THE TIPRO TARGET

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TIPRO
Texas Independent Producers and Royalty Owners Association

Sunset Advisory Commission staff releases recommendations on RRC operations

Earlier this month, staff of the Sunset Advisory Commission released their highly anticipated report analyzing operations at the Texas Railroad Commission (RRC). As expected, staff recommended a variety of changes for the state agency in efforts to further improve transparency, leadership, funding, enforcement and safety, and to better ensure that the RRC remains a world renowned energy regulator.

Within the report, Sunset staff suggested continuing the agency for 10 more years, but renaming it as the Texas Energy Resources Commission (TERC), to clarify what has long been considered a misleading name. By changing the name from the RRC, the Sunset staff believes the general public will have greater understanding of the purpose of the Commission, which is responsible for oversight of all aspects of energy development in Texas, from permitting oil and gas wells to monitoring and the inspection of operations.

Additionally, Sunset staff proposed limiting the solicitation and receipt of campaign contributions by sitting Commissioners or candidates seeking office to a year and a half timeframe, rather than throughout the full six-year term. It is also recommended that a Commissioner be prohibited from knowingly accepting contributions from a party with a contested case before the Commission, and a Commissioner that announces or becomes a candidate for another elected office be required to resign.

Moreover, as was the case during the previous Sunset review in 2010, staff would like to require the RRC to use the State Office of Administrative Hearings (SOAH) to conduct hearings on contested gas utility and enforcement cases.

"The need for neutral, independent staff to preside over contested cases remains critical to ensure the fair and unbiased treatment of all parties," reads the report. "Having in-house attorneys hear the cases at the RRC can give the appearance of a conflict of interest, as these staff must preside as a neutral entity independent of other Commission staff participating in the contested case as one of the parties. The hearing staff also answers to the elected Commissioners who receive campaign contributions from many of the industry parties in these cases. This relationship can create the perception of bias towards the industry and can lead to public mistrust in the Commission, even if no conflict exists."

Story continued on page 4...

TIPRO Chairman David Martineau to testify before U.S. House Subcommittee on Energy and Environment, discuss importance of oil and gas development

On Friday, November 30, 2012, David F. Martineau, chairman of the Texas Independent Producers & Royalty Owners Association and exploration manager for Pitts Oil Company, LLC., will testify before members of the U.S. House Subcommittee on Energy and Environment on the importance of domestic oil and gas development. The hearing will focus on the need for additional research on oil shale utilization, extraction of tight oil and gas from shale deposits and sustainable handling of produced water from these activities.

Other witnesses scheduled to present at Friday's hearing include: Anthony Cugini, director, National Energy Technology Laboratory, Department of Energy; Daniel Hill, interim department head, professor and holder of the Noble Chair in Petroleum Engineering, Texas A&M University; Michael Hagood, director of program development, Energy and Environment Science and Technology, Idaho National Laboratory, and additional witnesses yet to be announced.

Members of TIPRO are encouraged to watch the hearing live online, by visiting: http://science.house.gov/hearing/subcommittee-energy-and-environment-tapping-americas-energy-potential-through-research-and.

Chairman's Message

TIPRO Members-

David F. Martineau

It has only been a couple of weeks since the General Election took place, and already we are again experiencing a critical moment for the future of our country. As many of you might be aware, Congress has reconvened for a "lame-duck" session to address a wide-array of pressing issues between now and the end of the year. This includes determining a way to avert what has commonly been referred to as the "fiscal cliff," a disastrous problem for our nation if not handled properly. Since members of Congress failed to reach a bi-partisan debt-reduction deal last year, on January 2, 2013, the Budget Control Act of 2011 will automatically go into effect, imposing $7 trillion worth of tax increases and spending cuts over the next 10 years, unless elected officials can agree on alternative legislation before the end of the year. This presents real danger to our economy, and could end in financial disaster, all when the United States was just starting to regain strength after the last economic recession.

