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TIPRO
Texas Independent Producers and Royalty Owners Association

TIPRO sues City of Arlington, fights unconstitutional tax on behalf of members

The Texas Independent Producers & Royalty Owners Association (TIPRO) and the Texas Oil & Gas Association (TXOGA) are disappointed that the City of Arlington refused to collaborate with local oil and gas operators regarding changes to the City Fire Code that would impose an additional $800,000 tax - per year - for oil and natural gas companies operating in the city.

The City of Arlington plans to charge oil and natural gas operators $2,400 per well, per year, creating a new tax that will not enhance public safety, according to Deb Hastings, executive vice president of TXOGA. City officials have not been able to explain how the new tax will increase public safety as it relates to oil and natural gas operations.

"This new Fire Code tax is unnecessary because natural gas well operators are already responsible for reimbursing the City of Arlington for costs incurred in the unlikely event that an incident occurs on a gas well site," said Justin Furnace, president of TIPRO. This obligation is included in the Amended Gas Well Drilling Ordinance the City of Arlington adopted in December 2011.

"Safety is the top priority of oil and natural gas operators. In addition to maintaining their own emergency responders on call 24-hours-a-day, 365 days a year, local oil and natural gas operators have offered to provide the Arlington Fire Department with training - free of charge. The City has repeatedly declined," said Hastings. "Even though fires at oil and natural gas well sites are very rare, oil and gas operators routinely provide free training to local fire departments and emergency response teams across Texas."

> **"UNWARRANTED AND DISCRIMINATORY TAXES MAKE THE CITY OF ARLINGTON UNATTRACTIVE FOR OIL AND NATURAL GAS OPERATORS TO INVEST AND CREATE JOBS IN THIS COMMUNITY," --JUSTIN FURNACE**

"After months of unsuccessful industry attempts to collaborate with city officials on this issue, unfortunately, it appears the City plans to exploit an opportunity to expand its revenues by taxing a single industry. The proposed oil and gas fire code tax is up to seven-times higher than permit fees the City charges similarly situated businesses that have flammable and combustible substances on site," added Hastings.

Story continued on page 6...

Dept. of Interior unveils proposed regulations for hydraulic fracturing

The U.S. Department of Interior's Bureau of Land Management will impose new regulations on the oil and gas industry, aimed at enhancing public awareness of hydraulic fracturing. The federal agency announced its proposed rules on Friday, May 4, 2012. The new rules will require oil and gas operators to publicly disclose the chemicals used in hydraulic fracturing operations on public and Indian lands, after fracturing operations have been completed. The rules also establish new standards for well-bore integrity, and will include new guidelines for managing flowback water from fracturing operations.

"It is critical that the public have full confidence that the right safety and environmental protections are in place," said Secretary of the Interior Ken Salazar. "The proposed rules will modernize our management of well stimulation activities – including hydraulic fracturing – to make sure that fracturing operations conducted on public and Indian lands follow common-sense industry best practices."

The Department of Interior originally announced it would develop the new regulations for hydraulic fracturing in November 2011, as the agency seeks to update regulations originally written in 1982.

The newly proposed regulations will apply to operators that drill on the 700 million subsurface acres of federal estate and 56 million subsurface acres of Indian mineral estate.

A 60-day comment period will begin after the rules are published in the Federal Register, during which time the public, government agencies, the oil and gas industry and other stakeholders will be allowed to submit their feedback.

The Dept. of Interior intends to implement the new rules by the end of this year.

Story continued on page 7...

PRESIDENT'S MESSAGE

Justin Furnace

TIPRO Members-

Following the recent announcement of proposed rules on hydraulic fracturing chemical disclosure from the U.S. Department of Interior, it seems another federal agency has put a target on the oil and gas industry's back. Despite claiming to have an "all-of-the-above" energy policy, the federal government continues to try to impose unnecessary, restrictive regulations that limit domestic development of oil and gas. In addition to the U.S. Environmental Protection Agency (EPA) and U.S. Fish and Wildlife Service (USFWS), the U.S. Department of Interior is the latest federal agency to propose regulations that could negatively impact drilling for oil and gas.

