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Texas Independent Producers and Royalty Owners Association

White House reportedly backs away from calls to reinstate national ban on crude oil exports

While officials continue to look for solutions to address high energy costs impacting everyday Americans, government leaders in the final months of 2021 were considering drastic actions to try to remedy circumstances, going so far as to weigh the reinstatement of a ban on exports of crude oil. New media reports, however, indicate that at this time the president and his administration are no longer pursuing such measures. Brian Deese, director of the National Economic Council, told reporters on Thursday, December 9th that oil exports were not an issue the White House was currently focused on. The secretary of Energy, Jennifer Granholm, has also shared similar updates. It's a development that comes as a relief to many in the oil and gas business, including the members of TIPRO, as well as officeholders and leaders from Texas who had recently decried such a significant policy misstep.

Members of the Texas congressional delegation have been particularly vocal about negative implications and economic consequences of reinstating an export ban on crude oil. In early December, a group of 63 members of Congress led by Texas Congressmen August Pfluger (TX-11) and Roger Williams (TX-25) had sent a letter to Energy Secretary Granholm and Commerce Secretary Gina Raimondo demanding answers on the Biden Administration's discussions regarding the possibility of reimposing an oil export ban. "Banning crude oil exports from the U.S. would be a catastrophic mistake that will harm the livelihoods of blue-collar workers in the Permian Basin and result in higher prices for international crude, giving OPEC and Russia more profits. Even more, an export ban will lead to even higher costs for American families down the line," emphasized Congressman Pfluger. "U.S. energy policy should put Midland over Moscow. The Biden Administration should be encouraging, not crippling, American energy production."

As such, legislators requested that Secretary Granholm and Secretary Raimondo offer answers clarifying the impact of such a ban to the U.S. economy in terms of diminished GDP and lost jobs, as well as review implications to America's national security. Lawmakers also wanted both secretaries to confirm if U.S. refiners were currently able to process the resulting volume of U.S. produced crude oil that would no longer be exported. TIPRO members may read the full letter at: https://bit.ly/3ovXdRv.

Days after the letter was sent to administration leaders, a second bipartisan group of U.S. representatives sent a message directly to President Biden telling him not to block U.S. energy exports. A letter signed by Congressman Pfluger, Congressman Williams, Henry Cuellar (TX-28), Vicente Gonzalez (TX-15), Filemon Vela (TX-34), Tony Gonzales (TX-23) Sanford Bishop(GA-2) and Carol Miller (WV-3) advised that "any suggestion that reinstating the crude export ban would lower gasoline prices is misguided" and also told the president that reinstatement of the oil export ban "poses serious threats to the thousands of jobs."

"We are concerned by the reports that the White House is considering reinstating a ban on U.S. crude oil exports, which would further widen the country's trade deficit and lead to higher domestic prices….If the Biden Administration wants to alleviate the pain at the pump, they should turn to our own U.S. oil and natural gas resources for the solution and remove the policy barriers inhibiting domestic production," wrote the members of Congress.

In their outreach, lawmakers outlined some of the negative consequences likely to result from a oil export ban, including the following:

- Restrict the global supply of oil thereby putting upward pressure on global prices and potentially straining international relationships.
- Limit access to a global marketplace thus discouraging new domestic production, restricting supply, and exacerbating future consumer cost for gasoline, natural gas, and electricity.
- Create an imbalance between refining capacity and domestic production, introducing costly inefficiencies in the production of gasoline.
- Pose serious threats to thousands of jobs, reversing an important bipartisan policy agreement during the Obama Administration.

The complete letter sent to the attention of President Biden can be found at: https://bit.ly/3pSekg4.

As TIPRO described in the November 18th edition of *The TIPRO Target* newsletter, the U.S. government lifted its 40-year ban on crude oil exports only six years ago, at the end of 2015 — a move that since has allowed American producers the opportunity to access global markets, improve the balance of trade, deliver energy security to international allies and trading partners and expand high quality jobs, amongst other important economic benefits. Updated analysis compiled by IHS Markit last month found that banning U.S. exports of oil would backfire and likely prove counterproductive, as it would adversely affect global supply.

