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TIPRO
Texas Independent Producers and Royalty Owners Association

RRC rejects proposal to deconsolidate Spraberry (Trend Area) Field

The Texas Railroad Commissioners (RRC) voted on Tuesday, November 26, 2013, to reject an examiner's recommendation to deconsolidate the Spraberry (Trend Area) Field in the Permian Basin. Notably frustrated with the recommendation, the Commissioners addressed the problematic nature of the Proposal For Decision (PFD), specifically stating that it would hinder predictability and transparency for industry operations going forward.

The examiner's PFD was initially developed in response to a request made by Pioneer Natural Resources Co. to amend field rules and address development allocation. As originally proposed, the PFD granted cause for concern from industry professionals across the state for several reasons, a few of which are noted below.

Had the PFD been approved by the RRC, it would have:

- Created a four-tiered division of the Spraberry (trend area) field. This separation would have overlooked the fact that horizontal severances often vary from lease to lease and are not typically consistent with geologic boundaries. Consequently, it would have prohibited operators the ability to fully develop the reservoir moving forward.
- Applied Rule 37 lease line spacing to horizontal severances, a requirement very troublesome to the oil and gas industry, as it is inconsistent with the current interpretation of Rule 37.
- Provided an unnecessary administrative burden for operators and the commission alike. As proposed the PFD would have required re-permitting, new completion filings, Rule 10 down-hole commingling applications, and more.

In response to the PFD offered by examiners, TIPRO submitted comments to the RRC urging the Commissioner's to reject the recommendation.

For those interested in watching an archived video from the commission's open meeting on November 26, visit: www.texasadmin.com/txrail.shtml.

National Park Service withdraws comments on hydraulic fracturing rule

In a letter sent November 12 to Congressman Rob Bishop, chair of the Public Lands and Environment Regulation Subcommittee, the National Park Service's Director Jonathan B. Jarvis requested that comments submitted on behalf of the agency regarding proposed federal fracing regulations be withdrawn.

According to Jarvis, the comments did not receive appropriate review before being submitted. Contrary to agency protocol, the formal comments were not on official letterhead, nor signed, and were erroneously sent to the Bureau of Land Management (BLM) via regulations.gov. He also conceded that some of the information previously used to support the National Park Service's positions on hydraulic fracturing was obtained from a *New York Times* opinion piece. The cited op-ed, a controversial and disputed article, was written by Cornell University Professor Anthony Ingraffea - a well-known critic of hydraulic fracturing.

In response to Jarvis' request to withdraw the National Park Service's comments, Congressman Bishop expressed his apprehension, saying, "It concerns me that the National Park Service attempted to pass off unsubstantiated information as 'science.' This thinly veiled attempt to vilify energy production and hydraulic fracturing on our public lands illustrates a shared agenda between the administration and anti-energy special interest groups."

"I'm pleased that Director Jarvis will rescind the comments and hope that, moving forward, the National Park Service will direct their efforts toward promoting the responsible use of our diverse lands and resources and away from misleading the American people," added Congressman Bishop.

Chairman's Message

David F. Martineau

TIPRO Members -

As the year begins to wind to a close, naturally we can't help but reflect back on 2013 and the accomplishments of our association, as well as the entire oil and gas industry. Most significantly, of course, we helped pass beneficial legislation - as well as block a number of onerous bills - during the 83rd Texas Legislative Session, which lasted the first half of the year. TIPRO's government affairs team, comprised of Teddy Carter and Lindsey Skinner, did an outstanding job lobbying on behalf of our membership, and together closely tracked more than 450 pieces of legislation pertaining to the Texas oil and gas industry. A wide variety of critical issues were examined by lawmakers at the capitol this past session, including water and road infrastructure development, the sunset review of the Texas Railroad Commission (RRC), the preservation of the high-cost gas tax incentive, water permitting for hydraulic fracturing, and even compulsory unitization. As of September 1, 2013, most of the bills that were passed by the legislature and signed off by the governor had gone into effect, helping our state government better serve residents of the Lone Star State.

Beyond the legislative session, our state regulatory agencies were also hard at work during 2013, adopting a series of new rules to improve oversight and management of oil and gas operations in Texas. Case-in-point, the RRC adopted amendments to Statewide Rule 13, which relates to casing, cementing, drilling and completion requirements. This major overhaul of previously existing rules for oil and gas wells will help to provide oil and gas operators with consistent and clear regulations, at a time when the state experiences record-breaking growth of exploration and production activities. We commend the RRC Commissioners, and agency staff, for their hard work on Statewide Rule 13, which will likely be used as a model for other states to emulate in the future.

