly yet, - that is the high cost the legislation will have impacting a myriad of industries even beyond oil and gas exploration and production. The Cap and Trade proposal outlined is stirring more questions than answers at this time and will need to be studied more thoroughly before a decision can be made. This slows down the timetable that W-M wanted to have the bill ready for a Memorial Day introduction to the House floor.

CARBON ISSUES continued on page 2

TIPRO PRESIDENT'S MESSAGE - REMEMBER THE ALAMO!



Walter G. "Tad" Mayfield

Laws generally take away freedoms and tell you what you cannot do. The founding fathers of our Texas Constitution in their infinite wisdom limited the Texas Legislature to meeting 140 days every other year unless a special session is called by the governor. More than 7,000 bills have been filed and fortunately many are meeting their maker. With attacks from so many sides both on the state and federal level,

sometimes I wonder if we should not change the name of the oil and gas industry to the Alamo. The 81st legislative session began January 13 and will end on June 1. At the time of this writing on April 29 we are 107 days into the 81st legislative session with only 33 days remaining, and TIPRO is hard at work fighting to ensure that Texas remains an environment conducive to exploration and production. Our Executive Vice President, Adam Haynes, and Director of Public Affairs, Donna Warndorf, have been working day and late into the night meeting with our state representatives and senators and testifying at hearings to ensure legislation is favorable to our industry. Assaults on natural gas as an electricity preference, new eminent domain regulations, new landman licensing

requirements, loss of certain margins tax deductions, pipeline transportation transparency, lost and unaccounted for gas in pipelines, county approval of well permits, new groundwater supply regulations and taxes, CO₂ sequestration and capture regulations, new well bonding regulations, jurisdictional and pipeline safety rules, challenges of mineral dominance, minerals escheating to surface owners, raiding of the Oil Field Cleanup Fund, Railroad Commission funding, Barnett Shale regulations, and much more are only a few of the many issues that have been in play on the state level. At the same time, we are trying to encourage our Texas congressional delegation on both sides of the aisle to help prevent more punitive taxes and regulations on the federal level. With cannon fire on all sides from both the state and federal level, the Alamo is an appropriate name for our industry. However, I am hopeful that history will show that this time we kept the walls from falling during these most formidable times. TIPRO is fighting hard for you and the exploration and production industry by keeping the main thing the main thing. We appreciate your support as a TIPRO member. Please consider increasing your participation, whether in dues, meeting attendance, or encouraging others to join - we need your help in the fight.

SINCERELY,

Carbon Issues from page 1

SB 1387, the bill establishing a regulatory framework for carbon dioxide capture, storage and sequestration, passed from the Senate last week. The bill, by Senator Kel Seliger (R-31), passed on a vote of 30-0. The bill now moves to the House for consideration. We are cautiously optimistic about the chances of the bill becoming law because our sponsor is Rep. Crownover, and she has proved masterful at negotiating legislation through the House.

At the outset of the session, TIPRO established two goals regarding CCS efforts. They were: "do no harm to enhanced oil recovery projects" and "ensure a regulatory framework for CO₂ storage that builds on the Texas Railroad Commission's experiences." SB 1387 and its companion bill, HB 2669, accomplish both of those goals. The bill establishes Texas as a leader in the CCS debate and will ensure that we have a seat at the table as federal negotiations regarding carbon capture and storage continue.

Additional Legislative News

Another important focus of the legislative process is establishing legislative positions on various topics through concurrent resolutions. While many of these efforts are mundane or even whimsical, some efforts relate to serious topics by the legislature. That certainly is the case with two House concurrent Resolutions sponsored by Rep. David Farabee.

Rep. Farabee has sponsored two measures with the support of TIPRO. The first, HCR 67, expresses the legislature's intent that hydraulic fracturing is an important process to independent producers and Texas. HCR 67 points out hydraulic fracturing, like other E&P activities, is best regulated by the states and should not be part of a federal regulatory system. This resolution is set to be considered on the House floor this weekend and is co-sponsored by many of legislators supportive of industry.

