Greetings PPROA Members,

Judy and I participate regularly in the Texas Alliance of Energy Producers Corporate Issues meetings. These are held twice a month and discuss the issues that affect the domestic oil and gas industry, with a particular emphasis on the issues that will adversely affect independent producers. The meetings are held in Austin, so Judy and I normally participate via conference call.

While the number of issues affecting our industry have decreased due to the current Presidential Administration, there are still a number of important problems that we are dealing with or are anticipating on the horizon.

Our friends in the environmental movement are still using the Endangered Species Act to stifle oil and gas production. The Texas Hornshelled Mussel is the latest species that the environmentalists are focusing on to try to curtail hydrocarbon production. It is found in most of the rivers and streams of west and central Texas so it is perfectly situated to shut down oil and gas production, if they can get it listed as endangered or threatened. Our friends in the Permian Basin and the Eagle Ford Shale will be the ones fighting this battle, but the outcome potentially will affect all of the industry.

The Lesser Prairie Chicken is back on the schedule to be considered for listing this year. With this being a drought year, the survey numbers will undoubtedly be down. There will be a very strong push from the enviros to list the bird as threatened, if not endangered. The conservation plan that we implemented 4 years ago went a long way to get the listing reversed when the chicken was listed as threatened previously. We may need a greater effort this time, with more land set aside for habitat, if a listing is to be avoided. Judy has information on who to contact to participate in the Range Wide Plan to set aside acreage for Prairie Chicken habitat.

Our public perception continues to be a problem. Ernst and Young did a survey of young Americans (ages 16 and older) on their perceptions of the Oil and Gas Industry. While 41% had a positive perception of the energy industry, 40% of those thought of power plants or local utilities first, followed by oil at 18%, then natural gas at 8%. Overall young people “increasingly feel shunted by the oil and gas industry. Their environmental values are not matched by the oil industry’s values,” according to the report. In particular, teens (ages 16-18) see the industry as bad for society and a problem causer. The report stated that 71% of teens believe that renewables are the fuels for their generation, while 56% said oil and gas are the fuels of their parents’ generation. As famously stated in the movie ‘Cool Hand Luke’, what we have here is a failure to communicate.

We need to be telling our neighbors and particularly any young people that we can speak to that the earth’s 7.6 billion people cannot exist without hydrocarbon energy. The standard of living in China and India, home to more than a third of the world’s population, is increasing rapidly due to their access to affordable hydrocarbon energy. The rivers, streams, and air in the developed nations are cleaner than the third world precisely because of the energy we derive from hydrocarbons and the wealth that they afford. As China, India and the rest of the third world get greater access to hydrocarbon energy, they will be able clean up their environmental problems and feed their people. Wind turbines and solar panels will not be the solution to their problems because they need tractors, trucks and cars to continue to improve their way of life. Electric tractors and trucks don’t exist and they can’t afford the electric cars that are being produced. Plentiful and affordable hydrocarbon energy is the way forward and will result in solving the world’s problems, not creating them. Pass it along and keep doing what you do so well.

Todd Lovett
OPEC
HOUSTON
CHINA
STEEL PIPES

For a week in March, Houston was site of a world assembly of oil producers engaged in an OPEC-Russia dialogue with American shale or light tight oil producers on supply and indirectly price. OPEC and Saudi Arabia pitched a market information offensive. Put simply, American oil producers should cut-back or stabilize output in a “family” arrangement to avoid an expansion of supply that threatens the price of world oil.

But there is no U.S. Oil Company (government owned) in America unlike all members plus Russia which are state companies. Russia is a mix. OPEC members are a price setting cartel. So, a restaurant in Houston was selected as the site for an elite dinner of OPEC and American shale oil operators. Platitudes and generalizations dominated the American-initiated conversation because anything more would in be violation of U.S. anti-trust laws.

Saudi Arabia, consistent with its effort to sell shares in itself in an Initial Public Offering (forthcoming), emphasized there was enough future world demand to satisfy the Americans as well as OPEC. This was 1.5% growth per year for the next decade or two. Almost silence, however, on Saudi Aramco’s capacity expansion of another 1.5 million barrels per day as a law-breaking cartel. In less than a week later, Iran signals that it would not renew the production cut that has removed 1.8 million OPEC barrels of oil from the world and increased prices. Saudi Arabia was projecting a forecast that a tight market for oil is ahead this year or next as oil projects will not replace wells while demand is strong.

Few were sold on this forecast since shale oil well completions are effectively responsive to price signals with well completions compared to conventional replacement based on prior oil field investment.