Here in Texas, we appreciate the need to educate the public on industry operations. That is why over a year ago, during the 82nd Legislative Session, the oil and gas industry joined state legislators and regulators to develop and pass a new law requiring the disclosure of fluids used in the hydraulic fracturing process. Although these chemical additives generally represent less than 0.5 percent of the total fluid volume used during hydraulic fracturing, with water and sand making up the remaining 99.5 percent of the composition, nonetheless we strive to help the public understand the safety of hydraulic fracturing. Our state now has some of the most comprehensive hydraulic fracturing chemical disclosure requirements in the entire country, allowing Texans to view all of the chemical ingredients and water volumes used to hydraulically fracture wells in Texas.

Moreover, before the state law was even passed, many Texas operators had made it their standard practice to voluntarily submit data to the hydraulic fracturing chemical registry website (fracfocus.org) in an effort to increase transparency concerning hydraulic fracturing and groundwater protection. As an industry, we continue to seek to help others outside the business understand the process of hydraulic fracturing, an operation that has been occurring safely in Texas for more than 60 years.

With such an effective system already in place in the Lone Star State, the implementation of redundant, expensive federal regulations will cause unnecessary burdens on oil and gas producers. These excessive, bureaucratic hurdles delay operations and slow domestic production significantly. At a time when our country is reaping the benefits of growing production from shale formations, we shouldn't allow for our own federal government to shoot us in the foot.

Industry oversight should be handled by each state, not the federal government. States have the ability to effectively impose regulations on industry activity, using scientific facts and due cause before imposing new rules.

On a side note, I want to encourage all of you to vote in the primary elections, now open for early voting. There are several important seats to vote on, including two positions for Railroad Commissioner. Considering state officials play a large role in overseeing the oil and gas industry, it is critical we each exercise our right to vote and put the right candidates in office.

Sincerely,

FOLLOW TIPRO ONLINE TO RECEIVE UP-TO-THE-MINUTE INDUSTRY NEWS

Follow the **Texas Independent Producers & Royalty Owners Association** online to learn the latest that is happening in the oil and gas industry. From Twitter to Facebook and LinkedIn, TIPRO's social media accounts offer innovative ways to get information and connect with other professionals in the industry.

Visit our website at www.tipro.org to learn more.

Calendar of Events

JUNE 13, 2012	JULY 11, 2012	AUGUST 8, 2012	AUGUST 9-11, 2012
HOUSTON IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (713) 503-1298.	HOUSTON IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (713) 503-1298.	HOUSTON IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (713) 503-1298.	GALVESTON TIPRO s Summer Conference & Golf Tournament, Moody Gardens. For info, call: (512) 477-4452.

New report reveals substantial economic impact of the Eagle Ford Shale

Development of oil and gas in the Eagle Ford Shale generated more than $25 Billion in revenue for South Texas in 2011, according to a new study released by the Center for Community and Business Research at The University of Texas at San Antonio's Institute for Economic Development (UTSA). The study also revealed industry operations supported more than 47,000 full-time jobs in 2011, with $3.1 billion paid in salaries and benefits to workers. Industry also provided more than $12.6 billion in gross regional product, supplied over $257 million in local government taxes and added $358 million in state revenues, including $120.4 million in severance taxes. Royalty, lease and right-of-way payments to landowners added additional wealth to the region.

"The Eagle Ford Shale has proven to be one of the most important economic engines in the state," said Dr. Thomas Tunstall, director of the UTSA Center for Community & Business Research, and the study's principal investigator.

The new UTSA study assessed economic impact in the 14 counties currently producing oil and natural gas from the formation, including: Atascosa, Bee, DeWitt, Dimmit, Frio, Gonzales, Karnes, La Salle, Live Oak, Maverick, McMullen, Webb, Wilson and Zavala counties. Additionally, analysis was conducted on six surrounding counties indirectly involved in Eagle Ford development, including: Bexar, Jim Wells, Nueces, San Patricio, Uvalde and Victoria counties.