New state data confirms a record low flaring rate for Texas

Data released at the end of the year by the Railroad Commission of Texas confirmed that flaring rates for Texas were at an all-time low in the month of September. Railroad Commission Chairman Wayne Christian announced the news, which showed that the percentage of natural gas flared in Texas dropped from a previous record low of 0.61 percent in July 2021 to a new record low of 0.21 percent in September.

Story continued on Page 3...

President's message

Ed Longanecker

TIPRO Members,

As we near the end of 2021 and prepare for a new year full of opportunities and challenges facing the Texas oil and natural gas industry, I would like to take a moment to thank you for your membership and support. Despite some very difficult circumstances confronting our industry, TIPRO reached an important milestone this year as we celebrated the organization's 75th anniversary of continuous services. As you may know, it was the East Texas Field that originally gave rise to the Independent Petroleum Association of Texas in 1933. This group would later reconstitute itself as TIPRO in 1946. Our association's long history and many direct contributions would not have been possible without the support of tens of thousands of members over the past seven decades.

As the largest statewide association representing independent oil and gas producers and royalty owners, today TIPRO's membership is comprised of the state's leading producers and hundreds of small to mid-sized operators and royalty owners. With your support, over the past year we have continued to make meaningful strides representing the interests of our members and industry at all levels of government. During the 87th Legislative Session, which adjourned on May 31, 2021, TIPRO tracked more than 300 bills and took formal positions on 90 pieces of legislation. TIPRO also provided comprehensive regulatory updates and advocated on behalf of our members on a wide range of related issues throughout the year at the state and federal level. We are proud to remain one of the most visible and vocal organizations in the country for oil and natural gas with policymakers and media, providing a consistent voice on behalf of our membership.

Beyond our meaningful advocacy work, TIPRO has committed significant resources and time to educate policy leaders and the general public about the importance of the Texas oil and natural gas industry. Our organization released a series of research-oriented reports and publications throughout the year and managed the development of content, campaigns and engagement around a number of core issues, including, but not limited to, natural gan bans, LNG exports and energy security, orphan wells, methane emissions and flaring, and energy poverty, among others. Providing this consistent communication and data have been strategic areas of focus for our organization to promote the Texas oil and gas industry and our collective work has created one of the most comprehensive campaigns in the country for domestic oil and natural gas.

During the past year, TIPRO also provided regular virtual and in-person forums with prominent public and private sector speakers to keep our members abreast of important policy priorities and trends facing our industry. Our roster of presenters this last year was impressive, and we look forward to continuing to provide unique and insightful engagement opportunities for members in 2022, including our 76th Annual Convention in March.

Finally, I would also like to thank TIPRO's committed team for all their work and many contributions. Our employees remained focused on TIPRO's mission throughout the year, despite some of the unique challenges we faced as an industry.

On behalf of TIPRO and our staff, I hope you have a very Merry Christmas and prosperous new year. Thank you again for your continued support and involvement. We look forward to another active year in 2022 and appreciate the opportunity to represent you.

Happy holidays,
Ed Longanecker

Increased oil and gas drilling in Texas helps drive higher collections for state sales tax revenue

With the ongoing economic recovery from the coronavirus pandemic and a rise in drilling activity across the Lone Star State, state revenue supporting government coffers increased sharply in the final months of 2021. Texas Comptroller Glenn Hegar this month reported state sales tax revenue totaled $3.56 billion in November, 19.4 percent more than in November 2020, backed by gains from oil and natural gas production taxes. "November sales tax collections once again reached a new monthly high," Comptroller Hegar said in December. "Texas continues to see growth in taxable sales in every major economic sector."

Sales tax is the largest source of state funding for the state budget and accounts for 59 percent of all tax collections. According to the comptroller's office, oil production tax collections last month topped $480 million, up 141 percent from November 2020, and 39 percent higher than November 2019. Natural gas production tax receipts were also strong, coming in at $291 million, up 282 percent from November 2020, and up 143 percent from November 2019.

