

# THE AMERICAN OIL & GAS REPORTER<sup>®</sup>

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Anadarko's  
Warrior Discovery  
Page 34

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## Enhanced Oil Recovery

Page 62

**Allen Gilmer**  
Chairman TIPRO  
"I think this is the  
year the Railroad  
Commission review  
finally is approved."  
Page 77



**Bryan Dicus**  
President IOGA  
"The optimistic  
feeling is that maybe,  
for once, the industry  
can go on offense.  
That is the key."  
Page 82



**Jim Aslanides**  
President OOGA  
"Ohio deserves more  
capital because the  
potential is there and  
a lot of infrastructure  
has been built."  
Page 86



**Bryan Hanks**  
Chairman LOGA  
"It is refreshing to  
know there are states  
where policymakers  
understand the value  
of the oil and gas  
industry."  
Page 93



# New Year Provides TIPRO New Reasons For Hope

By Dan Larson  
Special Correspondent

AUSTIN, TX.—Optimism for a Texas-size recovery is tempered by ongoing uncertainty about commodity markets and questions about what may be in store for the oil and natural gas industry in the 2017 Texas Legislature, indicate leaders of the Texas Independent Producers & Royalty Owners Association.

As TIPRO members prepare for their annual convention, scheduled for Feb. 27-March 1 in Austin, they will hear from industry and government leaders on topics of immediate and critical importance.

“Our lineup of speakers, including former Vice President Dick Cheney, will provide a unique perspective on the new administration and issues affecting the industry,” predicts TIPRO President Ed Longanecker. “We are focusing on how the legal and regulatory landscape affects our members. Otherwise, the outlook for our industry is cautiously optimistic for this year.”

Despite the industry’s extended lull, he reports the association is in good health, and has seen little attrition in a membership for which the rolls still top 3,000. Many of those members will be at the Sheraton Austin Hotel at the Capitol in late February for the association’s annual meeting.

Along with Cheney’s keynote address, the first day of the 2017 TIPRO conference is scheduled to include remarks from Texas Railroad Commissioner Wayne Christian, an energy market update, an executive panel, and a legislative reception. The second day will include a membership breakfast, regulatory update, and political outlook panel as well as the convention’s tradition of call-up meetings at the Capitol, and the annual chairman’s reception and dinner that evening, which will include an award presentation to former Railroad Commissioner David Porter.

## Sunset Review

Leadership changes or external challenges to the RRC always are sure to catch the attention of the state’s oil and gas industry, relates Allen Gilmer, TIPRO’s

2016-18 chairman. Fortunately, says Gilmer, who is chairman and chief executive officer of Drillinginfo Inc. in Austin, there have been some encouraging developments. “The election of Wayne Christian to the RRC in November brings stability, and that is good for our business,” Gilmer assesses.

Christian, a Republican from Center, Tx., served in the Texas House from 1997 to 2003, and succeeds David Porter on the three-member panel that also includes Chairwoman Christi Craddick and Commissioner Ryan Sitton.

According to Longanecker, the first issues confronting the commission this year center on legislators’ consideration of the sunset review panel’s recommendations. Last April, commission staff issued a report describing seven recommendations to improve the RRC. After a period of public comment and hearings, the commission announced its conclusions in a report issued late last year. Proposals that failed to garner support in the final recommendations included changing the RRC’s name, transferring contested hearings and gas utility oversight to other state agencies, and amending the state’s bonding requirements.

The sunset commission report does say the RRC should:

- Develop a strategic plan for tracking the effectiveness of violation monitoring and enforcement practices;
- Define repeat violations and report repeat offenders on its website;
- Audit oil and gas production reports;
- Move toward electronic filing of production reports; and
- Expand its risk matrix for oil and gas inspections.

Other recommendations call on the RRC to enforce damage prevention rules for interstate pipelines and initiate a fee for pipeline permits. The report also suggests the legislature should amend the state’s General Appropriations Act to ensure permit fees are returned to the RRC for administering a pipeline safety program.

