



Texas

**Independent
Producers and
Royalty Owners
Association**

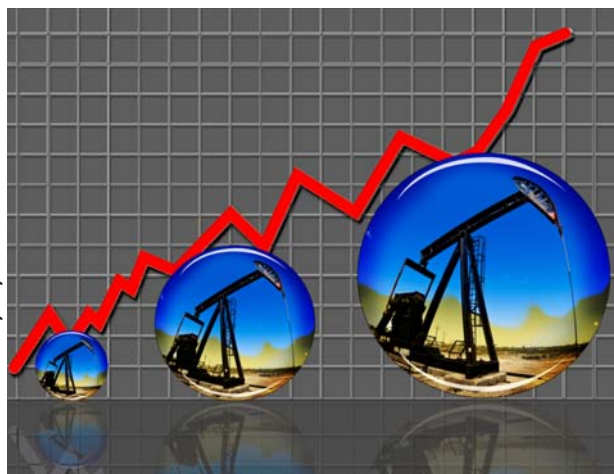
TEXAS CONTRIBUTES HEAVILY TO RECORD-SETTING UPSURGE IN U.S. CRUDE PRODUCTION IN 2014

In 2014, total U.S. crude oil production increased by more than 1.2 million barrels per day (bbl/d), topping 8.7 million bbl/d, announced the U.S. Energy Information Administration (EIA) in early April. Representing the largest volume increase since record-keeping by the agency began in 1900, the surge in domestic oil production is largely attributed to ongoing success with unconventional development of U.S. shale formations, including the Eagle Ford Shale in South Texas and West Texas' Permian Basin.

Tight oil plays located in Texas, as well as North Dakota and New Mexico - where producers have been able to successfully utilize hydraulic fracturing and horizontal drilling - accounted for the largest share of production increases last year.

Historically speaking, the upward trend in U.S. production hasn't been seen in decades. "Annual increases in crude oil production regularly surpassed 15 percent in the first half of the 20th century, but those changes were relatively less in absolute terms because production levels were much lower than they are now. Crude oil production in the United States has increased in each of the previous six years. This trend follows a period from 1985 to 2008 in which crude oil production fell in every year (except one)," noted the EIA.

Despite the record-breaking oil production last year, analysts warn that domestic oil production levels likely will not be as strong in the next couple of years due to the dramatic drop in oil prices. "Since mid-2014, the price of crude oil has fallen about 50 percent, which has slowed production in marginal drilling areas, and focused investment in the more developed areas of tight oil plays. Annual crude oil production is expected to grow at a slower rate, 8.1 percent this year and 1.5 percent next year, according to the EIA's latest *Short-Term Energy Outlook (STEO)*. The slowdown in growth is more evident when looking at production between December 2014 and December 2015, which is forecast to rise by just 200,000 bbl/d."



EIA NAMES TOP 100 OIL AND GAS FIELDS IN THE UNITED STATES

In a new government report, the U.S. Energy Information Administration (EIA) has unveiled its list of the top 100 oil and natural gas fields in the United States, as ranked by their 2013 proved reserves. According to the federal agency, as of December 31, 2013, the top 100 oil fields collectively accounted for 20.6 billion barrels of crude oil and lease condensate proved reserves, which was 56 percent of the U.S. total (36.5 billion barrels) in 2013; the top 100 gas fields accounted for 239.7 trillion cubic feet of total natural gas proved reserves, representing about 68 percent of the U.S. total natural gas proved reserves in 2013.

Texas reservoirs comprised a significant portion of the list of top oil and gas fields in the nation. Of note:

