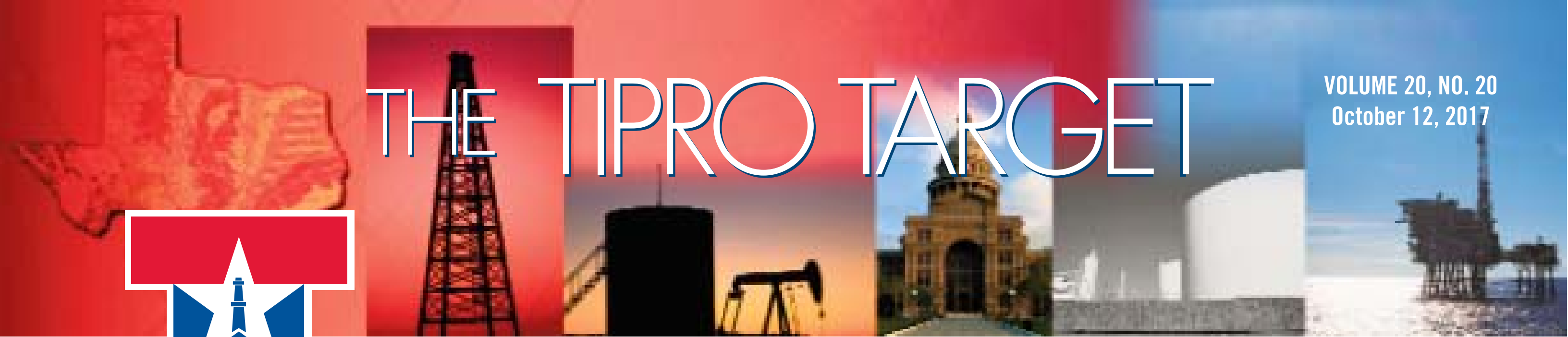

THE TIPRO TARGET

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TIPRO

Texas Independent Producers and Royalty Owners Association

Federal regulators propose suspension of venting and flaring rules for industry

The U.S. Bureau of Land Management (BLM) announced a new proposal October 4th to temporarily suspend or delay certain requirements contained in the 2016 final Waste Prevention Rule (also known as the Venting and Flaring Rule) until January 17, 2019. The move follows efforts by the Trump Administration to ease the regulatory burden against American companies, encourage economic growth and promote domestic energy development.

"As we strengthen America's energy independence, we intend to evaluate regulations to determine if they unnecessarily encumber energy production, constrain economic growth, or prevent job creation," Acting BLM Director Michael D. Nedd said. "Our proposal would give the BLM sufficient time to review the 2016 final rule and consider revising or rescinding its requirements."

As part of a secretarial order on American Energy Independence issued this past March, Interior Secretary Ryan Zinke had previously directed the BLM to review the federal venting and flaring rule. As a result of its regulatory assessment, the BLM found that some parts of the 2016 regulation appear to be unnecessarily burdensome on the oil and gas industry, and as such, should be deferred while further review is conducted. According to the BLM, a temporary suspension or delay of certain provisions will avoid compliance costs for operators on those requirements that may be rescinded or significantly revised in the near future. For certain requirements included in the 2016 final rule that have yet to be implemented, this proposed rule would temporarily postpone the implementation dates for 18 months, until January 17, 2019. For those requirements part of the 2016 final rule that are currently in effect, the BLM's regulatory proposal would temporarily suspend their effectiveness, also until January 2019. This would give the BLM sufficient time to complete its review of the 2016 final Waste Prevention Rule and consider revising or rescinding regulatory requirements. During this time, existing federal, state, and tribal regulations will continue to ensure energy development will be performed in an environmentally sound, safe and responsible manner, pledge BLM officials.

Public comment will be accepted through November 6, 2017, on the BLM's proposed delay of the 2016 Waste Prevention Rule. Comments may be submitted online through the federal eRulemaking portal, available at https://www.regulations.gov, referencing Docket RIN 1004-AE54.

Pioneer Natural Resources, Fasken Oil & Ranch receive top environmental awards

Two TIPRO member companies, Pioneer Natural Resources Company and Fasken Oil and Ranch, were honored earlier this month as recipients of national environmental stewardship awards presented by the Interstate Oil and Gas Compact Commission (IOGCC). Both of the oil and gas producers - each headquartered in Texas - were recognized for outstanding success with water conservation efforts.

Since 2014, Fasken has completely discontinued using freshwater for drilling and well completion operations, allowing the company to conserve approximately 2.7 million gallons of freshwater that otherwise would have been used for each well drilled.

Similarly, Pioneer Natural Resources has considerably reduced its freshwater consumption in drilling operations. In 2014, Pioneer Natural Resources created a dedicated subsidiary, Pioneer Water Management, LLC (PWM), to optimize water recycling efforts while at the same time satisfying the company's water needs for operations in the Permian Basin. PWM's main objective is to reduce the volume of freshwater used in drilling and fracture stimulation operations by exploring alternate, cost-effective water sourcing options. PWM was behind the agreement Pioneer struck with the city of Odessa to allow the company to purchase effluent municipal water from the city, ultimately reducing the company's need for freshwater in its operations.

"TIPRO congratulates these two companies for the exceptional innovations and work which have improved their conservation of water resources and continued to lessen freshwater needs," said Ed Longanecker, president of TIPRO. "The efforts of Pioneer and Fasken again demonstrate how oil and gas producers continue to lessen their environmental footprint on their own initiative, without need for excessive regulatory mandates and overly burdensome, undue restrictions."

