



## TEXAS BOARD OF GEOSCIENTISTS CALL SPECIAL BOARD MEETING

The Texas Board of Professional Geoscientists (TBPG) has called a special board meeting to be held on November 7, 2011, at 1:00 p.m. to consider the immediate withdrawal of proposed rule changes regarding the certification of geoscientists working in the oil and natural gas industry. The board will also explore taking action to reaffirm the statutory exemption from certification granted in the Texas Geoscience Practice Act.

The original rule proposal being considered by TBPG would require certification of petroleum geologists performing work for which they are currently exempt by Texas law. The Texas Geoscience Practice Act (TGPA), which was enacted in 2001 by the 77<sup>th</sup> Texas Legislature, set forth regulation for the public practice of geoscience, establishing qualifications for licensed geoscientists. However, petroleum geoscientists were specifically and intentionally exempted from certification requirements.

The proposed rule directly conflicts with that which is outlined in the TGPA. The legislative intent in this case is clear, with confirmation from testimony of witnesses when the Act was under consideration by the state legislature. "We have a lot of geologists working in Texas, that find oil and gas and work in the minerals industry and so forth; those people are not going to be regulated," said Mark Baker with the Texas Association of Professional Geologists in a 2001 hearing.

If adopted, the proposed rule change could have a severely negative impact on prospecting and exploration in Texas, resulting in the loss of talented petroleum geologists no longer able to practice their craft without a license. The rule also could impede technology development in exploratory plays, possibly stunting advancements that could help reduce waste, enhance production and better protect the environment.

TIPRO had intended to testify at the November 9 meeting of the TBPG General Issues Committee, however, that meeting has been cancelled. TIPRO staff will be present at the November 7 and November 18 board meetings.



## DEPARTMENT OF INTERIOR LOOKS TO IMPLEMENT FRACING RULES, TOO?

The U.S. Department of Interior will develop new regulations for hydraulic fracturing, announced Deputy Interior Secretary David Hayes. Officials are in the process of drafting their proposal, which will update current regulations written in 1982.

"Our current regulations... are in many ways outdated," said Hayes. "They do not reflect the significant advances in hydraulic fracturing technology that have occurred in the last 30 years."

Within their proposal, the Interior Department is expected to call for full disclosure of chemicals used during the fracing process for wells drilled on public lands. Texas already requires operators to disclose components of frac fluid, following the passage of H.B. 3328 by the state legislature earlier this year.

The Interior Department also would implement rules to verify the integrity of wells once they are hydraulically fractured. The rules would expand standards currently in existence by the Bureau of Land Management (BLM). Additional water management requirements could also be proposed, extending requirements that currently apply to waters produced during the development process to also include flowback fluids produced after fracing has occurred. The U.S. Environmental Protection Agency (EPA) is also looking to develop federal regulations for wastewater produced during hydraulic fracturing operations.

The Interior Department, responsible for managing 700 million acres of federal land onshore in the United States, hopes to propose the rules in a couple of months and finalize regulations a year later.

## CHAIRMAN'S MESSAGE

TIPRO Members -

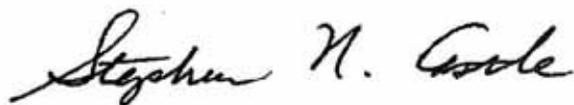
It has been another week where the federal government is at it again. It disappoints me to see that rather than applauding our oil and gas industry for boosting the economy and supporting American jobs, lately the federal government seems more caught up in creating regulations that will cause tremendous burden for our industry. Not only is the U.S. Environmental Protection Agency (EPA) working to draft new rules for air emissions during fracking, now the agency also wants to implement nationwide standards for wastewater discharges produced by natural gas extraction from underground coalbed and shale formations. And we can't forget about the proposed endangerment listing of the Dunes Sagebrush Lizard by the U.S. Fish and Wildlife Service (USFWS), which could severely limit industry activity in the Permian Basin.

Although TIPRO and the entire oil and gas industry remains committed to the safe development of natural resources, this approach by federal agencies to impose excessive regulation is wrong. Rather than allowing independent producers the opportunity to invest in the development of energy resources, instead they will be forced to divert funds to keeping in compliance with unnecessary restrictions. The notifications, record keeping, monitoring and reporting requirements alone will require increased resources to stay up-to-date, not to mention the large costs of installing and operating advanced technology at well sites.

