THE TIPRO TARGET

VOLUME 19, NO. 4
February 18, 2016

TIPRO
Texas Independent Producers and Royalty Owners Association

Saudi Arabia, other OPEC nations consider potential freeze on crude production output

As the global oil industry continues to face a glut of crude inventories, some of OPEC's major participating nations have conditionally agreed to limit oil production levels.

On Tuesday, February 16, 2016, leaders from Saudi Arabia, Russia, Venezuela and Qatar met unexpectedly in the Qatari capital of Doha, and reached a deal to freeze oil output at January's levels in order to ease pressure on oil prices, which have fallen roughly 72 percent since Summer 2014. However, the agreement to cap oil output was contingent upon other OPEC producers making similar freezes as well.

This past January, the four countries of Saudi Arabia, Russia, Venezuela and Qatar produced a combined average of 23.75 million barrels of oil a day, accounting for more than 25 percent of the total global output, according to the *Wall Street Journal*.

The Doha accord represents the first time in a year and a half that OPEC's de facto leader Saudi Arabia has joined any effort to curb production growth in a bid to steady global oil markets. Even as commodity prices have slumped the last 18 months, Saudi Arabia has repeatedly avoided talks of cutting production, and even increased its oil output. "The reason we agreed to a potential freeze of production is simply the beginning of a process to assess in the next few months and decide whether we need other steps to stabilize the market," Saudi Energy Minister Ali Ai-Naimi said Tuesday after meeting the Russian, Qatari and Venezuelan oil ministers. "We want a stable oil price."

Nevertheless, many analysts and investors have expressed skepticism that the preliminary OPEC deal will ultimately see success. While Kuwait announced it welcomed the proposal and would join the production freeze, as news broke this week of the agreement, Iran purportedly snubbed the idea. A senior oil ministry official said Wednesday that Tehran has no intention of freezing oil output levels. In fact, Mahdi Asali, Iran's OPEC envoy, confirmed that his country will increase its crude exports until it is able to reach levels attained before international sanctions were imposed on Tehran over its nuclear program. Asali reportedly said that it was up to Saudi Arabia and others to cut down production to boost oil prices. He said the four nations that participated at the Doha gathering could stabilize oil prices on their own if they cut their own output. "These countries increased their production by 4 million barrels when Iran was under sanctions," Asali was quoted as saying. "Now it's primarily their responsibility to help restore balance on the market. There is no reason for Iran to do so."

The United Arab Emirates' energy minister on Thursday lent support of OPEC's production cap. "We believe that freezing production levels by members of OPEC and Russia will have a positive impact on balancing future demand based on the current oversupply," Emirates Energy Minister Suhail Mohammed al-Mazrouei said in a statement.

Still, though the Doha plan is only in early stages, holding global production output at existing levels will not be sufficient enough to remedy current market conditions, some are warning. Production levels remain too high to correct ongoing volatile swings in oil prices, economists contend.

Meanwhile, domestic oil and gas activity has slowed as American oil and natural gas companies are being forced to reduce expenses and halt plans to drill new wells in order to remain financially flexible and competitive. According to Baker Hughes, the Texas rig count as of February 5th stood at 262, representing about 46 percent of all active rigs in the country. The Texas Railroad Commission (RRC) reports that in January 2016, the agency issued a total of 510 original drilling permits, compared to 1,102 drilling permits issued in January 2015.

"Although these are unstable times for the oil and natural gas industry, we remain hopeful commodity prices will improve. Regardless of market conditions, day-in, day-out, TIPRO is focused on supporting our members in every way possible," said Ed Longanecker, president of TIPRO.

President's Message

Ed Longanecker

TIPRO Members-

Yet again, we have seen our court systems take action and intervene against undue, unjustifiable federal regulations issued by the Obama Administration against the energy and power sectors. Last Tuesday, February 9, the United States Supreme Court placed an immediate stay on the Administration's Clean Power Plan, delaying implementation of the rule as litigation continues in the D.C. Circuit Court. With a vote of 5-4 in favor of issuing a stay, the Supreme Court justices stopped the scheduled roll out of the U.S. Environmental Protection Agency's rule until the plan's legal merits are decided by the judicial branch.

The Clean Power Plan was unveiled last Fall as part of the Administration's agenda to curb U.S. carbon emissions and address climate change. Under the plan, new standards would require the power sector to cut carbon pollution by 32 percent before the year 2030, amongst other constraints and provisions.