As part of the 2017 IOGCC Chairman's Stewardship Awards, presented October 2nd in Pittsburgh during the IOGCC's Annual Conference, Texas' Offshore Energy Center (OEC) was also recognized for its work to educate the public on energy development. The OEC, based in Houston, promotes understanding of the oil and gas industry and serves to expand awareness on the vast energy resources available beneath the world's oceans.

Chairman's Message

TIPRO Members,

I was heartbroken that the American men's soccer team was eliminated from World Cup this last week…. Until I woke up, slapped myself, realized I was an American, and don't give a flip about soccer.

Frankly, this is the way I feel about most things these days.

People are trying 24/7 to wind us up. I have had enough.

I live in a wonderful place… Gilmer World… where I still tear up singing the National Anthem… here in the United States, the American Way entails people waking up thinking about how to make each other's lives better, and if they do it well enough, their fellow citizens will pay them for doing so… where you can come from nothing and achieve everything.


Allen Gilmer

I love talking with cab and Uber drivers. Often they are from somewhere else, and their love and appreciation of the United States is moving, and frankly something many others often take for granted. I was describing the oil business to one driver recently.

"98 percent of the people in the oil business are awesome," I told the driver. "They will help you if they can and are among the most loyal group of people I have met in my life. The 2 percent that are rascals at least have the grace to be colorful. When you have had the misfortunate of working these individuals, you at least have cocktail stories that will last a lifetime," I laughed.

"The great thing about this business is that you can really see someone's true colors – unlike, perhaps other industries – and the vast majority of those working in oil and gas are honorable people. The good do the right thing, the bad do the wrong. It's much clearer in this business than in most others. Plus, for every dollar of profit we get, the government gets two. They are the REAL Big Oil."

Which brings me to wind and solar. It's time to end the subsidies and start getting them to pay their fair share of social contract. If you are going to displace an energy source that hugely supports counties and school districts through severance and ad valorem taxes, and replace it with a more expensive one that pays none of those costs, AND uses tax dollars to obfuscate that value destruction, then there comes a time when you can't do it any longer. It's just not sustainable. Birds, known as "smokers" to Big Sun, and "hash" to Big Wind, have zero value associated with their lives. In hunting, these birds have values ranging from a couple of hundred dollars for a duck to $25,000 for Whooping Crane. In oil and gas, it's ten times to hundreds of times more valuable. It's like these birds had law degrees.

Further, these providers commonly sign leases with surface owners that intentionally and knowingly put these surface owners into legal peril without their knowledge by often times restricting drilling activities on their surface, effectively condemning the mineral estate. Even more egregiously, they are typically NOT RESPONSIBLE for cleaning up their mess and remediating the huge concrete foundations when the end of life comes for these beasts, often far sooner than the poor surface owner anticipated. Plus these poor folks have to live with the horrible sound of those huge avian machetes twirling in the breeze, except when they aren't getting paid. Let's welcome them to the world of grown up energy, one where we clean up after ourselves, where we pay our "fair share" and one where we don't exploit our landowner partners.

It's time our little siblings grew up.

Regards,

Allen Gilmer

In memory of William Stanton "Stan" McDonald

The Texas Independent Producers & Royalty Owners Association mourns the loss of William Stanton "Stan" McDonald, who passed away September 30, 2017, in Austin surrounded by loving family members. A member and friend to TIPRO, Stan was a successful independent petroleum geologist for more than 28 years. Most recently, he was a managing member of South Texas Gas LLC and a consulting geologist for Tidal Petroleum. Stan is survived by his wife of 21 years, Kelly Timberlake Lamb; his parents, Dr. and Mrs. William J. McDonald, sister Jessica J. McDonald, and his sons William Stanton McDonald Jr. and Hunter Timberlake McDonald. TIPRO extends sincere condolences to his family, friends and industry colleagues.

TIPRO Calendar of Events

OCTOBER 30, 2017	OCTOBER 30 - NOV. 1, 2017	NOVEMBER 8, 2017	DECEMBER 13, 2017
NEW YORK — TIPRO 2017 NASDAQ Market Closing, New York City. For info, call: (512) 477-4452.	SAN ANTONIO — INTERNATIONAL PETROLEUM ENVIRONMENTAL CONFERENCE, Hyatt Regency Hotel. For info, call: (918) 631-3088.	HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (202) 857-4733.	HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (202) 857-4733.

Wei Wang named interim executive director for Texas Railroad Commission

The three Texas Railroad commissioners unanimously voted Tuesday, October 10th to appoint Wei Wang as the agency's interim executive director, effective Monday, October 16. Wang, who currently serves as the agency's chief financial officer, will serve a dual role as interim executive director and continue in his capacity as CFO while the commissioners search for a permanent executive director to lead the agency's day-to-day operations. Wang assumes the leadership role following the resignation of the agency's former Executive Director Kimberly Corley last month.

"Wei has the experience and institutional knowledge necessary to fulfill the important mission of the agency," Railroad Commission Chairman Craddick said. "We appreciate his assistance and anticipate the positive impact that his expertise will bring during this transition period."

