Hello PPROA Members,

As we start the New Year, there is good reason to have a positive outlook. As I write this, Congress is voting on Tax Reform. I have every expectation that it will pass. While it is not perfect, there is much in it that is good. Cutting the corporate tax rate from 35% to 21% is, perhaps, the most important aspect of this legislation. This will encourage corporations to invest in America and will spur economic growth and create jobs. It may be that the market already has the tax reform priced in, as it has been booming in recent months. The GDP has also seen tremendous improvement. It averaged just over 2.1% growth during the last 8 years. It has been growing at over 3% rate since the 2nd quarter of this year. That is nearly a 50% improvement over the last 8 years.

The booming stock market and fantastic GDP growth are also, undoubtedly, a result of the Trump Administration rolling back the business strangling regulations that were put in place in the last year of the Obama Administration. The Obama Administration created over 21,000 pages of new regulations in its final year. The Trump Administration has reversed much of these new and onerous regulations. Rescinding the Methane Information Request, the Clean Power Plan, and the new definition of Waters of the US were particularly helpful to our industry. The efforts to change or rescind the CO2 emissions rule and the BLM tracing rule are also beneficial. Pulling out of the Paris Climate Agreement is helpful to virtually every industry in the USA. While not causing any environmental damage, as the Agreement itself acknowledged that the CO2 emission levels agreed to would have little or no effect on global temperature over the next 30 years.)The EPA ending the environmentalists’s “sue and settle” strategy, whereby they forced the EPA into agreements that the public had no opportunity to comment on and got their legal fees paid in the process, will also be universally beneficial. All of these actions and many more have resulted in the business community having a positive outlook and investing in business growth. This, in turn, increases fossil fuel demand and helps our industry.

I read an article in World Oil recently that predicted that LNG exports will increase in the US from 1.4 BCF/D in 2016 to 9.5 BCF/D in 2019. That is good. Cutting the corporate tax rate from 35% to 21% is, perhaps, the most important aspect of this legislation. This will encourage corporations to invest in America and will spur economic growth and create jobs. It may be that the market already has the tax reform priced in, as it has been booming in recent months. The GDP has also seen tremendous improvement. It averaged just over 2.1% growth during the last 8 years. It has been growing at over 3% rate since the 2nd quarter of this year. That is nearly a 50% improvement over the last 8 years.

Why Saudi Arabia is Looking for Oil and Gas in the U.S.

As Saudi Arabia prepares to sell a piece of its government-owned oil company, Aramco, to investors next year, the country is sniffing around for new energy assets. And it has its eye on the oil and gas production in the United States.

The kingdom, which has tentatively planned an IPO in 2018 is reportedly focusing on American shale country. The IPO itself is momentous. Taking Aramco public would end 38 years of complete state control of the largest oil producer in the world. The implications of an IPO will likely have far-reaching effects. And not just on the markets and Saudi Arabia. It would likely reshape Aramco into a more diversified company with oil-and-gas production assets outside of Saudi Arabia.

That’s where American shale country comes in. Aramco has had early talks with Telurian, the Houston-based liquefied natural gas developer, about taking a stake in the company or buying some of its fuels. The state-owned oil producer has also looked into buying assets in the Permian and Eagle Ford oil and gas basins. Other U.S. companies have been approached about natural gas export deals.

New Report Finds Marcellus Shale Development Unrelated to Pa. Mortality Rates

Methane emissions from oil and natural gas industry in 2017 would be a massive understatement. The U.S. not only further bolstered its status as the world’s top oil and natural gas producer with surging production this year, it simultaneously reduced greenhouse gas emissions while helping grow the economy, furthering a historic decoupling trend. The industry also achieved record oil and natural gas exports in 2017 — doing so without causing a spike in domestic energy prices as opponents claimed would occur — and attracted billions in investment, making the outlook for 2018 even brighter.

Phillips 66, Enbridge to build pipeline from Crane, Loving, Reeves, Winkler

Houston-based Phillips 66 and Calgary-based Enbridge said Dec. 11 they will partner to build a crude oil pipeline from west Texas to destination markets in Corpus Christi, Houston and Freeport. The Gray Oak pipeline will connect to more than three million barrels per day of refining capacity and multiple dock facilities capable of crude oil exports. Origin stations will be located in Crane, Loving, Reeves and Winkler counties in west Texas. Initial throughput capacity will be 385,000 b/d with operation beginning in late 2019.