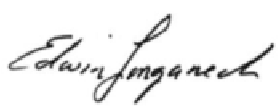
On the day that the rule was published, October 23, 2015, Texas and West Virginia challenged the Obama Administration's new federal environmental regulations, arguing that the EPA's rule fundamentally changes the nation's energy policy in violation of federal law. Since then, a bipartisan coalition of 27 other states and state agencies have joined Texas and West Virginia in fighting EPA's unlawful power plan, including: Alabama, Arizona, Arkansas, Colorado, Florida, Georgia, Indiana, Kansas, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Montana, Nebraska, New Jersey, Ohio, Oklahoma, South Carolina, South Dakota, Utah, Wisconsin and Wyoming, along with the Mississippi Department of Environmental Quality, Mississippi Public Service Commission, North Carolina Department of Environmental Quality and Oklahoma Department of Environmental Quality.

The D.C. Circuit Court will hear oral arguments on the merits of the states' case this summer on June 2, although a final ruling from the court might not come until later in the year.

Many Texas officials have spoken out against the policy, maintaining that the Obama Administration exceeded its authority in imposing this plan, which will cost taxpayers and consumers alike hard-earned money in exchange for less-reliable electric services. Such far-reaching actions also raise serious concerns about the power of the federal government, they argue.

In recent years, the courts have also found cause to delay other federal rules issued by the U.S. Department of Interior's Bureau of Land Management and the U.S. Fish & Wildlife Service.

Sincerely,



Ed Longanecker

Reminder: Early voting for Texas Primary Election ends February 26th

TIPRO members are reminded that early voting for the Texas Primary Election lasts through Friday, February 26. The state's Primary Election will take place on Tuesday, March 1, 2016.

The Primary Election will help to determine which candidates will appear on the ballot as the nominees for the Republican and Democrat parties in the November General Election, including presidential candidates and notably for the oil and gas industry, candidates to serve as the next Railroad Commissioner. Texas voters may vote in either the Republican or Democratic primaries, but not both, the office of the Texas Secretary of State reiterates.

"I encourage voters to take full advantage of the convenience of voting early," said Texas Secretary of State Carlos H. Cascos. "Don't forget, during early voting you can cast your ballot at any polling location within your county of registration." Voters will be required to present a photo ID when at the polls.

TIPRO Calendar of Events

FEBRUARY 22-23, 2016	**MARCH 9, 2016**	**APRIL 7, 2016**	**MAY 11, 2016**
SAN ANTONIO — TIPRO's 70th Annual Convention, Grand Hyatt Hotel. For info, call: (512) 477-4452.	HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (202) 857-4733.	HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (202) 857-4733.	HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (202) 857-4733.

Industry leaders, elected officials denounce President Obama's proposed oil fee

As part of his budget proposal for Fiscal Year 2017, President Barack Obama announced on February 9, 2016, his recommendation to require a new fee by American producers. Under the president's proposed plan, a fee of $10 per barrel of crude oil produced in the United States would be imposed on oil companies, which would be gradually phased in over the next five years.

The fee would help to raise funding necessary to support a "21st Century Clean Transportation Initiative" as envisioned by the White House, that promotes energy efficient solutions in the development of transportation infrastructure. The initiative would encourage the creation and increased use of new technologies, such as autonomous vehicles and high-speed rail, with revenue provided by this new barrel fee paid by oil companies. According to the Administration, the fee - referred to as an "investment" in the budget outline - is a landmark commitment that will set America on a long-term path to achieving climate goals.

By some calculations, the president's proposed oil fee could raise the average cost of gasoline by 25 cents per gallon, ultimately costing the average American household hundreds of additional dollars every year. It could also stifle job creation and hurt the economy, at a time when the U.S. oil and gas industry is already striving to navigate uncertain market conditions.

State and federal leaders, as well as industry representatives, condemned the Administration's plan. Below read some of the reactions to the controversial oil fee proposal:

U.S. House Speaker Paul Ryan (R-WI) said, "Once again, the president expects hardworking consumers to pay for his out of touch climate agenda. A $10 tax for every barrel of oil produced would raise energy prices—hurting poor Americans the most. This announcement, the latest in a series of regulatory attacks on the energy sector, proves President Obama is still on a mission to destroy a major backbone of the U.S. economy. The president should be proposing policies to grow our economy instead of sacrificing it to appease progressive climate activists."