Even worse, the clock is ticking and time is limited. Lawmakers have only a few short weeks to determine how to handle the budget crisis before the Budget Control Act will be implemented. If left in place, analysts predict that the substantial, abrupt nature of the spending cuts could very well send the United States back into an economic tail-spin, with more than $500 billion taken out of the economy. More than a striking blow to our economy, national security could also be at risk as dramatic reductions are made in defense spending.

Additionally, with the expiration of the Bush tax cuts on December 31, Americans will most certainly face a rise in tax rates by January 1, should Congress fail to act. Income tax rates are scheduled to increase; the payroll tax holiday is set to end, growing by 2 percent to 6.2 percent and a series of other smaller individual and business tax breaks will also expire by year's end.

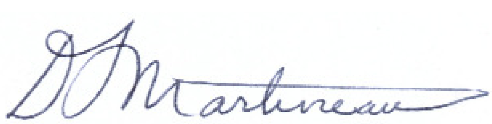
As many of us in the industry might also expect, with any discussion of revisions to the budget, some are again calling for the elimination of critical tax provisions like Intangible Drilling Costs (IDCs) and Percentage Depletion deductions. Although currently no legislation is under review by Congress, members of our industry should very well be concerned about the likelihood of fiscal cliff negotiations potentially incorporating at least some changes to existing tax policies. If that were to happen, that alone could cause economic catastrophe for our country.

In a healthy economy, independent producers reinvest up to 150 percent of their cash flow back into new American production. However, changing the current tax policy would limit the amount of capital available for investment, and in turn would restrict job creation and hinder domestic exploration and production.

Moreover, many industry tax incentives have been a part of the tax code of nearly a century, and are not fully available to large integrated companies. Rather, they assist America's smaller independent producers by reducing the inherent risks of this capital-intensive business. The IDC tax code in particular has been in existence since 1913 for deducting business expenses related to drilling wells, mostly because if you did not have this IDC tax code and drilled a multitude of dry holes or non-commercial wells, you would be out of business. Things have not changed in the last 100 years - we still drill dry holes and non-commercial wells. Now is not the time to slow down drilling with a change in the IDC tax code when we can see the light for energy security and independence.

At this time, it is incumbent upon all of us to reach out to our representatives in both the U.S. House and Senate to explain the critical role these tax provisions play in aiding energy development in America. We must stress how each work to provide sustained growth of the economy. If these tax provisions were to be repealed, in the long-run, we would actually end up reducing the amount revenue pouring into federal, state and local governments. Therefore, we must band together to urge our lawmakers to defend independent oil and gas producers and other small businesses, particularly during these times of economic recovery. In doing so, we'll help protect the well-being of our country and ensure a bright future for the United States.

Sincerely,



Calendar of Events

DECEMBER 12, 2012	JANUARY 9, 2013	FEBRUARY 5-8, 2013	FEBRUARY 13, 2013
HOUSTON IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (832) 233-5502.	HOUSTON IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (832) 233-5502.	HOUSTON Winter NAPE Expo, George R. Brown Convention Center For info, call: (817) 847-7700.	HOUSTON IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (832) 233-5502.

"Avoiding the Energy Cliff"

By Walter G. "Tad" Mayfield, president of Goldston Oil Corporation and former chairman of TIPRO

Once again, it appears that family owned and operated independent producers, who comprise the vast majority of all U.S. exploration and production companies, are bracing to catch the spear from new burdensome tax proposals and regulations. This comes at a critical time when our country is ready to turn the corner in a new paradigm of job creation, slashing of energy imports, energy security and affordable clean burning American made natural gas.

In particular, the administration's proposal to eliminate Intangible Drilling Costs (IDCs), created to encourage exploration and production in the US, would deal a crippling blow to smaller oil and gas producers. IDCs include ordinary drilling costs other than pipe and equipment that can be deducted from taxable income in the year incurred in order to provide the funds necessary to explore for and drill very expensive and risky wells. Elimination of the IDC provision would substantially reduce drilling budgets for many independents (in our company's case by about one-third), harming one of the few remaining job creating industries in our country and saddling the American consumer with higher energy bills. Higher energy bills will further stall our economy, export more jobs overseas, and likely offset any additional perceived tax revenue intended by these new and burdensome taxes.

