



**Texas  
Independent  
Producers and  
Royalty Owners  
Association**

## **BIG CHANGES COMING FOR MARKET COST REFUNDS**

### **ADDITIONAL REPORTING REQUIREMENTS PROPOSED BY COMPTROLLER'S OFFICE**

**T**he Texas Comptroller will be making changes to the requirements by which marketing cost refunds of severance taxes are requested, resulting in a new method for tracking and reporting marketing costs. The proposed resolution includes the need for power of attorney (POA) to file amendments for a purchaser and an assignment of right of refund signed by the purchaser in

order for a producer to request a marketing cost refund. A marketing cost deduction taken on the original tax report would not be affected, but a producer's request for a refund of overpaid severance tax would be affected. This refund would be affected only in the case of a purchaser-pay situation, and only if the purchaser refused to sign the power of attorney. This new system attempts to ensure all marketing costs taken by producers are accurately recorded on the Comptroller's system. It also hopes to eliminate the manual process and streamline the validation of credits generated for purchaser-paid marketing costs.

The POA between the purchaser and the producer would have to include permission for the producer to change the tax records of the purchaser in order to get a marketing cost refund. However, the purchasers could decline to provide that POA, as they may not want producers to interfere and change their records. Furthermore, they ultimately might stop providing tax payment as a service to producers. This could result in large expenditures for producers, especially for the smaller producers, as they may not be able to obtain marketing cost refunds anymore and will potentially have to account for and pay their own severance tax.

Proposed implementation for this policy change is immediate, with all requests received from this day forward subject to the new rules. Pending requests will receive special consideration and may not be affected.

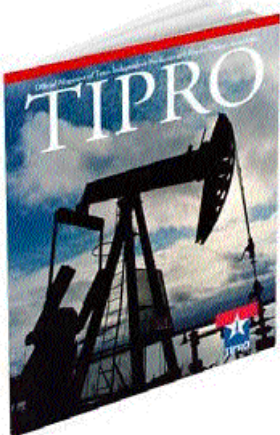
The impact on the oil and gas industry could be profound, particularly for smaller producers. As a result, TIPRO is engaging this issue immediately. TIPRO staff has already contacted the comptroller's office to inform them that our membership has concerns with the new requirements. TIPRO is also working to formulate a formal response about this policy change and will communicate the potential implications with the Comptroller's office. Members are asked to join TIPRO in our efforts to ask the Comptroller consider alternative actions regarding this issue.

**"This change in reporting requirements could prove to have a huge impact on the industry, causing a major burden for small producers."**

**--Justin Furnace,  
President, TIPRO**

## **TIPRO LAUNCHES BIENNIAL MAGAZINE *UPSTREAM TEXAS***

### **NEW MAGAZINE FEATURES MEMBER PROFILES, INDUSTRY NEWS AND MORE!**



*Upstream Texas* will be the new official TIPRO magazine, with the premier edition launching in early November. Produced twice a year, the magazine will be available not only in print but also in a fully interactive digital version. Complete with industry news, association information and the latest trends in the oil and gas industry, our magazine will be the source of interesting, newsworthy information. It will also feature in-depth member profiles, meeting reports and upcoming networking opportunities.

Exciting stories to watch for in the Fall/Winter edition of the magazine include "Feeding an Energy-Hungry Society," a story of how Texas became a vital source for meeting society's growing energy demands, and "All Shapes and Sizes: Real Images of Texas Independents," a description of how Texas producers operate. Also featured in the magazine are profiles of state Senator Troy Fraser, chairman of the Senate Committee on Natural Resources, and TCEQ Chairman Bryan Shaw, who each provide valuable insight into their unique approaches to regulating the oil and gas industry.

Be on the lookout for your copy of the magazine soon!

# PRESIDENT'S MESSAGE

TIPRO Members,

The past couple weeks, TIPRO staff has been working hard to advocate on behalf of members for several key issues. On Oct. 1, a significant deadline passed as TCEQ stopped accepting comments on proposed rule changes for the Air Permit by Rule and Standard Permit regulations for Oil and Gas sites. In coordination with TIPRO's Environmental Task Force, a formal letter was sent to commissioners of TCEQ to voice concerns and recommend amendments to new requirements (see letter on page 4). Additional support was garnered from state senators and representatives, who concurred with TIPRO's recommended changes to regulations and signed the letter to express their agreement. Our own Teddy Carter worked to educate legislators and their staff on changes proposed by TCEQ and the potential impact on the oil and gas industry, as well as the over-all economy. With the additional support of these legislators, we sent a strong message of adjustments TCEQ should make. Announcement of final policy changes are expected in December. Again, I want to thank all members of our Environmental Task Force, as well as Chairman Roger Kelley, for their help and contributions on this pressing issue.