Wolf Midstream to build new crude oil gathering system in Permian Basin

Calgary-based Wolf Midstream Partners said Dec. 6 it has reached agreement with an independent producer for about 25,000 dedicated gross leasehold acres in the Permian Basin for crude oil gathering and transportation. To support the agreement, Wolf Midstream said it will construct crude oil gathering pipelines of about 50 miles with expected capacity of 55,000 b/d, establish a delivery point near Colorado City, and construct a terminal with interconnects to multiple downstream pipelines. Curtis Ewers, CEO, said, “This new system will solidify our position in the Permian region, where we remain very focused on deploying the necessary capital and developing the infrastructure needed to address our customers’ long-term and immediate needs.”

Year in Review: 2017 was a tremendous year for oil and gas on many levels

To say it was a successful year for the oil and natural gas industry in 2017 would be a massive understatement. The U.S. not only further bolstered its status as the world’s top oil and natural gas producer with surging production this year, it simultaneously reduced greenhouse gas emissions while helping grow the economy, furthering a historic decoupling trend. The industry also achieved record oil and natural gas exports in 2017 — doing so without causing a spike in domestic energy prices as opponents claimed would occur — and attracted billions in investment, making the outlook for 2018 even brighter.

Methane Emissions From Oil And Gas Are Plummeting Without Obama Rule

Methane emissions from natural gas wells have dropped during the past six years, even as activists and lawmakers argue that stringent regulations are required to tackle what they believe are sky-high emission levels. Emissions from onshore natural gas production tumbled nearly 14 million metric tons between 2011 and 2016, according to a report from Energy In Depth, which analyzed data from the Environmental Protection Agency’s (EPA) Greenhouse Gas Reporting Program. The data also found that levels that had decreased even as natural gas production increased. In the San Juan Basin, an area located in parts of New Mexico and Colorado, emissions fell by 47 percent since 2011. Activists frequently claim that San Juan’s methane hot spots releases are reason enough for bolking up rules governing emissions.

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EnergyNet made a highly successful sale a reality for us and at a price that exceeded our expectations. We are extremely pleased we chose EnergyNet as our broker.
With this bill, the typical family of four earning the median family income of $73,000 will receive paychecks, and make the tax code simpler and fairer for Americans of all walks of life. The Tax Cuts and Jobs Act (H.R. 1) overhauls America's tax code to deliver historic tax relief for workers, families and job creators, and revitalize our nation's economy. By lowering taxes across the board, eliminating costly special-interest tax breaks, and modernizing our international tax system, the Tax Cuts and Jobs Act will help create more jobs, increase paychecks, and make the tax code simpler and fairer for Americans of all walks of life.

For job creators of all sizes, the Tax Cuts and Jobs Act:

- Lowers the corporate tax rate to 21% (beginning Jan. 1, 2018) – down from 35%, which today is the highest in the industrialized world – the largest reduction in the U.S. corporate tax rate in our nation's history.
- Delivers significant tax relief to Main Street job creators by:
  - Offering a first-ever 20% tax deduction that applies to the first $315,000 of joint income earned by all businesses organized as S corporations, partnerships, LLCs, and sole proprietorships. For Main Street job creators with income above this level, the bill generally provides a deduction for up to 20% on business profits – reducing their effective marginal tax rate to no more than 29.6%.
  - Establishing strong safeguards so that wage income does not receive the lower marginal effective tax rates on business income – helping to ensure that Main Street tax relief goes to the local job creators it was designed to help most.
- Allows businesses to immediately write off the full cost of new equipment to improve operations and enhance the skills of their workers – unleashing growth of jobs, productivity, and paychecks.
- Protects the ability of small businesses to write off interest on loans, helping these Main Street entrepreneurs start or expand a business, hire workers, and increase paychecks.
- Preserves important elements of the existing business tax system, including:
  - Retaining the low-income housing tax credit that encourages businesses to invest in affordable housing so families, individuals, and seniors can find a safe and comfortable place to call home.
  - Preserving the Research & Development Tax Credit that encourages businesses and workers to develop cutting-edge "Made in America" products and services.
  - Retaining the tax-preferred status of private-activity bonds that are used to finance valuable infrastructure projects.
- Eliminates the Corporate Alternative Minimum Tax, thereby lowering taxes and eliminating confusion and uncertainty so American job creators can focus on growing their business and hiring more workers, rather than on burdensome paperwork.
- Modernizes our international tax system so America’s global businesses will no longer be held back by an outdated “worldwide” tax system that results in double taxation for many of our nation’s job creators.
- Makes it easier for American businesses to bring home foreign earnings to invest in growing jobs and paychecks in our local communities.
- Prevents American jobs, headquarters, and research from moving overseas by eliminating incentives that now reward companies for shifting jobs, profits, and manufacturing plants abroad.