Moreover, in March, the RRC also approved new recycling rules to help enhance water conservation by oil and gas producers operating in Texas, specifically when fracing. The rule attempts to remove regulatory hurdles by eliminating the need for a Commission recycling permit if operators are recycling fluid on their own leases or transferring their fluids to another operator's lease for recycling. With its passage, the RRC Commissioners hope to help foster the water recycling efforts by oil and gas operators who continue to examine new, innovative ways to reduce freshwater use when hydraulically fracturing wells. Plus, the recent passage of Prop. 6 - where $2 billion from Rainy Day Fund - will be used for long-range water development which could be utilized for future drilling and fracing.

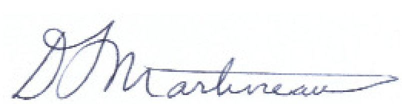
Meanwhile, this past year the revised Oil and Gas Maintenance, Startup and Shutdown (MSS) permit-by-rule (PBR) was adopted and went into effect. Overseen by the Texas Commission on Environmental Quality (TCEQ), this rulemaking adds a new PBR to authorize emissions from planned MSS activities and facilities at oil and gas handling and production facilities.

Furthermore, the TCEQ also added new air monitors to the Barnett and Eagle Ford Shale regions, allowing the agency to better track air emissions and ensure proper air quality in developing shale plays. Although TCEQ data continues to provide evidence that overall, shale-play activity does not significantly impact air quality or pose a threat to human health, the agency's air monitors offer insightful information on emissions from oil and gas facilities. In addition to ground-based reconnaissance investigations, the state agency has used infrared imaging cameras mounted on aircraft to conduct extensive aerial surveys of Texas shale formations. With additional data becoming available on the quality of air around shale plays, we will be better able to inform our elected officials and the general public on the truth surrounding oil and gas operations, and assure them that shale development does not pose a health concern for local residents in nearby communities.

Perhaps most importantly, I'm proud of the tremendous economic support that the oil and gas industry has been able to provide Americans over the last year, thanks to rising E&P activities in our nation's geologic formations. We have supported hundreds of thousands of jobs, and supplied much-needed revenue to our government coffers. Interestingly enough, according to a report prepared by the Texas Taxpayers and Research Association (TTARA), almost one in every six state tax dollars - $7.2 billion total in 2013 - paid into the state's Treasury was from an oil and gas production or services company. As if that all was not enough, more individuals are also receiving royalty payments due to increasing oil and gas development, which in turn helps offer additional disposable household incomes to families.

All-in-all, I'm satisfied with the many positive successes from 2013, and look forward to seeing what is in store for the year to come.

Sincerely,



Calendar of Events

DECEMBER 11, 2013	JANUARY 8, 2014	FEBRUARY 4-7, 2014	FEBRUARY 12, 2014
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 —Winter NAPE Expo, George R. Brown Convention Center For info, call: (817) 847-7700.	HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (832) 233-5502.

TIPRO members invited to upcoming RRC-IT modernization meeting

Members of the Texas Independent Producers & Royalty Owners Association (TIPRO) are invited to attend a special meeting by the Oil & Gas Division of the Texas Railroad Commission (RRC) regarding the agency's Information Technology Modernization Program (ITMP), oil and gas permitting and online filing project. The meeting will take place on Wednesday, December 11, 2013, starting at 8:30 a.m. at the RRC's Austin office, located at 1701 N. Congress Avenue, in Room 1-111.

During the meeting, staff will provide an overview of ITMP projects, as well as a conceptual presentation and discussion of the specific filing systems under development. The commission hopes attendees will help provide input regarding industry needs with respect to these new online systems. As the IT overhaul will likely have a major impact on the agency's interaction with the oil and gas industry, stakeholder participation in the creation of these programs is valuable.

Tentative agenda:

8:30 a.m. - Introduction
8:45 a.m. - Portal Overview and Q&A Session
9:30 a.m. - GIS Overview and Q&A Session
10:15 a.m. - Break
10:30 a.m. - Tests for Disposal Wells (Form H-5) and Inactive Wells (Form H-15)
11:45 a.m. - Lunch on your own
1:15 p.m. - Groundwater Advisory Unit Overview and Q&A Session
2:15 p.m. - Break
2:30 p.m. - Surface Casing Exception Permit Overview and Q&A Session
3:30 p.m. - Adjourn

For more information, please call (512) 463-6838.

