Texas Independent **Producers and** sociation

TEXAS PRODUCTION TOPS 3 MILLION BARRELS OF OIL PER DAY

For the first time since the late 1970s, Texas oil production has topped 3.0 million barrels per Royalty Owners As- day (bbl/d), more than doubling the state's output in just three years, according to recent data released by the U.S. Energy Information Administration (EIA). That benchmark now means the Lone Star State is producing nearly as much oil as Iraq, the second-largest producer in the Organization of Petroleum

Exporting Countries (commonly referred to as OPEC).

The EIA reports that over the past four years, between April 2010 to April 2014, crude oil production volumes in Texas grew at an average annual rate of 28 percent.

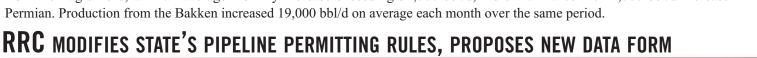
Meanwhile, as of April 2014, in the state of North Dakota, production broke 1.0 million bbl/d for the first time in history, nearly tripling the state's production in three years. Since April 2010, North Dakota has increased annual production on average by 37 percent, one of the highest rates in the nation.

Comparatively, during the last four years, the rest of the U.S. has had a 2 percent average annual growth of oil production. The EIA estimates that in the same time span, the Gulf of Mexico's crude oil production share declined from 27 percent to 17 percent.

Together, Texas and North Dakota now produce nearly half of the country's crude oil, says the EIA. As of April 2014, U.S. crude production was 8.4 million barrels per day (bbl/d), with the two states of Texas and North Dakota accounting for approximately 48 percent of this total.

Production gains are largely attributed to increased drilling activity in formations like South Texas' Eagle Ford Shale and the Permian Basin in West Texas. North Dakota's Bakken Shale has also experienced a spike in production output over the last few years, contributing to the large rise in the state's production levels. As operators continue to target unconventional tight oil and shale reservoirs, U.S. production is expected to keep rising at historic rates. This surge in domestic oil and gas development has helped make America one of the world's biggest energy producers, overtaking nations like Saudi Arabia and Russia.

In the agency's latest analysis, the EIA also notes that since April 2011, the largest monthly average increase in production has come from the Eagle Ford, with an average monthly increase exceeding 32,000 bbl/d, more than twice the 14,000 bbl/d increase in the Permian. Production from the Bakken increased 19,000 bbl/d on average each month over the same period.



At its open meeting on July 8, 2014, the Texas Railroad Commission (RRC) approved publication of amendments to Statewide Rule (SWR) 3.70, relating to pipeline permit procedures. Additionally, the commission approved publication for comment of the Form P-16, a proposed data sheet for acreage designation.

According to the commission, the proposed amendments to SWR 3.70 aim to clarify, and more specifically, prescribe the procedural requirements for a pipeline operator prior to identification as a common carrier, gas utility, or private line operator when applying for a new T-4 permit to operate a pipeline or when renewing, canceling or amending an existing T-4 permit.

The proposed amendments will be published in the July 25 issue of the Texas Register, and the comment period is set to end at noon on Monday, August 25, 2014.

To submit comments online, visit the following link: http://www.rrc.state.tx.us/legal/rules/proposed-rules/.

The Form P-16, as proposed, would be submitted for acreage designation by individual operators and filed in conjunction with each Form W-1 Application to Drill and each Form W-2/G-1 Completion or Recompletion report. As stated by the commission, the Form P-16 is for the determination of acreage credit. If approved, operators will file a Form P-16 for each oil and gas well in a lease and field and accordingly, will list the number of acres assigned to each well on the lease or unit.

Barring any substantial comments, the Form P-16 is set to be brought before the commission for approval on August 12, 2014.

President's Message

TIPRO Members -

Next Tuesday, July 15, the Denton City Council will host a public hearing regarding a proposed citywide ban on hydraulic fracturing. This is an important opportunity for our industry to voice our concerns over such a ban and explain the detrimental impact it would have on the city of Denton, as well as some of the unintended consequences for its citizens and minerals owners, if adopted.

