



**Texas
Independent
Producers and
Royalty Owners
Association**

TIPRO CONFERENCE HIGHLIGHTS INCREASING NEED FOR THE INDUSTRY TO TELL “ITS SIDE OF THE STORY”

Members of the Texas Independent Producers & Royalty Owners Association (TIPRO) gathered at the Hyatt Hill Country Resort in San Antonio on August 17th and August 18th for TIPRO’s 2016 Summer Conference. During the association’s annual summer meeting, experts urged members of TIPRO - and the oil and gas industry at large - to become more proactive with efforts to explain the facts surrounding oil and natural gas development and E&P operations. In a world with increasing regulatory restraints and escalating assault by activist organizations against fossil fuels, the oil and gas industry must work together to address anti-oil and natural gas sentiments, TIPRO speakers emphasized. Social media channels, such as Twitter and Facebook, represent possible outlets for the industry to reach new audiences and educate the public, suggested presenters during TIPRO’s Summer Conference.

State and federal officials also need to hear directly from TIPRO members, recommended speakers. During the conference keynote presentation, Jody Elliott, president of Oxy Oil & Gas - Domestic, underscored that “we need to show up and tell our story.”

At the association’s conference, speakers also highlighted other significant regulatory and legislative priorities for TIPRO members, including the Sunset review of the Texas Railroad Commission, property tax issues, and November’s General Election.

As part of the event, TIPRO also recognized outgoing chairman of the board, Mr. Raymond James Welder III, for his leadership of the association. During the summer conference, TIPRO also announced the 2016 Mr. TIPRO award winner, Walter G. “Tad” Mayfield. The Mr. TIPRO award honors outstanding service to the association and the Texas oil and gas industry. Mr. TIPRO award recipients have proven to be loyal and involved members of the association over the years.

TIPRO would like to thank all attendees for their participation in this year’s summer conference. TIPRO also would like to extend a special thanks to all elected officials and legislative staff who attended the association’s summer meeting, including: Railroad Commission Chairman David Porter, Sunset Commission Chairman Larry Gonzales, Katharine McAden (office of U.S. Senator Ted Cruz), Rusty Smith (office of Texas Senator Kel Seliger), Krista Kyle (office of Texas Senator Judith Zaffirini), Jason Modglin (office of Texas Representative Drew Darby), Beth Corbett (office of Railroad Commission Chairman David Porter), and Mary Bell (office of Railroad Commission Chairman David Porter).



Jody Elliott, president of Oxy Oil & Gas - Domestic, provides the keynote address for TIPRO’s Summer Conference

To view more photos from TIPRO’s conference, please see pages 6-7...

SUNSET COMMISSION MEETS IN AUSTIN TO REVIEW THE RAILROAD COMMISSION OF TEXAS

As Texas officials look at ways to improve operations at the state’s top oil and gas regulatory agency -- the Railroad Commission of Texas (RRC) -- members of the Sunset Advisory Commission met in Austin on Monday, August 22nd to hold their first public hearing focusing on the RRC ahead of the next legislative session. The Sunset Advisory Commission serves to eliminate waste, duplication and inefficiency in the Texas government. In accordance with the Sunset Act, each state agency is to be evaluated every 12 years to determine its necessity and to address ways to improve efficiencies and effectiveness. The mission and performance of the RRC will be under review by the Legislature during the 2017 Legislative Session as required under the Texas Sunset Act. This will be the third full review of the commission within the past six years due to RRC Sunset legislation ultimately failing to pass in the 82nd and 83rd Legislative Sessions.

During Monday’s hearing, the Sunset Commission listened to hours of public testimony relating to proposals to overhaul the 125-year-old agency, with recommendations ranging from renaming the commission to changing the financing structure for the RRC. All three Railroad Commissioners testified Monday, providing perspective on current operations at the agency. TIPRO’s President Ed Longanecker also testified before the Sunset Advisory Commission on behalf of the association’s membership. For specific details on TIPRO’s testimony, please see the president’s message on page 2 of this newsletter.

