



**Texas
Independent
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ELECTION RESULTS ARE IN: HOW THE 2012 ELECTION COULD IMPACT OIL AND GAS DEVELOPMENT

On Tuesday, November 6, 2012, the American public showed up in force at polling locations to cast their vote for the next leaders of our government. The 2012 General Election will go down in the history books as one of the most important elections for our country, with high potential of a widespread impact on all American businesses in the future. Most notably, the oil and gas industry

could face a number of regulatory challenges ahead, with sweeping policy changes for energy development possibly in store.

Following a difficult, highly contested battle, Democrat Barack Obama was re-elected to serve another four-year term as President of the United States, defeating Republican opponent Mitt Romney. With just 50 percent of the popular vote, Obama earned the necessary 270 electoral votes to secure his re-election. Ultimately the results from a handful of battleground states determined the winner of this year's presidential election, including polls from Colorado, Florida, Virginia, Wisconsin, Ohio and New Hampshire.

"Tonight you voted for action," said Obama during his victory speech on Tuesday night. "You elected us to focus on your jobs, not ours. And in the coming weeks and months, I am looking forward to reaching out and working with leaders of both parties to meet the challenges we can only solve together. Reducing our deficit. Reforming our tax code. Fixing our immigration system. Freeing ourselves from foreign oil. We've got more work to do."

With Obama as president, it is now clear that those regulatory challenges facing the oil and gas industry over the last four years will continue, specifically with federal agencies like the U.S. Environmental Protection Agency (EPA), U.S. Fish & Wildlife Service (USFWS) and U.S. Department of Interior, which continue to propose new restrictions on hydraulic fracturing. The Administration is also expected to continue to push to eliminate critical oil and gas tax provisions, which encourage participation in high-risk ventures like American oil and gas exploration and are critical for independent producers, many of whom are TIPRO members.

Moving ahead, the oil and gas industry will need to continue to work to convince the President, members of his administration and other key staff of the importance of domestic oil and gas development in the United States, emphasizing job creation, tremendous tax revenue and ongoing economic stimulus, among other economic benefits.

Meanwhile, in the race for Texas' open U.S. Senate seat, Republican Ted Cruz defeated his Democratic opponent, capturing 57 percent of the vote. Cruz, who has never held elective office before, takes over the position for former U.S. Senator Kay Bailey Hutchison, who is retiring after nearly two decades in office.

Several other noteworthy races took place for Texas representatives in the U.S. House of Representatives. In U.S. House District 17, Congressman William H. "Bill" Flores was re-elected with a landslide victory of 80 percent over opponent Ben Easton. Flores, a strong TIPRO supporter and advocate for jobs creation and domestic production of American energy, represents portions of Central and North Texas. Congressman Mike Conaway, who serves Texas' Congressional District 11 covering much of the Permian Basin, also earned 79 percent of the vote and was re-elected to serve for another two years. In the race for U. S. Representative in District 6, Congressman Joe Barton was re-elected with 58 percent of the vote. U.S. Congressman Ralph Hall, who is the current the chairman of the House Committee on Science, Space and Technology, won in his race to represent U.S. House District 4, earning 73 percent of the vote.

Tuesday's election will also result in big changes at the Texas capitol, as 43 new state representatives and five new state senators were elected to office. Of these newly elected officials, in the Texas House of Representatives, 30 are from the Republican Party and 13 are from the Democratic Party. Although the Republicans maintained majority in the House chamber, they lost supermajority.

Story continued on page 4...

PRESIDENT'S MESSAGE

TIPRO Members-

Following Tuesday's General Election, Texas now has nearly 50 new legislators, as well as two newly elected Railroad Commissioners, who together will have a large impact on the ability to explore for and produce oil and natural gas in Texas in the years to come.