**Justin Furnace**

Additionally, the Office of Safety & Health (OSHA) has proposed new requirements for personal protective equipment. In conjunction with IPAA, TIPRO is pushing for OSHA to rescind the rule changes and work with the industry to develop appropriate regulation. See page 3 for more details on this issue.

With the mid-term election quickly approaching, I also want to take the opportunity to encourage all TIPRO members to vote. Participating is incredibly important, as it can have a dramatic impact on the policy and regulations that guide our industry. By electing the right representatives and leaders on Nov. 2, we will ensure that the laws created in the coming years will help the Texas energy sector prosper. It is our chance to voice our opinions at the polls and send a strong message of what we'd like to happen in the upcoming legislative session. With so many important positions up for grabs, the outcome of this year's midterm election will dramatically influence how our industry operates in the future. Whether it is during early voting or on Election Day, get to the polls and cast your vote to make your opinion count!

**Sincerely,**

## TIPRO'S 3RD ANNUAL CENTRAL BUSINESS DEVELOPMENT MIXER IN CORPUS CHRISTI

Please join us on Tuesday, October 20, 2010 in Corpus Christi, Texas as we come together for this fun annual event. We will meet at the Corpus Christi Yacht Club from 5 p.m. to 7 p.m. TIPRO staff will provide regulatory and legislative updates along with information regarding current issues being discussed, and Robert J. Banks, executive vice president and chief operating officer of Swift Energy Company, will provide an overview of Swift's South Texas Eagle Ford and Olmos activity. While the event is free for members of TIPRO, nonmembers must pay \$35. This will surely be an event you don't want to miss out on, with the chance to catch up with old friends and the opportunity to make new ones. To register, see page 6 of this newsletter for the registration form, or go online at [www.tipro.org](http://www.tipro.org).

Special thanks to our sponsors: Cima Energy Ltd., Bruington Engineering, LTD., Drilling Info, Dynamic Drilling Fluids, EnergyNet, J-W Measurement Company, The Oil & Gas Asset Clearinghouse, Suemaur Exploration & Production, LLC, and Orion Drilling Company.

### Calendar of Events

OCTOBER 20, 2010	NOVEMBER 10, 2010	DECEMBER 8, 2010	JANUARY 11, 2011
CORPUS CHRISTI — TIPRO's 3rd Annual Central Business Development Mixer, 5 – 7 p.m. Corpus Christi Yacht Club For info, call: (512) 477-4452.	HOUSTON — IPAA/TIPRO (Wednesday) Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club For info, call: (512) 477-4452.	HOUSTON — IPAA/TIPRO (Wednesday) Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club For info, call: (512) 477-4452.	HOUSTON — IPAA/TIPRO (Wednesday) Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club For info, call: (512) 477-4452.

## NEW POLICY FOR PERSONAL PROTECTIVE EQUIPMENT



Under the existing statute, standard practice has been to defer to individual companies' assessment of hazard levels to determine the necessity for personal protective equipment in oil and gas drilling, servicing and production-related operations. On March 19, 2010, a memorandum from the Office of Safety & Health Administration (OSHA) changed this practice by offering detailed instructions to their compliance safety and health officers on when citations should be issued for failure to provide and use flame-resistant clothing in the aforementioned operations.

The Independent Petroleum Association of America (IPAA) has been in contact with OSHA, conveying that the industry is already working hard to improve worker safety. Moreover, IPAA has stressed that ultimately this is a change in regulatory enforcement and should prompt a rulemaking to allow for industry input and comment. IPAA has requested the following from OSHA:

- 1) The March 19, 2010 memo be rescinded.
- 2) OSHA move forward with a formal rule making process.
- 3) OSHA work with industry to develop appropriate regulation on this issue.

This petition was sent more than a month and a half ago, but to date, IPAA has received no response to their requests.

TIPRO recommends the same for its members as IPAA has for theirs. Going forward, all TIPRO members are encouraged to conduct robust and thorough hazard assessments of their operations, in order to be able to document and justify safety measures deemed appropriate or those deemed unnecessary in all cases. In the meantime, TIPRO staff will continue to monitor the progress of this ruling, provide feedback on behalf of members and assist IPAA in their efforts to develop fair regulation.

## ONLINE ENERGY CONVERSATIONS REACH RECORD HIGH

Online conversation about energy has reached new highs, according to the latest report released by Chevron. The Chevron Pulse Report, created in partnership with Edelman, examined energy conservation trends over an 18-month period, from January 2009 through June 2010. Throughout, the study reveals new tendencies of using online platforms to discuss topics about energy, as more and more Americans look online to voice their sentiments on issues related to the industry.