The Sunset Advisory Commission will meet again to discuss the RRC on Thursday, November 10, 2016, in Austin, at which time Sunset members are expected to vote on final recommendations to include in legislation that will be filed for the 85th Legislative Session.

PRESIDENT'S MESSAGE

On Monday, August 22nd, I was privileged to testify before the Texas Sunset Advisory Commission in response to recommendations concerning the review of the Texas Railroad Commission (RRC). The sunset review entails a process of assessing the effectiveness of, the need for, and recommendations on ways to improve state agencies. This process typically takes place every 12 years for each agency, but this year, the RRC is under review for the third time in six years after legislation reauthorizing the agency and implementing the sunset recommendations failed on two prior occasions. Legislation reauthorizing the RRC is a “must pass” bill and will be among TIPRO’s top priorities for the next legislative cycle. I would like to personally thank the members of the Sunset Advisory Commission and agency staff for their service and attention to this important process. Monday’s 11-hour hearing is an example of the significant time commitment required to effectively evaluate agencies under review during the interim and the following legislative session.



Ed Longanecker

TIPRO has actively communicated our positions on the Sunset Advisory Commission staff report for the RRC, including Issue 2.2, a recommendation to move contested case hearings from the RRC to the State Office of Administrative Hearings (SOAH); Issue 3.2, a recommendation that minor violations should be handled through an expedited penalty or ticketing system; and Issue 4.1, a proposed increase of statutory bonding requirements by \$106 million to cover the cost for plugging orphaned wells in the state.

TIPRO has long opposed moving contested case hearings from the RRC to SOAH. Actions resulting from the Sunset process should be geared towards evaluating and improving the functions of the agency. Our association does not foresee any improvements resulting from this recommendation. TIPRO does not believe that making the RRC consistent with other agencies is sufficient justification for moving cases to SOAH. In fact, we believe it could increase the length of time required for the hearings process. Our members value that the RRC serves as a “one stop” shop when it comes to securing permits, going through the hearing process and working with inspectors. TIPRO also believes the hearing examiners at the RRC have enormous expertise in the legal and scientific issues that they work in. They often work in other divisions of the RRC prior to becoming hearing examiners bringing much valued expertise. Much of that expertise, as well as the process and environment that cultivates these individuals, would be lost if contested cases are moved to SOAH.

With regard to Issue 3.2, based on the RRC’s 10 year tracking history records on compliance, it is evident that over 90 percent of minor violations for operators are corrected in a timely manner through a notice of violation or the threat of pipeline severance. TIPRO therefore strongly disagrees that minor violations should be handled through an expedited penalty or a ticketing system when compliance is already being achieved at such a successful rate. The RRC is also actively exploring additional improvements related to the tracking and reporting of minor violations.

And finally, proposed changes under Issue 4.1 would make changes to the bonding amounts that operators may be required to secure. This recommendation would require operators to secure an additional \$106 million in bonds and according to the Sunset Commission report, the fiscal impact of this recommendation would be \$1.3 million a year in additional revenue for the state to plug wells. TIPRO strongly believes that requiring operators to secure more than \$100 million in additional bonds for the benefit of \$1.3 million annually is simply bad public policy.

The current statutory bonding requirements are meant to be utilized as one of over 20 funding sources in the Oil and Gas Regulation and Cleanup Fund, which is the fund used for plugging of orphaned wells in Texas. As an example, revenue generated from the oilfield regulatory fee and bonds alone totaled \$15.7 million in fiscal year 2015. The cost does not justify the perceived benefit, especially if we take into account the likely unintended consequences to small and mid-sized operators in what is already a very challenging economic environment. Funding for the RRC, and the allocation of those funds, will be part of a larger budget and appropriations discussion next session.

Increasing the bonding requirements in this challenging environment would likely decrease the number of operators that qualify, which could affect the number of wells that are drilled, future production, tax revenue, employment and the additional benefits associated with exploration and production activities in the state. It’s also important to remember that 92 percent of the wells plugged in Texas in FY 2015 were done so by the operator of record with no use of the Oil and Gas Regulation and Cleanup Fund. For additional information on this important issue, I encourage you to review TIPRO’s publication entitled “Financial Assurances and Well Plugging,” available on the TIPRO website at: http://tipro.org/UserFiles/TIPRO_Financial_Assurances_Well_Plugging.pdf. Thank you.