Over the last decade, technological advancements in hydraulic fracturing and horizontal drilling have granted access to natural resources unlike ever before, which in turn, has led to a surge in domestic development of oil and natural gas, especially in Texas. The Lone Star State is fortunate to contain several major shale formations, in all areas of the state. In fact, over 95 percent of Texas counties produce oil and natural gas, allowing Texas to be the largest producing state of oil and gas in the entire nation. Accordingly, the increasing production of oil and gas has offered renewed hope of long-term economic growth, helping to support hundreds of thousands of jobs and providing much-needed tax revenue to local, state and federal government coffers at a time when it is needed most.



Ed Longanecker

Development in the Eagle Ford Shale best exemplifies this point. The shale play, which spans a distance of approximately 50 miles wide and 400 miles long over 24 counties in South Texas, has produced oil, gas and liquid condensate at record levels in recent years, far exceeding original expectations and significantly contributing to a rapidly evolving business climate in the region. Currently, an average of 297,000 barrels of oil per day (BOPD) has been produced in the Eagle Ford between January and August, a number which has grown astronomically as compared to only 11,990 BOPD in all of 2010. Similarly, in 2010, just 216 million cubic feet of gas per day (MMcfd) were produced, while this year between January and August, over 880 MMcfd of gas has already been produced. By all accounts, these figures are expected to continue to dramatically increase in the months and years ahead. Many experts and analysts have already labeled South Texas' Eagle Ford Shale as one of the most significant opportunities for unconventional drilling in North America, if not the world.

All of this growth in production has helped provide an incredible economic boost to the region. According to The University of Texas at San Antonio, in 2011 alone, nearly 47,000 full-time jobs were supported in the Eagle Ford, with more than \$3.1 billion paid to workers in salaries and benefits. On average, workers are currently paid an average of \$35.15 per hour - higher than the wages in the general economy (\$23.07 per hour) and more than wages paid in manufacturing, wholesale trade and education, among other sectors. Additionally, over \$25 billion was supplied in total economic output, and \$358 million paid by the oil and gas industry to the state government, including \$120.4 million in severance taxes. All of this money in turn helps fund public schools, hospitals and vital emergency services. By 2021, analysts predict nearly 117,000 full-time jobs will be supported in the region by the oil and gas industry, with \$7.7 billion paid to workers in salaries and benefits. The state will also gain \$1.76 billion in revenue for Eagle Ford activity by 2021, with local governments collecting an additional \$1.09 billion in taxes.

All together, the rise in activity in the Eagle Ford along with increasing production from the Permian Basin, Barnett Shale and Haynesville, has benefited not just the state of Texas - but also the nation as a whole. The national unemployment rate remains high at 7.9 percent, with over 23 million Americans struggling to find employment. Meanwhile, the oil and gas industry provides employment opportunities on a direct, indirect, and induced basis to over 345,000 Texans, in addition to millions of individuals in other states across the country. The industry also pays billions of dollars in taxes, including nearly \$9.25 billion in taxes and royalties in Texas during fiscal year 2011.

Moving forward, we ask all elected officials to make energy independence, job creation and economic growth for our country their top priorities. The oil and gas industry will continue to play a critical role in achieving these goals, as it helps revitalize our nation during these tough economic times. TIPRO looks forward to working together with these new policymakers, the public and other stakeholders in a bi-partisan effort to allow for continued exploration and production in the state of Texas and across the United States.

Sincerely,

Calendar of Events

NOVEMBER 14, 2012	NOVEMBER 28-29, 2012	DECEMBER 12, 2012	JANUARY 9, 2013
HOUSTON IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (832) 233-5502.	DALLAS 3 RD Annual Shale Gas Water Management Conference, 8:30 a.m. Gaylord Texan. For info, call: (800) 721-391.	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.

ENERGY SECURITY POSSIBLE FOR THE U.S., REAFFIRMS NEW STUDY

In a new report by Deloitte, analysts reaffirm that energy security is a realistic and achievable goal for the United States in the years to come. The study, titled “Energy independence and security: a reality check,” is authored by Branko Terzic, executive director of the Deloitte Center for Energy Solutions.

