



**Texas  
Independent  
Producers and  
Royalty Owners  
Association**

## **OPERATORS CAN NOW FILE WELL COMPLETION REPORTS ONLINE WITH THE RAILROAD COMMISSION ONLINE SYSTEM HELPS RRC CONTINUE STREAMLINING AGENCY'S WELL-PERMITTING PROCESSES**

One of the final reporting steps that Texas oil and gas operators must take to complete an oil, natural gas or service well is now available online through the Commission's website at [www.rrc.state.tx.us](http://www.rrc.state.tx.us).

Completion reports help ensure that new wells are in compliance with all the Commission's statewide rules. Now, instead of multiple reviews by the Commission's district offices, where the wells are located, and then by Austin staff, the whole process will move online and allow completions to be concurrently reviewed by Commission personnel located in different areas of the state. The completion report is the final audit conducted by Commission staff on a well, and it is a vital component of making sure each oil and gas wellbore has been built, cemented and cased to meet Commission rules designed to protect groundwater and the environment.

Oil and gas operator benefits under the new online filing system for completions include an ability to track the status of filed completions; immediate submission of a well completion package for review by both Austin and District Office staff; electronic audit of completion data to ensure correct data has been provided; quicker electronic communication between Commission staff and an operator; and the capability to quickly make corrections or upload additional attachments to completion packets under review.

Statewide mini seminars to help oil and gas operator use the online system will be held from 8 a.m. to 1 p.m. as follows:

- Midland - April 29, Hilton Midland Plaza
- San Antonio - June 24, Holiday Inn Downtown Market Square
- Amarillo - July 8, The Ambassador Hotel
- Abilene - July 29, the MCM Elegante Suites

For more information on how to register for these seminars go to: <http://www.rrc.state.tx.us/education/seminars/og/registration.php>

## **TCEQ PERMIT BY RULE PROCESS REGARDING AIR EMISSIONS BEING PROPOSED**

Recently, a proposal to change the current PBR (permit by rule) process for air emissions in Texas was discussed at the Texas Commission on Environmental Quality. The proposal comes as the TCEQ, and Texas itself, comes under increased scrutiny under EPA over a variety of issues.

The PBR proposal contains many elements of past proposals whether from SIP plans, MSS plans Barnett Shale issues and more. In past versions these individual proposals were specific to certain regions of the state, but the current proposal applies all provisions *statewide*. For example, detrimental requirements of small engines that TIPRO successfully opposed for East Texas in the past are resurrected with statewide applicability.

This proposal comes on the heels of extensive public scrutiny in the Barnett Shale prompting increased monitoring by TCEQ in that area. The timing was also confusing to some producers who have already started down a separate path with TCEQ to voluntarily provide information. TIPRO urges all Barnett Shale producers to continue working on the equipment inventories and emissions inventories that were previously agreed upon.

TIPRO will submit informal comments to the agency next week. However, we do not expect the proposal to be published for formal comment until the end of June. There will be multiple opportunities for comment throughout 2010. TIPRO will keep you informed of the process.

## YOU'RE INVITED TO BE A PART OF THE GREEN AMERICAN ROAD TRIP

Each summer American families travel cross-country on road trips in gas-guzzling minivans and SUVs. However, there will be one driver in particular whose road trip will be more economically sound thanks to her CNG-powered Tahoe. TIPRO's own Explorer member Castlen Moore Kennedy, Government Relations, Apache, is departing May 19 for a high-profile trip where she will put the pros and cons of CNG travel to the test on what she's calling *The Green American Road Trip*. Kennedy will drive from Austin to Boston following a route where she will fill-up at CNG fuel stations and meet with other drivers and businesses who use natural gas for their fleets and cars. "This is a great way to tell the natural gas story," says Kennedy.

"I'll ask the question – even though natural gas is less expensive and has environmental benefits over gasoline – it may be a viable transportation fuel for everyday use around town – but is it practical for an even longer destination, too?"