Calling the president's proposed budget dead-on-arrival, U.S. Senator John Cornyn (R-TX) commented, "At a time when our country is producing more energy domestically than it ever has and just beginning to export that energy to our friends and allies around the world, the president's budget reveals that he has little interest in growing our energy independence and little interest in jump-starting our economy. Instead, the president makes these job-killing proposals which will just further burden hardworking American families along with the tepid growth that we've seen here in our own economy. Rather than deciding to work with Congress and to listen to the concerns that have been raised by those hardworking American families, President Obama went ahead and submitted a budget with no apparent interest in finding any kind of common ground."

U.S. Congressman Joe Barton (R-TX) blasted the president's budget, saying, "I am in total disbelief that the president and his advisors would even entertain this proposal. This 30 percent tax on oil WILL NOT clean our air, it WILL NOT create a new transportation infrastructure, but it WILL hit the checkbooks of hard working American families and it WILL hurt our economy in countless ways. In three decades of working in energy policy, I cannot remember a more outlandish or impractical proposal. The Administration has not seriously considered the destructive implications for millions of Americans and their communities. To me, this is a political stunt and is dead on arrival in the House."

"The president released the final budget proposal of his Administration today, and it is as unrealistic as all of his previous proposals. He is a lame duck trying to stay relevant, but he knows that provisions like a $10 tax on every barrel of oil will never pass Congress. This is another reminder of why this year's presidential election is so important: we need to put a conservative back in the White House that can work with Congress to get our country back on track," remarked U.S. Congressman Mac Thornberry (R-TX).

TIPRO President Ed Longanecker said, "Unfortunately we can expect an increase in onerous proposals targeting the oil and gas industry during the last year of Obama's presidency. This latest attempt to tax domestic producers, who are already struggling with depressed commodity prices, would result in a significant decline in American jobs, a higher price for all consumers at the pump and a competitive advantage for hostile regimes abroad. The president knows this latest attempt to advance his flawed climate change ideology is dead on arrival, so it's largely symbolic in nature, perhaps a distraction for what lies ahead."

"In the last five years, the success of America's oil and natural gas industry has taken our nation from energy dependence and scarcity to security and abundance. We have achieved status as a global energy leader. Today, the United States' energy resources are the envy of nations. President Obama's budget proposal places our nation, once again, at a clear disadvantage against global oil cartels and unfriendly nations," said Barry Russell, president and CEO of the Independent Petroleum Association of America (IPAA). "This budget fails to strengthen America's global energy leadership and instead creates new, unnecessary taxes for industry and energy consumers alike. Any other country with such rich energy resources would ensure the health of this strategic asset base. But, in this country, the president's budget attacks the U.S. oil and natural gas industry and every American energy consumer. And, it threatens the nation's rank as one of the world's energy leaders."

U.S. House Speaker announces task force to address federal regulatory burdens

On February 4, 2016, the Office of U.S. House Speaker Paul Ryan (R-WI) announced the formation of six Republican task forces charged with developing a bold, pro-growth agenda that will be presented to the country in the months ahead.

One of the new task forces will focus on examining the increasing regulatory burden imposed by the federal government. The group will strive to find solutions that will make it easier to invest, produce, and build things in America with a regulatory system that reduces bureaucracy and eases the burden on small businesses and job creators, while still protecting the environment, public safety, and consumer interests. Several Texas delegates have been selected to serve on the special task force, including: Agriculture Committee Chairman Mike Conaway (R-TX), Financial Services Committee Chairman Jeb Hensarling (R-TX), and Science, Space, and Technology Committee Chairman Lamar Smith (R-TX).

"Under the Obama Administration the number and cost of government regulations has skyrocketed, killing jobs and costing the American economy billions of dollars per year. Hardworking families want their leaders in Washington to cut regulatory red tape and put America back on a path to growth and prosperity," said Congressman Smith. "Everyone agrees that we need to protect the environment, but we must do so in a way that is open and honest. Unfortunately, the EPA and other federal agencies bend the law and stretch the science to justify their own objectives. Despite heavy and growing public opposition to these proposals, the Obama Administration is actively going around Congress to commit the U.S. to costly new regulations that will do nothing to improve the environment but will negatively impact economic growth."

Of the other task forces created, a different group of congressional leaders will address constitutional authority,working to reclaim power ceded to the executive branch over the years by reforming the rulemaking process, checking on agency authority, exercising the power of the purse, and conducting more robust oversight.