- Texas contains 27 of the top 100 oil fields in the United States, including: the Eagle Ford Shale, Spraberry Trend Area, Biscoe Ranch (Eagle Ford Shale), Wasson, Sugarkane, De Witt, Goldsmith, Slaughter, Levelland, Seminole, Lin, Fuhrman-Mascho, Ward-Estes North, Howard-Glasscock, Hobbs, Hawkville (Eagle Ford Shale), Wolfbone Trend, Yates, Phantom, Hastings West, Garden City South, Fullerton, Giddings, Cowden North, Dora Roberts, Holt Ranch, and Fort Trinidad fields.
- Texas contains 29 of the top 100 natural gas fields in the United States, including: the Newark East (Barnett Shale), Carthage, Spraberry Trend Area, Eagleville (Eagle Ford Shale), Briscoe Ranch (Eagle Ford Shale), Hugoton Gas Area, Hawkville (Eagle Ford Shale), Owen, Sugarkane, De Witt, Stiles Ranch, Gates Ranch, Bear Grass, Freestone, Buffalo Wallow, Bald Prairie, Oak Hill, Sawyer, John Amoroso, Giddings, Wasson, Goldsmith, Farrar, Lin, Mendota NW, Lipscomb, Hilltop Resort, Garden City South, and Teague (CV-Bossier Cons.) fields.

The EIA acknowledges that the agency defines a field as "an area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field that are separated vertically by intervening impervious strata or laterally by local geologic barriers, or by both." This designation may differ from how individual states classify or identify oil and gas fields.

PRESIDENT'S MESSAGE

TIPRO Members -

With less than two months remaining in the 84th Regular Texas Legislative Session, momentum and related activity for our industry at the state capitol will continue to accelerate in the coming weeks. Hearings are now lasting well into the evening as lawmakers push for their bills to be heard before time runs out. As an example, the legislature held 10 separate committee hearings between the House and Senate this week alone that contained one or more of our industry priority bills. In all cases, TIPRO either testified, submitted cards or monitored the proceedings on behalf of the members of our organization.

Legislators continue to work diligently to review all policy proposals, including those bills of significance to the membership of our association. Of the more than 8,000 bills filed this session, TIPRO has identified more than 300 pieces of legislation of relevance to our industry, 100 of which are considered priorities. The legislation of interest to our members address a wide range of issues, including local control, water use, allocation wells, transportation and tax relief, to name a few.

TIPRO's well defined, transparent, and highly regarded process for analyzing legislation, engaging members to reach consensus, and communicating our position to legislators directly and through public testimony, continues to be among the best in the industry. As always, we want to thank our Board of Directors, State Issues Committee and many other active members for their ongoing guidance, support, and involvement, particularly with the high number of proposed bills this session.

Ultimately, we trust that our state representatives and senators will adopt legislation that supports the continued expansion of the Texas oil and gas industry and its many related benefits to our state, local and national economy. Texas is fortunate to be home to an abundance of natural resources, including many of the nation's top oil and natural gas fields, as reported just this month by the U.S. Energy Information Administration (EIA). To this day, the Lone Star State remains the leading oil and gas producer in the United States, with nearly half of the country's active drilling rigs running in Texas, even in spite of fluctuations with commodity prices. The Railroad Commission of Texas estimates that over the last 12 months, total Texas reported production was 914 million barrels of oil and 8.2 trillion cubic feet of natural gas - a remarkable benchmark of oil and gas production for our state. The business, legislative and regulatory environment that TIPRO and our state elected officials have created and protected over the years has enabled our state to fully capitalize on this incredible gift.

Accordingly, the successful development of mineral resources in our state continues to generate unparalleled economic stimulus. The oil and gas industry supports hundreds of thousands of jobs in Texas, and provides billions of dollars in revenue for local, state and federal government coffers. In fact, last year, the Texas oil and gas industry paid a record \$15.7 billion in taxes and royalties! Over 2.5 million royalty owners in Texas also benefit from oil and gas production.

Since our inception nearly 70 years ago, TIPRO continues to fight to preserve the ability to explore and produce oil and natural gas and promote the general welfare of our membership. We remain committed to educating key legislators and elected officials on the importance of oil and gas development in Texas. Day-in, day-out, we work to remind state lawmakers of the impact their votes will have on future E&P operations in Texas. None of this would be possible without the continued support of our members and industry.

Simply put, the oil and gas industry has kept the state of Texas fiscally and economically resilient through the years, and will continue to do so with the right policies in place.

