86TH CONVENTION HIGHLIGHTS

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Greetings! It’s an honor to begin serving as President of this great Association. We just wrapped up the 86th Annual Convention and celebrated Judy Stark’s one year anniversary with PPROA. Our speaker line-up was quite impressive and provided a wealth of knowledge to attendees. Judy, Cynthia Johnson, PPROA Office Manager, and the Desk & Derrick Club worked tirelessly. Thank you to every vendor, sponsor, member, speaker, and volunteer for your participation and contributions. My personal favorite “new addition” to the convention was the Roaster’s Coffee Bar!

When welcoming our Convention audience, I communicated that PPROA wants to be an encouragement during this difficult time for our industry. Our esteemed breakfast speaker, Dr. Daniel Fine then took the podium and provided his experienced global perspective and insight into the “price-war” declared on American oil and gas producers by OPEC. He explained relationships within OPEC; Iranian oil production and expectations with the upcoming lifting of sanctions; Iraqi production and challenges; terrorist threats in the Middle-East; Saudi Aramco; Russia; China’s economy and where he believes we stand in regard to supply and demand. His talk was informative, interesting, and very sobering. According to Dr. Fine, OPEC and Saudi Aramco greatly underestimated the resilience and staying-power of American shale oil and gas producers, as they believed that oil prices in the $45-60 per barrel range would significantly decrease American oil production; well, so far that just hasn’t happened. The Saudis have more recently indicated that they will continue this “price war” and can live with lower than current oil prices in order to regain the 11% market share of oil that the US has taken from OPEC. That is of course, not good news for our industry and we all hope that does not happen. As President of PPROA, I wanted to walk up to the podium when Dr. Fine finished speaking and announce that we would have counselors in the lobby…

Upon reflecting on the history of PPROA and our industry, I realize the amazing resilience, innovation, technological advances, knowledge, and human capital that have brought us to the place we are today. I believe that it is this resilience and innovation that will spur the efficiency, perseverance, and courage needed to survive the challenges presented by the current down-turn. We have “been here and done this, didn’t really want another t-shirt”; but here we find ourselves. I was encouraged by visiting with other producers and exchanging ideas about cost-cutting measures; learning from vendors about improved technology that could improve efficiency; and hearing from many elected officials about their efforts to champion our industry and push back against over-regulation in Washington. Networking with colleagues and making new friends was invaluable and provided me with fresh perspective, helpful contacts, and wisdom from generously shared experiences. Together, we will survive!

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The lights are out, doors have closed and the dust has settled on the 86th Annual Convention of PPROA. Cynthia and I left exhausted but very happy with the results. We heard nothing but positive remarks about the room layout changes, food and speakers. Several remarked saying they wished they had more time with the legislative panel! We are calling it a winner!

First, we owe a debt of gratitude to our sponsors! Without you none of this would have taken place! Thank you to the exhibitors and thank you to everyone who attended! We have the 2016 officers and Board members. Thank you for agreeing to serve!

Our numbers were down slightly from last year. Membership in PPROA held its’ own with just a small drop from 670 to 638. This is remarkable considering our industry was hit with a 60 percent drop in revenue.

Now the real work begins! We have a challenging year, filled with anticipation over the uncertainty of oil and gas prices, the presidential election and the ongoing review of industry regulations and legislation. It is easy to persist in a year where the land is flowing with milk and honey but the real test is how to not only sustain but grow our membership and services to our membership in a downturn.

It is the job of the Executive Vice President and the Board of Directors to effectively ward off unnecessary civil and governmental overreach to ensure our industry and economy is able to remain viable. That is why your support is critical even when things are declining. A drop in revenue doesn’t create less work. In fact, it makes it even more important to be in front of peer organizations, the EPA, Waters of the US, Fish & Wildlife on endangered species, the Federal Energy Regulatory Commission, the Texas Railroad Commission and the Texas and US legislatures.

Stay with me! Let me hear from you, praise or complaint! Help me help you! Get involved! Join a committee! Consider being on the Board! Get active! Be proactive!

PPROA has implemented many changes in 2015 to become more interactive with membership but you can only shake hands if both are extended. Take advantage of opportunities to have your voice heard and provide your expertise.