TIPRO CALENDAR OF EVENTS

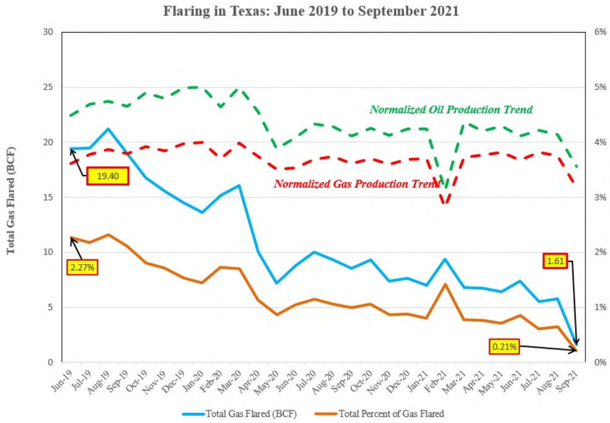
FEBRUARY 9-11, 2022	MARCH 28-29, 2022	MAY 16-18, 2022
HOUSTON — 2022 NAPE Summit and Expo. For information, please email info@napeexpo.com.	AUSTIN — TIPRO's 76th Annual Convention. For information, please email info@tipro.org.	FORT WORTH — DUG Permian & Eagle Ford Conference and Expo. For information, please email conferences@hartenergy.com.

Texas flaring rate hits record low... continued from Page 1

Production data from the Railroad Commission recently affirmed Texas has one of the lowest flaring rates of large oil and gas producing states in the country with an average rate of flaring that has remained significantly less than 2 percent for more than two years. “Texas continues to show the rest of the world that it’s possible to produce large quantities of reliable fuel while being environmentally responsible,” commented Chairman Christian. “Despite mainstream reporting, you don’t have to choose between using cheap, plentiful and reliable fuel and maintaining a healthy environment. They are not mutually exclusive, especially when you factor in human ingenuity and technological advancements.”

He continued, “As the Biden Administration seeks to tax and regulate the oil and gas industry to death, reports like this one are critically important to fighting misinformation from environmental extremists. As chairman, I’m committed to a consistent and predictable regulatory process based on sound science that allows oil and gas companies to responsibly produce plentiful, affordable and reliable energy for all Texans.”

The Texas Methane and Flaring Coalition, of which TIPRO is a supporting partner, praised the milestone, noting that the record low rate of flaring “exhibits the industry’s commitment to reduce routine flaring, utilize technology, and institute operational best practices.”



Source: Texas Railroad Commission

Energy Dept. awards $35 million in grants for oil & gas greenhouse gas-reducing technologies

The U.S. Department of Energy (DOE) announced in December that the government has awarded $35 million in funding for 12 projects focused specifically on developing technologies that help to reduce methane emissions in the oil, natural gas and coal industries. Through DOE’s Advanced Research Projects Agency–Energy (ARPA-E) Reducing Emissions of Methane Every Day of the Year (REMEDY) program, unveiled earlier this year, researchers and grant recipients will work on creating new innovations that cut emissions across the oil and gas supply chain and also reduce the release of methane from coal production. The program managed through the DOE promotes manufacturing of new technologies that will help the nation achieve climate goals, including priorities established by the president, and serve to dramatically reduce U.S. greenhouse gas (GHG) emissions at low cost.

Four of the projects selected to receive new REMEDY federal funding focus on the development of improved flare technologies, including enhanced methane destruction efficiency designs. Other R&D initiatives backed by the federal investments address emissions from natural gas engines.

“Central Texans deserve and need clean, abundant, sustainable, and safe domestically supplied sources of natural gas. I support research that will fund new methodologies and technology that will help get us closer to an abundance of reliable energy and that assists our domestic production of natural gas,” said U.S. Representative Pete Sessions (R-TX 17).

According to the DOE, funding for the REMEDY program will be released in two stages spanning a total of three years. Stage 1 will focus on lab-based tests confirming the operability of technical proposals, approaches, and system components, followed by Stage 2 that will expand the scale of testing and ideally include field tests.

“By creating new technologies, we are working to mitigate climate change and minimize the cost of methane abatement,” said Secretary of Energy Jennifer M. Granholm.

Environmental engineer Dr. Earthea Nance to be appointed as EPA’s Region 6 administrator

President Joe Biden this month announced his intent to appoint Dr. Earthea Nance to lead work for the U.S. Environmental Protection Agency (EPA) in the Region 6 (South Central) office that covers Texas, Oklahoma, Louisiana, New Mexico, Arkansas and 66 tribal nations. Dr. Nance, a scholar and environmental engineer, has worked for the last two decades with communities at disproportionate risk of environmental hazards and without adequate environmental infrastructure. She was formerly the director of disaster mitigation and planning for the City of New Orleans after Hurricane Katrina, where she created and implemented the city’s first approved plans for hazard mitigation, sustainability and green energy. In addition, after Hurricane Harvey, she brought community and equity perspectives into regional disaster policy during her service on the Greater Houston Flood Mitigation Consortium and the Harris County Community Flood Resilience Task Force. Dr. Nance has been a registered professional civil engineer for 25 years, a certified floodplain manager for 12 years, and has served on the faculty at Texas Southern University, the University of New Orleans, Massachusetts Institute of Technology (MIT) and Virginia Tech.