Industry CEOs optimistic about future growth, new survey reveals

According to a national survey unveiled this week, a majority of oil and gas executives expect better access to credit markets and positive financial growth next year, thanks to rising global energy demand and emerging development opportunities from shale plays across the U.S. The annual poll, published as part of the *BDO 2014 Energy Outlook Survey,* gauges the opinions of more than 100 chief financial officers (CFOs) at U.S. oil and gas E&P companies.

"Oil and gas executives can feel relatively secure in their finances this coming year as the U.S. energy industry continues to gain momentum," said Charles Dewhurst, partner and leader of the Natural Resources practice at BDO. "Not only is our economy improving, but with demand exploding worldwide, new doors are opening for increased revenue. We are seeing significant foreign investments flowing into U.S. assets, as well as a growing need for U.S. oil and gas globally—and the price differential is quite favorable for us."

In addition, in efforts to bolster value and profitability for stakeholders, many of the surveyed leaders indicated plans to streamline company operations in the coming year. With that said, over 61 percent of oil and gas CFOs revealed that they still hope to increase their capital investments in environmentally-friendly E&P processes, including hydraulic fracturing. This represents a 15 percent increase over last year's proportion, signifying the industry's rising interest in practicing environmental conservation when possible.

The *BDO Energy Outlook* also examined labor trends, as the oil and gas industry workforce continues to swell. The new survey shows that approximately 49 percent of energy CFOs expect their labor costs to grow by as much as 15 percent in 2014, and 12 percent expect to see increases exceeding 15 percent.

"The labor market hasn't yet caught up to the growth of the U.S. oil and gas industry," noted Lance Froelich, senior director of compensation consulting in the Global Employer Services group and a member of BDO's Natural Resources practice. "A very significant percentage of open positions are being filled by buying talent, and this phenomenon is driving salaries, sign-on incentives and special perquisites higher."

Data for the BDO report was collected from a national telephone survey conducted by Market Measurement, Inc., an independent market research consulting firm, whose executive interviewers spoke directly to CFOs at a sample of oil and gas exploration and processing firms (with revenues ranging between $76,000 and $1.2 billion and an average revenue of $154 million) from September through November 2013.

Dallas City Council reviews proposed drilling ordinance amendments

Meeting on Wednesday, December 4, 2013, members of the Dallas City Council gathered for a special hearing to take public comment and have discussion on proposed amendments to the city's gas drilling and production regulations. These suggested changes include several onerous items, including a 1,500 foot drilling setback for wells in the city limits (currently the city has a setback requirement of 300 feet). If adopted, these changes will essentially serve as a de facto ban on drilling in Dallas.

In the days leading up to the hearing, TIPRO submitted a letter to the Mayor and City Council urging them to adopt an ordinance that mirrors the regulatory framework established by the City of Fort Worth, which has proven to be both manageable for producers and abundantly protective of public health and safety.