For greater American energy security and economic growth, the Tax Cuts and Jobs Act:

- Establishes an environmentally responsible oil and gas program in the non-wilderness 1002 Area of the Arctic National Wildlife Refuge (ANWR). Congress specifically set aside the 1.57-million acre 1002 Area for potential exploration by private industry. Congress also set aside the 2.07-million acre OCS 1002 Area for potential exploration by the federal government.
- Authorizes responsible development in the 1002 Area, which will raise tens of billions of dollars for deficit reduction in the decades to come.
- Establishes a 25-year moratorium on new oil and gas leases in the Arctic National Wildlife Refuge.
- Establishes an environmentally responsible offshore energy program in the Gulf of Mexico.
- Establishes a Temporary Renewable Energy Production Tax Credit for new wind, solar, and biofuel energy projects.
- Establishes an express permitting system, allowing the President to expedite the permit process for large energy projects.
- Provides a temporary increase in offshore revenue sharing for the Gulf Coast in 2020 and 2021, allowing those states to invest in priorities such as coastal restoration and hurricane protection.

For individuals and families, the Tax Cuts and Jobs Act:

- Lowers individual taxes and sets the rates at 0%, 10%, 12%, 22%, 24%, 32%, 35%, and 37% so people can keep more of their hard-earned money.
- Significantly increases the standard deduction to protect roughly double the amount of what you earn each year from taxes – from $6,500 and $13,000 under current law to $12,000 and $24,000 for individuals and married couples, respectively.
- Continues to allow people to write off the cost of state and local taxes – up to $10,000. Gives individuals and families the ability to deduct property taxes and income – or sales – taxes to best fit their unique circumstances.
- Takes action to support more American families by:
  - Expanding the Child Tax Credit from $1,000 to $2,000 for single filers and married couples to help parents with the cost of raising children. The tax credit is fully refundable up to $1,400 and begins to phase-out for families making over $400,000. Parents must provide a child's valid Social Security Number in order to receive this credit.
  - Preserving the Child and Dependent Care Credit to help families care for their children and older dependents such as a disabled grandparent who may need additional support.
  - Preserving the Adoption Tax Credit so parents can continue to receive additional tax relief as they open their hearts and homes to an adopted child.
  - Preserves the mortgage interest deduction – providing tax relief to current and aspiring homeowners.
    - For all homeowners with existing mortgages that were taken out to buy a home, there will be no change to the current mortgage interest deduction.
    - For homeowners with new mortgages on a first or second home, the home mortgage interest deduction will be available up to $750,000.
  - Provides relief for Americans with expensive medical bills by expanding the medical expense deduction for 2017 and 2018 for medical expenses exceeding 7.5 percent of adjusted gross income, and rising to 10 percent beginning in 2019.
- Continues and expands the deduction for charitable contributions so people can continue to donate to their local church, charity, or community organization.
- Eliminates Obamacare’s individual mandate penalty tax – providing families with much-needed relief and flexibility to buy the health care that’s right for them if they choose.
- Maintains the Earned Income Tax Credit to provide important tax relief for low-income Americans working to build better lives for themselves.
- Improves savings vehicles for education by allowing families to use 529 accounts to save for elementary, secondary and higher education.
- Provides support for graduate students by continuing to exempt the value of reduced tuition from taxes.
- Retains popular retirement savings options such as 401(k)s and Individual Retirement Accounts (IRAs) so Americans can continue to save for their future.
- Increases the exemption amount from the Alternative Minimum Tax (AMT) to reduce the complexity and tax burden for millions of Americans.
- Provides immediate relief from the Death Tax by doubling the amount of the current exemption to reduce uncertainty and costs for many family-owned farms and businesses when they pass down their life's work to the next generation.