“The real issue is not independence from all foreign oil, but reducing oil imports from unfriendly nations, diversifying our supply of energy sources and ensuring that no nation can effectively manipulate against our national interests,” reads the report. “The revolution in shale energy production highlights what the energy industry has long known: the United States still has major, untapped domestic sources of oil.”

To better ensure energy security, the report recommends the U.S. government to support exploration and development of domestic energy sources, and support legislation that encourages use of multi-fuel, natural gas, electric and other alternative fuel vehicles.

JOB CREATION REMAINS HIGH IN TEXAS, DUE TO OIL AND GAS ACTIVITY

The Lone Star State continues to move towards full economic recovery following the latest recession, with renewed hope of economic expansion due to the increase in exploration and production activity in Texas. Already Texas employers have replaced all 427,600 jobs that were shed during the recession, with additional new jobs created each day. In fact, according to the Texas Comptroller, the number of working Texans reached an all-time high of 10.65 million in December 2011, a positive sign that employers are optimistic about the future of the economy.

“We saw encouraging signs in our state’s labor market in September and a decrease in the unemployment rate last month,” said Texas Workforce Commission (TWC) Chairman Andres Alcantar. “Texas continues to add jobs and we now have a record number of people employed in our state.”

In September, Texas reported an unemployment rate of 6.8 percent, as compared to the U.S. unemployment rate of 7.9 percent for October 2012. The Texas unemployment rate has been at or below the national rate for 69 consecutive months. Unemployment rates remain lowest near oil and gas shale plays, where development is prompting oil and gas companies to hire on additional workforce. Midland, found in the heart of the Permian Basin, had the lowest September unemployment rate in the state at 3.3 percent.

EAGLE FORD PRODUCTION CONTINUES TO CHART UPWARDS AT RECORD LEVELS

Increasing exploration and production of oil, natural gas and liquid condensate in South Texas’ Eagle Ford Shale continues, with record levels of activity taking place in the region. The play, which contains a much higher carbonate shale percentage than other geologic formations, has proven to be more “fracable” for operators and thus, easier to access.

Between January and September in 2012, more than 3,220 drilling permits were issued by the Texas Railroad Commission (RRC). By the end of the year, the agency estimates over 4,293 permits will be granted for operations in the shale formation. Comparatively, in 2009, just 94 drilling permits were issued.

Oil production continues to prove to be one of the principal highlights of the Eagle Ford Shale, with approximately 297,000 barrels of oil (bbl) produced between January and August of 2012. During the same time period, an estimated 67,250 bbl of liquid condensate were produced from the region, as well as 880 million cubic feet of natural gas (MMcf).

Most analysts predict this trend in growth to continue, with increasing production projected for the years to come. According to analysts at The University of Texas at San Antonio Institute for Economic Development, by 2021, oil production from the Eagle Ford could reach 168,956,000 bbl, with condensate production totaling 125,837,000 bbl and gas production reaching 864, 923,000 mcf.

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ELECTION COVERAGE... CONTINUED FROM PAGE 1



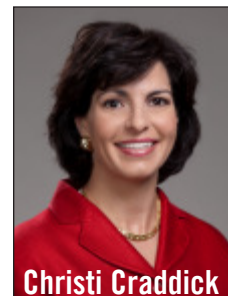
Barry Smitherman

Texans also voted on two new regulators for the Texas Railroad Commission (RRC), the state agency responsible for overseeing industry activity in the Lone Star State. Current RRC Chairman Barry Smitherman won his race by 74 percent, and will serve another two years in the role. Smitherman was previously appointed by Gov. Perry to fill the position on July 8, 2011, after the seat was vacated by Michael Williams. Then, in February 2012, Smitherman was elected as Chairman of the Commission. Previously he served seven years at the Public Utility Commission (PUC), three years as a member and four years as Chairman of the PUC. Smitherman currently serves as vice chair of the National Association of Regulatory Utility Commissioners' Gas Committee. He is on the Visiting Committee of the Bureau of Economic Geology with the Jackson School of Geosciences at The University of Texas at Austin, The University of Texas School of Law Center for Global Energy, International Arbitration, and Environmental Law, and the Eanes Education Foundation Advisory Board. Smitherman has also served on the Department of Energy's Electricity Advisory Committee and as an Adjunct Professor of Public Administration at St. Thomas University.