In addition, a congressional tax reform task force has been formed to assess ways to simplify the tax code, reduce rates and remove special interests in efforts to grow the economy.

Senator Craig Estes appointed to Southern States Energy Board

In his latest round of appointments, Texas Lieutenant Governor Dan Patrick has selected state Senator Craig Estes to serve on the Southern States Energy Board (SSEB). The board, originally created in 1960, is an interstate compact organization comprised of the governor and a legislator from each House and Senate chamber of 16 southern states and two territories. The group of officials from member states collaborate to develop policies that promote science-based solutions to allow for sustainable energy development, eliminate barriers to the use of efficient energy and environmental technologies, and work together to protect the safety of the public. Other Texas members participating on the SSEB include Texas Governor Greg Abbott, Texas Representative Myra Crownover and Railroad Commissioner Christi Craddick, who serves as a board designee of Governor Abbott.

RRC Commissioner Christi Craddick: Texas oil and gas is a resilient industry

Speaking last week in Midland, Texas Railroad Commissioner Christi Craddick emphasized energy production will endure in the heart of Texas' oil basins, even in spite of low commodity prices. "There are a few key reasons why companies from across the world choose to produce energy in Texas, particularly here in the Permian Basin," Craddick said. "Prime conditions - an ample supply of oil, a skilled workforce, vast infrastructure, cutting edge technology and innovation, and sensible government - have allowed producers to cut back overhead costs and sustain in times of low oil prices. Frankly, these factors have allowed companies to better weather the downturn."

Craddick continued, "Even as foreign oil producing nations continue their economic assault on the U.S. energy industry, Texas and its associated energy companies are better positioned to compete because of higher efficiencies, advanced technologies and lower production costs. And when demand for oil rises again, as it is certain to, Texas will be well-positioned and ready to respond. Until then, production in the Permian Basin will carry on."

State oil & gas regulations are working, RRC Commissioner Ryan Sitton explains

State regulations continue to effectively manage oil and gas development in Texas, Railroad Commissioner Ryan Sitton stressed in an editorial article published in the *Dallas Morning News* on February 5, 2016. Among the thousands of rules and regulations enforced by the state agency, Commissioner Sitton specifically highlighted successful industry regulation through Statewide Rule 13 (SWR 13), most recently updated by the commission in 2014, which requires all oil and gas wells to meet extremely stringent design and construction standards in efforts to protect groundwater resources.

Commissioner Sitton cited a number of independent scientific studies that have been published in recent years, including reports by the University of Texas at Austin's Bureau of Economic Geology (BEG) and the U.S. Environmental Protection Agency (EPA), which have reaffirmed unconventional oil and gas extraction activities are not impacting groundwater quality. "The studies serve as confirmation the commission's rules and vigilance protecting the public and our natural resources are working. Just as the energy industry continues to innovate and evolve, so too will the commission's rules and regulations. What will never change is the commitment of the team of professionals at the commission to ensure safe, responsible and successful energy production that continues to benefit all Texans," said Sitton.

RRC asks operators to limit light impact from oil & gas activities

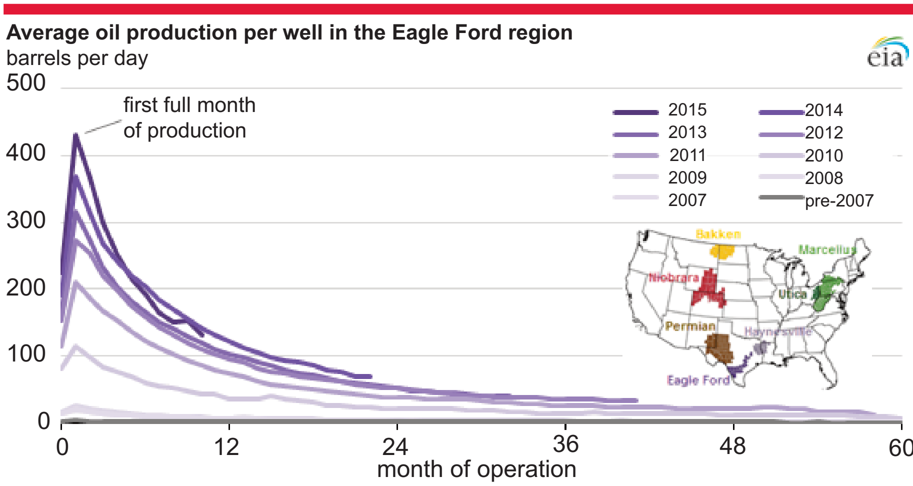
Earlier this month, the Texas Railroad Commission's (RRC) Oil & Gas Division issued a notice to encourage operators to minimize lighting impacts from oil and gas activities, specifically in the Permian Basin region in the vicinity of the University of Texas McDonald Observatory near the Davis Mountains of West Texas.