Sincerely,

Ed Longanecker

HOUSE BILL 40 - LOCAL JURISDICTION BILL - PASSES OUT OF COMMITTEE

Members of the House Energy Resources Committee voted in favor of House Bill 40 on Monday, March 30, moving the bill further along the legislative process so it may be considered by the full House of Representatives. The bill's committee substitute, which modified some of the original provisions featured in the bill as it was filed, was successfully approved by committee members, allowing cities to still enact or modify reasonable drilling setbacks when necessary. It also now includes language that specifies what cities are still permitted to regulate, such as fire and emergency response, traffic, lights and noise as long as it is commercially reasonable. Nonetheless, House Bill 40 will offer clarification on the exclusive jurisdiction of the state to regulate oil and gas operations in Texas -- including hydraulic fracturing, drilling and other E&P activities.

House Bill 40 is set to be taken up by the full House on Tuesday, April 14. Energy Resources Chair Drew Darby, author of the bill, has expressed his hope that the bill will pass in the House without further amendment or modification. The companion legislation, Senate Bill 1165, also was passed out of committee and will be heard before the Texas Senate, at a date still to be announced.

TIPRO Calendar of Events

MAY 13, 2015	JUNE 10, 2015	JULY 8, 2015	JULY 29-30, 2015
HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (832) 233-5502.	HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (832) 233-5502.	HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (832) 233-5502.	SAN ANTONIO — South Texas Oilfield Expo, Henry B. Gonzalez Convention Center. For info, call: (866) 918-5550.

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LEGISLATIVE UPDATE FROM THE CAPITOL

As the 84th Regular Texas Legislative Session continues, TIPRO's government affairs team remains hard at work. This week alone, TIPRO weighed in on 12 bills in eight different committees.

A few notable bills heard this week, of which TIPRO supports, include:

- Senate Bill 1985, by Senator Carlos Uresti, relating to the appraisal for ad valorem tax purposes of a real property interest in oil or gas in place.
- House Bill 14, by Representative Geanie Morrison, relating to the Texas emissions reduction plan.
- House Bill 1552, by Representative Tom Craddick, relating to oil and gas wells that traverse multiple tracts.
- House Bill 2595, authored by Representative Jim Keffer, relating to the use of municipal initiative and referendum to restrict property rights.
- House Bill 3291, filed by Representative Richard Peña Raymond, relating to the creation of the offense of theft of pipeline equipment, oil and gas equipment, oil, gas, or condensate and the unauthorized purchase or sale of oil, gas, or condensate. The committee substitute is a legislative council version of the bill filed.

Meanwhile, last week TIPRO offered support or extended opposition to the following bills:

Supported:

- Senate Bill 12, by Senator Uresti, relating to alternative fuel fleets of certain governmental entities, including funding for motor vehicles, infrastructure, and equipment.
- Senate Bill 709, by Senator Troy Fraser, relating to environmental permitting procedures for applications filed with the Texas Commission on Environmental Quality (TCEQ).
- Senate Bill 911, authored by Senator Judith Zaffirini, relating to the eligibility for grants for natural gas fueling stations under the Texas natural gas vehicle grant program.
- House Bill 30, by Representative Lyle Larson, relating to the development of brackish groundwater. The bill seeks to create a regulatory process to incentivize further use of brackish groundwater across the state.
- House Bill 1865, by Representative Morrison, relating to environmental permitting procedures for applications filed with the TCEQ.

Opposed:

- House Bill 1575, by Representative Ryan Guillen, relating to requirements for reporting unclaimed mineral proceeds to the comptroller of public accounts.
- House Bill 2117, by Representative Tracy King, relating to the definition of "heavy equipment" for purposes of the ad valorem taxation of certain dealer's heavy equipment inventory.
- House Bill 2591, by Representative Larry Phillips, relating to the appraisal for ad valorem tax purposes of certain dealer's heavy equipment.

Neutral:

- House Bill 2207, by Representative Keffer, relating to the foreclosure sale of property subject to oil or gas lease.

NEW PLAN TO CUT TAXES UNVEILED THIS WEEK BY REPRESENTATIVE DENNIS BONNEN

On Wednesday, April 8, House Ways and Means Chairman Dennis Bonnen laid out the House plan for providing nearly \$5 billion in permanent tax relief for every individual and business in Texas, through the introduction of House Bills 31 and 32.