Finally, the sunset report maintains, all contracts under RRC authority should

be centralized and administered according to best practices adopted by the legislature and state comptroller. It also holds that the RRC should adopt the sunset commission’s across-the-board recommendations for alternative dispute resolution, and disband the Oil and Gas Regulation and Cleanup Fund Advisory Committee.

## Getting It Right

Ultimately, Longanecker says, TIPRO finds nothing in the report worthy of opposition. “We support the recommendations made by the sunset review panel,” he reports.

In 2013, lawmakers failed to pass RRC renewal legislation after the report included provisions such as a requirement that railroad commissioners resign before they could run for another office, as well as a call to consolidate the commission’s three-member leadership structure into a single commissioner. Instead, lawmakers voted to defer RRC renewal two years (*AOGR*, June 2013, pg. 40).

For the 2015 session, sunset commission recommendations included moving contested hearings and gas utility oversight responsibilities to a different agency, and the legislature punted again (*AOGR*, June 2015, pg. 114).

Gilmer expresses optimism the legislature will pass the recommendations this year. “We saw a lot of ideas in the past two sessions,” he observes. “Some were good and some were not. I think this is the year the review finally is approved.”

Meanwhile, RRC Chairwoman Craddick has been reported in media accounts as making the rounds across Texas in a campaign to secure additional funding for commission operations. Since it generates much of its revenue by fees and fines on the industry, Craddick says, RRC funds have dipped more than 20 percent during the past two years.

At the beginning of 2017, Craddick says, the commission’s 690 staffers lagged the 2015 total by 100 employees. Moreover, in a published report of a speech she gave to a Midland community group in January, she estimated that the commission employed “another 150 people

that could retire tomorrow.”

“That is a real challenge for us,” Craddock is quoted. “As the industry begins to tick up, (operators) will want their permits on time, and we need to continue doing our inspections and protecting the environment. Additional dollars are important.”

### Budgetary Challenges

According to Gilmer, the 85th Texas Legislature may run long and include plenty of drama. “If this session shapes up like the rumors have it, the end will be extended once or twice,” he suggests. “Fortunately, the politicians will be busy working on other issues and not trying to strangle the oil and gas business.”

He credits TIPRO staff for anticipating problems in the Capitol and identifying issues before a situation turns critical. “They let the Board of Directors know what is coming,” Gilmer praises. “I believe we have the best government affairs team in Austin.”

As the session got under way in January, he indicated TIPRO detected no bills that caused immediate heartburn. “Of course, the devil is in the details,” he acknowledged.

With Republicans controlling two-thirds majorities in both chambers, some media reports claim significant differences of opinion about priorities among legislative leadership. However, even as press accounts dwell on hot-button issues, lawmakers still must perform the more fundamental task of passing a budget. On the eve of the session, State Comptroller Glenn Hegar released a forecast that cut 2.7 percent from the amount of revenue with which legislators have to work.

According to Hegar, Texans can expect the state’s economy to expand at a slow-to-moderate rate during the next biennium, but lawmakers will have fewer dollars than the 2015 Legislature estimated. The next two-year budget must be capped at \$104.8 billion, down from a forecast of \$107.7 billion in 2015.

The revenue estimate does not account for the state’s entire budget, Hegar notes. It does, however, limit the general fund monies available for legislative appropriations and makes up about half the total. When combined with federal funds and other revenue streams, the comptroller projects the state’s total budget will be \$224.8 billion for the 2018-19 biennium, which begins in September. He adds that the state’s Rainy Day Fund, which is derived primarily from oil and gas production taxes, will stand at \$11.9 billion after the

next biennium, if the legislature does not tap into it.