At a time when our economy is struggling to overcome a recession, we need to fight against federal overreach that will slow American economic growth, result in job losses and deter development of energy resources. The federal one-size-fits-all approach is not the right way to go about industry oversight. Rather, we should stress the role state agencies can play in managing oil and gas regulation. Here in Texas we can count on the Railroad Commission to handle oversight of oil and gas operations, something that the state agency has done effectively since 1919.

As Texas is the nation's largest producer of oil and natural gas, supporting nearly 2 million jobs in Texas and a quarter of the State's economy, we cannot sit back and allow federal agencies to impose industry regulations that are unreasonable, unpractical and unnecessary. I urge all TIPRO members to join us as we fight to preserve the ability to explore for and produce oil and natural gas.

Sincerely,




**Stephen N. Castle**

## FOLLOW TIPRO ONLINE TO GET THE LATEST UPDATES, AS NEWS HAPPENS

Receive updates on the latest happening in the oil and gas industry by following the **Texas Independent Producers & Royalty Owners Association** online. From Twitter to Facebook to LinkedIn, TIPRO's social media accounts offer new ways to get information and connect with others in the industry.

Learn how to follow TIPRO by visiting our website at [www.tipro.org](http://www.tipro.org).

## Calendar of Events

| NOVEMBER 9, 2011                | DECEMBER 14, 2011               | JANUARY 11, 2012                | FEBRUARY 8, 2012                |
|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| HOUSTON IPAA/TIPRO              | HOUSTON IPAA/TIPRO              | HOUSTON IPAA/TIPRO              | HOUSTON IPAA/TIPRO              |
| Leaders in Industry             | Leaders in Industry             | Leaders in Industry             | Leaders in Industry             |
| Luncheon, 11:30 a.m.            | Luncheon, 11:30 a.m.            | Luncheon, 11:30 a.m.            | Luncheon, 11:30 a.m.            |
| Houston Petroleum Club.         | Houston Petroleum Club.         | Houston Petroleum Club.         | Houston Petroleum Club.         |
| For info, call: (713) 503-1298. |

## EPA EXTENDS DEADLINE FOR COMMENTS ON PROPOSED AIR REGULATIONS

Many in the industry, including TIPRO, requested more time from the U.S. Environmental Protection Agency (EPA) to review new proposed air regulations for oil and gas drilling. Although most asked for an additional 60-90 days, the EPA has granted a 30-day extension, moving the comment deadline from October 31 to November 30.

This action will also delay the schedule to finalize the rules. Although originally the agency planned to release the new rules before February 28, 2012, it will now do so by April 3.

The rules, originally proposed in July, would apply the first federal air standards for wells that are hydraulically fractured. The mandates aim to reduce air emissions at oil and natural gas production sites, although many companies are already voluntarily implementing procedures to limit emissions.

The EPA is charged with setting new source performance standards (NSPS) under Section 111 of the Clean Air Act. It must review the NSPSs every eight years and modify the rules, if appropriate. The regulations will implement new source performance standards for volatile organic compounds (VOCs), new source performance standards for sulfur dioxide, air toxic standards for oil and natural gas production and air toxic standards for natural gas transmission and storage.

If passed, independent oil and gas companies could be required to add costly pollution control technology to their operations. In most cases, all fractured wells would need to be "green" completed, where introduced fluids, proppant, hydrocarbon liquids and gas would need to be separated to reduce the total VOCs vented to the atmosphere. However, with a lack of readily available gathering lines and more than 20,000 well completions potentially subject to the rules annually, the new requirements would cause unnecessary burden and should therefore be encouraged by the EPA, not mandated.

TIPRO maintains that regulation should be based on actual facts and evidence, rather than theories or projections. "If current evidence shows that risk from oil and gas is acceptable, then no additional regulation should be required until the next review period," pointed out Teddy Carter, director of public affairs for TIPRO. "Regulation for regulation's sake is a dangerous path that can potentially cause greater harm than good; TIPRO urges the EPA to not present solutions to problems that do not currently exist."

## RRC RESPONDS TO EPA PROPOSED AIR REGULATIONS

Commissioners of the Railroad Commission of Texas released their response to proposed air regulations on the oil and gas industry by the EPA. Among many of the issues identified by the EPA's proposal, the Commissioners addressed a lack of necessary flexibility with respect to the required use of green completions. "Green completions require the use of special equipment and trained personnel. The proposed rules assume that such equipment and personnel are readily available for the magnitude of drilling in active oil and gas field in Texas and other states. The Commission disagrees."