For the first time ever in Texas history, the proposed plan would cut the state sales tax - reducing the rate from 6.25 percent to 5.95 percent. Employers, which currently pay 40 percent of all sales taxes collected in Texas, would also enjoy substantial savings. Today, Texas has the twelfth highest state sales tax rate in America; House Bill 31 will drop Texas on that list to number 26.

The legislation also calls for a reduction of the franchise tax for large and small businesses. The franchise proposal will provide for:

- Businesses with total revenue in excess of \$20 million will see a tax rate cut of 25 percent;
- Franchise taxpayers with total revenue less than \$20 million will see an effective tax cut of 29.4 percent; and
- Franchise taxpayers with total revenue less than \$10 million will see an effective tax cut of 31 percent.

Chairman Bonnen stressed the financial relief this tax cut package could extend to all Texans, estimating that it will save the average family of four \$172 per year. "This is the biggest, broadest and boldest tax relief plan of the legislative session," he said. "It provides lasting tax relief to every family and business, and it is fiscally responsible because it abides by the spending cap."

"This is tangible tax relief that will benefit families and businesses of all sizes every time they buy something," he continued. "Texans won't have to take our word for it that we cut their taxes. They will see it on every receipt."

House Bills 31 and 32 have already garnered widespread support from leading business groups, including the Texas Association of Business, Texas Association of Manufacturers and the Texas Taxpayers and Research Association (TTARA), amongst other associations and organizations. The Texas Independent Producers and Royalty Owners Association also pledged its support in favor of the Texas House Tax Plan, praising Chairman Bonnen for his leadership on this fair and balanced legislation.

TEXAS RAILROAD COMMISSION ADOPTS RULES FAVORABLE TO TIPRO MEMBERS

At the January 27, 2015, Railroad Commission (RRC) open meeting, the commissioners approved the proposal of two rulemakings of importance to TIPRO members.

The first was to amend 16 TAC §3.16 to extend the deadline for filing well completion reports. In the rulemaking, the RRC staff proposed to extend the deadline to file completion reports to within the earlier of 90 days of completion of the well or 150 days after the date on which the drilling operation is completed. The original deadlines were 30 days from the completion of the well or 90 days from the date on which the drilling operation is completed. The proposal also included a provision requiring basic electric logs to be filed electronically with the commission.

The second proposal amended 16 TAC §§ 3.26 and 3.27 to clarify that a rule exception is no longer needed to use coriolis or turbine meters or any other measurement device or technology that conforms to standards proposed by the American Petroleum Institute or the American Gas Association for measuring oil or gas, or as approved by the Director of the Oil and Gas Division as an accurate measuring technology. The commission also proposed to update its Form P-17 in conjunction with this proposed rule.

TIPRO submitted comments supporting both of these rule proposals on March 16, 2015. At the open meeting held on April 8, the RRC adopted these final rules. They will be effective April 28, 2015.

To view the final rules as adopted, please visit the following link: www.rrc.state.tx.us/legal/rules/proposed-rules/.

NEW AUTOMOTIVE PLANTS IN MEXICO COULD DRIVE DEMAND FOR EAGLE FORD NATURAL GAS

As reported in the *San Antonio Business Journal* this week, two new automotive plants being developed across the border could help spur additional demand for natural gas being produced from South Texas' Eagle Ford Shale formation.

Toyota is planning to build an automotive plant in Guanajuato in 2019 that is expected to produce 200,000 Toyota Corollas per year, while Kia Motors Corporation is building an automotive manufacturing plant in Monterrey. Both plants are expected to use natural gas as a primary fuel source.

With a number of cross-border natural gas pipeline projects in the works, including the multi-million dollar Los Ramones pipeline and the Colombia-Escobedo pipeline, Mexico is hoping to better satisfy its high demand for natural gas by drawing from resources produced in the Eagle Ford.