As many of you are probably aware, earlier this year an environmental group known as the Denton Drilling Awareness Group collected enough signatures from city residents to put their ban proposal before members of the City Council. After all of the signatures received proper validation, the City Council announced it will take the matter up for consideration in accordance with city rules.

While in the past some residents have called for a ban on hydraulic fracturing, until now city leaders have accurately expressed apprehension that such a ban would not be legally defensible. To help address citizen concerns, however, the Denton City Council adopted new rules in early 2013, which included the establishment of a 1,200-foot setback between well sites and certain areas where people gather, including homes, parks, churches and schools. Despite those expanded local rules and requirements, anti-hydraulic fracturing proponents are seeking further appearement by propagating a proposed ban on fracing altogether. If successful, Denton would be the first major city in Texas to outright prohibit the practice, as well as the first U.S. city to do so after previously permitting drilling.

Once again we are seeing an industry that is responsible for building and supporting all areas of the Texas economy being targeted by east and west coast activists seeking to slow responsible hydrocarbon development through fear. Millions of dollars in funding from organizations unconcerned about the well-being of Texas citizens continues to funnel into our state and others across the country to advance "local control," anti-oil and natural gas oriented campaigns.

One thing seems certain, given the importance and potentially precedent-setting nature of this proposal, if adopted by voters, the Denton ordinance will face a wave of litigation challenging its legality. Other attempts to abuse local ordinances by using them to supersede state-regulated oil and natural gas activities are already triggering legal claims that such mandates are preempted by state oil and gas regulation and amount to uncompensated taking of the producers' property rights. Denton will be no different. Sadly, the legal costs incurred in the aftermath of ordinance adoption will not be borne by the opportunistic ringleaders currently sowing seeds of fear in Denton. That burden will be shouldered by the Denton taxpayers and city government. Those that planted and fostered the ideas that led to the ban proposal will be on their way to another town, beginning anew their campaign to alarm citizens into taking action that aligns with their radical ideals.

Local control measures targeting the oil and gas industry are not a new phenomenon; New York alone has generated nearly half of the country's local ordinances attempting to restrict or ban hydraulic fracturing. A recent ruling by a New York appeals court to allow the use of local zoning laws to ban hydraulic fracturing was seen as victory for environmentalists. However, the Denton proposal is an entirely different legal argument than the approach used in New York, as it is not seeking a ban through local zoning authority. Comparisons to New York that are actually worthy of consideration are those that compare the employers, employees, and economic benefits that are streaming away from states like New York and are on their way to Texas. When you consider this, is following the "New York model" really the best choice for the citizens of Denton?

The Texas oil and gas industry is governed by a regulatory structure envied by all other oil and gas producing states for its ability to simultaneously protect private property rights, public health and safety, all while allowing oil and natural gas producers to conduct their business and drive the state and local economies. Texas has been effectively and responsibly regulating oil and gas for over 100 years, and states like New York and California should be trying to emulate our system, not the other way around.

Texas leads the country in all aspects of oil and natural gas development due in large part to the state's pro-business environment and proactive, yet sensible, regulatory leadership. This critical industry and related revenue source also continue to provide funding that supports all levels of our economy, including public education, Medicaid, children's health insurance programs, infrastructure investment, child protective services, water conservation, and more. Since hydrocarbon development began in Denton, it is estimated that the city alone has generated more than \$30 million in revenue from natural gas production in the area.

For the Texas citizens that have concerns over hydraulic fracturing -- not the organizations funded by celebrity activists -- the amount of misinformation being shared is deafening. With the onslaught of fictional documentaries like *Gasland I & II*, both of which have been thoroughly debunked, and the additional anti-oil and gas rhetoric being spewed by those looking for a cause or paycheck, it's understandable why many may overestimate the environmental, health and safety risks of hydraulic fracturing, a process that has been used in 1.5 million wells over the past 60 years in the United States. Much like Hollywood, this is not reality.