Commissioners Ryan Sitton and Wayne Christian also expressed their confidence in Wang to serve as interim executive director for the commission. "Wei has done a phenomenal job as chief financial officer," commented Commissioner Sitton. "He has been an instrumental member of our leadership team and is fully committed to the Railroad Commission's mission to serve and protect the public and environment." Commissioner Christian added, "Wei has proven himself to be an effective leader at our agency, and has earned the respect of his fellow team members across the Commission. Our agency is in capable hands with Wei in the interim as we move forward with the search for an executive director."

RRC announces new San Angelo district director, pipeline damage prevention manager

Bill Spraggins has been appointed as the new director of the Texas Railroad Commission's District 7C office in San Angelo, the agency recently announced. Spraggins originally began employment with the Railroad Commission in 1997, retired and later returned to the agency in 2012. "Mr. Spraggins has worked many years in the oil and gas industry and the Railroad Commission. He understands the operations of a district office and knows the rules and regulations. His notable strengths are his oilfield technical skills, his leadership ability and his knowledge of the Railroad Commission," said Santos Gonzales, Oil and Gas Division assistant director for field operations.

Jamie Renard also has been named as the Railroad Commission's new pipeline damage prevention manager in the Oversight & Safety Division. In the role, Renard will educate Texans, including excavators, about the importance of calling 8-1-1 to have underground natural gas pipelines marked before digging, especially when building after Hurricane Harvey. Previously, Renard served as a damage prevention specialist for three years at the Railroad Commission.

Texas oil and gas regulators promote National Energy Awareness Month

Throughout October, Texas Railroad Commissioner Ryan Sitton will visit communities around the state to educate Texans on the enormous impact of energy on our everyday lives, the commissioner announced in early October. The state tour comes in conjunction with National Energy Awareness month, recognized during the month of October, which serves to enhance public awareness of the nation's energy needs and available energy options.

"In my mind, every month is National Energy Awareness Month. Educating Texans about the role of energy in our state's economy — and advocating for efficient energy production and environmental stewardship — is ongoing," remarked Commissioner Sitton. "As Texas exponentially grows its production of clean and reliable energy and establishes the U.S. as a global energy leader, it is increasingly important that the public understands how wind, solar, coal, nuclear, oil and natural gas contribute to our all-of-the-above energy strategy."

Railroad Commissioner Wayne Christian also marked National Energy Awareness Month while at the Interstate Oil and Gas Compact Commission (IOGCC) annual meeting in Pittsburgh, Pennsylvania, last week. "Most people do not realize how much energy and petroleum products impact their day-to-day lives," observed Commissioner Christian. "Oil is used to make a lot more than just gasoline. Petroleum is essential for the creation of cosmetics, medicine, asphalt, fabrics, plastics and even many foods."

"Texas leads the nation in the production of oil and natural gas, producing more than 2.4 million barrels of crude and 17.25 million MCF of gas per day," continued Commissioner Christian. "This production has helps keep our energy prices low, while creating hundreds of thousands of jobs and fostering economic growth. This energy awareness month, take some time to think about how your life would be different without the energy and petroleum products we take for granted each day."

Houston festival to celebrate all things energy

The city of Houston -- known as the Energy Capital of the World -- will celebrate the energy industry next Saturday, October 21st at 'Houston Energy Day.' The free festival will offer nearly 70 interactive demonstrations and exhibits, teaching children and their families about STEM [science, technology, engineering and math] fields, along with educating attendees on the importance of energy, conservation, and efficiency in our daily lives.

The Energy Day Festival was founded in Houston, Texas in 2011. Last year, there were an estimated 25,000 attendees at the event!

To learn more about Houston Energy Day and make plans to participate, visit www.energydayfestival.org/houston/.

Texas lieutenant governor announces interim charges for Texas Senate

During the state's upcoming interim session, Texas Lieutenant Governor Dan Patrick has tasked members of the Texas Senate with studying a range of issues resulting from Hurricane Harvey and the flooding aftermath. "Hurricane Harvey and the subsequent flooding may be the largest natural disaster in our country's history. Texas inspired the nation and the world by pulling together immediately after the storm and Texans are showing that same 'Texas Tough' spirit in the recovery efforts that are underway in cities and towns across the storm zone," said Lieutenant Governor Patrick. "Since Harvey made landfall, I have said that this Texas-sized storm will require a Texas-sized response. My goal is for our state to become a national model in handling every aspect of disaster and the interim charges I am releasing are the next step in achieving that goal."

Among the interim charges recently announced by the lieutenant governor, the Senate Transportation Committee has been directed to study the impact of Hurricane Harvey on the state's transportation infrastructure and make recommendations on how best to rebuild assets efficiently and effectively. The Senate Finance Committee also will work to evaluate the long-term impact of Hurricane Harvey on the Texas economy and the gulf coast region, as well as monitor all funds being used to address Hurricane Harvey relief and recovery. Meanwhile, the Senate Business and Commerce Committee will review infrastructure security and energy restoration post weather events, and identify ways state government entities can help utilities more effectively stage pre-hurricane mobilization crews for managing resources before an event. During the interim period, the Agriculture, Water and Rural Affairs Committee is to study and make recommendations on how Texas should move forward with water infrastructure projects in the State Water Plan that will help mitigate floods through flood control, diversion, and storage projects. Further, the committee has been asked to evaluate plans for a possible third reservoir in addition to Addicks and Barker to control and alleviate additional flooding in the region. See the complete list of interim charges issued for the Senate by visiting: http://bit.ly/2xHkpjS.

Speaker of the House Joe Straus also recently announced Harvey-related charges for the interim session, which will also be used to guide the legislature's response to the storm during the 2019 legislative session.