Republican Christi Craddick was also elected as a new RRC Commissioner, securing 56 percent of the vote to defeat Democratic opponent Dale Henry. Craddick, a native of Midland, is a small business owner and attorney specializing in oil and gas, water, tax issues, electric deregulation and environmental policy. She previously served as president of a grassroots advocacy firm specializing in coalition building in the public policy arena and development and implementation of issue strategies. Craddick will fill the seat formerly held by RRC Commissioner Elizabeth Ames Jones.

"Christi Craddick will be a great leader for Texas," said Steve Castle, president of Cowboys Resources Corporation and former TIPRO Chairman. "Her experience, relationships and knowledge of the oil and gas industry will serve her well as she seeks to lead our state in this industry. Christi's thoughtful, conservative approach will ensure Texas' thousands of independent oil and gas producers can do their job without fear of an overreaching government. We need Christi Craddick at the RRC."

"I would like to congratulate my colleague, Chairman Barry Smitherman, and my friend, Christi Craddick, on their victories in the election," commented RRC Commissioner David Porter on the RRC race victories. "As the state's senior energy regulator, I understand the importance of the oil and gas industry and know Christi has what it takes to effectively regulate the biggest economic driver in our state. I look forward to having Christi join me and Chairman Smitherman on the Commission. Together, we will continue to fight for economic prosperity, energy independence and state primacy."



Christi Craddick

MORE SPECIES PROPOSED AS ENDANGERED, THREATENS OIL AND GAS DEVELOPMENT AGAIN

Among a long list of species under review by the U.S. Fish & Wildlife Service (USFWS), two Texas plants have now been proposed for threatened or endangered status under the Endangered Species Act (ESA). If formally listed, the resulting regulatory restrictions could prohibit oil and gas activities in the regions where the plants grow.

The Texas Golden Gladecress was proposed for listing and critical habitat designation by the USFWS on September 11, 2012, marking the start of the one year period in which the federal agency must make a decision on listing of the plant. The yellow flower, formally referred to as *Leavenworthia texana*, primarily grows in Nacogdoches, Sabine and San Augustine counties in East Texas, a region which hosts significant oil and natural gas development.

The USFWS also has proposed the Neches River Rose-mallow, or *Hibiscus dasycalyx*, for protection. This shrubby perennial grows approximately 3-7 feet in height, with white flowers blooming off the plant in the summer months. It primarily grows in Cherokee, Harrison, Houston, Nacogdoches and Trinity, near the Texas coastline. Texas Comptroller of Public Accounts Susan Combs calculates significant economic impact could result in the affected counties, with restrictions affecting oil and gas exploration and development, agriculture, highway development and construction, among other sectors. The USFWS will have to make a final determination on the shrub no later than September 11, 2013.

Nearly every Texas county is home to a species included on the current USFWS watch list, with close to 118 total number of species and plants featured from just Texas alone.

The unnecessary listing of species and plants under the ESA will continue to be an ongoing issue for Texans in all parts of the state. Accordingly, TIPRO urges all members to contact their legislators and other elected officials to educate them on the impact of any listing on the ability to domestically explore for and produce oil and natural gas, as well as the overall limitations such listings could have on the economy.



Neches River Rose-mallow

RRC TO HOST WORKSHOP ON PROPOSED INDUSTRY RULES

On Friday, November 16, 2012, the Texas Railroad Commission (RRC) will host a workshop to receive public input and consider informal comments regarding proposed amendments to agency regulations. Currently, the RRC is reviewing Texas Statewide Rule 3.9, relating to Disposal Wells; 3.36, relating to Oil, Gas, or Geothermal Resource Operation in Hydrogen Sulfide Areas; and 3.46, relating to Fluid Injection into Productive Reservoirs. To view the latest status of any of these proposed commission rulemakings, visit: www.rrc.state.tx.us/rules/proposed.php.