As a dual Masters student at the University of Texas at Austin studying public affairs and energy & earth resources, Kennedy is utilizing the trip as a kick-off to her thesis research. On the trip she'll communicate with and educate people on all aspects of natural gas. "I consider this a listening tour where I can learn from others, too," says Kennedy. "In the broader conversation of CNG vehicles, the road trip will tell a personal story of an individual in a CNG-powered vehicle." Along this week-long, 2,100+ mile journey, she will determine the cost, the logistics, the safety, and other ramifications of using this non-traditional source and how it compares to a traditional gasoline-powered car.



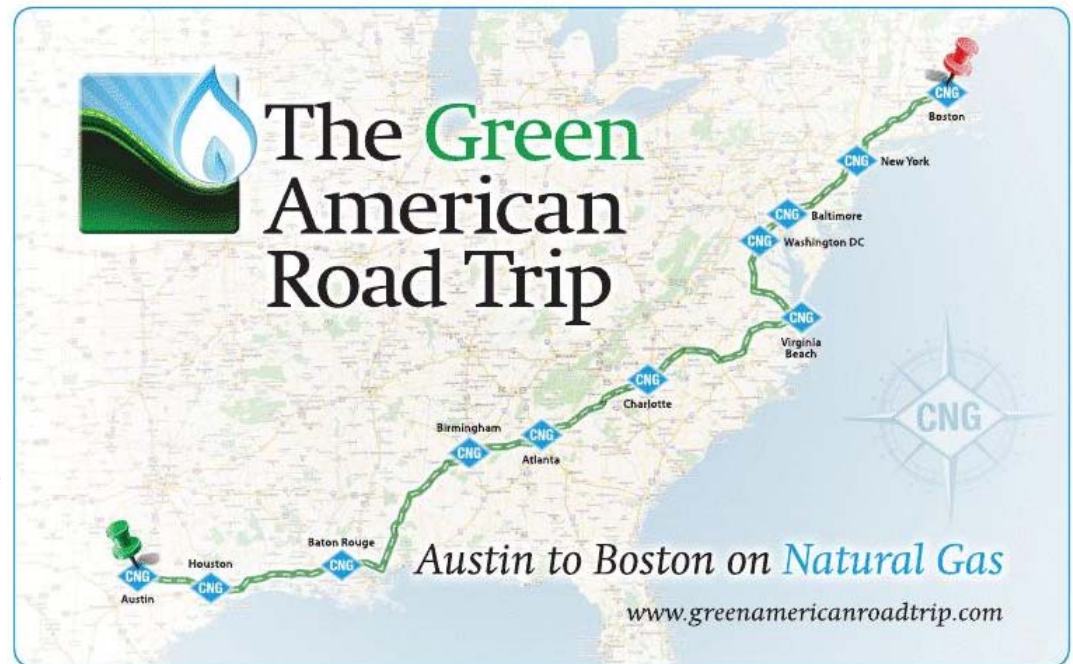
**Castlen Kennedy**

Another non-traditional approach will be that she will be accompanied by hundreds of followers -- not on the road itself but on-line using Twitter™, Facebook™ and her blog. "By using these new media sources I can make this a more personal journey by tweeting, blogging and posting video of the people I meet and the experiences I encounter," said Kennedy. "My social network may be small, but by using these sources to tell my story it then can resonate to thousands more." After the trip, her full research will analyze CNG benchmarked against other fuels and will conclude with policy recommendations to encourage expanded use of natural gas as a transportation fuel.

The route starts in Austin on May 19. From there, Kennedy will pass through Houston where she will visit the Parkway Chevrolet dealership where they will demonstrate the conversion process of a typical vehicle to CNG and the costs involved. She will also stop in on one of her sponsors Apache Corporation. From there, she stops for a tour of an LNG import facility in Lake Charles, Louisiana. More stops include the MARTA bus station in Atlanta which runs one of the largest CNG bus fleets in the country. From there she will drive up the Eastern Seaboard through Virginia with a stop in Virginia Beach, Virginia to visit State Sen. Frank W. Wagner to discuss offshore drilling access and domestic supply opportunities. She'll pass through Washington, DC to visit headquarters of America's Natural Gas Alliance (ANGA) and Independent Petroleum Association of America (IPAA) to review the inroads being made by trade associations and government. She'll even make a stop at the Bronx Zoo in New York City to take a ride on their CNG tour shuttle.