“I am excited to be joining the EPA as the regional administrator for Region 6,” said Dr. Nance in a statement. “The Biden-Harris Administration and Administrator Regan have developed an innovative set of policies for addressing climate change, environmental justice, massive air and water pollution, and other threats to human health and the environment. My charge is to fully implement environmental policies and laws in the region, and to not only listen, but to partner with distressed communities in order to truly make progress.”

EPA Administrator Michael Regan credited Dr. Nance’s background of service and providing relief to underserved communities, which he noted will help the regulatory agency to achieve its mission. “Her experience fighting for climate justice and equity will be invaluable as we work to protect those that need us most,” Administrator Regan stated.

Before Dr. Nance’s appointment, David Gray had served throughout most of 2021 as the acting regional administrator for EPA’s Region 6 office under the Biden Administration.

House Committee on Natural Resources members warn of "misguided" NEPA reforms

As TIPRO reported to the members of the association this past Fall, the Biden Administration in October announced plans to restore three sections of the National Environmental Policy Act (NEPA) regulations previously modified by the Trump Administration in 2020. The White House Council on Environmental Quality (CEQ) issued the proposed rulemaking earlier this year after completing a comprehensive review of the 2020 rule pursuant to Executive Order 13990 signed by President Joe Biden, and is now seeking to reapply provisions addressing the purpose and need of a proposed action, agency NEPA procedures for implementing CEQ's NEPA regulations and the definition of "effects."

GOP lawmakers sitting on the U.S. House Committee on Natural Resources, however, recently expressed serious apprehensions to the administration's efforts to overhaul NEPA once again. In a new letter sent in mid-December to CEQ Chair Brenda Mallory, congressional members warn that reversing NEPA provisions will subject the American people to delayed projects and improvements when they need them most because of other misguided policies.

"The Biden Administration's decision to revert to previous NEPA regulations would increase bureaucratic red tape and duplicative reviews for domestic energy production and transmission," wrote the members. "Instead of continuing the energy independence that the Trump Administration achieved, President Biden unilaterally cancelled the Keystone XL pipeline and halted energy development on federal lands and waters, creating uncertainty for current and future operations. Rather than pursue domestic energy production, the Biden Administration saddled Americans with rising gas prices and then chose to release oil from the Strategic Petroleum Reserve. Regressing to outdated NEPA procedures will impede energy development of all types on federal lands and waters, making the United States dependent on foreign energy and continue to increase prices at the pump for everyday Americans…"

"CEQ's proposed reinstatement of an ineffective NEPA regulatory scheme will damage domestic industry, confuse businesses, delay needed projects, and harm our environment," added federal legislators. "CEQ has already confused and politicized the NEPA process by issuing more than 35 sets of guidelines. This goes against congressional intent and creates lengthy reviews that prevent proper management of federal lands. The 2020 reforms represented a balanced approach to responsibly caring for the environment while growing our nation's economy. We should not be getting rid of this approach when American lands, energy, and infrastructure need it the most. We strongly oppose CEQ's proposed NEPA revisions and urge you to maintain the 2020 reforms."

To see the full letter, please visit: https://bit.ly/3DYCV7P.

Federal regulators initiated a 45-day comment period allowing stakeholders the opportunity to provide feedback regarding proposed changes to restore regulatory provisions that were in effect before the 2020 rule. This comment period closed on November 22, 2021. CEQ is now in the process of reviewing public comments before finalizing changes to NEPA under the "Phase 1" rulemaking. The CEQ has made it known that in a forthcoming "Phase 2" rulemaking, it will consider undertaking broader changes to the 2020 NEPA regulations.

TIPRO members can learn more about NEPA regulations by visiting www.nepa.gov.