Our country is blessed by exciting new advances in horizontal drilling and fracing technologies that hold the key to economically unlocking vast new quantities of hydrocarbon from abundant shale resources, which is now in jeopardy just when our schools, charities, businesses and the American consumer are benefiting from inexpensive monthly electricity and heating bills. The IDC tax provision has benefited our country for the past 100 years, so let's encourage Congress to stand up for American made energy and steer away from the "Energy Cliff."

Warning to field crews: pipebomb found in East Texas

In October 2012, a pumper working in Newton County, Texas, discovered an unusual object near a well site. Upon further investigation, it was discovered that the suspicious device in fact contained explosives.

At this time, all field crews are urged to continue to use caution when working, and be mindful of surroundings. If any suspicious objects are found, please report to local law authorities.

Hundreds of bills filed for consideration during 83rd Texas Legislative Session

As of Wednesday, November 28, 2012, already more than 225 bills have been filed for consideration in the Texas House of Representatives during the upcoming 83rd Legislative Session. In the Texas Senate, nearly 110 bills have also been filed. In the months ahead, TIPRO will closely monitor those bills that could impact the Texas oil and gas industry in the future. In particular, efforts to change or eliminate the high-cost gas tax incentive were among the most notable of bills filed early.

U.S. to become world's largest oil producer before 2020

In the next eight years, the International Energy Agency (IEA) predicts the United States will surpass Saudi Arabia as the world's largest oil producer. This results primarily from the dramatic increase in hydraulic fracturing and horizontal drilling, which has provided producers access to oil and gas resources unlike ever before.

"North America is at the forefront of a sweeping transformation in oil and gas production that will affect all regions of the world, yet the potential also exists for a similarly transformative shift in global energy efficiency," IEA Executive Director Maria van der Hoeven.

The increase in American exploration and production will have implications worldwide, as the extraordinary growth in oil and natural gas output shifts existing global energy flows.

Oil and gas pipeline demand expected to surge

Increasing production of oil and natural gas from shale formations will lead to a surge in the demand for infrastructure in coming years, researchers at The Freedonia Group outlined in a new study. Specifically, pipeline capacity will continue to be limited until additional gathering systems and other modes of transport can be built.

In total, researchers predict that the demand for oil and gas infrastructure across the country will rise more than 6 percent each year, hitting $12 billion by 2016.

New legislation strives to encourage research of shale development

On Tuesday, November 27, 2012, U.S. Congressman Ralph Hall (R-TX) introduced new legislation that would direct the Department of Energy (DOE) to undertake additional research, development and demonstration activities for the safe and responsible production of America's vast unconventional oil and gas resources. House Bill 6603, titled "Tapping America's Energy Potential through Research and Development Act of 2012, (TAEP)" would further encourage research and creation of new technology to enhance unconventional drilling of shale formations throughout the nation.

"This is a proactive piece of legislation that encourages and expands production of our vast domestic resources to help put Americans back to work," Congressman Hall said. "In addition to providing hundreds of thousands of much-needed jobs, safe and prudent development of these resources would redraw the global energy map, positioning the U.S. as a world leader in energy production for decades to come."

Specifically, the TAEP Act would help fund:

- Additional oil shale research to overcome existing scientific and technological barriers and minimize environmental impact;
- R&D activities associated with shale oil and natural gas development, including resource characterization, modeling and increase efficiency in exploration and production activities;
- Research that supports the recycling and reuse of produced water from operations.

If passed, the Act would assist with domestic exploration and production of America's energy resources. Although the United States has quickly become the fastest growing oil and natural gas producing area in the world, additional research and development is critical for the future of the industry.

Cline shale formation in West Texas draws increasing attention

Found in the heart of West Texas' Permian Basin, the Cline Shale play is attracting renewed attention of oil producers and investors alike. The oil shale field runs approximately 140 miles long and 70 miles wide, and spans parts of Scurry, Borden, Mitchell, Fisher, Nolan, Sterling and Glasscock counties. Experts have projected that the shale play could reach depths ranging from 200 to 550 feet, with production from the area potentially rivaling that of the Eagle Ford Shale in the future.