The notice reads, "Since 2010, the development associated with the exponential growth of oil and gas drilling and production in the Permian Basin has generated light reflecting off the sky. The McDonald Observatory is a state-of-the-art facility on the cutting edge of scientific research in the field of astronomy. Astronomers there focus on measuring objects at the very edge of the observable universe. Without mitigation, the gleam of light from oil and gas operations could compromise the research for which the McDonald Observatory is famous. The McDonald Observatory will also soon complete a major upgrade to its historic Hobby-Eberle telescope. If a solution to bright skies is found, the upgrade will allow three-dimensional glimpses deep into the universe."

The RRC reinforces that lighting solutions can be simple and cost effective, resulting in better visibility for the McDonald Observatory and neighboring oil and gas production locations. Operators based in West Texas are encouraged to review the following resources to learn more about potential solutions and consider adopting practices that will reduce stray light -

- *"Oilfield Lighting Can Coexist with Dark Skies Report":*
  http://mcdonaldobservatory.org/sites/default/files/oilfield_lighting_can_coexist.pdf
- *McDonald Observatory Dark Skies Initiative:*
  http://mcdonaldobservatory.org/darkskies

Fracking, horizontal drilling boost well productivity, EIA details in report



In the U.S. Energy Information Administration's (EIA) February *Drilling Productivity Report*, the data agency describes how hydraulic fracturing and horizontal drilling have allowed producers to extract more oil during the initial months of production from new wells. "The average new well in [shale] regions produces more oil than previous wells drilled in the same region, a trend that has continued for nine consecutive years. The increasing prevalence of hydraulic fracturing and horizontal drilling, along with improvements in well completions and the ability to drill longer laterals, has greatly improved well productivity. This trend can be seen in the continued increase in initial production rates since 2007, and it has allowed production in major shale basins to be fairly resilient despite high decline rates common to drilling and producing in tight formations and, since 2014, the declining number of rigs drilling for oil."

UPS fleet to boost LNG use in Texas

The United Parcel Service (UPS) will expand its use of liquefied natural gas in the Lone Star State, the company announced in February. UPS plans to use up to 500,000 gallon equivalents of renewable liquefied natural gas (LNG) annually in Texas under its latest agreement with Clean Energy Fuels Corp.

"Renewable natural gas is helping us to meet growing customer demand while reducing our environmental impact," said Mark Wallace, UPS senior vice president of global engineering and sustainability. "This agreement demonstrates UPS's commitment to develop alternative fuels and advanced technologies. By the end of 2017 we will have driven one billion miles with our alternative fuel and advanced technology fleet."


UPS LNG tractor being refueled

UPS operates one of the largest private alternative fuel and advanced technology fleets in the nation. Its fleet includes more than 6,840 all-electric, hybrid electric, hydraulic hybrid, CNG, LNG, propane and light-weight fuel-saving composite body vehicles. The company says that the latest Texas deal will build on UPS's current agreement with Clean Energy Fuels whereby UPS is using approximately 1.5 million gallon equivalents of renewable compressed natural gas (CNG) annually in California.

"UPS's continuing commitment to new, clean vehicle fuel is helping to shape the future of transportation," commented Harrison Clay, president of Clean Energy Renewables of Clean Energy. "Our collaboration with UPS builds demand to create and expand markets."

New website portal connects military veterans with oil and gas jobs

As more than one million service members transition out of the military over the next four years, a new job portal is hoping to connect these veterans with career opportunities in the U.S. oil and natural gas industry. The Veterans Energy Pipeline website, launched earlier this month, will facilitate top jobs and available employment opportunities in the oil and gas industry specifically for members of the military looking to pursue meaningful civilian careers.

The U.S. Senate teamed up with the American Petroleum Institute (API) to create the online resource for armed forces members and vets to explore job opportunities in the energy realm.

"Our goal is to build on the successes of America's energy revolution and help those serving our country, as well as veterans, transition into well-paying careers in the oil and gas industry," API President and CEO Jack Gerard said. "This unique forum will provide important information about the industry, the outlook for job opportunities, and useful job-hunting tools and resources."