Texas comptroller releases Certification Revenue Estimate for 2018-19 biennium

A recovering oil and gas sector has, in part, allowed Texas Comptroller Glenn Hegar to bump up the state's revenue forecasts for 2018-2019. On Tuesday, October 10, Comptroller Hegar released the Certification Revenue Estimate (CRE) for the Fiscal 2018-19 biennium, a projection used to estimate how much revenue will be available for the state to spend over the next two-year budget cycle. "The diversity of the Texas economy, coupled with conservative fiscal management and strengthening in the oil and gas sector, allowed the state economy to return to its normal pattern of growth, which exceeds that of the national economy," stated the comptroller.

The CRE follows a Biennial Revenue Estimate (BRE) that was issued by the comptroller's office before the 2017 Legislative Session. The updated CRE allows the agency to revise estimates in the BRE to reflect legislative activity and current economic information, and to take into account final revenue numbers for the recently ended fiscal year. "While revenues remained in line with the estimates we made in January, some uncertainty remains in our outlook for the biennium due in part to the ongoing assessment of the economic impact of Hurricane Harvey," noted Comptroller Hegar. "Despite this uncertainty, we are continuing to project steady expansion of the Texas economy following a brief slowdown due to the storm's impact. Factoring in recent legislative activity, this CRE presents slightly higher revenue forecasts for the 2018-19 biennium than those we released in January."

In the new CRE, the comptroller's office says it now expects revenue available for general spending in 2018-19 to total about $107.33 billion, up from the BRE estimate of about $104.87 billion. The comptroller's office notes that in Fiscal Year 2018, the State Highway Fund (SHF) and Economic Stabilization Fund (ESF, also known as the state's Rainy Day Fund) - both of which receive funding from oil and gas severance taxes - will see transfers totaling $734 million each. The CRE projects in Fiscal 2019, the ESF and SHF will receive transfers of $777 million to each fund.

SWIFT program saving Texas communities millions of dollars, reports TWDB

The State Water Implementation Fund for Texas (SWIFT) program, which helps fund projects in the state water plan, will save sponsors participating in the 2017 funding cycle an estimated $198 million, the Texas Water Development Board (TWDB) recently announced. "These savings are not only important for the project sponsors, but also for the water utilities' customers," said TWDB Chairman Bech Bruun. "By saving millions of dollars through the SWIFT program, the utilities can pass on savings to their rate payers."

The SWIFT program was established by the Texas Legislature and voters in 2013 to assist communities with development and optimization of water supplies at cost-effective rates. Through SWIFT, any political subdivision or nonprofit water supply corporation with a project included in the most recently adopted state water plan may apply for financial assistance, made available through low-interest loans, extended repayment terms, deferral of loan repayments, and incremental repurchase terms for projects with state ownership aspects. According to the TWDB, during the first three years of SWIFT, Texas water utilities have saved approximately $400 million.

"SWIFT financial assistance plays a vital role in developing state water plan projects and securing Texas' water supply," noted TWDB Board member Kathleen Jackson.

House speaker establishes new legislative committee on economic competitiveness

Speaker of the Texas House of Representatives Joe Straus has formed a new select committee to evaluate ways in which the Lone Star State can compete for jobs, investments and highly skilled workers, the office of Speaker Straus announced Thursday, October 12. The House Select Committee on Economic Competitiveness will be chaired by Representative Byron Cook. Representative Senfronia Thompson has been appointed by Speaker Straus to serve as vice chair of the new committee. Also serving on the committee will be Representatives Angie Chen Button, Sarah Davis, Charlie Geren, Joe Moody and Rene Oliveira.

"It's time to reassert that Texas is fully committed to private-sector growth," said Speaker Straus. "Our state has a stellar record in attracting and creating jobs over the years. We should be proud, but we should not be complacent. We cannot just assume that jobs are destined to come here."

Over the next couple months, members of the committee will review issues such as workforce readiness, infrastructure and state and local economic development tools. The committee will also study the reasons that employers give for choosing, or not choosing, to do business in a particular state. This insight can be used to ensure that Texas maintains its position as a global leader in economic development. The committee will report its findings by December 12, 2017.

"Incentive funds and tax breaks are important to economic development. But there's more to the formula," Speaker Straus said. "Businesses want to grow in places that have outstanding schools, colleges and universities, as well as a high quality of life for their employees. This committee will articulate principles of economic growth in Texas and show that the House is committed to competing in a global and changing economy."

"The world is watching, from CEOs to the best and brightest workers. They need to see that Texas welcomes them and is determined to stay at the front of the pack when it comes to economic development," Speaker Straus added.

U.S. Interior Royalty Policy Committee meets in D.C.

The U.S. Interior Royalty Policy Committee held its first hearing on October 4, 2017 -- the first meeting to take place since the panel was re-chartered on March 29th by Secretary of the Interior Ryan Zinke after an 8 year absence. During last week's meeting, committee members discussed a range of ideas on how the federal government could better promote the expansion of American energy development, a priority of the Trump Administration. The committee also considered ways to offer greater input for local communities affected by leasing activities, in addition to a possible reassessment of economic models used by the department.