House committee seeks data from producers on methane emissions in the Permian Basin

Ten oil and natural gas companies operating in the Permian Basin were asked in the final weeks of the year to provide members of Congress with information concerning methane leak emissions as lawmakers seek to achieve wide-ranging, quantifiable emission reductions in the oil and gas sector. Congresswoman Eddie Bernice Johnson (D-Texas), chair of the U.S. House Committee on Science, Space and Technology, sent letters in December to the group of oil and gas producers, which included several TIPRO members, to understand whether each company's existing Leak Detection and Repair (LDAR) programs possess the capability to comprehensively monitor and detect methane leaks, and adequately allow for wide-ranging, quantifiable emission reductions. In addition, in her letter, Chairwoman Johnson expressed interest in learning whether additional policies and research may be necessary to support a stronger federal role in monitoring, quantifying and evaluating oil and gas sector methane leak emissions.

"To inform its inquiry, the committee seeks information on the scientific, technological, and analytical frameworks that underlie private sector LDAR efforts," advised Chairwoman Johnson.

Oil and gas companies have been asked to respond to Chairwoman Johnson's request and produce information to the House committee before January 21, 2022.

Federal bill seeks to limit use of nation's oil reserve for emergencies-only

Legislation introduced in Congress in December by federal lawmakers seeks to establish new guidelines over when the secretary of Energy would be able to withdraw oil supplies from the country's Strategic Petroleum Reserve (SPR). Senate Bill 3287, the Strategic Production Response (SPR) Act, was filed as a response to action by President Joe Biden in November to tap the SPR as part of broader efforts to lower gasoline prices and address market instabilities. Under the new congressional legislative proposal, however, the secretary of Energy would be required to develop a plan to increase oil and gas production on federal lands if the president were to use the SPR for non-emergency reasons.

"President Biden's decision to release oil from the SPR is not a solution for the skyrocketing energy prices that American families are facing," said U.S. Senator John Barrasso (R-WY), ranking member of the Senate Committee on Energy and Natural Resources and a co-author of the legislation. "Before tapping the reserve for political reasons, our bill requires the administration to issue a plan to boost federal oil and natural gas production. The SPR Act provides a real solution to the Biden Administration's reckless policies. America is stronger and safer when we are energy independent."

Companion legislation also has been filed in the U.S. House as House Resolution 6235. TIPRO members may view the text of the bill at: https://bit.ly/325J1WL.

Attacks on U.S. oil continue as lawmakers consider blocking carbon capture tax credits for EOR

Tax credits supporting domestic enhanced oil recovery (EOR) activities are in jeopardy after legislation was introduced in Congress in mid-December proposing to repeal related tax policies associated with the oil production technique. U.S. Representatives Ro Khanna (D-CA17), chair of the House Oversight Subcommittee on the Environment, Raúl Grijalva (D-AZ03), chair of the House Natural Resources Committee and Mike Quigley (D-IL05), member of the House Committee on Appropriations, together introduced the *End Polluter Welfare for Enhanced Oil Recovery Act* on December 13, 2021, calling for the end of the tax credit for carbon sequestration (Section 45Q).

As outlined by the congressmen, energy companies presently receive a tax credit for injecting carbon dioxide (CO2) into wells to extract more oil and extend the life of an oilfield in a process referred to as EOR. In the United States, of all carbon captured, 95 percent is used for EOR. Democratic lawmakers say that the tax credits incentivize EOR activity and add a monetary value to CO2 emissions reductions being pursued by the fossil fuel industry. With an intent to end the tax provisions benefiting the oil and natural gas industry, Chairman Ro Khanna said he hopes the bill will become law to set the United States on a path towards a clean energy economy.

Chairman Grijalva, the bill's co-sponsor, expressed his opinion that the country needed to do everything in its power "to reduce our reliance on fossil fuels and limit carbon pollution." "I'm proud to cosponsor this bill, and I look forward to enacting reforms to our tax code that incentivize real emissions reduction, not more drilling," he added. The full text of the legislation can be viewed here: https://bit.ly/3EXeJnH.

Despite false narratives and claims that the oil and gas industry receives "special privileges," "subsidies" and "tax giveaways," tax provisions utilized by America's energy industry actually allow U.S. producers, often small oil and gas businesses, to continue to provide much-needed energy supplies for the country, create American jobs, generate tax revenue and provide royalty income. In the case of CO2 EOR, the technique has been in use for almost 50 years ago after it was first tried in Scurry County, Texas, in 1972, and has since been used successfully throughout the Permian Basin, as well as nine other states.