POLICY HIGHLIGHTS

- Improves savings vehicles for education
- Provides relief for Americans with expensive medical bills
- Preserves the mortgage interest deduction
- Establishes a 25-year moratorium on new oil and gas leases in the Arctic National Wildlife Refuge
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Carrizo Oil & Gas, Inc. v. Barrow-Shaver Resources Co. held that "express written consent" to assign under a farmout agreement meant "sole and absolute discretion" consent. Carrizo ("Farmor") owned an oil and gas lease and entered into farmout negotiations with BSR ("Farmee") to drill on the lease. An initial draft agreement’s consent-to-assign provision stated that Farmee could not assign its rights without Farmor’s consent, which “shall not be unreasonably withheld.” After four drafts of the agreement, the final draft deleted this language and provided that it could not be assigned "without the express written consent of [Farmor]." This provision was clearly negotiated. Farmor’s representative said that Farmor’s legal counsel insisted on deleting “which shall not be unreasonably withheld,” but on three separate occasions Farmor’s representative said Farmor would, in fact, consent. Farmee spent $22,000,000 drilling with no results, and then found a buyer for $28,000,000. Farmor refused consent, unless Farmee paid Farmor $5,000,000. Farmee refused, lost the sale, and sued Farmor for $28,000,000 based on breach of contract and fraud. At trial, Farmor contended that the evidence on the prior negotiations was admissible, that the contract was unambiguous, and that the court should rule for Farmor as a matter of law. The trial court held the prior negotiations were inadmissible, admitted Farmee’s expert testimony that under custom and practice in the industry "which shall not be unreasonably withheld" was implied in "without consent,” and submitted the case to a jury. Based on the verdict for Farmee, the court entered judgment for Farmee in the amount of $28,000,000.

Whether Farmor breached the contract hinged on the level of discretion the agreement gave Farmor to withhold consent. Farmee argued that because there was no express qualifier on "consent," the final agreement was silent as to the type of consent Farmor could exercise, that the contract was unambiguous, and that the court should rule for Farmor as a matter of law. The court stated that it “may consider the facts and circumstances surrounding a contract, including . . . objectively determinable factors that give context to the parties’ transaction.” The court reasoned that negotiations resulting in the deletion of the “unreasonably withheld” language gave the agreement more context and were not barred from admissibility by the parol evidence rule. The court held that Farmee’s “reliance is of no consequence in light of the unambiguous term in the written contract that directly contradicts the oral representation.” Farmee did not reasonably rely on Farmor’s promise because “[a] written contract vitiates any reliance on oral promises.”

The court then considered whether Farmor committed fraud by withholding consent after orally promising Farmee that it would not unreasonably withhold consent. One of the elements of fraud is justifiable reliance. The court held that Farmee’s “reliance is of no consequence in light of the unambiguous term in the written contract that directly contradicts the oral representation.” Farmee did not reasonably rely on Farmor’s promise because “[a] written contract vitiates any reliance on oral promises.”

The significance of the case is the holding that earlier drafts of a consent-to-assign provision are relevant to and admissible in determining the scope of the final version of the consent-to-assign provision included in the agreement. The case suggests that the word “consent” is not clear, and therefore custom in the industry and prior negotiations may supply the parties intent.

The foregoing is not a legal opinion. You should consult your attorney if this may be of some significance to you.

- Jeff McCarn may be contacted at (806) 345-6340 or jmccarn@bf-law.com

Januay 2018
American policy and eliminated the "dependence" since 1973 as Trump-Zinke have established oil and gas "world domination" as substitution for United States participation.

Pressure to follow California's Governor Brown's state and local state governors of oil and gas producing states will be under party change which the Trump Administration rejected. Democratic substitution for the objectives of the Paris Agreement on climate air emissions. This would be a response to state government to industry self-initiation of methane curtailment or elimination in implementation with the so-called methane rule tabled in response the Department of Interior, will complete the massive deregulation President Trump and oil and gas policy chief, Secretary Zinke, of change and the status of women in the "revolution."