Oil traders are largely unconvinced or agnostic listening in to the Houston contradictions. Most will watch Iran in late May as a sell signal in the making of algorithms.

The Trump Administration on steel tariffs takes the Obama Administration failure to do so as a starting point. It was Secretary of the Treasury Lew under Obama who made the case for tariffs during his many visits to Beijing. He would accuse China of promoting an overcapacity of steel production for export and consequent flooding of the American market and the United States with cheap steel. The Chinese no doubt listened politely to the words but did not anticipate action. They followed a strategy of export price advantage for driving American-owned and operated steel out of business.

Steel export dumping over 10 years ago, which lasted 18 months, and is credited for an American steel innovation-led comeback.

Action was taken last month by President Trump. And yet nothing in the customary reaction against Trump recalled that President Bush declared sanctions against Chinese Steel export dumping over 10 years ago, which lasted 18 months, and is credited for an American steel innovation-led comeback.

National security requires American made high-quality steel not only for defense and defense-industrial capability but also for the complex steel in San Juan and Permian natural gas and steel pipelines. What is needed is metallurgy for manufacturing and equipment for continuous casting, cooling, rolling and welding. There is only one plant left in the United States that has some capacity for high strength pipeline steel (API X70 and X80).

The oil and gas industry in the San Juan Basin should not depend on imports from a non-continental foreign source as a matter of national security. China already dominates the American market (oil and gas) for steel valves. There is vulnerability if China follows its rare earth history. First, it lowered prices via exports. Second, with this weapon American rare earth domestic production failed and China bought the technology and transferred it to China. Third, China raises prices for American users of rare earths.

The North American Trade Agreement (NAFTA) negotiations continue with more confidence that fuels (natural gas) will be exempt from negative outcomes. The exemption for Canada and Mexico from steel and aluminum tariffs based on a no threat to national security finding and continental sources, suggests understanding that trade in fuels will not be restricted.

Dr. Daniel Fine
State of New Mexico
Natural Gas Export Coordinator
New Mexico Energy Policy
New Mexico Tech
## Operator Lease Date Issued TD

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an executive who refuses to lease generally will not exact a breach of duty. The executive’s duty of good faith and fair dealing does not only issue on appeal was the sufficiency of the evidence on calculation or amount of the damages (although it appears to Carter as damages. There is nothing in the opinion as to the protection provisions in the executive-rights deed, which Carter refused to do. After two more offers of settlement, the sale. In March 2010, Texas Outfitters rejected an offer to lease with a 22% royalty and a $450 per-acre bonus. In June 2010, Texas Outfitters rejected an offer to lease with a 25% royalty and $1,750 per-acre bonus. The owner of the other 1/2 of the mineral estate accepted that offer. According to Carter, the Texas Outfitters owner said “there would be no lease” because he wanted to protect his hunting business, which he had developed into a deer breeding operation.

According to Carter, they believed an agreement was then reached where Carter would forgive $263,000 on the note, if Texas Outfitters would execute the June 2010 mineral lease. According to Texas Outfitters, Carter tried to buy back their executive rights in exchange for forgiving part of the note, but Texas Outfitters wanted Carter to include surface protection provisions in the executive-rights deed, which Carter refused to do. After two more offers of settlement, including an offer by Texas Outfitters to sell back the ranch and mineral interests to Carter for $4.2 million, negotiations failed. Carter sued Texas Outfitters alleging it breached its duty of utmost good faith and fair dealing by refusing to lease. After Carter filed suit, Texas Outfitters received two more lease offers, and then Texas Outfitters sold the surface and executive rights to a third party for $4.5 million. Following a bench trial, the trial court awarded $867,654 to Carter as damages. There is nothing in the opinion as to the calculation or amount of the damages (although it appears to equal the lost bonus on the June 2010 offer to lease), so the only issue on appeal was the sufficiency of the evidence on breach of duty.

The court reviewed Texas jurisprudence regarding the executive owner’s duty to the non-executive. The executive’s duty of good faith and fair dealing does not require the executive to “grant priority to the non-executive’s interests.” When executing a lease, the executive breaches its duty by “engag[ing] in acts of self-dealing that unfairly diminish[] the value of the non-executive interest.” Although an executive who refuses to lease generally will not exact benefit for itself that it did not acquire for the non-executive, the executive can still breach its duty by refusing to lease. “An executive can breach its duty to lease [if] the refusal is arbitrary or motivated by self-interest to the non-executive’s detriment.”