Even the U.S. Department of Energy has affirmed that CO2 used for EOR offers considerable benefits and could help drillers access hundreds of millions of barrels of oil that might otherwise have been abandoned. According to the Department of Energy, the United States leads the world in both the number of CO2 EOR projects and in the volume of CO2 EOR oil production, in large part because of favorable geology. CO2 EOR is recognized as a dual opportunity for the United States to reduce its dependence on foreign energy sources and at the same time also help America to lower emissions of greenhouse gases.

Actions to remove associated tax credits that otherwise support the capture of carbon emissions, and allow for an increase in domestic production across U.S. oilfields, are misguided. It is essential that elected officials understand the science behind CO2 flooding and EOR techniques so that decisions can be made based on scientific facts. If carbon sequestration credits are removed, it could interrupt CO2 EOR projects managed by independent producers and jeopardize opportunities to produce oil left in conventional reservoirs in mature oil fields while also reducing future carbon emissions.

TIPRO looks forward to hosting members in the capital city next Spring for the association's 76th Annual Convention! Please mark your calendar to join us March 28-29, 2022, at Austin's Otis Hotel for the annual TIPRO meeting, where state leaders, industry executives and energy experts will review policy and market trends for the Texas oil and natural gas sector.

Watch for additional details to be announced in the new year.

See You in Austin!

TIPRO's 76th Annual Convention
March 28-29, 2022
Otis Hotel, Austin, Texas

New EIA outlook shows lower oil prices in 2022

Though significant uncertainty remains over where oil prices could land in the new year, analysts from the U.S. Energy Information Administration (EIA) are forecasting that crude oil and petroleum product prices will come down in 2022. In the agency's new December Short-Term Energy Outlook (STEO), the final outlook to be released in 2021, the EIA highlighted expectations that global oil production will increase more quickly than demand in 2022, which should push prices lower than levels experienced in late 2021. Accordingly, EIA has projected Brent crude oil prices will average $70 per barrel (b) in 2022.

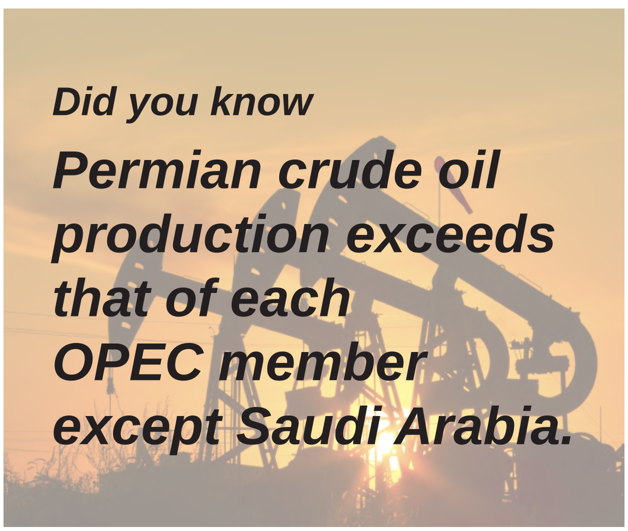
"This is a very complicated environment for the entire energy sector," said EIA Acting Administrator Steve Nalley. "Our forecasts for petroleum and other energy prices, consumption, and production could change significantly as we learn more about how responses to the Omicron variant could affect oil demand and the broader economy."

The emergence of the new coronavirus (COVID-19) variant, known as Omicron, in the final weeks of 2021 has raised significant questions over what impact could result on energy consumption levels throughout the world, the EIA acknowledged in December. That, combined with unknown weather patterns for the approaching winter season and other broad supply uncertainties, has presented a wide range of potential outcomes for energy consumption in the months to come. Still, with the general belief that U.S. oil and natural gas producers are likely to increase drilling in the next year, and in consideration of other market factors, it appears that for 2022 as a whole, oil prices could be lower than they were in November, when Brent crude oil spot prices averaged $81/b.

The recent decision by global leaders to release crude oil reserves may have contributed to decreases in Brent crude oil prices already occurring, noted the EIA, and the trend could further support lower prices in 2022.