Texas House Energy Resources Committee Chairman Drew Darby was a participant of the Interior Royalty Policy Committee meeting last week. Chairman Darby was appointed earlier in the year by Secretary Zinke to serve on the U.S. Interior Royalty Policy Committee as a state representative. Altogether, the committee is composed of 28 state, tribal, and other stakeholder representatives, who advise the secretary on the potential impacts of proposed policies and regulations related to revenue collection from energy and mineral development on public lands, including whether a need exists for regulatory reform. "Working closely with the committee, we will come up with solutions for modernizing the management of public and American Indian assets, while building greater trust and transparency in how we value our nation's public mineral resources," Secretary Zinke said. "It's important that the taxpayers and tribes get the full and fair value of traditional and renewable energy produced on public lands and offshore areas."

During the October 4th meeting of the full committee, three subcommittees were formed to further consider issues pertaining to public mineral resources, which include:

- the Subcommittee on Fair Return and Revenue, which will review fair market return from resources produced on public lands;
- the Subcommittee on Planning, Analysis, and Competitiveness, which will assess the economic modeling used by the Department, present and future royalty rates, and ways to increase revenues and competition; and
- the Subcommittee on Indian Affairs, which will address issues specific to Tribal lands and trusts.

Andrew Wheeler nominated by President Trump for leadership post at EPA

The first week of October, President Donald Trump announced his intent to nominate Andrew Wheeler as deputy administrator of the Environmental Protection Agency (EPA), the second-in-command position for the federal regulatory agency. Wheeler is a principal and the head of the energy and environment team at Faegre Baker Daniels Consulting and co-chairs the energy and natural resources industry team within the law firm. Wheeler also holds extensive regulatory and legislative experience, having worked at both the EPA and on Capitol Hill. Prior to joining Faegre Baker Daniels, he served in various roles for the U.S. Senate Environment and Public Works Committee for 14 year, including working as the majority and minority staff director and chief counsel. He started his career working at the EPA as a special assistant in the toxics office where he received three bronze medals. Wheeler has a B.A. from Case Western Reserve University, a J.D. from Washington University in St. Louis, and an M.B.A. from George Mason University. Wheeler is a member of the District of Columbia bar and an Eagle Scout.

EPA initiates repeal of Clean Power Plan

This week, the U.S. Environmental Protection Agency (EPA) took formal action to dismantle the Clean Power Plan (CPP). The policy, a signature rule advanced by the Obama Administration, placed federal limits on carbon emissions at power plants. The regulation was finalized in August 2015, though months later in February of 2016 the Supreme Court stayed implementation of the CPP pending judicial review.

Now, the EPA under the Trump Administration is calling for the repeal the CPP, arguing the regulatory measure exceeds authority of the agency and is inconsistent with the Clean Air Act. “The Obama Administration pushed the bounds of their authority so far with the CPP that the Supreme Court issued a historic stay of the rule, preventing its devastating effects to be imposed on the American people while the rule is being challenged in court,” said EPA Administrator Scott Pruitt. Following substantial review, the EPA has determined the CPP must be repealed. As such, the EPA issued a Notice of Proposed Rulemaking (NPRM) on Tuesday, October 10th to roll-back the national environmental policy. After the NPRM is published in the Federal Register, the public will have 60 days to submit comments on the proposed regulatory change.

“The CPP ignored states’ concerns and eroded longstanding and important partnerships that are a necessary part of achieving positive environmental outcomes. We can now assess whether further regulatory action is warranted; and, if so, what is the most appropriate path forward, consistent with the Clean Air Act and principles of cooperative federalism,” said Administrator Pruitt.

The Trump Administration estimates the proposed repeal of the CPP could provide up to $33 billion in avoided compliance costs in 2030, countering the Obama administration’s cost-benefit analysis of the rule.

Reacting to the EPA’s announcement this week, Texas Attorney General Ken Paxton praised the agency’s repeal of the CPP, commenting on Tuesday: “We appreciate the Trump Administration’s recognition that the Clean Power Plan is unlawful and bad energy policy for Texas and the rest of the nation. It’s gratifying that our lawsuit against Obama-era federal overreach was a catalyst for repeal of the plan. We look forward to working with the administration to craft a new strategy that will protect the environment without hurting jobs and the economy.” Texas, along with 22 other states, had formed a multi-state coalition that successfully challenged the CPP all the way to the U.S. Supreme Court, where the nation’s highest court agreed last year to stay the Clean Power Plan as the case was litigated in the D.C. Circuit Court of Appeals. This past April, the D.C. Circuit Court placed the case on hold while the White House reviewed the rule. In August, the court agreed to hold litigation relating to the CPP in abeyance for an additional 60 days.

Even without the implementation of the Clean Power Plan, the United States has successfully reduced greenhouse gas emissions from power generation by 25 percent since 2005.

EPA launches program to better engage American businesses on regulatory changes

In October, the U.S. Environmental Protection Agency (EPA) launched a new partnership program called ‘Smart Sectors’ focused on achieving better environmental outcomes by engaging the business community over ways to protect the environment. “When we consider American business as a partner, as opposed to an adversary, we can achieve better environmental outcomes,” said EPA Administrator Scott Pruitt. “The previous administration created a narrative that you can’t be pro-business and pro-environment. This program is one of the many ways we can address that false choice and work together to protect the environment. When industries and regulators better understand each other, the economy, public, and the environment all benefit.”

Initially, the EPA identified the following industries to work with through its ‘Smart Sectors’ program: aerospace; agriculture; automotive; cement and concrete; chemical manufacturing; construction; electronics and technology; forestry and paper products; iron and steel; mining; oil and gas; ports and marine; and utilities and power generation. According to the EPA, the Smart Sectors program will designate staff-level points of contact who are highly knowledgeable about specific industries. These individuals will act as liaisons among industry trade associations and companies, EPA program and regional offices, state and local governments, and other stakeholder groups.