Finally, she will end her trip in Boston, Massachusetts, which she thought seemed like a great final stop. "Boston was ground-zero for our country's initial fight for independence. It seemed fitting to return here for a discussion on a different type of independence – energy independence," says Kennedy. "The domestic attributes of natural gas provide a real opportunity for our country as we look to reduce our dependence on foreign oil. Natural gas is abundant, clean, affordable and American."

TIPRO invites its members to be a part of Kennedy's *Green American Road Trip* by watching her trip progression with a link from [tipro.org](http://tipro.org). Or you can follow Kennedy at her blog <http://www.greenamericanroadtrip.com/> or on Twitter™: @castlen or become a Facebook™ fan at the Green American Road Trip. You can reach her directly at [castlen@greenamericanroadtrip.com](mailto:castlen@greenamericanroadtrip.com) or call 713.264.2755.



# TEXAS STATE OF FINANCES REGARDING THE TAX OUTLOOK – IT AIN'T PRETTY



As the U.S. attempts to bolster itself against the continuing ramifications of the current lingering recession, the state of Texas has weathered the storm better than many other locations...up until now. As hard data is compiled, the results of the drop of sales tax and jobs lost is becoming more evident for the Lone Star state. The picture it paints “ain’t pretty.”

In a presentation by the Texas Taxpayers and Research Association (TTARA) provided this week, the information analysis points to a precipitous decline of job losses (431,300 from 2008 to 2009) and a painfully anemic sales tax revenue snapshot. Whereas the Comptroller’s estimate of projected growth rates for 2010 originally was small 0.7%, it actually began at negative 15%.

This bleak picture of the state’s fiduciary situation does not bode well for independent oil and gas producers. Whereas it’s thanks to oil and gas revenue that Texas even HAS a rainy day fund of \$9 billion to pull from thanks (thank you very much) without it our state would be in a dire state.

TTARA President Dale Craymer says, “Budget numbers can be daunting (and really, really big), but the actual math is fairly simple. The real challenge is not addition and subtraction; instead, it’s more like that children’s puzzle where you try to fit round pegs in round holes, square pegs in square holes, and hope in the end that all the pieces fit somewhere. When 2011 arrives lawmakers will face several budget challenges. Since the state bought into a system of equalized funding, state aid rises and falls as local property values change. With the economy now suffering, property values will likely stagnate or fall. School districts won’t be as wealthy. The demands on state aid may actually increase, driving up the state’s public school budget even more.”



Dale Craymer

“But Texas will save money from increased federal Medicaid funds, increased public school fund earnings and 5% of budget cuts” said Craymer. “But the severe drop in sales tax revenues continue to raise the threat of the current state budget falling out of budget.” What does that mean for TIPRO members? Craymer predicts, “The bottom line is, in the next Legislative Session members will have little interest in raising tax rates. BUT, there is a tremendous interest at looking at existing tax credits and incentives. It’s unlikely there will be any discussion of raising severance taxes, but they will likely look at incentives the oil and gas industry has enjoyed, such as the high-cost natural gas drilling incentive or more oil production tax. They may look at credits for enhanced oil recovery and/inactive wells,” adds Craymer.

In an attempt to foreshadow the future, there are a few indications that lead Craymer to handicap the 2012-13 era, such as:

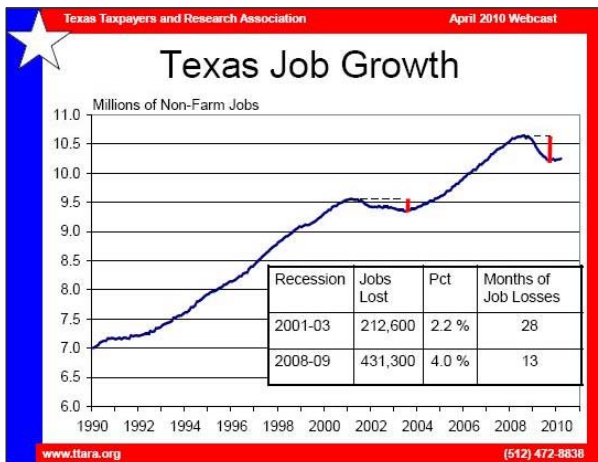
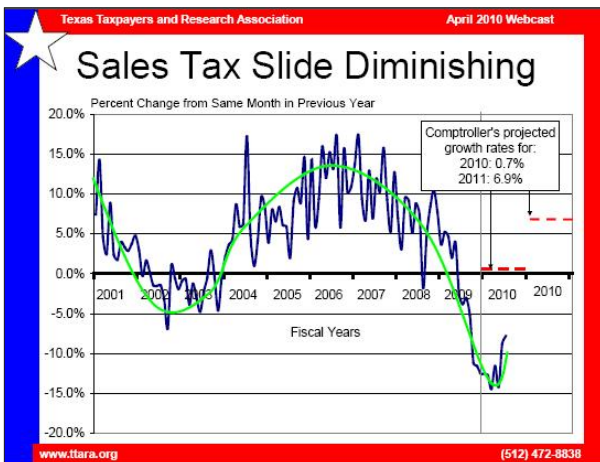
- The economy will recover modestly with tax revenues following suit.
- No cash in the bank, not more federal stimulus money -- a \$13 billion shift.
- Spending pressures continue.
- The Rainy Day Fund may have \$8 - \$9 billion.
- The budget shortfall will exceed amounts in the Rainy Day Fund.

As TIPRO monitors the people and players of the issue, some strategies TTARA suggests when dealing with the Texas Legislature are these:

- Legislature will draw from the Rainy Day Fund.
- Legislature will most certainly cut funds for many programs and limit spending increases for others.
- Governor, Lt. Governor and Speaker are opposed to tax increases.
- Some lawmakers are trying to redefine the repeal of tax exemptions and credits to not be a "tax increase".

These “words of the wise” from a Texas tax expert will be expounded upon at TIPRO's Summer Policy Meeting in August where Mr.

Craymer will address members about the current and future state of affairs regarding the Texas budget analysis. TIPRO will continue to gather information and inform members of the status of issues in preparation for next year's Legislative Session. As we noted earlier, the outlook “ain’t pretty”





## REVISIONS FOR NATURAL GAS DATA ANALYSIS FROM DOE'S ENERGY INFORMATION ADMINISTRATION

Natural gas is a resource our country needs, now more than ever. Its abundant availability domestically allows the U.S. to reduce foreign imports thus reducing national security risks and saving money. As a result of this cleaner-burning fuel, environmental benefits add to that quotient, too. Before the technological advances in drilling allowed for this abundance to be as readily tapped as it is now, the supply was something investors considered not sufficient enough to recommend as prominently as other fuel sources. Now that concern is vanquished with Department of Energy Secretary Steven Chu's verification, "U.S. natural gas reserves have definitely increased by about 30% and 'probably has doubled,'" according to his quote from *Bloomberg News Service*. "That's a big deal because it will also be a transition fuel as we go to renewables," Chu added.



For now, and into the future, investors can look to long-term stability for natural gas as a valuable source for our country's needs as a transportation fuel, for electric power generation, and much more. Investors use many sources to corroborate their choices for where and how to make their energy investment decisions. DOE's Energy Information Administration is a leading resource for objective statistical details and analysis. That's why the Department has been seeking to revise its tools for calculating the most accurate and timely results of its natural gas production statistics. With the exponential growth of the shale gas plays EIA's press specialist Jonathan Cogan said, "Over time, we've needed to re-examine the methodology to give us better more accurate numbers regarding all aspects of shale gas production so we can be more adaptable to changes moving forward." Accordingly, the Department has changed its sampling techniques. "We've widened the universe of companies giving us sample data of their production and increased the frequency of how often we receive that data. Now we will have more timely production figures so we can extrapolate more accurately."