Although federal analysts signal oil prices will come down, other industry executives meanwhile suggest that supply tightness in the market is likely to drive oil prices in the opposite direction. Last week, Pioneer Natural Resources Company CEO Scott Sheffield told CNBC that he expects prices to continue to go up in 2022. Referencing demand patterns for oil, Sheffield explained that he believed prices would push over the $100/b mark. The leader of Pioneer also expressed hope that the U.S. and OPEC would manage to create stability in oil markets in the quarters to come.

Permian oil production expected to surpass pre-pandemic levels this month



Production of crude oil in the prolific Permian Basin is projected to reach 4.96 million barrels a day (b/d) in December, a monthly report from the U.S. Energy Information Administration (EIA) forecasts. Importantly, if the threshold is met, it would push oil output in the Permian past a pre-pandemic high, exceeding the record production of 4.91 million b/d in the basin set in March 2020.

According to the EIA, oil production in the Permian will also continue to grow heading into the new year. In January 2022, the EIA signaled production is likely to increase by 71,000 b/d, topping 5.031 million b/d, which would mark the first time oil supplies from the Permian have pushed past 5 million b/d in data going back to 2007.

The most recent data compiled by the Railroad Commission of Texas showed that most of the state's top oil producing counties today remain in the Permian Basin. As of September, eight of the top 10 crude oil producing counties ranked by preliminary production were located in the Permian in West Texas. Combined, these eight Permian counties accounted for nearly 55 percent of the statewide production of oil in September.

Natural gas production in the Permian Basin is also strong. In December, the EIA estimated that drillers in the Permian Basin would produce 19,573 million cubic feet per day (MMcf/d), which the agency said will then rise to 19,688 MMcf/d in early 2022.

By the end of 2022, U.S. to have world's largest LNG export capacity

The United States will soon have the world's greatest export capacity for liquefied natural gas (LNG), following the completion of planned LNG liquefaction units and the launch of new liquefication trains at Calcasieu Pass and Sabine Pass in 2022. Experts with the U.S. Energy Information Administration (EIA) reported at the end of the year that U.S. nominal capacity is expected to increase by this time next year to 11.4 billion cubic feet per day (Bcf/d), and peak capacity will increase to 13.9 Bcf/d, exceeding capacities of the two largest LNG exporters, Australia (which has an estimated peak LNG production capacity of 11.4 Bcf/d) and Qatar (peak capacity of 10.4 Bcf/d).

"As of November 2021, we estimate that U.S. LNG nominal liquefaction capacity was 9.5 Bcf/d and peak capacity was 11.6 Bcf/d. This peak capacity includes uprates to LNG production capacity at Sabine Pass and Corpus Christi," said the EIA. "In 2024, when construction on Golden Pass LNG—the eighth U.S. LNG export facility—is completed and the facility begins operations, U.S. LNG peak export capacity will further increase to an estimated 16.3 Bcf/d," added EIA advisors.

The growth of LNG exports from the United States the last five years has been remarkable, considering that the country only began exporting LNG from the Lower 48 states in February 2016 when the Sabine Pass liquefaction terminal in Louisiana shipped its first cargo. Since that time, as new LNG export facilities and terminals have been constructed by developers, LNG export capacity has continued to expand in the United States, putting America's natural gas industry on track to hold the largest LNG export capacity in the world in 2022.

Texas producers make philanthropic contributions giving back to Midland community

Midland Habitat for Humanity this Fall received a donation of 35 acres of land from oil and gas producer and TIPRO member Pioneer Natural Resources Company. The sizable land donation, valued at nearly $2 million, represents the largest land donation ever to be received by the Midland chapter of Habitat for Humanity. The non-profit said it will use the land to build a new subdivision of housing properties for low-income families in the Midland area in need of help. Through Habitat for Humanity, homeowners are able to make house payments to Habitat with a 0 percent interest through a 25-year mortgage. These house payments are in turn used to help fund the construction of more homes.

“At Pioneer, we have a long-standing belief in the importance of supporting the communities where our employees live and work, and our partnership with Midland Habitat for Humanity exemplifies that commitment,” Pioneer Natural Resources President and Chief Operating Officer Rich Dealy said. “We’re excited to make this donation of land to Midland Habitat for Humanity so it, along with Pioneer and its many other community supporters, can continue to make a lasting impact in the Midland community.”