Energy Department proposes rulemaking to reform electric market pricing policies

The U.S. Department of Energy issued a Notice of Proposed Rulemaking (NOPR) on Friday, September 29th that directs the Federal Energy Regulatory Commission (FERC) to take swift action to address threats to U.S. electrical grid resiliency and to implement reforms to pricing policies in order to maintain the reliability and resiliency of the nation’s grid.

The Energy Department’s NOPR seeks to alter pricing policies such that coal and nuclear facilities remain competitive, at the expense of natural gas. These new rules would “ensure that certain reliability and resilience attributes of electric generation resources are fully valued.” DOE deems that reliability requires that eligible generation units “have a 90-day fuel supply on site in the event of supply disruptions caused by emergencies, extreme weather, or natural or man-made disasters.”

A coalition of energy trade groups, including associations representing independent producers, had filed a joint motion in early October requesting that FERC extend the comment period to 90 days, such that initial comments would be due on or before January 2, 2018, in order to allow stakeholders more time to evaluate the proposal and provide comment on the rulemaking. However, leaders of FERC announced on Wednesday, October 11th this request has been denied. Therefore, comments on the proposal remain due on or before Monday, October 23, 2017.

"Federal court rules against delay of Waste Prevention Rule"

By Michael K. Reer, Harris, Finley & Bogle P.C.

On October 4, 2017, the U.S. District Court for the Northern District of California determined that the Department of the Interior, Bureau of Land Management violated the Administrative Procedures Act (APA) in postponing certain compliance dates for the "Waste Prevention, Production Subject to Royalties, and Resource Conservation" rule. The stated purpose of the rule is to "reduce waste of natural gas from venting, flaring, and leaks during oil and natural gas production activities on onshore Federal . . . leases . . . [and] clarify when produced gas lost through venting, flaring, or leaks is subject to royalties, and when oil and gas production may be used royalty-free on-site." The legality of the final rule is subject to a separate challenge in the U.S. District Court for the District of Wyoming. The Waste Prevention Rule was published as final in November 2016 and took effect January 17, 2017. On March 28, 2017, President Trump signed Executive Order 13783, "Promoting Energy Independence and Economic Growth," which requires each executive agency to identify regulations that "potentially burden the development or use of domestically produced energy resources" and to modify or rescind those regulations "that unduly burden the development of domestic energy resources" to the degree necessary to protect the public interest.

In response to the Executive Order, BLM published notice on June 15, 2017 that it was postponing future compliance dates for certain sections of the Waste Prevention Rule. In the Federal Register notice announcing the postponement, BLM also stated that postponement was proper under §705 of the APA because "justice requires" postponement of the future compliance dates in light of the substantial cost that the regulations impose and the "uncertain future these requirements face in light of the pending litigation."

The U.S. District Court for the Northern District of California disagreed that §705 of the APA allows for the postponement of future compliance dates where the Federal Register "effective date" for the final rulemaking has already passed. Specifically, §705 allows an agency, when "justice so requires," to "postpone the effective date of [the] action." BLM argued that "effective date" includes both "effective dates" and "compliance dates" and that any interpretation otherwise would prohibit agencies from exercising §705 discretion when a lawsuit challenging a final rulemaking is filed after the effective date of the rulemaking. Without exercise of §705 discretion, BLM argued, operators must still prepare for future compliance dates despite the uncertainty of ongoing litigation. The court disagreed with BLM's broader interpretation of §705, instead holding that the terms "effective date" and "compliance date" have distinct meanings in administrative law.

The October 4th decision is the latest in a string of setbacks for the Trump Administration's deregulation efforts. Similar decisions have also been issued related to the Environmental Protection Agency's methane rule and smog standard, the DOI's royalty reform rule, and BLM's methane rule. Moreover, future administrative procedure litigation appears likely given that the comment period for the proposed rescission of the 2015 "Waters of the U.S." rulemaking recently ended and a decision from EPA and the U.S. Army Corps of Engineers is anticipated shortly.

Michael K. Reer is an associate with Harris, Finley & Bogle, P.C.'s Fort Worth Office. He is manager of the firm's oil and gas blog, which can be found at www.oilandgaslawblog.com.

TIPRO members invited to Texas Energy Update Conference in Dallas

Members of the Texas Independent Producers & Royalty Owners Association are invited to the 2017 Texas Energy Update Conference, an annual half-day meeting for the energy industry reviewing economic, legislative and regulatory changes affecting the bottom-lines of independent energy producers. The seminar will be held Friday, October 27, 2017, from 7:30 a.m. until noon at the Belo Mansion in Dallas.

At the Texas Energy Update 2017 Conference this year, RSP Permian Chief Executive Officer Steven Gray will provide the keynote address. In addition, House Energy Resources Committee Chairman Drew Darby will present, joined by Susan Ginsberg, vice president of crude oil and natural gas regulatory affairs for the Independent Petroleum Association of America (IPAA), and Gretchen Kern, senior environmental policy advisor for Pioneer Natural Resources, who together in a panel discussion will provide a legislative and regulatory outlook for the energy industry. Economic and financial experts also will speak at this year's energy update.

See the complete agenda and register to attend by visiting: http://texasenergyupdate.com/index.html.