According to Pemex Gas y Petroquímica Básica (Pemex), during the last ten years, natural gas demand in Mexico increased at a rate of 5.7 percent. Overall, from 1995 to date, the natural gas pipeline business has increased by 18.3 percent.



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UPS ANNOUNCES PLANS TO EXPAND CNG FLEET, BUILD ADDITIONAL CNG FUELING STATIONS

Over the next year, the United Parcel Service of America (UPS) will deploy 1,400 new compressed natural gas (CNG) vehicles, the company announced on Wednesday, April 1. In doing so, the company will expand its fleet of alternative fuel and advanced technology vehicles by nearly 30 percent, utilizing 5,088 CNG vehicles worldwide. UPS also plans to build 15 new CNG fueling stations to support fleet operations. Twelve of the CNG stations will be in new natural gas vehicle deployment areas, while the other three will replace existing CNG stations with more robust, higher capacity equipment.

“UPS’s investment in a large scale alternative energy fleet has enabled the company to avoid more than 34 million gallons of conventional fuels since 2000,” said Mitch Nichols, senior vice president of transportation and engineering for UPS. “[This] CNG announcement demonstrates UPS’s plans to expand use of widely available natural gas. CNG is an important building block in our long-term fleet strategy and offers environmental and economic advantages.”

UPS intends to deploy new CNG vehicles in the following 15 cities across the United States: Atlanta, Georgia; Charleston, West Virginia; Dallas, Texas; Denver, Colorado; Doraville, Georgia; Lenexa, Kansas; Lexington, Kentucky; Montgomery, Alabama; New Orleans, Louisiana; New Stanton, Pennsylvania; Oklahoma City, Oklahoma; Port Allen, Louisiana; Shreveport, Louisiana; Richmond, Virginia; and Roanoke, Virginia.

When the deployments are completed, UPS anticipates its alternative fuel and advanced technology fleet will log more than 350 million miles per year, supporting the company’s goal of driving one billion miles in this fleet by the end of 2017. This will displace approximately 54 million gallons of conventional diesel and gasoline annually while reducing total vehicle emissions. According to the U.S. Department of Energy, the use of natural gas instead of gasoline cuts greenhouse gas emissions by 6-11 percent over the fuel life cycle.

The CNG fueling stations and vehicle purchases are part of UPS’s overall commitment to diversify its fuel sources, implement a fleet infrastructure with lower tailpipe emissions and increase experience using alternative fuels in freight transport applications. UPS was the first package delivery company to introduce alternative fuel tractors into its fleet, and today it operates one of the largest private alternative fuel and advanced technology fleets in the country.

TCEQ: TEXAS AIR QUALITY CONTINUES TO IMPROVE



Contrary to some of the extreme claims spread by environmental activists, the Texas Commission on Environmental Quality (TCEQ) reports that air quality continues to improve across the state of Texas. The agency, which is charged with protecting public health and natural resources consistent with sustainable economic development, strives to preserve and improve the quality of air in the Lone Star State. Citing the latest data published by the U.S. Environmental Protection Agency (EPA), the TCEQ says that Texas ozone levels in 2014 either equaled or were lower than the best levels ever measured in most areas of the state, including large metropolitan areas like Dallas and Houston, which signifies improvement of overall ozone conditions.

As explained by the TCEQ, “the EPA calculates the ozone design values using a three-year rolling average. Preliminary 2014 ozone design values, based on 2012, 2013, and 2014 measurement data, are much lower in many areas of the state because 2014 ozone levels were lower than in previous years and 2011 ozone data are no longer used in this calculation. The year 2011 had high ozone readings in many areas of the state, because it was a unique year meteorologically—the extreme drought, plus significant wildfires in Texas and elsewhere in the U.S., coupled with plenty of sunshine and few cloudy or rainy days—all favored ozone formation.

According to the TCEQ, the following improvements have been measured across the Lone Star State, even with an ongoing rise in population and city occupancy growth in more recent years:

- Houston-area eight-hour ozone levels have improved 29 percent between 2000 and 2014 while the population has increased over 34 percent.
- In the Dallas–Fort Worth area, eight-hour ozone levels have likewise improved 21 percent during the last 15 years while the population grew more than 29 percent.
- The Corpus Christi and Tyler–Longview–Marshall areas have seen 20 and 30 percent reductions in ozone over the last 15 years.
- The Austin–Round Rock and Beaumont–Port Arthur areas have seen ozone improvements of 22 percent and 20 percent during this same period, respectively.