According to a policy think tank in Austin, costs of existing programs and services will exceed the session’s spending plan by \$4 billion. Press accounts cite Representative Drew Darby, R-San Angelo, as saying some belt-tightening is inevitable. “There obviously are going to be cuts to the budget,” Darby is quoted. “We are just going to have to figure out where those cuts are going to come.”

## TIPRO Annual Meeting Austin, Tx.

### Monday, Feb. 27

- 1 p.m.** Welcome Address, Sheraton Austin Hotel at the Capitol  
TIPRO Chairman Allen Gilmer,
- 1:30 p.m.** Texas Railroad Commissioner Wayne Christian
- 2:15 p.m.** Energy Market Update, Vika Swivedi, Macquarie Capital (USA)
- 3 p.m.** Break
- 3:15 p.m.** Executive Panel: “Strategies & Opportunities for Texas’ Top Shale Plays,” Eagle Ford Shale—T.M. “Mitch” Little, Marathon Oil; Permian Basin—Thomas Meneley, Plantation Petroleum; Barnett Shale/Austin Chalk/Anadarko—Jud Walker, EnerVest Operating Co.
- 5 p.m.** TIPRO Legislative Reception

### Tuesday, Feb. 28

- 8 a.m.** Registration Opens, Sheraton Austin Hotel at the Capitol
- 8 a.m.** TIPRO Membership Breakfast  
Speaker: Texas Railroad Commission Executive Director Kimberly Corley
- 9 a.m.** Oil and Gas Regulatory Update, Suzanne Murray, Haynes & Boone LLP
- 10 a.m.** Texas Political Outlook Panel: Harvey Kronberg, *Quorum Report*; Scott Braddock, *Quorum Report*
- 10:45 a.m.** Break
- 11 a.m.** Information Session on TIPRO Capitol Call-Up Meetings
- Noon** BBQ Luncheon, Saengerrunde Hall, Austin
- 2 p.m.** TIPRO Capitol Call-Up Meetings
- 6 p.m.** Chairman’s Reception and Dinner  
Presentation: “Tip of the Hat!” Award Presentation to former Texas Railroad Commissioner David Porter

### Wednesday, March 1

- 9 a.m.** Audit Committee Meeting
- 10 a.m.** Board of Directors Meeting

### Local Authority

With its biennial schedule and large population, Texas sees an average of 6,000 bills filed during a legislative session, TIPRO notes. One published report indicated that between the early filing date in mid-November and the session’s first week in January, 1,300 bills were dropped into the hopper.

TIPRO Director of Government and Regulatory Affairs Lindsey Miller observes that the association must sift through those for proposals that can impact the oil and gas industry. “We track more than 300 bills in most sessions,” she reports. “Of those, we prioritize the ones that need action and follow them closely.”

Gilmer says he does not expect many bills targeting the oil and gas industry, but expresses concern about possible threats to some of the industry’s progress in the past two sessions at restricting local control initiatives. “Passage of HB 40 in the last session was a big win for industry and mineral owners,” he assesses. “We have to defend mineral owners’ property rights and prevent these unilateral takings by municipalities.”

Known as a “ban on bans,” HB 40 passed in 2015 after Denton, Tx., enacted a ban on hydraulic fracturing. The new law prohibits such local bans as well as other oil and gas restrictions deemed commercially unreasonable (*AOGR*, June 2015, pg. 30).

Denton repealed its fracturing ban after HB 40 became law. Media statements made by the city’s mayor cited a desire to avoid lengthy and expensive legal fights.

### Reasons For Hope

TIPRO leaders are expressing optimism that the new administration of President Donald Trump will provide relief for what they consider operators’ ever-increasing federal regulatory burden. “These (methane) information requests the Environmental Protection Agency is sending operators are a good example,” Gilmer cites. “The amount of time it takes to fill out information that the EPA has ready access to is ridiculous.”