Throughout the full 20-county area, the study projects Eagle Ford activity will continue to have significant economic impact in the next 10 years. By 2021, experts predict:

- 116,972 full-time jobs will be supported
- $7.7 billion in salaries and benefits will be paid to workers
- $42 billion provided in gross regional product (value added)
- $1.09 billion will be added to local government coffers
- $1.76 billion will be paid to the state

"We view the Eagle Ford activity as an economic opportunity of a lifetime," commented Mario Hernandez, president of the San Antonio Economic Development Foundation. "The key goal is the increase in investment and jobs. And if the communities will partner with the private companies that are creating these jobs, it can be a win-win for everybody."

Since the first well was drilled in the Eagle Ford in 2008, production in the region has skyrocketed, far exceeding expectations. Oil production increased by more than six times from 2010 to 2011, reaching 28,315,540 barrels (bbls) in 2011. Condensate production tripled during the same time period, equal to approximately 21,089,214 bbls in 2011, in addition to gas production in 2011 more than double the amount in 2010, with 2011 production at 271,831,688 thousand cubic feet (mcf).

Over the next 10 years, approximately 25,104 new oil and gas wells are projected to be built in the Eagle Ford Shale. Oil production in the region is expected to total 168,956,000 bbls by 2021, condensate production should reach 125,837,000 bbls and gas production is expected to total 864,923,000 mcf. Additionally, casinghead production is forecasted to equal 121,380,000 mcf in the next ten years of development.

"This is the biggest onshore oil and gas play in the country, and it's right on our door step in San Antonio," said Curt Anastasio, president and CEO of NuStar Energy L.P., of the potential from the Shale play. "This is all made in America - this is American technology to develop American natural resources benefiting American jobs. So it's a tremendous story, not just for our region but for the country."

Local communities in South Texas benefit from increasing development of oil and gas in the shale formation. For instance, as detailed in the report, the city of Beeville has embarked on several city improvement projects which are expected to enhance the town's junior college, hospital, public school system, retail stores and recreational facilities. Other towns in the region are expected to do the same in coming years, with several new schools and hospitals in the works.

This latest UTSA study is part one of three which will analyze Eagle Ford activity and its impact in South Texas. The second portion of the study, expected to be released this summer, will focus on occupational and workforce impacts. The third and final section of the study will examine the Eagle Ford's impact at the county level.

Ex-EPA Official to testify before Congress on June 6

Al Armendariz, former director of the U.S. Environmental Protection Agency's (EPA) Region VI office, has agreed to testify at an upcoming hearing of the U.S. House Energy and Commerce Committee, which will examine EPA enforcement policy.

Armendariz, who was responsible for managing EPA activities in Texas and other states in the South Central region, resigned on April 29, 2012, after a video surfaced from a 2010 town hall meeting in which the regulator compared the EPA's enforcement policy to "crucifying" oil and gas companies.

"I was in a meeting once and I gave an analogy to my staff about my philosophy of enforcement," said Armendariz. "It is kind of like how the Romans used to conquer the villages in the Mediterranean — they'd go into a little Turkish town somewhere and they'd find the first five guys they saw and they'd crucify them. You find people who are not complying with the law and you hit them as hard as you can and you make examples out of them."

Since Armendariz's resignation, a number of elected officials and state regulators have called for a full investigation of the federal agency's enforcement priorities and practices. Specifically, members of the House Energy and Commerce Committee hope to shed light on how the "crucify" enforcement policy might have impacted cases against oil and gas producers, including the previous case against Range Resources in Parker County, Texas. The EPA had alleged the company was responsible for methane contamination of two private water wells, but later dropped the case after finding the company was not at fault.

Armendariz will testify before the House Energy and Commerce Committee on June 6, 2012.

Interior Secretary Ken Salazar makes trip to West Texas ahead of Lizard decision

With just weeks to go before the U.S. Fish & Wildlife Service (USFWS) must make a final decision whether to list the Dunes Sagebrush Lizard as endangered, Interior Secretary Ken Salazar made a special trip on May 9, 2012, to the Permian Basin to meet with members of the oil and gas industry to better understand the significant role of Texas energy development. Joined by Dan Ashe, director of the USFWS, the two officials wanted to get a first-hand view of oil and gas operations in the region and witness industry efforts to protect the environment.