The other resolution sponsored by Rep. Farabee is HCR 183 passed from the House Energy Committee this week. This effort urges the Congress to reject President Obama's budget provisions that eliminate tax provisions critical to independent producers and royalty owners. The resolution points out the benefits of IDCs, G&G deductions, percent depletion allowances and domestic production deductions and urges our Texas Congressional Delegation to oppose those measures. Thanks to Rep. Farabee for his leadership and sending these important messages to Washington.

KENDRICK OIL & GAS

CELEBRATING 91 YEARS IN THE BUSINESS, 59 SPENT AS A TIPRO MEMBER!



Phil and Kaye Kendrick

“My dad started Kendrick Oil and Gas in 1918 with its first big well in the NW Burkburnett Field ~ so we’re celebrating our 91st anniversary this year!,” says Phil Kendrick, Jr. owner of Kendrick Oil and Gas Company based in Abilene. “I’ve been in the business all my life doing drilling, exploration, production and investments,” says Kendrick. “At 82, I’m not retired yet – I can’t afford to.”

Kendrick shared many of his memories and nostalgia for the industry as he reflected on his lifetime spent as a Texas independent with 59 of them so far as a loyal TIPRO member. He fondly recalled, “At my graduation in 1950 from the University of Texas, my father’s gift to me was a TIPRO membership and I’ve kept it ever since.” TIPRO is grateful to Kendrick for his service to the Association and the industry. Phil and his wife Kaye are stalwart TIPRO members and attend meetings and events each year. None of their children, however,

have decided to follow in Phil’s footsteps and walk the circuitous path of a Texas oilman since the industry has many ups and downs. “In the 1960s when things were really tough, I stepped out of the family business for awhile to pursue work in New York on Wall Street. I’ve been through a lot of bumps and this is a pretty good one. Not as bad, though, as in the 1960s when rationing allowed only 8 days of drilling per month. That’s when we joked that there were more geologists working at Sears than there were in the oilfield. Now I wonder if they would even be able to get a job there much longer,” laughed Kendrick.

Kendrick now has interests in several counties including Montague, Alopinto, Throckmortorn and Shackelford. “I feel like every morning, though, when I wake up there’s a new regulation by the Railroad Commission. There’s so much paperwork and details. But this business is about putting drilling prospects together and if you can’t take a dry hole, well that’s just part of it. There will always be disappointment versus the prosperity. There are some who’ve struck it rich and there are some who are broke. In the end, I’ve made a lot of friends, and it’s been a fun business for me.”

THANK YOU, HOUSE ENERGY COMMITTEE FOR STANDING STRONG ON HB 2259



Rep. Jim Keffer (R-60)
Chair



Rep. Myra Crowover (R-64)
Vice Chair



Rep. Joe Crabb (R-127)



Rep. Tom Craddick (R-82)



Rep. David Farabee (69)



Rep. Yvonne Gonzalez Toureilles (D-35)



Rep. Rick Hardcastle (R-68)



Rep. Tara Rios Ybarra (D-43)



Rep. Mark Strama (D-50)

We've Got Your Back – So You Can Keep Moving Forward



**Texas
Independent
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Potential Loss of IDC Tax Incentives in Congress

81st Legislative Session Uncertainty

*Texas & Federal: Proposed Cap & Trade Issues
Impact Energy Production*

Restrictions on Urban Drilling in the Barnett Shale

As if the energy marketplace weren't scary enough, when you add threats of impending legislation or new rules that work against your business -- just when you're doing all you can to stay afloat -- that's when you need an advocate working on your behalf. That's what TIPRO is for you.

Please, be like longtime Explorer member, Jeremy S. Davis, who made a one time donation, saying "Here's an extra gift to help keep up the fight on Federal & State O&G issues. Thanks for all your work."