Ed Longanecker

TIPRO Calendar of Events

<p>SEPTEMBER 14, 2016 HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (202) 857-4733.</p>	<p>OCTOBER 12, 2016 HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (202) 857-4733.</p>	<p>NOVEMBER 9, 2016 HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (202) 857-4733.</p>	<p>DECEMBER 14, 2016 HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (202) 857-4733.</p>
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EIA: U.S. CRUDE OIL EXPORTS ARE INCREASING AND REACHING MORE DESTINATIONS

U.S. crude oil exports are on the rise, according to new analysis released by the U.S. Energy Information Administration (EIA). The trend comes in part thanks to policy changes adopted at the end of 2015, when the federal government lifted long-standing restrictions on exporting U.S. crude oil. “Based on the latest available data, U.S. crude oil exports averaged 501,000 barrels per day (b/d) in the first five months of 2016, 43,000 b/d (9 percent) more than the full-year 2015 daily average. U.S. exports of crude oil had already increased significantly before the lifting of crude oil export restrictions. These exports were mostly to Canada, which was excluded from the previous restrictions. From 2000 to 2013, U.S. exports rarely surpassed 100,000 b/d. By 2015, the United States was exporting 422,000 b/d to Canada and a total of 26,000 b/d to five other countries,” reported experts with the EIA on August 16, 2016.

FEDS HOST FIRST LEASE SALE LIVE ONLINE FOR OFFSHORE DEVELOPMENT IN THE GULF OF MEXICO

On Wednesday, August 24, the U.S. Bureau of Ocean Energy Management (BOEM) offered 23.8 million acres in federal waters offshore Texas for oil and gas exploration and development in a milestone lease sale that included all available unleased areas in the Western Gulf of Mexico Planning Area. The BOEM lease auction was the first federal offshore oil and gas auction to be broadcasted live online via the internet, delivering pertinent bid information immediately to a much broader national and international audience.

“The Gulf of Mexico continues to be one of the most productive basins in the world and is an important part of our nation’s domestic energy portfolio,” said Abigail Ross Hopper, director of the BOEM. “Making government data immediately available is a valuable resource for taxpayers, both in terms of dollars and cents but also in efficiency. Through the use of technology we can deliver our lease sale information in a much more effective and accessible way to a much wider audience.”

Altogether, the BOEM reports that Wednesday’s oil and gas lease sale garnered \$18,067,020 in high bids for 24 tracts covering 138,240 acres in the Western Gulf of Mexico Planning Area. A total of three offshore energy companies participated in 24 bids.

The state of Texas already has experienced success with online sales of oil and gas leases. Most recently, this past July, Texas Land Commissioner George P. Bush announced that following the state’s third online sale of oil and gas leases, the General Land Office earned more than \$98 million for Texas’ Permanent School Fund (PSF), directly supporting public education and Texas schoolchildren.

REGISTRATION STILL OPEN FOR PPROA CONVENTION AND LIVING LEGEND GALA

Don't forget the 87th Annual Meeting of the Panhandle Producers & Royalty Owners Association (PPROA) and the Living Legend Gala is coming up at the Amarillo Civic Center on September 13th! PPROA will honor Mr. Harold Courson during its special Living Legend Dinner. Visit www.pproa.org to see all the details about this event, including information on registration for the meeting. Please note that the registration deadline will be on Tuesday, August 30, 2016.

TIPRO AND FLOTEK KICK-OFF INDUSTRY INITIATIVE TO FIGHT CHILD HUNGER ACROSS TEXAS

TIPRO and Flotek are teaming up to fight child hunger throughout Texas and are calling on all members to join this important mission during the month of September.

Motivated by the alarming number of Texas children who struggle with hunger daily – one in four children in Texas, according to No Kid Hungry – TIPRO and Flotek are inviting members to make a donation to provide hunger relief to vulnerable communities throughout the state beginning on September 1 by visiting www.makingadifference.com.