"I'm hopeful that after visiting the Permian Basin Secretary Salazar will see firsthand the insurmountable cost that listing this species will mean for West Texans," commented Sen. John Cornyn on Salazar's visit to Texas. "As gas prices remain high and job growth stays stagnant, I encourage the Administration to do the right thing by protecting Texas jobs and promoting red, white, and blue energy here at home."

The USFWS proposed the lizard as endangered in December 2010, and must make a final decision on the status of the lizard by June 2012. The agency extended the original deadline of December 2011 to make a determination in order to grant officials the maximum amount of time to collect, review and analyze public comment on the proposal. By law, the USFWS must make its listing decision based upon the best available science at the time.

"I will continue to work closely with industry and the public to ensure this lizard is not listed as threatened or endangered," said Railroad Commission Chairman Barry Smitherman. "Even though our goal is to stop the listing in the first place, I am gearing up for a court challenge should the Obama Administration decide to list this lizard. I'm already challenging a half-dozen politically motivated Obama regulations in various courts. This will be one more I will fight to the finish."

The Permian Basin, the prime habitat for the lizard, produces over one million barrels of oil and over one billion cubic feet of natural gas per day. All together, this production accounts for approximately 20 percent of all oil produced in the United States.

U.S. carbon emissions decline due to increased use of natural gas

By Dr. Ed Ireland

The United States Energy Information Agency (EIA) released its "Annual Energy Outlook 2012" earlier this year. The annual report shows that emissions of carbon dioxide in the U.S. are now lower than levels in the year 2000 and are predicted to continue to decline through the year 2035 (which is the extent of the study projection).

What caused this decline? It wasn't stringent worldwide carbon reduction agreements. And, new carbon reduction regulations from the Environmental Protection Agency didn't bring about the change. In fact, carbon regulations had nothing to do with it—but natural gas did. The primary reason for the continued decline in carbon emissions is the increasing number of natural gas-fired electricity generating plants, thanks to the shale gas discoveries in the United States.

The EIA first took notice of the contribution that natural gas was making to reductions in carbon dioxide emissions in their May 2010 report entitled "U. S. Carbon Dioxide Emissions in 2009: A Retrospective Review," in which the organization noted: "The 4-percent drop in the carbon intensity of the electric power sector, the largest in recent times, reflects a large increase in the use of lower-carbon natural gas because of an almost 50-percent decline in its price."

These statistics tell the story:

- U.S. power plants are now producing 64 percent more power from natural gas than was produced in 2000.
- Natural gas powered electric plants emit 40 percent less carbon dioxide than coal powered plants.
- Natural gas power emits 20 percent of the carbon monoxide of coal power, 20 percent of the nitrogen oxides or NOx (an ozone precursor) and less than 1 percent of the sulfur dioxide, particulates and mercury of coal power.

So, thanks to the free market, private companies have developed the means to reduce carbon dioxide emissions. This is in spite of the myriad of regulations that limit and/or stop natural gas development in the United States, and the anti-frac'ing activists that continue to stop the development of domestic shale gas.

The importance of shale gas, as mentioned in the EIA energy outlook, is staggering. The EIA expects shale gas to increase from its current 23 percent of domestic natural gas production to 49 percent in the next 22 years. And, remember that shale gas was virtually non-existent just 10 years ago when the Barnett Shale was just starting to be developed.

All this said, the 100-year supply of natural gas that is currently projected changes the fuel mix for electricity generation in this country. By 2035, the EIA projects that the share of natural gas that contributes to electric power generation will increase from currently 24 percent to 27 percent, while reliance on coal-fired plants declines from 49 percent seen in 2007 to 39 percent over the same period. The contribution of renewable energy also increases from 10 percent to 16 percent.

The result is lower carbon dioxide levels in 2035 than we had in previous years. The EIA notes that carbon dioxide emissions will grow an estimated 3 percent to a total of 5,806 million metric tons in 2035, which leaves them more than 7 percent below the 2005 total. The EIA also notes that emissions per capita fall by an average of 1 percent per year from 2005 to 2035.