Moreover, the Commission emphasized the significant economic impact such proposed NSPS rules would have on a substantial number of small businesses. "Imposition of the costs of additional regulation on small businesses and stripper/marginal well facilities without fully analyzing the protections impacts to this group, which produces 30 percent of Texas' crude oil, and considering the increased costs and delays likely to result because of the scarcity of equipment and personnel for hydraulic fracturing treatment of natural gas wells, is likely to result in a decrease in domestic oil and gas production."

To view the Railroad Commissioner's comments in their entirety, visit: <http://bit.ly/vjcW1F>.

## SHALE GAS BOOSTS VALUE OF MERGERS AND ACQUISITIONS BY 135 PERCENT



The total value of U.S. oil and gas mergers and acquisitions is up 135 percent during the third quarter of 2011, heavily driven by investments in shale gas, according to a study released by PwC's energy consulting practice. With more than \$22.6 billion worth of deals in shale plays alone occurring during the time period, spiked interest in natural gas is evident. Altogether, the total number of energy deals more than doubled to \$46.8 billion in the third quarter, compared with the same time last year.

"Despite a number of headwinds in the third quarter with volatile global equity markets and commodity prices, deals in the energy sector continued as companies sought to take advantage of opportunities in shale to gain technology know-how," said Rick Roberge, principal in PwC's energy M&A practice. "We expect energy to remain one of the hottest sectors for deals."

Quadruple the value of shale deals from one year ago, shale plays accounted for 80 percent of the \$28.1 billion total for upstream deals done in the third quarter.

Shale also accounted for 46 percent of all energy M&A in third quarter, PwC reported.

Additionally, foreign investors continue to look to become involved in the shale boom, as they more than tripled the value of their U.S. M&A activity. In the third quarter of 2011, foreign firms made 22 deals worth a total of \$37.3 billion.

## EPA RELEASES HYDRAULIC FRACTURING STUDY PLAN

At the request of Congress, the U.S. Environmental Protection Agency (EPA) has announced a final research plan to identify the impacts of hydraulic fracturing on drinking water resources. The agency's research, which examines the full cycle of water in hydraulic fracturing, will monitor water acquisition, chemical mixing, well injection, flowback and produced water, wastewater treatment and waste disposal.

According to the plan, "the highly complex nature of the problems to be studied will require a broad range of scientific expertise in environmental and petroleum engineering, ground water hydrology, fate and transport modeling, and toxicology, as well as many other areas."

The first report of research results is expected to be completed in 2012, including a synthesis of EPA's analysis of existing data, available results from retrospective cases studies, and initial results from scenario evaluations, laboratory studies, and toxicological assessments. A final report will be released in 2014 that announces results from long-term projects examining the potential impacts of fracing on drinking water.

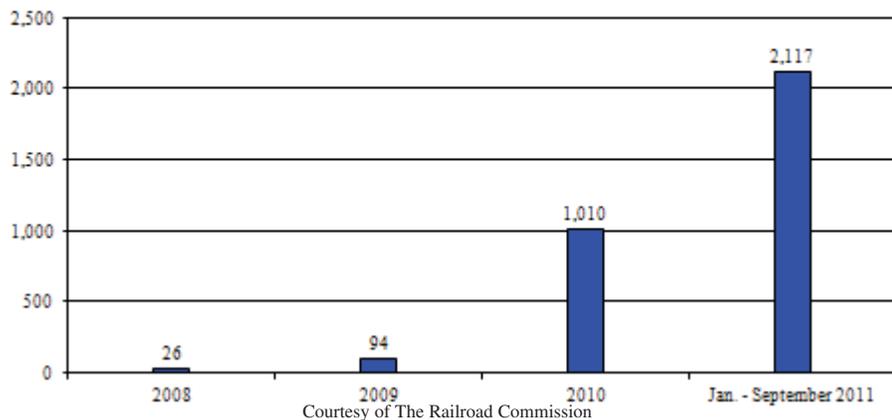
The EPA already has selected five locations for retrospective case studies, including counties in the Bakken, Barnett and Marcellus Shale, as well as in the Raton Basin. Two sites in the Haynesville and Marcellus Shale were also selected for the prospective case studies.

TIPRO will continue to monitor this plan as it moves forward.