How may that affect numbers and figures? Cogan predicted that it may result in a downward revision for production statistics from Louisiana, but increase figures nationally equaling a more rounder viewpoint. To review details specifically, please go to: [http://www.eia.doe.gov/oil\\_gas/natural\\_gas/data\\_publications/natural\\_gas\\_monthly/ngm.html](http://www.eia.doe.gov/oil_gas/natural_gas/data_publications/natural_gas_monthly/ngm.html)

### **Changes to the EIA-914 Sampling and Estimation Processes** From the DOE's Energy Information Administration's website

EIA has conducted a full review of the methodology used in the EIA-914 natural gas production program, as outlined in March 2009. In April 2010, reporting February production, we plan to introduce the new methodology based on that review. At that time, we plan to revise January estimates using the new methodology as well. In some cases, we expect the revisions will be significant. For this report of January 2010 estimates, however, we will use the methodology described in our current documentation.

#### January 2010 Updates, Based on Current Methods

The estimated changes in production from December 2009 to January 2010 in this report reflect not only actual changes in reported production, but also on the normal annual updates. Updates required under the current documentation include:

- Sample – this year's annual sample update added 27 companies and removed 16 companies.
- Estimation – the calibration time period for the estimation model has moved ahead one calendar year.
- Other States Ratio – the ratio used to inflate the sample reported production to the total production for the Other States group increased slightly.
- Marketed Ratios – the annual ratios used to convert gross withdrawals to marketed production were revised for each State based on the additional year of data.

We estimate that the updates by themselves lead to changes in estimated production of less than 1 percent for the Lower-48 United States as a whole.

### **New Methodology**

The new sampling and estimation processes are designed to simplify calculations and make use of the most recent reliable information available from the States. Calculation of the EIA-914 will involve three main changes:

- Monthly Sample – moving forward, the sample will be updated every month using more recent information.
- Estimation – estimation of production of non-sampled companies will use data that is 6 to 18 months old (rather than the previous practice that used data that was 2 to 7 years old).
- Timing – calibration will be updated monthly rather than annually.

These changes are intended to allow the EIA-914 to reflect major changes in the industry that might affect production of non-sampled companies (such as the growth of shale gas production) in a much more timely way.

# TEXAS COMPTROLLER AUDIT FINDS REVISIONS FROM HIGH-COST GAS EXEMPTION TAX CREDIT

## SOME TIPRO MEMBERS MAY RECEIVE NOTICE THEY MAY BE IN ARREARS

The following statement appeared on the Texas Comptroller's website earlier this month: "During a routine audit by the Auditor's Office, high-cost gas leases were identified as exceeding the statutory 50 percent cap for accumulated savings. To date, a list of leases were identified as exceeding 50 percent accumulated savings. If you remit and pay taxes on any of these leases, you will be contacted if your data requires correction. If you have any questions, please contact your Accounts Examiner representative."

As TIPRO members know, reporting variables to the Comptroller's office has changed due to its new computer system so, according to TIPRO's Vice President of Public Affairs Donna Warndof, "there's more to the story." She adds, "It will take a lot of work to sort through the data and educate legislators about what are legitimate claims." TIPRO will continue to review and monitor the details for its members. For more specifics please go to [http://www.window.state.tx.us/taxinfo/nat\\_gas/index.html](http://www.window.state.tx.us/taxinfo/nat_gas/index.html)

### High Cost Gas Exemption

Natural gas can be designated by the Texas Railroad Commission as high cost gas. This gas must be produced from the following:

1. any gas well, if production is from a completion which is located at a depth of more than 15,000 feet;
2. geopressured brine;
3. occluded natural gas produced from coal seams;
4. Devonian shale; or designated tight formations or produced as a result of production enhancement work.

Effective Date of Legislation • Became effective Sept. 1, 1991 for the original 100 percent exemption.

• House Bill 398 created the reduced tax rate exemption effective Sept. 1, 1997 and extended in 1999 and was changed again in 2003 to create a permanent application period.