“The impact of child hunger on our communities is significant,” said Ed Longanecker, president of TIPRO. “Sadly, Texas has higher food insecurity rates than the U.S. national average. When you consider that \$1 can feed 11 children, according to Feeding America, imagine what the entire industry can do by donating \$1,000 or more. Together, we can make a significant impact and help change the future of so many children in our great state.”

In tandem with this campaign, Flotek will also donate one percent of all sales from the Complex nano-Fluid® product line – its patented chemistry technology made from orange peel extracts – to local food banks in areas where the company operates, from Houston to Midland/Odessa.

“In a state so rich in natural resources, we should not lose sight of our most important resource – our children. In spite of the challenging economic environment, each of us is in a position to contribute something that could change the future of one child,” said John Chisholm, chairman of the board, CEO and president of Flotek. “As you enjoy your next meal, I encourage you to reflect on the millions of children who go to bed hungry every night and invite you to donate to this effort, however big or small. Together we can reverse this trend and improve the trajectory of our state.”

For more information, visit www.makingadifference.com.

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**FLOTEK AND TIPRO ARE PARTNERING
TOGETHER TO MAKE A DIFFERENCE IN
THE FIGHT AGAINST CHILD HUNGER.**

In the month of September, Flotek will donate 1 percent of all sales from the Complex nano-Fluid® product line—our patented chemistry technology made from extracted orange peels—to local food banks where we operate.

We invite you to join us in our mission to end child hunger and donate today.

For more information, visit www.makingadifference.com.

ICYMI: New RRC Initiative Seeks to Reduce Bureaucracy, Provide Relief for Operators

Earlier this month, Texas Railroad Commissioner Christi Craddick announced details of her Texas Oilfield Relief Initiative program. This initiative will improve efficiencies at the state agency that regulates all oil and gas development in the state of Texas. Commissioner Craddick's initiative also will reduce unnecessary regulatory burden for Texas oil and gas operators, who are working to sustain business operations during the current downturn for the energy sector. The initiative represents a long-term effort to streamline operations at the Railroad Commission, and is expected to save tens of millions of dollars for oil and gas operators.

"This initiative is an extension of our commitment to best serve Texas with innovative regulatory practices, yet calls for a more thorough review in a time of industry slow-down when we should find ways to save time and money for the state and those doing business at the agency," said Commissioner Craddick.

"TIPRO applauds Commissioner Craddick's leadership in developing an initiative that will provide necessary and timely improvements to the efficiency of Railroad Commission procedures and practices," said Ed Longanecker, president of the Texas Independent Producers and Royalty Owners Association (TIPRO). "These reforms will provide much needed relief to operators across the state as we continue to confront depressed commodity prices."

Specifically, the Railroad Commission's Texas Oilfield Relief Initiative includes the following items for implementation:

- Identify agency reports and filings that can be reduced or eliminated, saving operating costs without impacting public or environmental safety.
- Amend Statewide Rule (SWR) 28 to modify gas well deliverability reporting requirements.
- Reduce the need for G-10 (Gas Well Status Report) filings except for surface commingled production.
- Allow a calculated well shut-in pressure to be provided when filing Form G-10 for gas wells to reduce regulatory administrative burden.
- Amend production requirements for marginal and stripper wells to reduce regulatory administrative burdens.
- Revise "Active Oil Well" definition from ten barrels of oil (BO) per month for 3 consecutive months to five BO per month for 3 consecutive months or any reported production in each month for a consecutive 12 month period (SWR 15).
- Revise "Active Gas Well" definition from 100 mcfg per month to 50 mcfg per month or any reported production in each month for a consecutive 12 month period (SWR 15).
- Implement a revised internal inspection priority system so Commission inspectors prioritize drilling rig inspections and hydraulic fracture treatments in sensitive areas like cities or wetlands without affecting other inspections.
- The agency's new on-line completion program calculates the depth of cement behind casing (cement tops) using washout factors that have been used by the Commission for decades. A review of these washout factors should be conducted to determine whether different washout factors should be used in certain areas of the state to calculate cement tops. This will expedite the process of verifying compliance with these rules for both operators and the agency without compromising well integrity.
- The Groundwater Advisory Unit (GAU) will identify counties or portions of counties in which the usable quality water protection depth is constant. Those areas will be eligible for area-wide recommendations for meeting surface casing requirements, streamlining regulatory requirements for industry.
- Issue guidance for implementation of the Texas Environmental, Health & Safety Audit Privilege Act, permitting operators of new property to identify and remedy violations resulting previous to their ownership. This ensures compliance without punishing an operator not responsible for the cause of the violation.
- Conduct an extensive review of all Railroad Commission forms required for application and reporting purposes and determine whether data collected is currently used or no longer necessary. Eliminate forms no longer useful to the Commission's regulatory functions to reduce regulatory administrative burden on staff and industry.
- Simplify the complete duplication of a drilling permit application with a sworn statement of no changes to the original application. The operator would then pay the fee for reissuance of the permit, speeding up the review process and reducing regulatory administrative burden for both the agency and industry.