For more information, or to view the Hydraulic Fracturing Study Plan in its entirety, visit: [www.epa.gov/hydraulicfracturing](http://www.epa.gov/hydraulicfracturing).

## DRILLING IN THE EAGLE FORD SHALE IS BOOMING!

**Texas Eagle Ford Shale  
Drilling Permits Issued  
2008 through September 2011**



As companies look to take advantage of opportunities in the Eagle Ford Shale located in South Texas, production in the region has skyrocketed.

The number of drilling permits issued already has more than doubled compared to just one year ago, exemplifying the potential of the shale play.

According to the Railroad Commission, oil production in the Eagle Ford reached 4,998,751 barrels (Bbl) from January to July of 2011, up dramatically from just 130,819 Bbl in 2009. Additionally, condensate production in the Eagle Ford for January to July of 2011 totaled 10,692,770 Bbl, and gas production was up more than 24 Bcf in the Eagle Ford, from 108 Bcf in 2010 to 132 Bcf during January to July in 2011.

Over the next 10 years, studies project that close to 5,000 new wells could be drilled in the Eagle Ford Shale, offering extensive economic benefits to the region. Development could generate up to \$21.5 billion in total annual economic output and support roughly 68,000 full-time jobs by 2020.

## EAGLE FORD TASK FORCE EXAMINES SOUTH TEXAS WATER ISSUES

In a meeting held Wednesday, November 2, in San Antonio, the Eagle Ford Task Force gathered to discuss what has become one of the most significant issues of the year - water usage. Members listened as a panel addressed some of the biggest water consumption concerns and contemplated future action.

Currently the oil and gas industry water demand in the Eagle Ford Shale represents only 5 to 7 percent of total water demand in the region and water is pulled from the vast, prolific Carrizo-Wilcox aquifer.

"It's important to put water usage by the oil and gas industry in perspective," said geologist Darrell Brownlow. "For every 1 acre-foot of water used in fracing, 280 acre-feet are used for other purposes in South Texas." Brownlow also suggested that if drought conditions persist in the future, some agricultural water uses might need to be re-examined, including limits for watering grass.

Brent Halldorson, chief operating officer of Fountain Quail Water Management LLC, illuminated the potential for industrial wastewater recycling. According to Halldorson, for every 100,000 barrels of water used in fracing, approximately 15 to 20 percent can be recycled. "It's the first step for recycling in the Eagle Ford Shale," he added.

Formed by Railroad Commissioner David Porter earlier this year, the Eagle Ford Task Force is comprised of local community leaders, local elected officials, water representatives, environmental groups, oil and gas producers, pipeline companies, oil services companies, landowners, mineral owners and royalty owners. Each month the group meets to discuss issues related to the development of the Eagle Ford Shale.

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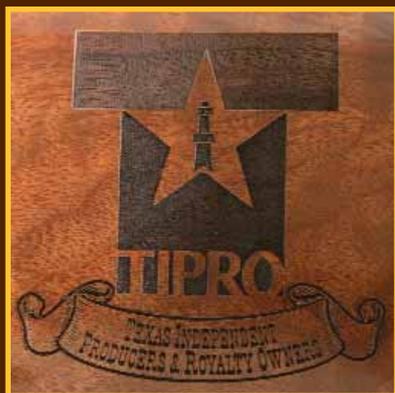
The firearm, created by A&A Engraving, Inc., is a Ruger Red Label over and under 12 gauge shotgun.

With a 5 tone gold finish, the shotgun showcases artwork specific to the association and the oil and gas plays active in Texas.

With hunting season in full swing and the holiday season around the corner, this is a great time to consider this firearm for yourself or another special person. Only a few remain, so don't miss out on your chance to own this one-of-a-kind shotgun!



Contact Rich Varela at [rvarela@tipro.org](mailto:rvarela@tipro.org) or call (512) 477-4452 to learn more. You can also visit our website at [www.tipro.org](http://www.tipro.org).



## EPA TO DEVELOP FIRST FEDERAL REGULATIONS FOR WASTEWATER DISPOSAL

Additional restrictions for hydraulic fracturing could be imminent as the U.S. Environmental Protection Agency (EPA) announced on October 20 that the federal agency will work to develop new standards for wastewater discharges produced by natural gas extraction from underground coalbed and shale formations. Currently there is no comprehensive set of national standards for disposal of wastewater, with individual states largely responsible for regulation. However, in the coming months the EPA will propose rules that establish national standards to ensure wastewaters receive proper treatment and can be properly handled by treatment facilities.