Length of Tax Reduction for Wells

Spudded After May 24, 1989 and before September 1, 1996

Wells spudded after May 24, 1989 and before Sept. 1, 1996, are exempt from the natural gas production taxes until Aug. 31, 2001.

Length of Tax Reduction for Wells

Spudded After August 31, 1996

For wells spudded after Aug. 31, 1996, each well will receive a reduced tax rate, for 10 years, or until the well accumulates tax savings of 50 percent of the actual drilling and completion costs for the well.

Certification Operators must obtain a certification letter from the Texas Railroad Commission.

### Comptroller's Application

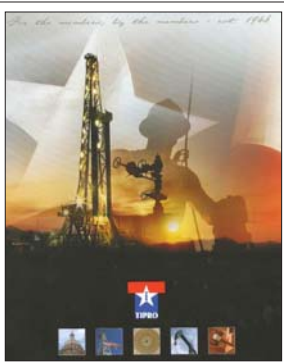
- Operators must submit a completed Comptroller's exemption application form #AP-180 and include a copy of the certification letter from the Texas Railroad Commission. All wells spudded after Sept. 1, 1995, must include the actual drilling and completion costs for that well. Only current costs will be allowed on new and reworked wells.
- The Comptroller's application (#AP-180) must be filed the later of the 180 day after the first day of production, or the 45 day after the approval date by the Texas Railroad Commission. If this date is not met, a 10 percent penalty is assessed.
- The Comptroller's office will send the taxpayer a letter acknowledging the high cost gas well as being approved. This letter will indicate if a 10 percent penalty applies to the exempt lease for certain report periods.
- Approved high cost gas leases are exempt from the oil field clean-up regulatory fee through the August 2003 report period.
- Beginning with the September 2003 reporting period, the oil field clean-up regulatory fee is due on approved high cost gas leases where the taxpayer has reported as being liable for the tax for commodities reported as raw gas, lease use and products.

Exempt Natural Gas Tax Wells spudded after May 24, 1989, and before Sept. 1, 1996, 100 percent exemption from natural gas tax applies. This exemption must be reported as "Exemption Type" of "06."

From the Texas Comptroller's website.

## THE 2010 TIPRO MEMBERSHIP DIRECTORY HAS ARRIVED!

PLEASE LET US KNOW IF YOU NEED ADDITIONAL COPIES. IF YOU HAVE ANY CORRECTIONS, PLEASE CONTACT LAURA AT 512.477.4452 OR LAURA@TIPRO.ORG



Know what's below.  
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## Calendar of Events

**MAY 4, 2010**

KILGORE — TIPRO's East Texas Mixer. Presentations, 3:30 p.m. at the East Texas Oil Museum, Mixer, 5:30 at Meadowbrook Country Club. For info call 512.477.4452

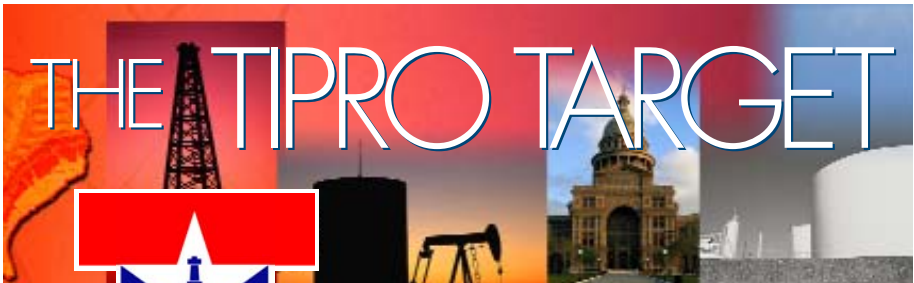
**MAY 12, 2010**

HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info call 512.477.4452

**SAVE THE DATE**

**AUGUST 12-13, 2010**

**TIPRO's Summer Conference & Golf Tournament**  
**Hyatt Hill Country Resort**  
**San Antonio, Texas**



**Texas Independent  
Producers and  
Royalty Owners  
Association**

TIPRO represents more than 2,000 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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