A good leader surrounds themselves with successful people who are able to provide knowledge and assistance in order to better serve the whole. That is what I would like for us to do…..together.

Now, step forward.
To Beer or Not To Beer

As I write this the deadline for filing extended 2014 individual income tax returns is fast approaching. Given that fact, plus the discussion of income tax reform by all the 2016 presidential candidates, I thought I would borrow one of my articles from the past for your reading pleasure. It is still relevant and explains clearly why all taxpayers do not share equally, in dollar terms, when tax rates are reduced. Enjoy!

Sometimes serious subjects are better understood through humor. Tax Reform is a serious subject and seems to be all the rage right now. So when a friend recently sent me a story that I thought was funny (I think I know funny – like why lions won’t eat clowns – they taste funny.) I thought I would share it with you. So here is the funny story (the supposed author of which is David Kamerschen, Ph.D.) on the serious subject of Tax Reform:

Suppose that every day, ten men go out for beer and the bill for all ten comes to $100. If they paid their bill the way we pay our taxes, it would go something like this…The first four men (the poorest) would pay nothing, the fifth would pay $1, the sixth would pay $3, the seventh would pay $7, the eighth would pay $12, the ninth would pay $18, the tenth man (the richest) would pay $59. So, that’s what they decided to do. The ten men drank beers in the bar every day and seemed quite happy with the arrangement, until one day, the owner threw them a curve ball. “Since you are all such good customers,” he said, “I’m going to reduce the cost of your daily beer by $20”. Drinks for the ten men would now cost just $80.

The group still wanted to pay their bill the way we pay our taxes. So the first four men were unaffected. They still drink for free. But what about the other six men? How could they divide the $20 windfall so that everyone would get his fair share? They realized that $20 divided by six is $3.33. But if they subtracted that from everybody’s share, then the fifth man and the sixth man would each end up being paid to drink his beer. So, the bar owner suggested that it would be fair to reduce each man’s beer bill by a higher percentage the poorer he was, to follow the principle of the tax system they had been using, and he proceeded to work out the amounts he suggested that each should now pay.

So the fifth man, like the first four paid nothing (100% saving). The sixth now paid $2 instead of $3 (33% saving). The seventh now paid $5 instead of $7 (28% saving). The eighth paid $9 instead of $12 (25% saving). The ninth paid $14 instead of $18 (22% saving). The tenth now paid $49 instead of $59 (16% saving). Each of the six was better off than before. And the first four continued to drink beer for free. But, once outside the bar, the men began to compare their savings. “I only got a dollar out of the $20 saving,” declared the sixth man. He pointed to the tenth man, “but he got $10!” “Yeah, that’s right,” exclaimed the fifth man. “I only saved a dollar too. It’s unfair that he got ten times more benefit than me!” “That’s true!” shouted the seventh man. “Why should he get $10 back, when I got only $2? The wealthy get all the breaks!” “Wait a minute,” yelled the first four men in unison, “we didn’t get anything at all. This new tax system exploits the poor!”

The nine men surrounded the tenth and beat him up.

The next night the tenth man didn’t show up for drinks so the nine sat down and had their beers without him. But when it came time to pay the bill, they discovered something important. They didn’t have enough money between all of them for even half of the bill!

And that, boys and girls, journalists and government ministers, is how our tax system works. The people who already pay the highest taxes will naturally get the most benefit from a tax reduction. Tax them too much, attack them for being wealthy, and they just may not show up anymore. In fact, they might start drinking overseas, where the atmosphere is somewhat friendlier.

I’ll leave you with the monthly tax thought – “The trouble with being a breadwinner nowadays is that the government is in for such a large slice.” Mary McCoy

Mike Connor, Managing Partner, Connor McMillon Mitchell Sheenum
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Did You Know?

Chairman David Porter Begins Term as Vice Chair of Interstate Oil & Gas Compact Commission
Assumes higher leadership role to combat federal overregulation and resolve emerging energy issues

OKLAHOMA CITY – Railroad Commission of Texas, Chairman David Porter began his service as Vice Chairman of the Interstate Oil and Gas Compact Commission (IOGCC), which was formed by energy producing states in 1935 to resolve common industry issues without federal intervention and is still a leading authority on domestic oil and gas issues and one of the primary drivers of national energy policy.