TIPRO is working harder than ever to ensure you can continue to explore for oil and natural gas, but we need your support, so please:

1. Consider a donation to help us in the fight
 \$2000 \$1000 \$500 Other: _____
2. Increase your annual membership dues amount
 \$1000 \$500 \$250 Other: _____
3. Encourage others to retain their current memberships, and encourage non-members to join TIPRO.

Name: _____ Company: _____

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Please remit payment with form to the address or fax below, or email laura@tipro.org.

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CNG - LET'S PUMP UP THE VOLUME IN TEXAS

Texas leads the nation in natural gas production and consumption. That doesn't surprise us ~ everything's bigger in Texas. But what does surprise us is that we're not even in the running when compared to several other states when it comes to compressed natural gas (CNG) fueling stations. With the growth of CNG being touted as so readily available you would think that Texas leads the way ~ not so. As a matter of fact, Texas only has 17 CNG fueling stations in the entire state whereas California has 186 and even New York has 96 stations according to the cngnow.com website. As CNG expands from fleet vehicle use to public use, it's imperative that stations grow to meet demand. Many state governments are responding to this greener option by adopting incentives to encourage CNG retailers to expand operations. Why not here in Texas?



TIPRO Member Apache Corp., based in Houston, celebrated Earth Day last week by opening the company's first CNG refueling station, which will be used to refuel the company's local field vehicles. Apache chose the Oklahoma town of Elk City for its first station rather than a Texas location because Oklahoma has good financial incentives for building CNG stations and converting vehicles, said Apache's Bill Mintz. Such state incentives are lacking in Texas, he said. "With many people focused on ways to improve the environment, we are demonstrating there is an abundant resource in this country – natural gas – that can provide a cost-effective means to reduce America's dependence on imported oil and its emissions of greenhouse gases and other pollutants," said G. Steven Farris, Apache's chairman/CEO.

As gasoline prices continue to rise, American interest in CNG is rising accordingly. And with good reason – CNG costs about 40% less than gasoline, emits up to 90% less CO₂ emissions than gasoline, there's an abundant supply and it's produced right here in America with a majority right here in Texas. So it's affordable, clean, abundant and home grown. With the manufacturing capacity and fuel we have in our state, Texas needs to be a contributing partner to launch the next generation of clean vehicles.

MARCH TEXAS OIL AND GAS DRILLING PERMITS AND COMPLETIONS BY DISTRICT			
RAILROAD COMMISSION DISTRICT	PERMITS TO DRILL OIL/GAS HOLES	OIL COMPLETIONS	GAS COMPLETIONS
(1) San Antonio Area	70	17	26
(2) Refugio Area	54	4	62
(3) Southeast Texas	53	20	48
(4) Deep South Texas	108	4	175
(5) East Central TX	72	6	73
(6) East Texas	101	18	218
(7B) West Central TX	47	39	20
(7C) San Angelo Area	37	81	64
(8) Midland	215	313	35
(8A) Lubbock Area	41	93	6
(9) North Texas	190	59	344
(10) Panhandle	45	29	105

From the Texas Railroad Commission website, <http://www.rrc.state.tx.us/pressreleases/2009/042709b.php>

Liability from page 1

Committee! When the dust settled, the final vote transcended regional, ethnic, partisan, landowner, rural and urban lines with a resounding vote of 119-21 to table the amendment.

"This was a huge day for the industry and for the citizens of Texas," remarked Adam Haynes, TIPRO EVP. "Our sponsors and floor leaders stood strong." TIPRO Director of Public Affairs, Donna Warndorf, added, "It was hard to hear the bill so maligned when it is a significant, proactive step

MAY 13, 2009
HOUSTON – IPAA/TIPRO
Leaders in Industry Luncheon,
11:30 a.m. Speaker: Lee K.
Boothby, Newfield
Exploration Company,
Houston Petroleum Club.
For info call (512) 477-4452.

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August 20 - 22, 2009

Keynote Speaker Red McCombs



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Texas Independent Producers and Royalty Owners Association

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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
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