"Oil price outlook"

BY PAUL KUKLINSKI, BOSTON ENERGY RESEARCH

Oil prices are likely to remain relatively stable into mid 2018 as surplus inventories remain high. The growth in Permian production and the recovery in Libya and Nigeria are preventing OPEC from achieving the goal of its production cut. The outlook changes thereafter. Without higher prices, world oil supply is then unlikely to keep up with continuing growth in global demand. In 2020 and beyond, the risk of an oil shortage is high.

WTI is $51/B. Without a geopolitical event, WTI is expected to remain near $53/B well into 2018 before increasing in the second half of 2018 with a decline surplus inventories related to the seasonal ramp up in demand. It is expected to average $50/B for all of 2017 compared with $43/B in 2016.

Brent is $57/B, $5.50/B above WTI, but down from a recent premium over $7/B. Through August, the 2017 Brent premium over WTI was $2.01/B. It widened dramatically in the aftermath of seasonal maintenance in the North Sea, hurricane Harvey, and the Kurdish vote for independence. Brent reached a 2 year closing high of $59.02/B on September 25.

Geopolitical uncertainty added a risk premium to oil prices since the overwhelming in favor of independence in Kurdistan on September 25 including the partly Kurdish Kirkuk region of Iraq. In response, Turkey threatened to choke off crude oil exports through Turkey which were 575 MBD in September. The primary issue is control over the super giant Kirkuk Field, which accounts for nearly half of exports through Turkey. If implemented, the quarterly impact on world oil supply would be a reduction of 52 MMB, which would accelerate the return to a market balance and likely result in higher oil prices in response.

Otherwise, excess global crude oil inventories are likely to remain high over the next 12 months. A 57 MMB increase is even indicated in 1Q18 with the seasonal decline in demand, posing a temporary downside risk to oil prices as it occurs.

When it announced its production cut in 4Q16, OPEC believed elimination of the surplus in OECD inventories to the 5 year average would increase oil prices to $60-65/B. In August, the surplus was still 171 MMB larger, but down from a 340 MMB surplus earlier in the year. The OECD accounts for 48 percent of total world oil demand.

Production growth in the Permian Basin and the recovery in Libya and Nigeria are the primary reasons. Their combined production will likely be adequate to meet the growth in world oil demand into mid 2018. The outlook changes thereafter.

Despite robust growth even with low oil prices in 2017, annual production increases in the Permian Basin will likely be smaller in coming years. September production was 2.58 MMBD. It is projected to increase to 2.75 MMBD in December, up 640 MBD Y/Y, and grow more slowly thereafter. The basin still has 60-70 bn B of technically recoverable crude.

Current estimates of the future peak in Permian oil production vary, with a range of 5.0 to 5.5 MMBD in the early to mid 2020s. With a 5.5 MMBD peak in 2022, trendline growth near 500 MBD annually is indicated the next couple of years. With a 5.0 MMBD peak in 2025, trendline growth about 220 MBD annually is indicated. Both are less than the increase this year.

There is downside risk to these forecasts. In addition to low oil prices and oil field service cost inflation (up 10 percent YTD), which could negatively impact drilling activity, they also include geology and pipeline takeaway capacity.

Increasingly closer spacing of wells to drain reservoirs may result in a reduction in productivity of later infill wells by as much as 20-30 percent compared to the productivity of initial wells drilled. A much lower (maybe 3.5 MMBD) near term peak in Permian production would result as sweet spots are depleted. The productivity of newly drilled wells in the Permian peaked in April at 662 BD and is now 572 BD in October. Sweet spots in the Eagle Ford shale play ended up much smaller than originally modeled. Technology is a wild card that could change everything; in 2011, new well production in the Permian was 306 BD.

The pace of the build-out of adequate pipeline takeaway capacity might also constrain the growth in production. In August 2014, the Midland price blew out to a $12.10/B discount to WTI, penalizing Permian producers because of a lack of pipeline capacity. The WTI-Midland differential recently was $.35/B. There is currently 300 MBD of excess capacity, indicating the next pinch could occur in 1Q18!

Midstream companies are careful not to overbuild. Potentially there will be 2.14 MMBD of new takeaway capacity starting in stages from late 2019/ early 2020.

Outside the Permian, the increase in all other US crude and liquids production in response to 2017 oil prices is smaller. In 4Q17, it will be up 466 MBD Y/Y, with a Y/Y increase in crude of 56 MBD and a 410 MBD in natural gas liquids.

Total 3Q17 US crude and liquids production was 12.85 MMBD. It is projected to increase to 13.41 MMBD in 4Q17, up 1.11 MMBD Y/Y.

The growth in the US oil directed rig count flattened and reversed in recent weeks which will slow the growth in US land production 6-8 months later, about 2Q18. At 748, the latest US oil rig count is down 20 rigs from its August peak of 768. After hitting bottom at 333 rigs in 2Q16 it reached 507 the end of December 2016. The Permian rig count reached a high of 386 rigs in September and is now 383.

Pioneer Natural Resources, a leading producer in the Midland sub basin, believes "$50 oil isn't going to get it done" because it doesn't generate enough cash flow and the industry has too much debt. "US production may grow for 2-3 years and a few independents may grow, but we are in a $60 long term price environment."