Moreover, scientists with the TCEQ have also confirmed that despite a rapid expansion in Texas oil and gas development in the last decade, particularly in expansive shale formations like the Eagle Ford, the TCEQ’s scientific studies have not to date seen significant contributions of oil and gas activities to ozone levels in neighboring metropolitan areas.

For interested stakeholders, the TCEQ provides resources through its website that share information on criteria pollutants, air toxics and emission inventories in Texas. To access the information online, please visit the following web address:

http://www.tceq.texas.gov/agency/air_main.html

U.S. REMAINS WORLD'S TOP OIL AND GAS PRODUCER

Thanks to the remarkable success of the shale revolution, last year the United States of America held its leading position as the top oil and natural gas producer in the world. Exceeding both Russia and Saudi Arabia, the second- and third-largest producers, respectively, the U.S. Energy Information Administration (EIA) estimates that U.S. petroleum production increased by 3 quadrillion British thermal units (Btu) - or 1.6 million barrels per day - in 2014. Overall, since 2008, U.S. petroleum production has risen by more than 11 quadrillion Btu. Meanwhile, total U.S. natural gas production increased by 5 quadrillion Btu (13.9 billion cubic feet per day) over the past five years. Comparatively, over the same time period, combined hydrocarbon output in Russia increased by 3 quadrillion Btu and in Saudi Arabia by 4 quadrillion Btu.

According to the EIA, "While U.S. hydrocarbon production over the past several years is directly attributed to its success at exploiting tight oil formations and shale gas, other key factors also acted to keep hydrocarbon production from increasing in Russia and Saudi Arabia in 2014. Although Russian petroleum production continued to increase, natural gas production declined because weak European economic growth and a warm 2013-14 winter reduced demand in Russia's primary market for gas exports. While total petroleum and natural gas hydrocarbon production estimates for the United States and Russia in 2011 were roughly equivalent, by 2014 U.S. production exceeded Russian production by almost 12 quadrillion Btu."

The EIA adds, "In contrast to its past actions to raise or lower oil production levels to balance global oil markets, Saudi Arabia did not cut its production in the fall of 2014 despite falling oil prices and growing global inventories of oil as supply exceeded demand. As a result, Saudi Arabia's total petroleum and natural gas hydrocarbon production was nearly unchanged from 2013. With the increase in U.S. production, the United States produced nearly twice the petroleum and natural gas hydrocarbons as produced by Saudi Arabia in 2014."

EPA PUBLISHES REPORT ON HYDRAULIC FRACTURING

The U.S. Environmental Protection Agency (EPA) has published a new analysis of data on hydraulic fracturing as compiled by the FracFocus Chemical Disclosure Registry 1.0, which is managed by the Ground Water Protection Council (GWPC) and the Interstate Oil and Gas Compact Commission (IOGCC). Through the FracFocus database, oil and gas production well operators can disclose information about water consumption and ingredients used in hydraulic fracturing fluids at individual wells. In Texas, under Statewide Rule 29, operators are required to disclose chemical ingredients and water volumes used in hydraulic fracturing treatments using the FracFocus database.

Assessing data by FracFocus, EPA researchers found that hydraulic fracturing fluids contain 88 percent (by mass) water, approximately 10 percent quartz (sand) used as proppant, and less than 1 percent of additive ingredients. Collectively, 698 unique ingredients (i.e., chemicals) were reported on FracFocus, with the median number of additive ingredients per disclosure being 14. Analyses were conducted on over 38,000 unique disclosures for wells hydraulically fractured between January 1, 2011, and February 28, 2013. Data covered records from 19,700 oil wells and 18,300 natural gas wells from approximately 428 operators in 406 counties across 20 states.