According to Longanecker, many in the industry expressed relief and satisfaction as Trump named his cabinet nominees in the weeks following the November 2016 election. “Our industry has been inundated with regulatory burdens for the last eight years,” Longanecker describes. “Trump’s picks for the Department of Interior and EPA show he understands

how to get our industry back on its feet. His administration has a big job ahead, but we are excited by what we have seen so far.”

Among the laws and federal regulations

on which TIPRO is expressing hope for reform are the Endangered Species Act, Clean Air Act Section OOOO(a) rules on methane emissions, and the venting and flaring rules from the Bureau of Land

Management.

“Many did not anticipate that the election would turn out as it did,” Longanecker considers. “We are looking for good things to happen in this term.” □

## Texas Deals With Induced Seismicity

AUSTIN, TX.—Earthquakes across a half dozen oil and gas producing states in the past decade have generated headlines and calls for preventive action, alongside some public perception of links between seismic activity and wastewater disposal in deep wells.

In Texas, a new monitoring and research program called TexNet aims to provide insight and direction for state regulators as they respond to the issue, say its developers.

According to press accounts, within the next two years, TexNet is expected to produce a program of subsurface characterization and modeling that addresses possible seismic triggers and provides regulators with guidance on disposal well permitting and operations.

From its earliest stages, the Texas Independent Producers & Royalty Owners Association says it has supported the

program.

### Expanded Authority

Published reports chronicle how concerns about induced seismicity have taken shape amid a rise in reported earthquakes that appear to overlap increased production of wastewater and other fluids associated with oil and gas activity. After a series of quakes in 2012 and 2013 near Azle, Tx., northwest of Fort Worth, public concerns prompted rule changes and later, a formal inquiry.

By 2014, the Texas Railroad Commission had hired a seismologist and revised its disposal well regulations (*AOGR*, May 2014, pg. 24). The RRC also modified disposal well requirements under Statewide Rules 9 and 46.

For its part, TIPRO worked closely with the RRC on the injection and disposal rules, says Lindsey Miller, the association’s

director of government and regulatory affairs. “We were very concerned about this issue from the beginning,” she relates. “Disposal well permits should be reviewed if an area has a history of seismic activity. A few permits have been denied, but the operator has the right to an appeal.”

Although a clear link between wastewater disposal and seismic activity remains elusive, “it is an issue that cannot be ignored,” Miller adds.

The revised RRC rules require disposal well permit applications to search U.S. Geological Survey records for reports of seismic activity within 9.08 kilometers of the location, Miller notes. RRC staff also have been authorized to modify a permit’s volumes or pressures—and even shut in a well—if they determine the well contributes to seismic activity. The revisions also allow the RRC to increase the frequency by which operators must file

reports on fluid volumes and pressures.

RRC's efforts have not shielded it from criticism for a perceived lack of action to protect the public from induced seismic events. In July 2016, the *Dallas Morning News* reported on a study by geophysicists at Southern Methodist University that compared increases in fluid injection rates with seismic activity. It concluded that a correlation between the two was "plausible." Later, the paper published an opposition commentary that faulted the RRC for not closing the pertinent disposal wells and urged the commission to restrict fluid injection in all quake-prone regions of the state.

RRC Chairwoman Christi Craddick defended the commission's response in a published report, saying there was but a single earthquake in the state between October and January.

The commission "has done a good job with our rules, and companies have been more thoughtful," Craddick is quoted. "We have turned down about a third of injection-well permit applications, though operators can ask for a hearing. Part of it is that people are more aware and paying a lot more attention."