The Texas oil and gas industry continues to evolve, as do the regulatory requirements placed on the energy sector. Unlike our federal government, this expanding regulatory framework at the state level is being accomplished without putting intentional burden on an industry that directly employees more than 420,000 Texas citizens and touches all aspects of our economy. The safety and well-being of Texas citizens, and the communities in which this industry operates, also continues to be of paramount importance to operators.

Do your part to prevent overreaching regulations from being placed unfairly on Texas businesses — plan to attend the next Denton City Council hearing on July 15 to offer public testimony or a card in opposition of the hydraulic fracturing ban ordinance. Keep Texas great by supporting an industry that has helped our state prosper. Thank you.

Edwin forganed

"U.S. SUPREME COURT RULES ON GHG PERMITTING"

By Christina Wisdom, of counsel, Gardere Wynne Sewell LLP

On June 23, 2014, the U.S. Supreme Court issued a ruling on the federal government's regulation of greenhouse gases (GHGs) for mobile sources. The justices found that:

- 1) The Clean Air Act does not compel the U.S. Environmental Protection Agency's (EPA) interpretation that the regulation of GHGs for mobile sources extends to GHG regulation for stationary sources on the sole basis of a source's potential to emit (PTE) GHGs. Under the Supreme Court's Massachusetts v. EPA decision, the general Clean Air Act definition of "air pollutant" includes GHGs. But the Court held that the EPA overstepped its authority when it applied the Act-wide definition of "air pollutant" to the specific PSD and Title V programs. The Court provided examples of other programs in the Clean Air Act (i.e., PSD and Title V) where the EPA routinely gave the term "air pollutant" a narrower, context-appropriate meaning.
- 2) Not only does the Clean Air Act not compel the EPA's interpretation, it does not allow the EPA's interpretation that regulation of GHGs from mobile sources triggers regulation of GHGs from stationary sources. As a reminder, when the EPA promulgated the Tailoring Rule, it changed the 100/250 tons per year (tpy) thresholds to 75,000/100,000 tpy for GHG emissions to make GHG permitting fall more reasonably within the PSD and Title V permitting schemes. The Court held that the EPA lacked the authority to "tailor" the Clean Air Act's unambiguous numerical thresholds of 100/250 tpy to accommodate GHG permitting. In a nutshell, the GHG permitting thresholds established by the EPA were overturned. The Court stated, "The power to execute the laws does not include a power to revise clear statutory terms that turn out not to work in practice."
 - a. Here is another very instructive quote: "In the Tailoring Rule, the EPA asserts newfound authority to regulate millions of small sources including retail stores, offices, apartment buildings, shopping centers, schools and churches and to decide, on an ongoing basis and without regard for the thresholds prescribed by Congress, how many of those sources to regulate. We are not willing to stand on the dock and wave goodbye as the EPA embarks on this multi-year voyage of discovery... an agency may not rewrite clear statutory terms to suit its own sense of how the statute should operate."
- 3) That said, the Court held that the EPA reasonably interpreted the Clean Air Act to require sources that would need permits based on their emissions of conventional pollutants (i.e., the 6 criteria pollutants) to comply with BACT for GHGs. This is the argument put forth by the American Chemistry Council (ACC), which supported requiring sources that have to get a PSD permit anyway for conventional pollutants to also install BACT for GHGs ("anyway" sources). However, the Court noted, "The EPA may require an 'anyway' source to comply with GHG BACT only if the source emits more than a de minimis amount of GHGs... the EPA may establish an appropriate de minimis threshold below which BACT is not required for a source's GHG emissions. We do not hold that 75,000 tpy CO2e necessarily exceeds a true de minimis level, only that the EPA must justify its selection on proper grounds." Based on this sentence, it appears that the EPA will have to go back to the drawing board and through rulemaking, establish a de minimis level "on proper grounds" prior to requiring "anyway" sources to install BACT for GHGs.

Moving forward, it will be interesting to see the impact of this decision by the Supreme Court. In the recent GHG permitting rules adopted by the Texas Commission on Environmental Quality (TCEQ), there is a provision that compels the state to not issue GHG permits if there is a change in federal law. Therefore, it is unlikely the TCEQ will move forward with issuing any new GHG permits anytime soon.