The oil-to-dry gas ratio of the Shale play is particularly impressive to those in the business, especially at a time when prices of natural gas remain so low. Similar to the Eagle Ford Shale in South Texas, the Cline Shale could contain up to 85 percent oil and liquid rich gas, experts predict, making it even more attractive to producers.

"We're very excited about the Cline," said Andy Coolidge, Devon's vice president for the Permian Basin, in an interview earlier this year. "We expect to deliver highly economic and robust production growth."

The Cline Shale is the source rock, or bottom layer, of the Wolfcamp formation. Thanks to advancements in hydraulic fracturing and horizontal drilling, operators have increased access to the play unlike ever before.

RRC Sunset report released... continued from page 1

In the report, the staff of Sunset also proposed eliminating the cap on the Oil and Gas Regulation and Cleanup Fund, as well as abolishment of the Oil Field Cleanup Fund Advisory Committee. "Although most changes to the Commission's funding sources have gone smoothly and are working well, Sunset staff found that the $20 million cap on the Oil and Gas Regulation and Cleanup Fund likely will restrict the Commission from providing sufficient funding for its regulatory and cleanup operations," read the report. It was also suggested that the RRC have the authorization to create a pipeline permit fee to help support the agency's Pipeline Safety program, as well as the addition of language to the General Appropriations Act to further ensure that the Commission collects fee amounts that offset the costs of administering its Pipeline Safety Program.

Other recommendations made by Sunset staff include: requiring the RRC to develop an enforcement policy to guide staff in evaluating and ranking oil- and natural gas- related violations, as well as formally adopting such penalty guidelines; eliminating the Commission's statutory authority to promote the use of propane and charging a delivery fee for this purpose; authorizing the RRC to enforce damage prevention requirements for interstate pipelines; authorizing a party affected by forced pooling to request a hearing on the matter in the county where the proposed well will be drilled; and continuing to require the Commission to submit its report on the Oil and Gas Regulation and Cleanup Fund to the Legislature.

"This will be the third time that I have gone through the Sunset process, and while we may disagree with some of the recommendations, I think that together all of us will be able to provide a good collective range of experience to work with the Legislature on these suggestions during the upcoming session," commented RRC Chairman Barry Smitherman on the Sunset staff report.

The Sunset Commission is scheduled to meet on December 18 and 19, 2012, to gather public testimony and input on the recommendations proposed by Sunset staff. TIPRO will be in attendance and testify at this hearing.

To view the staff report on the RRC in its entirety, visit: www.sunset.state.tx.us/83rd/RC/RC_SR.pdf.

MIT STUDY CONFIRMS METHANE EMISSIONS FROM SHALE PRODUCTION LOWER THAN THOUGHT

The actual amount of methane emissions from the production of natural gas in shale formations has been greatly exaggerated in previous reports, said researchers at the Massachusetts Institute of Technology (MIT) in a new study. Titled "Shale gas production: potential versus actual greenhouse gas emissions," the study assesses the levels of greenhouse gas emissions from shale gas well hydraulic fracturing operations in the United States during 2010 and compares figures to those listed in previous reports.

"While increased efforts need to be made to reduce emissions from the gas industry overall, the production of shale gas has not significantly increased total emissions from the sector," said Francis O'Sullivan, researcher at the MIT Energy Initiative and lead author of the study.

The new analysis is based on data obtained from approximately 4,000 wells drilled in the five primary U.S. shale formations, including Texas' Barnett and Haynesville shale plays. Previous reports claimed that 900 Gg CH4 of potential fugitive emissions were generated by hydraulic fracturing operations, or 228 Mg CH4 per well, in 2010. However, that figure does not include techniques used to handle these potential emissions, such as venting , gas flaring and reduced emission 'green' completions. When taken into consideration, the use of these techniques reduce the levels of actual fugitive emissions from shale well completion operations to about 216 Gg CH4, or 50 Mg CH4 per well, which is substantially lower than previous estimates.

According to MIT researchers, although fugitive emissions from the overall natural gas sector are a proper concern, it is incorrect to suggest that shale gas-related hydraulic fracturing has substantially altered the overall greenhouse gas emissions from natural gas production.