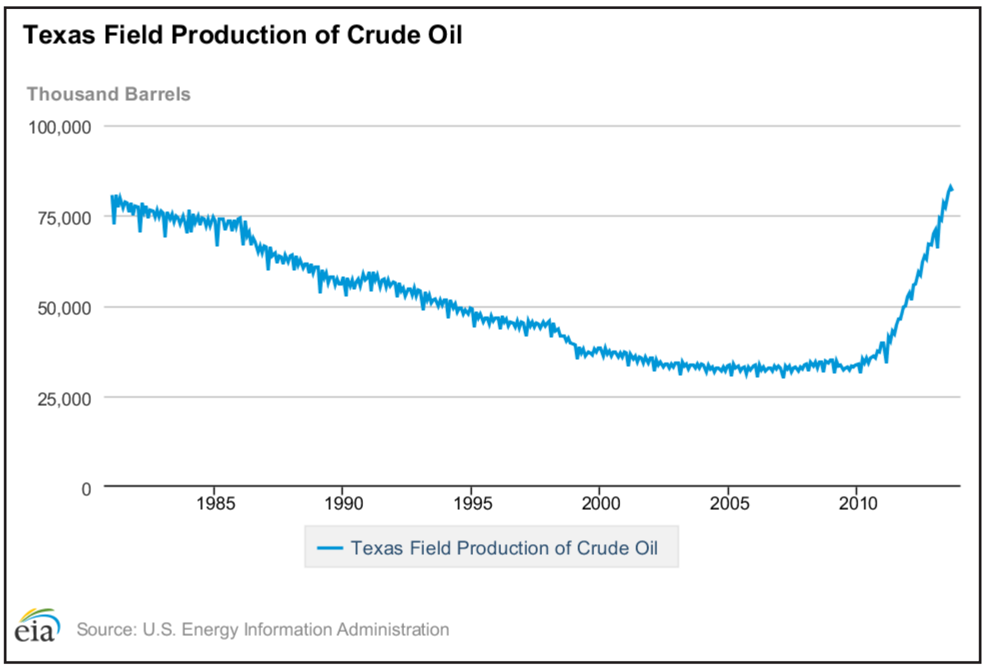
"Hydrocarbon development in Dallas presents you with an opportunity to make great strides toward increased economic vibrancy without sacrificing public safety or a clean, healthy environment," noted the association in the letter. "Therefore, TIPRO must offer our strong objection to the currently proposed revised drilling ordinance, as it will effectively deny the people of Dallas the benefits of responsible drilling performed within a reasonable and proven local regulatory framework," added TIPRO.

Unfortunately, as expected, environmental activists showed up in full force at Wednesday's City Council meeting, again making extreme claims and spreading falsehoods in their testimony on hydraulic fracturing.

To view proposed ordinance revisions, visit the following link (ordinance begins on page 42):
www.dallascityhall.com/council_briefings/briefings1113/ProposedRevisionsGasDrillingRegulations_11202013.pdf.

The Dallas City Council is scheduled to again take up the proposed amendments to the city's drilling ordinance next Wednesday, December 11, 2013, in the City Council Chambers. The Council is expected to vote on the ordinance at this meeting.

Texas oil production shatters records



Oil production from Texas has reached new heights, topping its highest monthly rate on record, according to new data released by the U.S. Energy Information Administration (EIA). In fact, in just the past three years, the state has doubled oil production output, thanks to rising development in the Permian Basin and Eagle Ford Shale. Beginning in 2008, Texas production began to jump dramatically, as operators rapidly increased drilling activity in fields throughout the state.

The federal agency estimates that during September, Texas produced 2.7 million barrels of crude oil per day, the largest monthly average since 1981.

Altogether, as of September, the Lone Star State accounted for approximately 35 percent of the total U.S. crude oil production.

Analysts expect that Texas production of oil - as well as natural gas - will continue to grow in the future, as new technology is developed and implemented by producers.

Lone Star State adds nearly 44,000 new jobs in last two months

With unemployment rates down, and nearly every major industry showing growth, the Texas economy is booming. Between September and October of this year, Texas employers added 43,800 jobs, reports the Texas Workforce Commission (TWC), continuing to demonstrate the positive growth of businesses operating in the state. Oil and gas development is cited for contributing to much of the state's remarkable job creation.

"Texas' strong track record of job creation continues to set a national example," commented Texas Governor Rick Perry. "Our simple combination of low taxes, smart regulations and a fair legal system has made Texas the best state in the nation to live, raise a family and grow a business."

"It's good to see our unemployment rate declining for three consecutive months, from 6.5 percent in July to 6.2 percent in October," said TWC Commissioner Representing Labor Ronny Congleton. "Positive economic growth means continued employment opportunities for the job seekers and workers of Texas."

Outside of Texas, Colorado Oil & Gas Association fights local bans on fracing

Fighting back against local bans on hydraulic fracturing, earlier this week the Colorado Oil & Gas Association (COGA) took legal action in opposition to the oil and gas bans in the Colorado towns of Fort Collins and Lafayette. The group argues that such bans are illegal due to the fact that state regulations specify - and the state Supreme Court has ruled - oil and gas development, which must employ hydraulic fracturing or fracing, supersedes local laws and therefore these types of fracing bans cannot be enforced.