House Energy Resources Committee receives new interim charge

At the direction of House Speaker Joe Straus, during the interim legislative session, the Texas House Committees on Energy Resources and International Trade & Intergovernmental Affairs will examine the impact of the recent expansion of oil and gas production in Northern Mexico on Texas's economy and businesses. In the coming months, the joint committees will also assess opportunities for economic growth in Texas and collaboration between Texas businesses and Mexico resulting from Mexico's energy reform, including Mexico's efforts to recover shale gas from the Eagle Ford Shale.

Mexico has increasingly eyed oil and gas reserves locked away in shale formations, including the Eagle Ford, which expands past the South Texas border, along with other prospective basins. The country ranks eighth in the world in terms of oil and condensate technically recoverable from shale, and sixth in the world in terms of shale gas potential. In recent years, the country has taken steps towards initiating its own shale boom, hoping to mimic the success of the U.S. Last December, Mexico enacted constitutional reforms which helped to ease investment restrictions and tax obligations for the state oil company Pemex, as well as allow for investment from outside the country for the first time in 75 years.

TIPRO Calendar of Events

AUGUST 7-9, 2014 SAN ANTONIO — TIPRO's Summer Conference & Golf Tournament, Hyatt Hill Country Resort.

For info, call: (512) 477-4452.

AUGUST 13, 2014 HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (832) 233-5502.

AUGUST 20-22, 2014
HOUSTON — NAPE
South Expo,
George R. Brown
Convention Center.
For info, call: (817) 847-7700.

SEPTEMBER 10, 2014
HOUSTON — IPAA/TIPRO
Leaders in Industry
Luncheon, 11:30 a.m.
Houston Petroleum Club.
For info, call: (832) 233-5502.

EPA STILL ACCEPTING COMMENTS ON POTENTIAL FRAC FLUID DISCLOSURE RULE

The U.S. Environmental Protection Agency (EPA) is still collecting public input on a proposed rulemaking which would require operators to disclose chemical substances and mixtures used during hydraulic fracturing. The agency is also soliciting comment on the best mechanism for obtaining this information, which could be regulatory, voluntary, or a combination of both. In addition, the agency is seeking comment on ways of minimizing reporting burdens and costs and of avoiding the duplication of state and other federal agency information collections, while at the same time maximizing data available for EPA risk characterization, external transparency, and public understanding.

The federal agency first published an announcement through the Federal Register on May 19 indicating its intention to develop new regulations on hydraulic fracturing in response to a citizen petition submitted under section 21 of the Toxic Substances Control Act (TSCA). The EPA hopes that new disclosure rules will promote transparency and safety of unconventional oil and gas activities while at the same time strengthening protection of air, water, land and communities. Following the 90-day comment period, the agency says it will evaluate all submitted comments as it considers appropriate next steps to take.

The EPA notes that under the new rules, a variety of companies could be subject to reporting under TSCA section 8(a), including: chemical manufacturers, chemical suppliers who engage in processing, service providers mixing chemicals on site to create the hydraulic fracturing fluids, and service providers responsible for injecting the hydraulic fracturing fluid into the well to fracture the formation.

The EPA maintains it will continue to coordinate with other branches of the federal government, including the U.S. Department of Interior (DOI) and the Bureau of Land Management (BLM), to ensure any new regulations provide useful information for assessment and disclosure purposes, while not overly burdening reporting entities.

Stakeholders interested in submitting comment on this potential rulemaking may do so online by visiting <u>regulations.gov</u> and search for Docket number EPA-HQ-OPPT-2011-1019. Comments may also be mailed directly to the EPA, addressed to: the Document Control Office (7407M), Office of Pollution Prevention and Toxics (OPPT), Environmental Protection Agency, 1200 Pennsylvania Ave., NW, Washington, DC 20460-0001.

Comments are due by August 18, 2014.