In his 2012 State of the Union speech, President Obama recognized the importance of shale gas in the United States:

> "We have a supply of natural gas that can last America nearly 100 years. And my administration will take every possible action to safely develop this energy. Experts believe this will support more than 600,000 jobs by the end of the decade. The development of natural gas will create jobs and power trucks and factories that are cleaner and cheaper, proving that we don't have to choose between our environment and our economy."

In the discussion of what is valuable to our country, natural gas continues to be a topic of interest — and for good reason. The contribution that natural gas has made, and will continue to make for decades, to lower levels of carbon dioxide should be welcome news for Texans living in the Barnett Shale and all Americans alike.

EPA finds water to be safe in Dimock, Pennsylvania

After conducting a final round of tests on water wells in Dimock, Pennsylvania, the U.S. Environmental Protection Agency (EPA) has deemed water quality as safe to drink.

Between January and March, the EPA sampled the well water of 61 homes located near the northeastern Pennsylvania town. Results of the extensive analysis confirmed acceptable water quality.

"This set of sampling did not show levels of contaminants that would give EPA reason to take further action," said Roy Seneca, spokesman for the regional EPA office.

The EPA's recent results match analysis previously provided by state-certified laboratories and the Pennsylvania Deptartment of Environmental Protection (DEP). In their own investigation of the area's water quality, state regulators found that data "does not indicate that the well waters present an immediate health threat."

Cabot Oil and Gas Corp., the drilling company most active in the township, commented that it is "pleased the EPA has now reached the same conclusion of Cabot and state and local authorities resulting from the collection of more than 10,000 pages of hard data - that the water in Dimock meets all regulatory standards."

TIPRO sues City of Arlington... continued from page 1

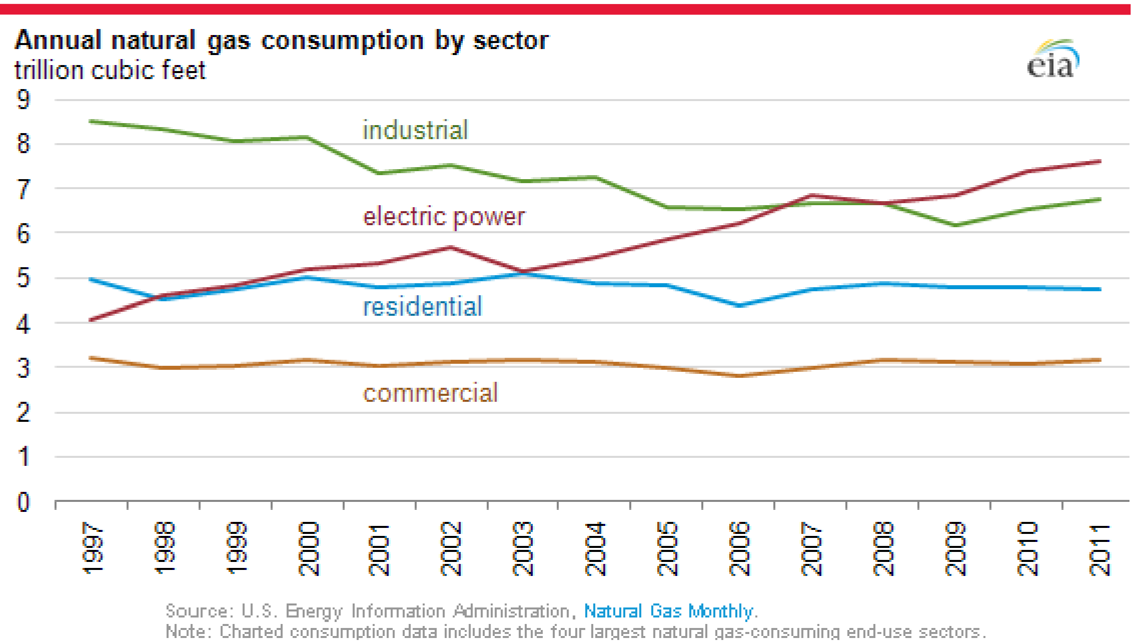
"It's disheartening to see the City pursue such discriminatory conduct toward an industry that has provided enormous economic benefits to its residents," she said.