Outside the US, other non OPEC production is expected to remain relatively flat through 2018. It was 45.3 MMBD in 3Q17 and 45.1 MMBD in 2016. Russia produced 11.3 MMBD in 3Q17, fully compliant with its agreement with OPEC to cut production. It produced 11.3 MMBD in 2016. Outside the US and Canada, the global rig count was 931 in September compared with 948 in 1H17 and 956 for all of 2016. The current level of international drilling activity, if it persists, suggests a downward production bias in other non OPEC production in coming months.

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Going forward, OPEC production will likely remain near current levels for the foreseeable future, with volatility, primarily related to Libya. OPEC's September production was 32.75 MMBD. It averaged 32.38 MMBD for 9 months in 2017 and 32.65 MMBD in 2016. OPEC estimates demand for its crude will average 32.80 MMBD in 2017. Latest OPEC `talk' is only about extending its cut past its March expiration date to the end of 2018. It is scheduled to meet next on November 30 in Vienna.

Compliance with its cut was 88 percent in September and 86 percent YTD. Iraq is OPEC's biggest problem, consistently exceeding its quota. It produced 4.48 MMBD in September; its quota is 4.35 MMBD.

Saudi Arabia remains dedicated to the OPEC agreement to cut production, together with Russia and 9 other non OPEC producers. The IMF estimates its fiscal breakeven requires an oil price of $84/B! It is also planning an IPO for Saudi Aramco in 2018. Higher oil prices would be helpful. It produced 9.98 MMBD in September, below its quota of 10.05 MMBD.

More recently, Saudi Arabia has also committed to a reduction in its crude oil exports. In November, it plans to supply 7.15 MMBD which it says will be 621 MBD less than demand for its crude. September exports were 6.7 MMBD. In 4Q16, they were nearly 8 MMBD.

Nigeria's crude oil production in September was 1.86 MMBD, up from 1.46 MMBD in 4Q16 when it was exempted from participation in the OPEC cut. Its oil minister recently said its production would not exceed 1.8 MMBD in sympathy with the OPEC agreement.

In Libya, most of the underlying issues behind recent production disruptions have not been addressed, which indicates they are likely to recur. It produced 923 MBD in September, down from 1010 MBD in July but up from 570 MBD in 4Q16 when it was also exempted from the OPEC cut. With resolution of its domestic conflicts, its goal is to raise production to 1.25 MMBD by December.

The outlook for world oil demand continues to increase, supported by strong global economic growth, particularly in the OECD. Relatively low and stable oil prices are supportive. In its latest estimate, the IEA expects an increase of 1.6 MMBD this year to 97.7 MMBD and 1.4 MMBD in 2018. 4Q18 demand is expected to reach 100 MMBD. China, India, and Africa are leading the expansion. Demand grew 1.1 MMBD in 2016.

A potential oil shortage looms in 2019-2020. 2016 discoveries added less than 5 bn B to global reserves versus produced volumes over 30 bn B. The 2017 e&p spend on the global production base outside the Middle East, Russia, and US land, which still accounts for 50 MMBD of world oil supply, will be down 50% from 2014. While US shale oil production is growing, it is only 8 percent of world oil supply.

Schlumberger recently said: "The longer the current underinvestment carries on, the more severe the cliff-like decline trend will likely be when producers run out of short term options to maintain production."

Production has been supported primarily by producing wells at a higher rate than in the past, which is depleting their reserves faster. There is still little in the way of confirmation in the latest data.

Paul Kuklinski has selected equity investments in the energy sector for major institutional investors for over 30 years. In his experience, the future price of oil is the dominant investment variable. He founded Boston Energy Research in 1992 to provide independent research to large financial institutions. He was previously a Partner at Cowen & Company and a founding Partner of Harvard Management Company, which in the 1970s built a weighting over 50 percent in the energy sector in the Harvard Endowment equity portfolio. It generated substantial realized gains. Contact Paul Kuklinski at bostonenergyresearch@msn.com for more detailed discussion including risks to the outlook.

DAPL to continue operations during additional environmental review

The Dakota Access pipeline (DAPL) will not have to shut down operations while the U.S. Army Corps of Engineers conducts further review of the project's environmental impact, a federal judge ruled on October 11, 2017. The pipeline, which began commercial service June 1, 2017, transports crude oil from the Bakken/Three Forks production areas in North Dakota to a storage and terminalling hub outside Pakota, Illinois.

Over the summer, U.S. District Judge James Boasberg found that the U.S. Army Corps of Engineers "did not adequately consider the impacts of an oil spill on fishing rights, hunting rights, or environmental justice, or the degree to which the pipeline's effects are likely to be highly controversial." As a result, Judge Boasberg ordered the Army Corps to conduct a new environmental review of DAPL, which considers such factors. The judge at that time did not direct pipeline operators to stop operations, indicating he would take that matter up at a later date. Now, upon further consideration, Judge Boasberg announced in a 28-page ruling issued this week that the deficiencies in that additional environmental review "are not fundamental or incurable flaws" and that the Corps has such a "significant possibility of justifying its prior determinations that the pipeline can continue operating."

Energy-related carbon dioxide emissions are down, EIA reports

For the third year in a row, experts from the U.S. Energy Information Administration (EIA) forecast that in 2017, energy-related carbon dioxide (CO_2) emissions will continue declining. Such emissions also fell in both 2015 and 2016.

According to EIA data, between 2015 and 2016, energy-related CO_2 emissions decreased by 89 million metric tons (MMmt), from 5,259 MMmt in 2015 to 5,170 MMmt in 2016.

Since 2005, energy-related CO_2 emissions have gone down 14 percent, the EIA estimates.

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