Approximately 12.9 million posts were recorded about Energy Resources, Energy and Technology, and Energy and Environment during the 18-month period, with the average sentiment of most statements ranked as neutral. During the second quarter of 2010 alone, the volume of online conversation grew 18 percent, totaling more than 3.6 million posts online. So far, online conversations about energy during 2010 totals nearly three times the size of all related conversations in 2009.

Blogs were the most popular source of comments, followed by Twitter, discussion forums and social media networks. Individuals are now looking to social media outlets like Facebook, YouTube, Vimeo and Flickr to express their personal views to friends and family on issues related to the energy industry. These communication avenues allow them to engage others and converse on important issues. Uploaded videos and photos also accounted for a noteworthy portion of the online conversation.

Trending topics include the deepwater horizon incident, the appointment of new U.N. climate chief and the G20 economic summit. Overall, fifty key energy topics were identified, with eight major themes linked to access, alternative energy, climate change, technology and innovation, environment, energy efficiency, reserves and security. After the oil spill in the Gulf of Mexico in April, online conversation about the subtopic technology and innovation increased 2,944 percent, totaling almost 94,000 posts in just the second quarter.

The majority of conversations related to Energy and Technology, accounting for more than 57 percent of the conversation. Energy and Environment comprised 32 percent and Energy Resources made up 11 percent of the conversation.

Since 2008, Chevron and Edelman have monitored online conversations to analyze the focus, volume and tone of comments posted on blogs, discussion forums and social networks. Using Alterian's SM2\*\* social media monitoring tool, sentiment of online conversations were evaluated to better understand tones and trends.

To learn more, view the entire report at: <http://www.chevronpulsereport.com>.

## TIPRO MEMBERS: MEMBER BENEFITS SURVEY COMING SOON!

We continue to explore new ways to support members and generate royalties to supplement TIPRO revenues. We are looking for input to help us better understand how we can best provide selective benefits for our members. Please take a few moments out of your day to answer questions in our survey to be released soon. Thank you!

# LETTER SENT TO TCEQ COMMISSIONERS

Below is a reprint of the letter sent to TCEQ Commissioners Bryan Shaw, Buddy Garcia and Carlos Rubinstein in response to changes proposed by TCEQ.

September 30, 2010

Dear Commissioners:

We have been closely monitoring the TCEQ's proposed rule changes to permits-by-rule and standard permits for oil and gas sites in Texas, and feel compelled to write to you to express our concerns.

The TCEQ mission statement puts forth that "The Texas Commission on Environmental Quality strives to protect our state's human and natural resources consistent with sustainable economic development." This mission is two-fold; however the permitting changes that the agency is proposing seem only to contemplate the former of these charges. Oil and gas in Texas employs over 315,000 people, pays \$3 billion in property taxes, \$4.1 billion in severance taxes, \$926 million in sales taxes, and \$1.1 billion to the Permanent School Fund and Permanent University Fund every year. And yet, in the face of a budget deficit that, by the latest estimates, could top \$18 billion, rules are being pushed forward that could have a devastating effect on an industry that is one of the largest economic drivers in the state.

The official "agency philosophy" that accompanies your mission statement dictates that agency decisions be based upon "the law, common sense, good science, and fiscal responsibility" and that the agency will "ensure that regulations are necessary, effective, and current." Considering those objectives, how can TCEQ propose massive changes to air permitting for oil and gas when the jury is still out regarding the impact of oil and gas on air quality? Numerous studies and initiatives on these impacts are in progress. If common sense is indeed employed, it dictates that the promulgation of rules without knowing whether, or to what degree, additional regulation is necessary is an irresponsible exercise and a waste of taxpayer dollars. This lack of fiscal responsibility will be even further highlighted should results of ongoing studies show a negligible environmental impact resulting from oil and gas.

With so much on the line at such a critical time, we ask that you please be sure you are taking adequate time to ensure that these rules are promulgated correctly, and with accurate information. If that information is not yet available, please do not allow public opinion, media attention, or threats from the federal level to prematurely drive regulatory decisions. The oil and gas industry provides so much for Texans; the least we could do is be sure we are doing the right thing before moving forward.

Sincerely,



Senator Robert Nichols



Senator Kel Seliger



Representative Warren Chisum



Representative Wayne Christian



Representative Tom Craddick



Representative Kelly Hancock



Representative Rick Hardcastle



Representative Ken Legler



Representative Randy Weber



# National Oil and Gas Royalty Conference

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Dallas

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# TIPRO's 3rd Annual Central Business Development Reception

When: October 20, 2010  
Time: 5 to 7 p.m.  
Price: \$35.00 for non TIPRO members

Where: Corpus Christi Yacht Club  
98 Coopers Alley  
Corpus Christi, Texas 78401

**Registrant Information:**

(Please print or type clearly - name on form will be used for badge. Please use one form per person.)