“I am honored to serve as Vice Chairman and help lead our nation’s energy producing states in developing programs and services to resolve mutual industry issues,” Porter said. “And more importantly, I’m grateful for the opportunity to work with other leaders to retain primacy of regulation at the state level. Federal overreach is one of the most pressing issues facing the oil and gas industry… and America as a whole.”

Chairman Porter will serve a one-year term as Vice Chairman, and will conclude in fall the 2016.

Porter leads the RRC and is Texas’s senior energy regulator. He has served as the Official Representative of Texas to the IOGCC since 2012. Porter was reappointed by Gov. Greg Abbott in 2014 and elected Second Vice President before assuming his current role.

###

‘Frac To Tap a Helluva Idea’

Rep. Lyle Larson, R-San Antonio, said 2011 signaled the fact that Texas will face more extreme drought this century, and embraced the idea of recycling water used in hydraulic fracturing to help prepare the state for water shortages to come. Larson was honored by the Texas Water Recycling Association (TXWRA), as a “Water Visionary” for his leadership in state water management.

TXWRA President John Tintera unveiled an oilfield water recycling initiative called “Frac to Tap,” and Larson said Tintera’s idea is a “helluva idea and I would fully support that concept.”

“Frac to Tap” involves recycling fracking flowback fluids and produced water for use outside of oilfields – perhaps as an irrigation source for non-edible crops and eventually even for drinking water. Tintera envisions it working alongside traditional injection well disposal and the increased treatment and use of brackish water.

Larson focused on issues surrounding ownership and management of brackish water, a water source the oil-and-gas industry has increasingly been tapping to cut down on fresh water use in hydraulic fracturing. He’s also pushing for the development of a water grid, a hydro-vascular network of water veins and interconnectivity, similar to the state’s electric grid. “It is imperative we get more aggressive. Cost is coming down,” Larson said of oilfield water recycling.

Lobbyist Ben Sebree asked Larson how receptive lawmakers might be to an incentive to encourage or possibly jump start a robust oilfield recycling industry. Larson said incentives have worked in other aspects of government, but he noted that the Texas Oil & Gas Association (TXOGA) has expressed apprehension of tapping public funds. “They don’t want to look as though they are at the trough feeding off of the public coffers,” Larson said. Even so, Larson said the state must move forward with recycling.

“We’ve got to do something to get a lot more water recycling. This is as good an idea as I’ve heard,” he said of Tintera’s initiative.
OUR BUSINESS IS BUILT ON THE EARTH’S GREATEST UNTAPPED RESOURCE: OPPORTUNITIES.
Federal Judge: BLM Does Not Have The Authority To Regulate Oil And Gas

The Obama administration does not have authority to regulate hydraulic fracturing on public lands, a federal judge decided.

In a major blow to the Bureau of Land Management and environmentalists who support stricter fracking oversight, the U.S. District Court for the District of Wyoming enjoined BLM's years-in-the-making fracking rule, blocking enforcement of the new regulation while the court considers industry and state challenges.

"One of the fundamental questions presented in this case is whether Congress granted or delegated to the BLM the authority or jurisdiction to regulate fracking," Judge Scott Skavdahl wrote, adding later: "At this point, the Court does not believe Congress has granted or delegated to the BLM authority to regulate fracking."

###

Railroad Commission Oil & Gas Enforcement Actions on the Rise in Fiscal Year 2015

AUSTIN –The Railroad Commission of Texas conducted more than 3,600 additional oil and gas inspections and assessed almost $1 million more in penalties in Fiscal Year 2015 compared to Fiscal Year 2014. The number of violations identified through oil and gas inspections also dropped by more than 1,100 violations from FY 2015 compared to FY 2014. The Commission has primary oversight and enforcement of the state’s oil and gas exploration and production industry.

Specifically, the Commission conducted 134,484 oil and gas inspections in FY 2015 compared to 130,812 in FY 2014, and during inspections found 61,189 violations in FY 2015 compared to 62,385 violations cited in FY 2014. Additionally, the Commission assessed $3,603,050 in administrative penalties in FY 2015 compared to $2,616,723 in penalties assessed in FY 2014.