STATE AWARDS GRANTS TO FUND TRAINING OF WORKERS IN EAGLE FORD SHALE

The Texas Higher Education Coordinating Board (THECB) has awarded $1.3 million to community colleges throughout South Texas to assist with the education of low-income individuals hoping to obtain work in the Eagle Ford Shale. The Coastal Bend, Laredo, South Texas Junior and Victoria Community Colleges will all receive funds to implement new programs that provide training for high-demand occupational areas, such as welding, commercial truck driving, office technology, oil and gas and certified nursing assistants at no cost to qualified students. In doing so, the goal is to keep companies operating in the Eagle Ford Shale from recruiting talent from other states and instead provide more jobs to local residents. Enrollment could begin as early as February 2013, with training starting in April.

"It's going to train up to 800 individuals to go to work very quickly and be able to make a living wage and support their families and help improve the Texas economy," said THECB Commissioner Raymund Paredes.

In 2011 alone, the Eagle Ford Shale supported 47,000 full-time, high-paying jobs in the area, according to researchers at the Center for Community and Business Research at The University of Texas at San Antonio's Institute for Economic Development. Experts predict that by 2021, development of the shale formation could lead to the creation of approximately 117,000 new full-time jobs.

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- Four additional tickets for non-registered guests to the Chairman's Dinner
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- Acknowledgement in all promotions, mailings, e-blasts and website listings
- Full-page advertisement in Convention Program
- Half-page advertisement in *The TIPRO Target* newsletter

Blue Ribbon $3,500

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- Half-page advertisement in *The TIPRO Target* newsletter

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* Limit one sponsorship

Tote Bag Sponsor $2,500

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- Acknowledgement in all promotions

* Limit one sponsorship

Notebook Sponsor $2,000

- Company logo featured on notebooks
- One all access badge to the Convention
- Acknowledgement in all promotions

* Limit one sponsorship

Hospitality Suite Sponsor $2,000

- Signage in hospitality suite
- One all access badge to the Convention
- Acknowledgement in all promotions

* Limit one sponsorship

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- Acknowledgement in all promotions

* Limit one sponsorship

* Please note: all sponsorship logos are limited to one-color *

For additional information, please contact TIPRO's Director of Development Stephen Coffman at (512) 477-4452.

Annual Convention Sponsor Registration

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❒ Silver	$ 7,500	❒ Red Ribbon	$ 2,500
❒ Bronze	$ 5,000	❒ White Ribbon	$ 1,500

Registration Sponsorships (check desired sponsorship choice)

❒ Refreshment Break	$ 3,000	❒ Lanyard Sponsor	$ 2,000
❒ Tote Bag Sponsor	$ 2,500	❒ Notebook Sponsor	$ 2,000
❒ Hospitality Suite Sponsor	$ 2,000	❒ Turn Down Amenity	$ 2,000

ATTENDEE INFORMATION

BADGE 1:

Name of Attendee: ______________________

Company: ______________________

Address: ______________________

City/State/Zip Code: ______________________

Phone: ______________ Fax: ______________

E-mail: ______________________

BADGE 2:

Name of Attendee: ______________ Company: ______________

Phone: ______________ E-mail: ______________

BADGE 3:

Name of Attendee: ______________ Company: ______________

Phone: ______________ E-mail: ______________

BADGE 4:

Name of Attendee: ______________ Company: ______________

Phone: ______________ E-mail: ______________

PAYMENT INFORMATION

Sponsorship Total: $______________

Payment Method: ❒ VISA ❒ MASTERCARD ❒ AMEX ❒ CHECK NO: ______________

Print Name: ______________ Company: ______________

Billing Address: ______________________

Credit Card No.: ______________ Exp. Date: ______________

Signature: ______________ CID: ______________

Mail form to TIPRO at: 919 Congress Avenue, Suite 1000, Austin, Texas 78701 or fax to (512) 476-8070.
Forms must be accompanied by payment.

Texas Independent Producers & Royalty Owners Association

With more than 2,500 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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