LINN Energy announces \$2.3 billion acquisition of Devon assets

On June 30, 2014, Oklahoma-based operator Devon Energy Corporation revealed that it will sell all of its non-core U.S. oil and gas properties to LINN Energy for \$2.3 billion. The deal covers Devon's remaining assets targeted for divestiture, and includes approximately 900,000 net acres across the Rockies, Mid-Continent, east Texas, north Louisiana and south Texas regions, with close to 4,500 total wells.

"With the sale of our remaining non-core assets, the portfolio transformation that we announced late last year is now complete," commented John Richels, president and chief executive officer of Devon Energy. "In a short period of time we transformed our portfolio through three significant steps: the accretive Eagle Ford entry, the innovative creation of EnLink Midstream and the sale of our non-core properties. The sale of Canadian and U.S. non-core properties over the past few months has generated in excess of \$5 billion of proceeds at an accretive multiple of nearly seven times 2013 earnings before interest, taxes, depreciation and amortization (EBITDA)."

Richels added, "Devon is now concentrated in some of the most attractive North American resource plays, with liquids expected to approach 60 percent of our production by year-end and multi-year oil production growth projected to be in excess of 20 percent.



In addition to creating a platform that supports competitive and high-margin growth, we remain committed to maintaining strong investment-grade credit ratings. Upon completion of this transaction we will have reduced our net debt by more than \$4 billion this year."

The assets involved with this deal currently produce approximately 275 million cubic feet equivalent per day (MMcfe/d), of which almost 80 percent of which is natural gas, with a shallow base decline of nearly 14 percent. Total proved reserves are estimated to be between 1.3-1.5 trillion cubic feet equivalent (Tcfe), with total resource potential of approximately 3 Tcfe.

"Early in 2014, we outlined four keys to success at LINN: realize value for the Midland Basin position; continue to make accretive acquisitions; reduce capital intensity while increasing efficiency; and improve credit metrics," said Mark E. Ellis, chairman, president and chief executive officer of LINN Energy. "We believe [this] announcement is a positive development in achieving these objectives. As we enter into the second half of the year, we remain committed to these important goals."

The transaction is expected to close in the third quarter of 2014, with an effective date of April 1, 2014.

LINN also announced the company plans to sell its position in the Granite Wash and Cleveland plays located in the Texas Panhandle and western Oklahoma.

TIPRO'S SUMMER CONFERENCE IS 1 MONTH AWAY - REGISTER TODAY!

Register today for TIPRO's 2014 Summer Conference & Golf Tournament! This year's meeting is scheduled to be held at the Hyatt Hill Country Resort & Spa in San Antonio, Texas, on August 7-9.

This annual event brings together independent producers, royalty owners, industry leaders, government officials and other oil and gas professionals, providing a platform to discuss current and future challenges for the Texas E&P sector.

Conference agenda:

Thursday, August 7, 2014

1:30 p.m. Audit Committee Meeting

3:00 p.m. Board Meeting

5:30 p.m. Welcome Reception

Friday, August 8, 2014

8:00 a.m. Breakfast

8:30 a.m. Ryan Sitton,

Candidate for the Texas Railroad Commission

9:15 a.m. Speaker To Be Announced

10:15 a.m. Endangered Species Discussion

Sean Kyle,

Texas Parks & Wildlife Department

Noon Keynote Luncheon

Timothy L. Dove,

President & Chief Operating Officer, Pioneer Natural Resources

2:00 p.m. Crude Oil and LNG Export Update

Jason French,

Director of Government Affairs, Cheniere

2:30 p.m. 2014 Election Outlook

Steve Koebele,

Attorney at Law, Government Relations Consultant

3:30 p.m. Speaker To Be Announced

4:30 p.m. Break

6:30 p.m. Chairman's Dinner & Casino Night

Saturday, August 9, 2014

7:30 a.m. TIPRO's Annual Golf Tournament

TIPRO's Summer Meeting also provides several opportunities to network with other members of the association and form new business connections. To register to attend, please fill out and return the forms in this newsletter, or call (512) 477-4452. Online registration is also available at www.tipro.org.

TIME'S RUNNING OUT TO BOOK YOUR HOTEL ACCOMODATIONS!