The number of pipeline severance and seal orders also dropped in FY 2015 to 9,481 from 11,541 in FY 2014. Pipeline severance and seal orders are important enforcement tools used by the Commission when operators fail to come into compliance with Commission rules. RRC severances and seal orders prohibit an operator from selling or moving their oil or natural gas off a lease, effectively shutting off income from the severed lease.

###

EPA's new federal ozone standard is all costs with no benefits. The Environmental Protection Agency is tightening federal standards for ground-level ozone levels, which could impose hundreds of millions of dollars in additional costs on American businesses. Lowering the ozone standard is not going to provide new health benefits even according to the EPA's own analysis. Calling for a lower standards are ignoring EPA's own analysis, which concludes that the most populated 'nonattainment" areas of the country will fail to meet the new standard. The EPA should develop cost-effective programs for these enduring nonattainment areas, instead of continuing the fiction that their citizens can expect attainment of this new standard. For those new areas of the country that would come under the new standard, EPA determined that they would meet it using national regulations. But as a result of setting this new standard, citizens and businesses operating in these communities across the country will be subject to burdensome, costly, and unnecessary additional regulatory requirements for no significant health benefits.

###
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Cade v. Cosgrove, 430 S.W.3d 488 (Tex. App.—Fort Worth April 3, 2014, pet. filed), held that the discovery rule applies to deed reformation claims based on a mutual mistake in a deed and allows the parties to establish the true facts as to when they knew or should have known of the mistake. The parties aligned as Grantor and Grantee under a contract for sale and a warranty deed. The contract reserved the minerals to Grantor; the deed did not. Suit was filed more than four years after the deed was executed and delivered.

The court recognized the general rules that “a grantor is presumed to know the contents of the deed immediately upon executing it” and that limitations in suits for reformation generally begins to run upon execution. Nevertheless, there are many cases holding that the presumption can be rebutted. The court then reviewed the more recent cases establishing that the discovery rule is applicable “when the nature of the injury is inherently undiscoverable and the evidence of injury is objectively verifiable.” The court concluded that there was prior authority that “implicitly accepted that deed reformation is the type of claim for which the discovery rule is available under the right facts.” The court held:

In summary, the discovery rule defers accrual of a cause of action until the diligent plaintiff knew or should have known of the alleged injury. Likewise, in rebuttable presumption cases, the courts have said that the claim for reformation does not accrue until the grantor actually knew or, in the exercise of reasonable diligence, should have known of the mistake. In both discovery rule cases and cases involving the presumption, the same rule applies for the running of limitations. Courts have thus appeared to accept the application of the discovery rule to deed reformation claims. We will now state explicitly what we have previously only implied: a mutual mistake in a deed is a type of injury for which the discovery rule is available.

* * *

As yet, we have no guidance from the Texas Supreme Court on how to apply this standard to the body of law on deed reformation. But the court has said that an injury is “inherently undiscoverable if it is by nature unlikely to be discovered within the prescribed limitations period despite due diligence.” Harmonizing this language with the fact that case law on deed reformation has not been rejected by the Texas Supreme Court, we conclude that a mutual mistake in a deed is an injury that a grantor is unlikely to discover within the prescribed limitations, despite due diligence, unless some circumstance puts the grantor on notice of the mistake. And until the Texas Supreme Court instructs us otherwise, we will continue to look to older cases on rebutting the presumption for guidance on what circumstances should have put the grantor on notice and what kind of facts will suffice to rebut the presumption.

In this case, the court held that summary judgment was in error and reversed and remanded because there were fact issues as to when the Grantor knew or should have known of the mistake.

[N]oting that the rights of third parties are not involved and would not be affected by reformation and that reformation would, at most, put the parties in the position that they bargained for, we hold that the presumption does not prevent the [Grantor] from introducing evidence to establish the true facts regarding when [Grantor] knew or should have known of the mistake in the deed.

This case is significant because it explicitly holds that mutual mistake in a deed is a type of injury for which the discovery rule is available, and the parties may introduce evidence to rebut the presumption that they knew or should have known of the mistake upon execution.

Jeff McCarn may be contacted at (806) 345-6340 or jmccarn@bf-law.com
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Rolling back the tide of big government overreach

Washington’s overreach has been rolled back by courts and commissioners. In little more than 30 days, there have been five distinct cases that you may have missed—each a victory for responsible land use.