The workshop will be held in Room 1-111 of the William B. Travis Building, located at 1701 North Congress Avenue, in Austin, Texas. There will be two sessions, one in the morning lasting from 8:30 a.m. to 11:30 a.m., and an afternoon session lasting from 1:00 p.m. until 4:00 p.m. Staff will make the same presentation during both the morning and afternoon sessions. Interested members of the public are invited to attend either one. However, seating is limited and will be available on a first-come, first-served basis.

For additional information on the workshop, or to request a copy of the draft rule amendment language, contact Veronica Larson by phone at (512) 463-6810 or by e-mail at: Veronica.Larson@rrc.state.tx.us.

UPDATE ON SUNSET REVIEW OF THE TEXAS RAILROAD COMMISSION

Next Friday, November 16, 2012, the Sunset Commission staff will publish preliminary recommendations on its ongoing review of the Texas Railroad Commission (RRC). Following that, RRC Commissioners will have until Friday, November 30, to submit final comments and responses to the staff report. The Sunset Commission will then hold a public meeting on December 18 and 19, 2012, to listen to testimony on the current efficiency of operations at the state agency as well as the proposed recommendations by the Sunset staff.

Based on the public input received and the final recommendations published by the Sunset staff, the Sunset Commission will adopt recommendations to be considered by the full Legislature when convenes on January 9, 2013, for the 83rd Texas Legislative Session.

RRC REORGANIZES, ESTABLISHES NEW ADMINISTRATIVE SERVICES DIVISION

Under the direction of Executive Director Milton Rister, the structure of the Texas Railroad Commission (RRC) has been reorganized to allow for the creation of a new division at the state agency, called the Admin Division. The new division will include financial services, purchasing, staff support, HR, communications and central records.

Araminta Everton has been named as the agency's new director of administration, responsible for managing the division. Previously Everton served as the chief of staff for State Representative Paul Workman, as well as served as legislative director for State Representative Corbin Van Arsdale and has been the director of the policy and planning division for the Texas Legislative Council.

David Pollard, chief financial officer of the RRC, will continue to supervise all financial services for the agency.

"I think this change will allow me to focus on the IT functions of the agency, and the legislative processes we will be facing over the next six month, as well as work more closely with division directors and allow Araminta to work on admin functions," noted Rister.

Currently Rister is also in the final stages of hiring a new director for the IT division, who will help with upgrading the system to fix ongoing technical issues and enhance operations.

FRACFOCUS 2.0 LAUNCHES: NEW DATABASE WILL FEATURE ENHANCED CAPABILITIES

FracFocus, the online hydraulic fracturing chemical disclosure registry, recently unveiled a new upgraded system, referred to as FracFocus 2.0. The new system went live on November 1, 2012, and uses an eXtensible Markup Language (XML) in a server side application to replace the existing Excel spreadsheet/client side application. For the next few months, FracFocus 2.0 will run side by side with the former system to allow operators adequate time to migrate to and fully understand the new system. The new system will also have expanded search capabilities and other features, allowing the public to locate disclosures by date, chemical name or chemical identification number. New administrative tools will also help operators upload and manage their records.

Numerous states around the nation, including Texas, currently require operators by law to publicly disclose all chemicals and water used during hydraulic fracturing operations, as reported on a per-well basis, utilizing the FracFocus database. Additionally, the White House and Interior Department officials have indicated that they are considering incorporating FracFocus into the federal government's plan to require disclosure of fracturing chemicals used on public lands.

FracFocus is managed by the Ground Water Protection Council (GWPC) and Interstate Oil and Gas Compact Commission (IOGCC), two organizations whose missions both revolve around conservation and environmental protection. In its first year, nearly 400 oil and gas companies have signed up to participate.





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With more than 2,400 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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