Don't forget to reserve your room at the Hyatt Hill Country Resort! To book your reservation, call the Hyatt Hill Country at (210) 647-1234. Ask for the TIPRO rate of \$196. You can also reserve your room online by visiting the following website: http://bit.ly/lqVhbTi.

Please note that the deadline for the group discount at the Hyatt will be July 17, 2014.

CONFERENCE REGISTRATION INFORMATION

REGISTRATION FEES:

MEMBER FEES: (Includes all conference sessions & meals) Member: \$395 Spouse: \$245 CHILDREN: 13-17 Years Old: \$100 12 Years Old - Under: Free Dinner-Only Ticket: \$150

NON-MEMBER FEES:

(Includes all conference sessions & meals)

□ Non-Member*: \$595

*Registration also includes 1 year regular TIPRO Membership

□ Non-Member Spouse: \$295

CHILDREN:

- ☐ 13-17 Years Old: \$100
- ☐ 12 Years Old Under: Free
- ☐ Dinner-Only Ticket: \$250



ATTENDEE INFORMATION:

Attendee Name:			Registered Spouse:			
Company:						
Address:						
City/State/Zip Code:						
Email Address:						
Phone:		Fax:				
Children's Names:						
T-Shirt Size (please indicate		,	_SmallMedit	ımLarge _	XLarge	XXLarg
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DATE:

Saturday, August 9, 2014

TEE TIME:

7:30 a.m.

LOCATION:

Hyatt Hill Country Resort San Antonio, Texas

FORMAT:

Four-Man Scramble

COMPETITIONS:

Hole-in-One Car Giveaway, Longest Drive Contest, Closest to the Pin. and much more!

FOURSOME:

\$700

INDIVIDUAL:

\$200

QUESTIONS?

Contact TIPRO at (512) 477-4452 or email info@tipro.org.



GOLF SPONSORSHIPS:

☐ 19TH HOLE LUNCHEON & AWARDS SPONSOR*: \$5,000

Receive 2 complimentary golf registrations, 1 complimentary meeting registration, company logo featured on tournament trophies, exclusive opportunity to present golf awards and company logo prominently displayed on all event signage.

☐ GOLF GOODIE BAG SPONSOR*: \$2,000

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☐ GOLF TOWEL SPONSOR*: \$2,000

Receive 1 complimentary golf registration and company logo featured on golf tournament towel.

☐-GOLF HAT SPONSOR*: \$2,000 *SOLD OUT*

Receive 1 complimentary golf registration and company logo printed on golf tournament hat.

3-DIVOT TOOL & BALL MARKER SET SPONSOR*: \$1.500 *SOLD OUT*

Receive 1 complimentary golf registration and company logo printed on divot tool & ball marker set.

☐ BEVERACE CART SPONSOR (2 SPONSORSHIPS AVAILABLE): \$1,500 *SOLD OUT*

Receive 1 complimentary golf registration and company logo featured on tournament beverage carts. Sponsors may use golf cart to interact with and hand out promotional items to tournament participants.

☐ DRIVING RANGE SPONSOR*: \$750

Receive 1 complimentary golf registration and company logo displayed prominently on signage on driving range prior to tournament.

□ HOLE SPONSOR: \$500

Company logo on signage and opportunity to interact with tournament participants at assigned tee box. *One sponsorship available

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PAYMENT:

Total: \$_____ Method of payment(please check desired option):

Check #_____, made payble to TIPRO

[] Charge my: □ VISA □ MASTERCARD □ AMEX

Name Company

Phone Number Credit Card Number Exp. Date

Billing Address Security Code Signature



TEXAS INDEPENDENT PRODUCERS & ROYALTY OWNERS ASSOCIATION

SUMMER CONFERENCE & GOLF TOURNAMENT

AUGUST 7-9, 2014 ★ SAN ANTONIO, TEXAS

THIS ANNUAL ASSOCIATION MEETING IS JUST ONE MONTH AWAY! VISIT WWW.TIPRO.ORG TO REGISTER TO ATTEND.



Texas Independent
Producers &
Royalty Owners
Association

With more than 2,500 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.

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