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**Payment Information:**

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TIPRO must receive notice of cancellation by Friday, October 15, 2010.  
Refunds will not be given after this date. No shows will not receive refunds.  
Reservations must be accompanied by a form of payment.  
Reserving a table of 10? Please email names of guests and their companies to [laura@tipro.org](mailto:laura@tipro.org).

Please remit payment to:  
Texas Independent Producers & Royalty Owners Association  
919 Congress Ave., Ste. 1000, Austin, TX 78701 Ph: (512) 477-4452, Fax: (512) 476-8070  
Register online for the event at [www.tipro.org](http://www.tipro.org)

## TEXAS LAWMAKERS DEFEND BUSINESSES, CRITICIZE EPA FOR CHALLENGING FLEXIBLE POLLUTION PERMITS

### REPRINTED WITH PERMISSION OF THE DALLAS MORNING NEWS

AUSTIN – Conservative lawmakers castigated the regional Environmental Protection Agency administrator Thursday in a contentious hearing that brought the tug of war between state and federal officials over pollution permits to the state Capitol for the first time.

At the hearing before the House Environmental Regulations Committee, which helps craft the state's emission policies, Republican members criticized the EPA and environmental groups' claims that Texas is flouting the Clean Air Act.

The EPA has objected to flexible permits issued to 130 plants in Texas that cap emissions from an entire facility instead of requiring each unit to meet pollution standards. Environmental experts have argued that the practice allows individual units to release more toxins than permitted by law.

Some committee members vigorously defended businesses and pointed out that the state's air quality has improved in recent years. They said any change in permitting would lead to uncertainty in the market, hurt the economy and produce only negligible improvement in air quality.

But EPA regional director Al Armendariz, who oversees Texas, Louisiana, Oklahoma, Arkansas and New Mexico, said he wants to bring the state into compliance, which would mean ending the flexible permits.

"That's my only objective – to get these flexible permit holders good permits issued by the [state]," he said.

Committee chairman Byron Cook, R-Corsicana, questioned why eliminating flexible permits is the only way to solve the problem. He suggested that the federal government was trying to seize control over state agencies.

Armendariz countered that the federal government delegates the permitting reviews to states, which should ensure companies comply with the Clean Air Act.

"We've got to follow the rules," Armendariz said.

Armendariz pointed out that 1,500 companies have permits, and less than 10 percent were issued the flexible permits that are in contention. Companies that circumvented the Clean Air Act through the flexible permit structure could be subject to penalties, he said.

Some lawmakers repeatedly objected that the EPA was only now challenging the flexible permit program, which started in 1994. Armendariz said the EPA sent several warnings to Texas during the Bush administration and is now taking action.

Rep. Randy Weber, R-Pearland, said that the EPA's slow reaction has probably helped the state maintain its economy and improve air quality.

Armendariz said that any improvements were despite the flexible permit program and came through such federal initiatives as tighter car emission standards.

Texas Commission on Environmental Quality chairman Bryan Shaw said the EPA's insistence on approving every program is hampering the agency from reaching its goal to further reduce air pollution.



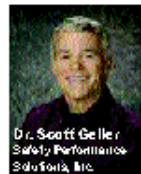
OSHA presents the second Bi-Annual Conference featuring:



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OSHA



Dr. John Howard  
NIOSH



Dr. Scott Keller  
Safety Performance  
Solutions, Inc.



Charlie Mosecraft  
Process Safety  
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National Safety Council



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OSHA Region VI

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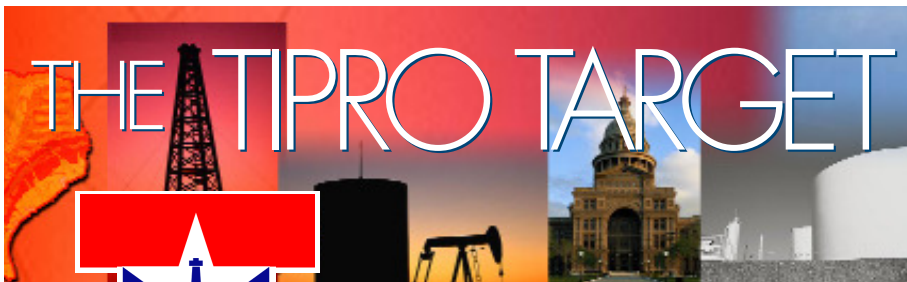


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