Another member company of TIPRO, Diamondback Energy, also recently announced it would commit $2.5 million to the renovation of Hogan Park, a priority for the city of Midland and the newly formed Quality of Place Conservancy, a private, non-profit organization working in partnership with the city to ensure the vibrancy of Midland. The funding from Diamondback Energy will be used to support the creation of more recreational spaces and development of premiere green pedestrian space and quality gathering spaces near downtown Midland. Diamondback CEO Travis Stice said, “We have seen the demographics in our area shift to younger workers and families. We hear their plea for better outdoor facilities, green spaces, along with hiking and biking trails. We believe making an investment in Hogan Park will provide a high-quality outdoor space that will be enjoyed by all Midlanders. A modern, renovated facility like Hogan Park will meet the needs of a growing Midland for decades to come.”

Is your company also helping give back to Texas communities in need? Please let TIPRO know so the association may share your story!

Update: U.S. to sell 18 million barrels of oil from SPR before year’s end

Following President Joe Biden’s decision in late November to tap the Strategic Petroleum Reserve (SPR) to address market upheaval and help lower gasoline prices, the U.S. Department of Energy said in mid-December it will sell 18 million barrels of oil from the SPR before the end of the year. The federal government already has reviewed and approved the first exchange of 4.8 million barrels for release from the SPR to ExxonMobil, officials announced on December 10, 2021. Additional oil exchanges and sales from the SPR will be approved as appropriate to address supply disruptions.

“Fort Worth Court of Appeals construes royalty ‘add back’ provision”

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

On November 22, 2021, the Fort Worth Court of Appeals upheld a trial court grant of summary judgment in favor of the lessees to an oil and gas lease. The lessors alleged that the lessees failed to properly calculate and pay royalty. The lease at issue required royalty payment based on “25 percent of the market value at the point of sale, use, or other disposition of all such gas produced or sold from the leased premises.”

The lease also required that if the lessees “realize[] proceeds of production after deduction for any expenses of production, gathering, dehydration, separation, compression, transportation, treatment, processing, storage or marketing, then the proportionate part of such deductions shall be added to the total proceeds received . . . for purposes” of royalty.

The lessees sold gas at the wellhead to affiliates, and the affiliates transported and sold the gas downstream at higher prices. The lessees sold the gas to the affiliates at the downstream sales prices less certain costs and expenses incurred in bringing the gas from the wellhead to the downstream sales location. The lessees calculated and paid royalty on the basis of the price received for the gas at the wellhead.

In evaluating whether the lessees properly paid royalty, the Fort Worth Court of Appeals began by determining the valuation point for royalty under the lease. The terms of the lease required the payment of royalty at the point of sale—or the wellhead.

The court next examined the lessors’ contention that the lease required that any deductions “be added to the total proceeds received” for royalty purposes. Specifically, the lessors contended that by selling the gas to affiliates with post-production costs deducted from the purchase price (and by then failing to add the postproduction costs back for royalty calculation purposes), the lessees breached the “add back” provision. The Fort Worth Court of Appeals held that requiring the lessees to add deductions to proceeds received would “create an internal conflict between the” requirement that the lessees calculate royalty at the point of sale (i.e., the wellhead) and the “add back” provision.

The court relied on the Texas Supreme Court’s decision in *Burlington Res. Oil & Gas Co. v. Tex. Crude Energy, LLC, 573* S.W.3d 198 (Tex. 2019) for the proposition that “when the parties specify an ‘at the well’ valuation point, the royalty holder must share in post-production costs regardless of how the royalty is calculated.” The court also reasoned that it could “harmonize” the at the well valuation point with the “add back” provision by holding that the “add back” provision only applies when the point of sale is not at the wellhead (although the court did not give any specific examples).

Any appeal of the Fort Worth decision will be closely watched as a direct challenge to the proposition that a lessor and lessee cannot simultaneously agree to a wellhead valuation point and an arrangement where the lessee bears the burden and expense of bringing production to the first non-affiliate sale. The case is *Shirlaine West Properties Limited, et al. v. Jamestown Resources, LLC, et al.*, No. 02-18-00424-CV, 2021 WL 5367849 (Tex. App. Fort Worth Nov. 18, 2021, no pet. h.).

Michael Reer is a shareholder with the firm Harris, Finley & Bogle, P.C. and may be reached at mreer@hfblaw.com.

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