To check out the new site, visit www.veteransenergypipeline.com.

Anadarko opens new workforce housing facility in West Texas

Anadarko Petroleum Corporation has opened a new housing lodge in the Permian Basin. The 77,180-square-foot facility, situated in the heart of the Delaware Basin near the West Texas town of Mentone, will be able to accommodate up to 200 Anadarko employees and contractors.

"The Delaware Basin is an exciting part of our U.S. onshore portfolio. We have about 600,000 gross acres in the most prospective area of the Delaware Basin, estimated recoverable resources of more than 1 billion barrels of oil equivalent, and the enabling infrastructure in place to make this area a strategic source of future growth. The new facility provides quality accommodations for our current number of employees and contractors, and we have the flexibility to expand in an improved commodity-price environment to support potential growth in future years," John Christiansen, vice president of corporate communications for Anadarko, told the *Midland Reporter-Telegram* newspaper of the company's new housing lodge. "Additionally, we expect this new facility to enhance safety by reducing truck traffic and miles traveled, as well as helping to ensure our folks are well-fed and rested."

Firms project gloomy outlook for North American energy companies

New reports from leading consulting firms suggest that North American exploration and production companies will have to further cut spending levels in 2016, as a result of the ongoing depressed oil price environment.

According to the IHS Energy *Comparative Peer Group Analysis of North American E&Ps* released on February 8, 2016, which assessed the impact of lower oil and gas prices on 2016 cash flow estimates for a North American E&P peer group, under the IHS low-case scenario, in order to maintain a capital spending-to-cash-flow ratio in the historical range of approximately 130 percent, spending for the E&Ps would need to be cut by an extra $24 billion, or 30 percent, from the most recent estimates. This would represent a cut of almost 50 percent from 2015 spending levels. "Our analysis strongly suggests that additional steep spending cuts are required by this peer group of 44 North American E&P companies in order to bring spending in line with lower projected cash flows," said Paul O'Donnell, principal analyst at IHS Energy and author of the new analysis. "Given that most companies made preliminary 2016 spending plans when the price outlook was comparatively higher, we expect to see further spending cuts announced throughout the fourth-quarter 2015 earnings cycle that reflect the current price environment."

Likewise, a Deloitte study released on February 16th reinforces that 2016 will be a period of tough financial and strategic choices for the oil and natural gas industry. Deloitte estimates that with more than $150 billion in debt on their balance sheets, nearly 35 percent of pure-play exploration and production companies listed worldwide, or about 175 companies, are at high-risk of slipping into bankruptcy this year. The outlook is almost equally alarming for about 160 other E&Ps that are less leveraged but cash flow constrained. "2016 will be the year of hard decisions. We could see E&P bankruptcies surpass Great Recession levels as companies struggle to remain solvent," commented John England, vice chairman and U.S. oil and gas sector leader for Deloitte LLP. "Access to capital markets, bankers' support and derivatives protection, which helped smooth an otherwise rocky road for the industry in 2015, are fast waning. A looming capital crunch and heightened cash flow volatility suggest that 2016 will be a period of tough, new financial choices for the industry."

England continued, "Considering the industry will have fewer financial levers to pull in 2016, operational performance will be the key to sustainability and growth. There is still more that can be done by oil players, particularly large ones, to reduce costs. Prices will eventually rebound and companies need to focus not only how to survive, but also how to position themselves to thrive for when things turnaround and demand picks up."

This month consulting firm Wood Mackenzie also released an outlook for 2016 upstream M&A activity. Oil prices will largely shape activity this coming year, the group contends, and financing options will be more limited than in 2015. "Few companies are safe; while the top tier of IOCs can largely ride out a further year of low prices, the next tier down may have fewer alternatives. Corporate actions will follow, including asset sales."

Still, there will always be counter-cyclical buyers willing to bet on an eventual recovery, notes Wood Mackenzie. "Major players will be looking toward long term strategic deals, while the more ambitious, better funded small caps will be looking to come out of this downturn ahead of peers. Private equity continues to remain poised for action."

TIPRO

Texas Independent Producers & Royalty Owners Association

With more than 3,000 members, TIPRO is the nation's largest statewide association representing both independent producers and royalty owners. Our members include small family-owned companies, the largest publicly traded independents and large and small mineral estates and trusts.

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