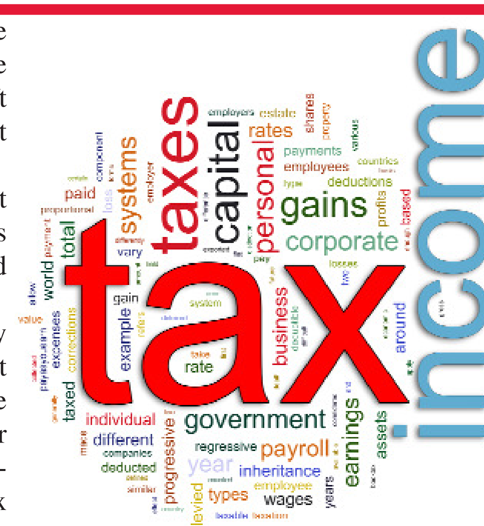
"It is regrettable and unfortunate that COGA had to take this action. There are over 100,000 families that rely on the oil and gas industry for their livelihoods and these bans effectively stop oil and gas development," commented Tisha Schuller, president and CEO of COGA. "With 95 percent of all wells in Colorado hydraulically fractured, any ban on fracing is a ban on oil and gas development, and the State Supreme Court has clearly stated bans are illegal in Colorado."

"That COGA has had to take this action further demonstrates the huge disservice self-described 'fractivists' have done to our communities in promoting energy bans. Instead of working constructively with industry and city leaders, extremists have used fear and misinformation to lure cities into passing bans which they know are illegal and will cost staff time and taxpayer money," continued Schuller.

In filing a lawsuit against the two cities, the association seeks court orders which will permanently block the local bans on oil and gas development.

Congressman targets industry tax provisions, calls for their elimination

Last month, on November 22, 2013, U.S. Congressman Max Baucus, chair of the Senate Finance Committee, released a discussion draft outlining his proposal to reform the nation's business tax policies. According to the document, "this staff discussion draft proposes a modern, simpler, and fairer cost recovery and tax accounting system that promotes tax neutrality when it comes to business decisions."



More specifically, Baucus calls for the elimination of several critical tax provisions that are currently utilized by America's independent oil and gas producers. This includes removing Intangible Drilling Costs (IDC) treatments as well as percentage depletions and geological and geophysical expense deductions.

If the proposal were to pass, it would have a substantial impact on the ability for many producers to continue operations. Collectively, independent producers drill about 95 percent of American oil and natural gas wells, produce about 56 percent of American oil and more than 85 percent of American natural gas. The current tax code, which has been refined over the past 100 years, has allowed smaller operators - many of whom are members of TIPRO - to stay in business. Large integrated companies often are not eligible for these business tax deductions. Therefore, eliminating or altering such tax provisions would diminish smaller independent producers' capital generation and capital cost recovery. Working in coordination with the Independent Petroleum Association of America (IPAA), TIPRO will continue to closely monitor developments relating to this proposal from Senator Baucus.

Enrollment begins for Lesser Prairie Chicken range-wide conservation plan

Enrollment is now open for the Lesser Prairie-Chicken Range-Wide Plan, marking the beginning of the multi-state effort to conserve the habitat of the bird. Although the U.S. Fish and Wildlife Service is set to make a decision by March 30, 2014, on whether to list the chicken as threatened or endangered, many hope the conservation plan will reclude the need to list the Lesser Prairie Chicken for protection under the Endangered Species Act. For those interested in learning more on the enrollment process, the Texas Parks & Wildlife Department will host two informational meetings, set for December 11 in Sundown, Texas, and December 12 in Pampa.

Highly-esteemed energy expert Michael Economides passes away at age 64

Michael Economides, widely regarded as one of the country's leading oil and gas experts, passed away on Saturday, November 30, 2013, after suffering from a heart attack while on a flight from Madrid to Chile. He was 64 years old.

Economides had served as a professor of chemical and biomolecular engineering at the University of Houston's Cullen College of Engineering. He also specialized in research on the optimization of the overall hydrocarbon production system from a reservoir, wellbore and its distribution to market. Recently, Economides was in the midst of working to advance industry efforts for driving deep offshore technology development, world energy forecast modeling and natural gas development.

With vast knowledge on energy geopolitics and petroleum engineering, during his career, he had published hundreds of journal papers and authored several books on oil and gas trends, including "The Color of Oil." He also was an adviser to numerous companies around the world, such as China's National Offshore Oil Corporation, Italy's ENI and other major global players located in Russia and Venezuela.

Through the years, Economides was also the recipient of several notable awards and accolades for his work.