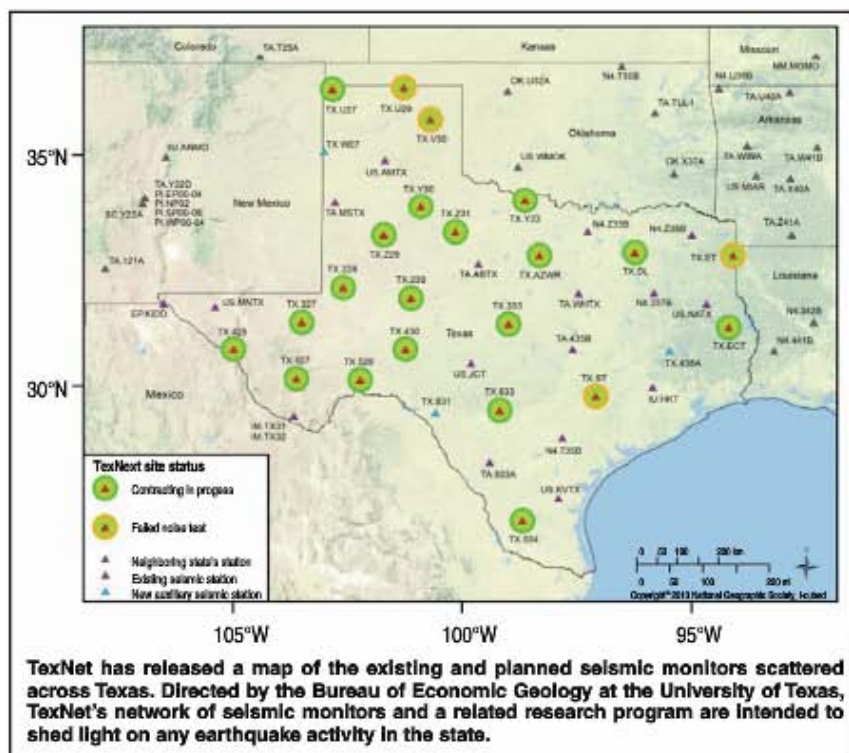
### Delayed Start

In 2015, the Texas Legislature passed HB 2, which created the TexNet Seismic Monitoring Program with biennial funding of \$4.47 million. In authorizing TexNet, the legislature "tasked us with helping to locate and determine the origins of earthquakes in Texas, and where they may have been caused by human activity, helping to prevent them from occurring in the future," says Alexandros Savvaidis, the seismologist leading the program.

That program, which is hosted by the Bureau of Economic Geology at the University of Texas at Austin, is supported by a nine-member panel charged with advising researchers on use of funding, developing collaborative research with other universities in Texas, and with oversight and production of status reports to the governor and legislature. The advisory committee held its first meeting in June, followed by meetings in September and October. Its first status report was released in December.

"The program could not spend money until its budget was approved by the advisory committee," observes TIPRO President Ed Longanecker. "Now the first batch of monitors is in place and has started collecting data."

The program calls for installing 32 per-



manent seismic monitors to augment 17 existing monitors scattered across the state. A TexNet report indicates the network is intended to detect earthquakes with a magnitude of at least 2.0, events that take place near urban areas, or seismic activity "that could be induced by human activity."

TexNet staff also will have access to 36 portable seismic monitors that can be deployed quickly in response to recent and ongoing seismic activity, the report adds. It says TexNet's seismic monitor network should afford researchers a new level of precision as they "develop and implement cutting-edge methods to determine earthquake locations more accurately than possible with routine methods."

According to Longanecker, TexNet demonstrates that Texas is among the country's most proactive states in addressing induced seismicity concerns. "Our association supports further research and analysis, as well as appropriation of sufficient revenue for continued data collection," he says. "This is needed to determine the true cause of seismic events in this state."

TexNet's year-end report notes it has hired a staff and several expert contractors. It also has designed and activated a data hub for managing the flow of information, and anticipates the majority of its monitors will be deployed by midyear.

TexNet officials express plans to request an appropriation of \$3.4 million in the 2017-18 legislative cycle to assure the program reaches its goal of providing answers and guidance for the RRC as it considers the need to further revise disposal well standards.

According to the report, TexNet officials "anticipate that by 2019, sufficient earthquake data will be available to fully support subsurface characterization and modeling. Therefore, it is vital that funding for TexNet operations and research be continued." □