The Railroad Commission already has moved forward with several of the items pertaining to this initiative, including approving the publication of amendments to Statewide Rule 3.15, addressing the definition of inactive wells, and also approved the publication of the Texas Environmental, Health & Safety Audit Privilege Act to aid with the transferal of assets from owners. Several other recommendations are expected to be taken up at upcoming Railroad Commission open meetings. The Railroad Commission hopes to finalize and implement all of the initiative recommendations by January 1, 2017.

For more information on the Texas Oilfield Relief Initiative, please visit the Railroad Commission website at www.rrc.texas.gov.

U.S. Energy Secretary Describes Hydraulic Fracturing as "Good for the Environment"

In mid-August, U.S. Energy Secretary Ernest Moniz acknowledged that America's oil and gas revolution -- spurred by the industry's increasing use of hydraulic fracturing and horizontal drilling -- has helped the environment by providing a reduction in U.S. greenhouse gas emissions. "The increased production of oil and natural gas in the U.S. has, obviously, been a major story in terms of our economy, and also our environment," Moniz said at a field hearing in Seattle on August 15, 2016. "The natural gas boom, in particular, has led to the displacement of high-carbon coal with low-carbon natural gas producing fewer [carbon dioxide] emissions," reaffirmed Moniz.

PHOTOS FROM TIPRO'S 2016 SUMMER CONFERENCE



Ken Cho, co-founder and CEO of People Pattern, discusses social media strategies for the oil and natural gas industry



Presenters at TIPRO's Summer Conference review strategies for countering anti-oil and natural gas agendas



Anastasia Valdes, CEO of Water Markets Inc. presents on water issues at TIPRO's summer meeting



TIPRO President Ed Longanecker with Scott Environmental Services President Blake Scott, Water Markets Inc. CEO Anastasia Valdes, and Quail Run Services Chief Operating Officer Doug Bailey



Sunset Advisory Commission Chairman Larry Gonzales presents during TIPRO's 2016 Summer Conference



Political analysts Harold Cook and Ted Delisi provide an outlook for November's General Election

PHOTOS FROM TIPRO'S SUMMER CONFERENCE... CONTINUED FROM PAGE 6



TIPRO Chairman Allen Gilmer with Jody Elliott, president of Oxy Oil & Gas - Domestic



TIPRO members enjoy the networking reception during the association's summer conference



Outgoing TIPRO Chairman Raymond James Welder III was recognized during the TIPRO summer meeting



Mr. TIPRO Award Recipient Tad Mayfield with TIPRO Board Member Scott Anderson



TIPRO Power Coalition Representative Jessica Dusek with the winner of the Power Coalition giveaway



TIPRO members enjoy Casino Night during the association's 2016 Summer Conference



TIPRO members enjoy Casino Night during the association's 2016 Summer Conference

TIPRO THANKS ALL 2016 SUMMER CONFERENCE SPONSORS:



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Texas Independent Producers & Royalty Owners Association

With more than 3,000 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.

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