"The president has made clear that natural gas has a central role to play in our energy economy. That is why we are taking steps - in coordination with our federal partners and informed by the input of industry experts, states and public health organizations - to make sure the needs of our energy future are met safely and responsibly," said EPA Administrator Lisa P. Jackson.

The EPA intends to gather data, consult with stakeholders and solicit public comment on a proposed rule for coalbed methane in 2013 and will develop a proposed rule for shale gas in 2014.

This action comes primarily to address a problem that may be relevant in just one state - Pennsylvania. For years, Pennsylvania rules allowed gas drillers to discharge wastewater into surface waters. Earlier this year, however, after EPA officials expressed concern over the practice, drillers stopped. State officials have since said that no waste is being discharged without full treatment. Moreover, it is important to note that in most western states, this is not an issue as drilling wastewater is stored deep underground in injection wells.

## THE VULNERABILITY OF ENERGY RATES

Many know the factors which drive natural gas prices, but what about electric power rates?

Since Texas' electricity generation is largely fueled by natural gas, the futures index has been the primary indicator for what kilowatt-hour (kWh) rates will be. The relationship, although not one-to-one, makes it safe to say that if natural gas rises, kWh rates will follow. However, since February 2011 that correlation hasn't been as strong as in the past.

The Texas grid was tested during what is being termed "The February 2<sup>nd</sup> Cold Weather Event." With record breaking temperatures, energy usage surpassed the forecasted energy load and along with a number of generators failing, rolling blackouts were implemented. Months later, the grid came close to additional blackouts multiple times during the summer heat wave. Due to basic principles of supply and demand, such a strain on generation causes the cost to generate a megawatt of electricity during a fifteen-minute interval, known as the "heat rate," to skyrocket. Although record-breaking usage doesn't happen on a regular basis, two important threats were exposed... generation capacity and reserve margins.

The amount of actual generation available is "generation capacity" and "reserve margins" are the excess generation available during times of increased demand. Generation capacity is able to meet demand, as long as plants continue to operate in times of extreme need, but reserve margins are forecasted to decrease in the coming years due to plant closures, no new projects being built, and possible EPA regulations. If compliance with Environmental Protection Agency (EPA) rules to reduce air pollution causes certain generators to shut down and/or if it remains uneconomical for new power plants to be built, even with cheap fuel costs (i.e. natural gas) energy rates will rise.

Lately, fixed prices have been averaging in the five cents/kWh range, with some customers breaking into the four cent level. Given current price conditions, we recommend securing fixed rate contracts now, in order to minimize upside risk exposure.

**For more information about the TIPRO Power Coalition, or to find competitive bids for your next electricity contract, please contact Jason O'Krent at 512-322-9090 x104 or [okrent@foxsmolen.com](mailto:okrent@foxsmolen.com).**



## FEDERAL RESERVE LOWERS ECONOMIC GROWTH FORECAST

In a move many saw coming, the Federal Reserve significantly reduced its economic growth forecast through 2013, after originally overestimating recovery from the 2008 financial crisis. The Central Bank updated predictions that the economy will expand 2.5 to 2.9 percent in 2012, a dramatic change from its earlier prediction in June that the economy would grow 3.3 to 3.7 percent. Projections from 2013 were also scaled back to growth of 3 to 3.5 percent, down from the original expectation of 3.5 to 4.2 percent expansion. Through the end of 2012, the unemployment rate is expected to be at least 8.5 percent.

The Federal Reserve is working hard to stimulate economic growth and create jobs, said Ben Bernanke, chairman of the reserve. However, Bernanke stressed Congress needs to do more to assist and create American jobs.

Meanwhile, economists agree that the oil and gas industry offers great hope to uplift the nation's economy. Currently, the industry supports more than 9 million American jobs and makes significant economic contributions, including increasing government revenue. In 2009, the most recent year for which data was available, the industry added a total value to the national economy of more than \$1 trillion or 7.7 percent of the U.S. gross domestic product, according to a study released by PricewaterhouseCoopers in 2011.

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# THE TIPRO TARGET



## Texas Independent Producers & Royalty Owners Association

With more than 2,300 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.

919 Congress Avenue, Suite 1000  
Austin, Texas 78701  
Phone: (512) 477-4452  
Fax: (512) 476-8070  
[www.tipro.org](http://www.tipro.org)