**WOTUS**
The Waters of the U.S. rule (WOTUS) was scheduled for full implementation on August 28 and would have greatly expand the federal government’s authority over water and land and could apply to ditches, streams, wetlands and small isolated bodies of water. On August 27, U.S. District Judge Ralph Erickson issued a temporary injunction sought by North Dakota and 12 other states. In his decision, Erickson wrote: “Once the rule takes effect, the states will lose their sovereignty over interstate waters that will then be subject to the scope of the Clean Water Act.” Calling the rule “arbitrary and capricious,” he declared that the Environmental Protection Agency (EPA) “violated its congressional grant of authority in its promulgation of the rule.”

Undaunted, the EPA pushed back, stating that the rule only applied to the thirteen states that requested the injunction. For the remaining 37 states, the EPA is enforcing the regulation as planned.

**Lesser Prairie Chicken**
Once again, a federal agency has been acting “arbitrarily and capriciously.” This time, it is the U.S. Fish and Wildlife Service (FWS). On September 2, U.S. District Judge Robert A. Junell overturned the Obama administration’s 2014 listing of the lesser prairie chicken (LPC) as a threatened species, which gave the bird protection under the Endangered Species Act (ESA) and limited land use in five states.

The FWS is required to consider the conservation plans. The court determined that FWS “did not properly consider active conservation efforts for the bird when listing it.” Junell wrote: “The Court finds FWS did conduct an analysis, however this analysis was neither ‘rigorous’ nor valid as FWS failed to consider important questions and material information necessary to make a proper evaluation.”

**Hydraulic Fracturing Rule**
September 30, was another smack down—this time the Interior Department’s Bureau of Land Management (BLM), which, in March, issued federal fracking rules designed to spur states to follow suit (most energy-producing states already regulate fracking).

Wyoming’s U.S. District Judge Scott Skavdahl wrote: “Congress has not authorized or delegated the BLM authority to regulate hydraulic fracturing and, under our constitutional structure, it is only through congressional action that the BLM can acquire this authority.” He issued a preliminary injunction barring implementation of the rules.

**Wolf Reintroduction**
Ranchers in and around New Mexico’s Gila Forest have been fighting the federal government’s plan to release Mexican grey wolves, which, since their introduction in 1998, have killed livestock. Children waiting for the school bus often do so in cages for protection.

On September 29, in a 7-0 vote, concerned about the impact to ranchers and elk hunters, the New Mexico Game Commission upheld an earlier decision denying the FWS permits to release Mexican wolves into federal land in southwestern New Mexico.

“Federal policy requires FWS to consult state agencies and comply with their permitting processes when releasing endangered animals from captivity,” Science Magazine reports, “even when releases are made on federal land.”

**Sage Grouse**
On September 22, Department of Interior (DOI) Secretary Sally Jewell announced that the sage grouse would not be listed under ESA. The Washington Post reports that “the chicken-like grouse does not meet the required standard because a collaboration of federal agencies, states, ranchers, industry and environmental groups has already begun to restore areas where it breeds.”

When combined with the aforementioned stories, the unwarranted decision is welcome news as it represents a recognition that big-government overreach has reached its limits.

The author of Energy Freedom, Marita Noon serves as the executive director for Energy Makes America Great Inc. and the companion educational organization, the Citizens’ Alliance for Responsible Energy (CARE). She hosts a weekly radio program: America’s Voice for Energy—which expands on the content of her weekly column. Follow her @EnergyRabbit.
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### Active Drilling Locations By County - PPROA Service Area

**Texas Panhandle/western OK, SW KS - 10/2/15 RigData, Inc.**

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Data provided by RigData.com

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- Pipeline archives
- Membership & advertising services
- Commodity prices
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- Preferred providers
- And more!

### Drilling Permits By County - Dist. 10

**8/21/15 – 10/04/15 DrillingInfo.com**

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Published ten times a year by the Panhandle Producers & Royalty Owners Association

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ACS-ODS Oil & Gas

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Judy Stark - Executive V.P.

Cynthia Johnson - Office Manager

RRC District 10 Production Data
August 2014 - July 2015

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<th>County</th>
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<th>CH Gas(MCF)</th>
<th>GW Gas (MCF)</th>
<th>Cond. (BBL)</th>
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