The development of FracFocus 2.0, which became the exclusive reporting mechanism in June 2013 [after FracFocus data was reviewed by the EPA for this report], was intended to increase the quality, and consistency of data submitted by operators. Now in its fourth year of existence, additional improvements and features have been announced through FracFocus 3.0.

This latest assessment comes as part of the EPA's ongoing study of the potential impacts of hydraulic fracturing for oil and gas on drinking water resources.

Monitoring Case Study Remote Monitoring saves Saturday Night Festivities

Salt Water Disposal Site being monitored with TC Technologies' Tank-2-Tank sent high level tank alarm Saturday afternoon at 3 O'Clock. This was the 73% fluid level, 30 minutes later the 85% level alarm was sent to the field tech. Thinking his Saturday night plans were shot he was about to let his friends know he was getting an emergency call-out. His heart sank when the next text notice came across thinking this was his High-High alarm message. But instead it was the all clear text indicating the level had pumped back down to 65% fill.

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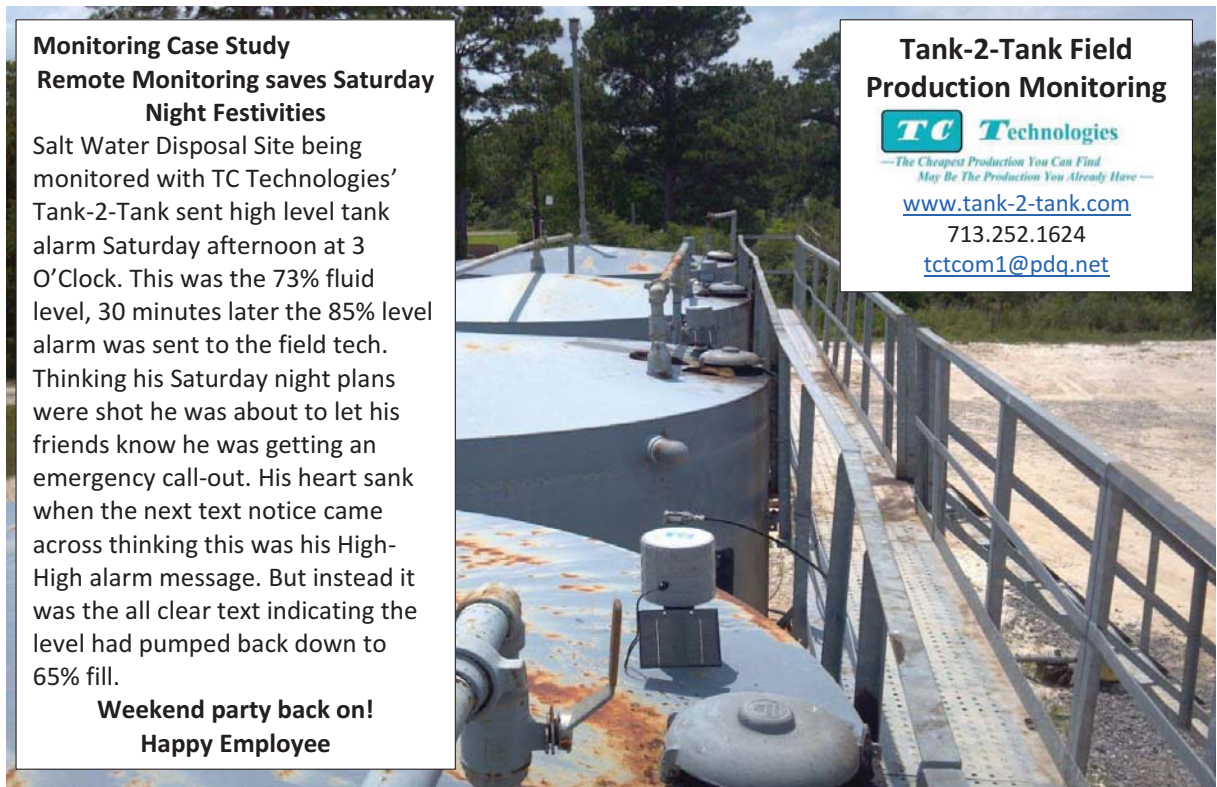


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