The Court held that the evidence supported the lower court’s finding that Texas Outfitters breached its duty to Carter by refusing to execute a lease to protect its pre-existing use of the surface. The Court rejected Texas Outfitters’ argument that it merely sought reasonable surface protections by pointing out that all of the settlement proposals required Carter to convey a portion of their royalty interest, reduce the note by $263,000, or accept deed restrictions that would have interfered with future leases. Therefore, Texas Outfitters tried to protect its existing surface use with restrictions that would likely preclude a mineral lease. Further, the court was not persuaded by Texas Outfitters’ argument that if the leases to obtain higher bonuses that would also benefit Carter. There was reasonable contrary evidence Texas Outfitters never planned to lease the minerals and its actual motive was to exact a benefit from Carter to Carter’s detriment by diminishing Carter’s royalty interest, exacting a $263,000 reduction in the note, or by selling its mineral interests back to Carter.

The holding, that an executive rights owner can breach its duty of utmost good faith and fair dealing to the non-executive owner by refusing to lease the minerals and its actual motive was to exact a benefit from Carter to Carter’s detriment by diminishing Carter’s royalty interest, exacting a $263,000 reduction in the note, or by selling its mineral interests back to Carter.

How does the largest natural gas-producing country in the world wind up importing liquefied natural gas from Russia? The answer is tragically simple: hypocritical energy policies that prioritize anti-fossil fuel. “Keep It in the Ground” ideology over sound economics, safety and, yes, even climate change. Environmentalists have admitted they’d rather import LNG than build new pipelines to access domestic natural gas. Meanwhile, New England, New York and most recently Maryland have either banned fracking or blocked pipeline infrastructure projects, even as they implement energy plans that call for increased natural gas use.

The ramifications of this disjointed policy have been on full display during an unusually cold winter in the Northeast: sky-high energy prices, the threat of blackouts and the burning of higher-emitting fuels for electricity generation. More worrisome, though, is that this avoidable mess recently led to Boston Harbor accepting a shipment of LNG originating from a sanctioned Russian facility some 4,500 miles away.

New England imports 20 percent of its natural gas despite a massive supply available from the nearby Marcellus Shale. Anti-pipeline activists are doing their best to keep it that way — if not make the region even more dependent on imported gas.

Environmental activists are also playing politics with grid reliability. A recent report by the region’s grid operator, ISO New England, predicts that the lack of access to natural gas means the grid is likely to be at risk of fuel shortages and rolling blackouts in the next few years.

Even as this situation has become crystal clear, elected leaders in New England have refused to allow the build-out of adequate infrastructure to meet increasing natural gas demand. The Massachusetts’ Supreme Judicial Court also blocked financing for a $3.2 billion pipeline project that would have helped alleviate the problem.

New York, which has denied permits for numerous pipelines since 2016, has also been preventing an affordable and domestic supply of natural gas from reaching New England. Those pipelines would have helped families in the region heat their homes with American fuel, but a fringe political campaign like “Keep It in the Ground” fought tooth and nail to stop that from happening.

The financial costs of pipeline obstruction have also been staggering. Natural gas prices were $35.35 per Mmbtu in New England last December. That’s almost 12 times what the rest of the country was paying that month. U.S. households today are spending a smaller percentage of their incomes on energy bills than any other time in modern history — thanks largely to fracking. But New Englanders pay about 30 percent more for natural gas than the U.S. average.

Anti-pipeline groups are even wrong when it comes to climate change — the issue they argue is the greatest threat facing human civilization. The fuel shortage that has resulted from anti-pipeline policies has actually led to the burning of higher-emitting (and more expensive) fuels for electricity generation.

A recent Boston Globe editorial observed that, because New England chooses to import natural gas from Russia and other areas of the world with more lax environmental regulations, the carbon footprint of using foreign gas is likely much larger than what it would be if New England would build the infrastructure needed to access Marcellus gas.

“Keep It in the Ground” advocates and opponents of fracking are not really interested in reducing greenhouse gas emissions, much less ensuring that New England families have affordable and available energy supplies. Using more natural gas from the Marcellus Shale would help us achieve those goals.

The activists who laid down in the path of pipelines to block construction have effectively rolled out the red carpet for Russian LNG.
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PPROA’s annual golf tournament
Friday, June 1st 2018
Lunch 12:00 p.m. ♦ 1:00 p.m. sign up ♦ 1:30 p.m. Shotgun Start

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No refunds after May 18th
Entry fee includes green fees, carts, lunch and prizes. Four-man scramble will be flighted by blind draw. Teams are subject to review by the tournament director. Only one under 9 handicap per team; minimum team handicap of 42.

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Print Player Names Handicap

Total for Individual(s) ($175pp) or Team ($700) After May 1st

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(806) 352-5637
pproa@pproa.org

RRC District 10 Production Data
December 2016 - March 2017

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