"Tens of thousands of North Texas residents and their families depend on high quality oil and natural gas jobs. Additionally, local mineral owners receive income from oil and natural gas operations. And the Arlington Tomorrow Foundation was created specifically to oversee an endowment fund created by natural gas revenues generated from mineral leases on City-owned property," said Furnace. Since its inception, the Foundation has received income in excess of $75 million and distributed almost $6 million in grants to more than 200 projects serving Arlington residents, according to the Foundation.

"The City of Arlington already imposes the highest fees for oil and natural gas operations in North Texas. Operators paid $1.8 million in city fees in 2011 alone and the City received $2.5 million in mineral ad valorem revenues. And the City of Arlington received an additional $105 million in bonuses and royalties over a five year period ending in 2011," said Hastings. "We believe the new tax is not only unnecessary from a public safety perspective, but also unconstitutional and in violation of Texas law, leaving no option but to take the issue before the court to examine." The lawsuit was filed Monday, May 7, 2012, with the District Court of Tarrant County.

"Unwarranted and discriminatory taxes make the City of Arlington unattractive for oil and natural gas operators to invest and create jobs in this community," said Furnace. "We are hopeful that the court will resolve this issue in a way that allows local oil and natural gas operators to continue to deliver substantial economic benefits for people of Arlington and all of North Texas."

Shifting patterns in consumption of natural gas



Domestic consumption of natural gas is growing, according to the U.S. Energy Information Administration (EIA). The EIA reports that between 1997 and 2011, the total consumption of natural gas in the United States is up, with even greater expansion in consumption seen in individual business sectors.

The electric power sector is now the largest natural gas-consuming sector, exceeding natural gas consumption of the industrial sector since early 2009. Over the last decade, the electric power sector has greatly enhanced natural gas-fired capacity in order to generate electricity, shifting away from coal-fired generation. This change in consumption is attributed to declining prices of natural gas coupled with rising coal prices. This shift towards natural gas was first seen in the Southeast, where coal-fired power was more expensive due to the cost of transporting coal over long distances. As energy needs continue to grow, natural gas-fired plants are expected to account for nearly 46 percent of new facilities, according to the EIA, due to the fact they are cleaner, more efficient and cheaper to build than other energy sources.

Meanwhile, in the industrial sector, where natural gas is often used for process heating, steam generation, onsite electricity generation, space heating, and petrochemical processing, consumption is up due to low natural gas prices. This is a reverse in trend, as between the mid-1990s and 2009 rising prices of natural gas resulted in declining consumption in this sector.

Residential and commercial consumption of natural gas, primarily used for space heating, water heating, and cooking, remains steady. However, the number of household using natural gas or space heating has increased over recent years, allowing more to use natural gas to heat their home as opposed to heating oil. More than 60 million homes in the U.S. already use natural gas.

Weather and extreme seasonal patterns continue to have a large influence on natural gas consumption among all sectors.

Already, approximately 98 percent of natural gas used in America comes from sources in North America. Natural gas remains an abundant, available alternative that has the potential to fuel America for generations to come. Increasing development of natural gas in shale formations across the country helps to create direct and indirect employment opportunities for Americans, and supplies financial support to local, state and federal coffers.

Pictures from TIPRO's 3rd Annual East Texas Conference in Kilgore!

Dept. of Interior proposes new industry regulations... continued from page 1

In the state of Texas, all operators are already mandated by Statewide Rule 29 (16 Tex. Admin. Code 3.29) to publicly disclose chemical ingredients and total water used during the hydraulic fracturing process. Under the rule, one of the most comprehensive in the nation, operators must report all chemical components and water used in the fracing process on the national hydraulic fracturing registry website fracfocus.org.

Other states, such as Colorado, Montana and North Dakota, also require full disclosure of chemicals used in the hydraulic fracturing process. State regulators are getting it right - before federal agencies have time or resources to act.

Oversight of industry operations should remain in the hands of state governments, as they are fully capable of effectively regulating oil and gas development. States are able to enact rules based on the specific geologic conditions of the land and are better suited to enforce rules, as opposed to the federal government. Additional, unnecessary regulation by federal agencies imposes financial burden on operators and slows production of domestic resources.

TIPRO

Texas Independent Producers & Royalty Owners Association

With more than 2,300 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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