Technology and manufacturing in the national economy: social traditionalism. The plan is for less dependence on oil exports with instability over its simultaneous offensive against Iranian influence in the Middle East and social and economic modernization against its simultaneous offensive against Iranian influence in the Middle East and social and economic modernization against Iran, a pervasive consensus. American oil and much less natural gas exports have displaced OPEC and Russian foreign mainly as a deterrent to Russia and an alternative to the Middle East. If exports of oil are nearly 2 million bpd, how much of that is displacement of OPEC-Russia under the production cut-back agreement and how much will OPEC-Russia recover when world oil balancing allows them to produce at market?

The Obama Federal Lands policy will have been rejected and BLM implementers replaced. Nuclear energy should be stabilized and coal burning power replaced by natural gas under market conditions. Changes and reforms in royalty determinations on federal land for oil and gas should reflect market reasonableness as opposed to the politics and climate change bias.

The State of New Mexico’s Delaware Basin oil reserve study from the United States Geological Service (USGS) should be completed with 23-25 billion barrels of oil. This will be larger than the Texas part of the Permian Basin and will deliver revenues to state and local governments accordingly. However, the price of WTI oil will determine the size of those revenues. With oil averaging $44.00 per barrel, the low cost or prolific wells are the “sweet spots” of Shell and Chevron, for example, will endure the low end of prices with its refining capacity. The Delaware basin will look better on the balance sheet than Venezuela or offshore in the Gulf of Mexico outside the U.S.

There will be a new Governor elect and an energy policy review. Oil and gas energy in New Mexico benefited from the Governor’s alternative fuel/conservation efforts (dependency and climate change objectives). Her energy policy and its oil price recovery success should be a substantial part of the election voting mix.

The San Juan Basin natural gas in the Mancos Shale will generate an upward recovery in the Four Corners. A technological revival of coal-bed natural gas is taking place. Strike the word “declining” from a description of the San Juan Basin in 2018. Natural gas prices are not determined by the factors discussed above. New markets for natural gas exports from the Delaware Basin (gas associated with oil) and the San Juan Basin will emerge. Storage and weather remain a dominant variable. LNG for American export is here with geopolitical opportunity, for example, the future of indispensable supply from Qatar caught between Saudi Arabia and Iran.

Traditional oil operators are 5-year business planners for returns on investment while the new private equity owners or investors are quarterly or payback pressure points for higher stock market share prices and distribution. OPEC-Russia is the external market threat leading to the lower price range alongside an internal investor/owner threat of less cash flow plow back for future production projects and more for short-term return on investment.

Oil price and production will also reflect Saudi Arabian domestic instability over its simultaneous offensive against Iranian influence in the Middle East and social and economic modernization against traditionalism. The plan is for less dependence on oil exports with technology and manufacturing in the national economy: social change and the status of women in the "revolution."

President Trump and oil and gas policy chief, Secretary Zinke, of the Department of Interior, will complete the massive de-regulation implementation with the so-called methane rule tabled in response to industry self-initiation of methane curtailment or elimination in air emissions. This would be a response to state government substitution for the objectives of the Paris Agreement on Climate Change which the Trump Administration rejected. Democratic state governors of oil and gas producing states will be under party pressure to follow California’s Governor Brown’s state and local substitution for United States participation.

Trump-Zinke have established oil and gas “world domination” as American policy and eliminated the “dependence” since 1973 as...
The ESA and Texas Oil & Gas Production

A new report from Texans for Natural Gas details how environmental activists have used the Endangered Species Act (ESA) to impede oil and natural gas production in Texas and throughout the country. The Permian Basin and the Eagle Ford Shale are among the most prolific oil and natural gas producing regions in the United States, yet these regions are under threat from restrictions related to the ESA because they are home to several at-risk species.

The report, entitled “Protecting Endangered Species in Texas: Activist Lawsuits vs. Proactive Conservation,” examines the impacts of the ESA in Texas, including how activist groups use ESA litigation to further their “Keep It In the Ground” campaign, the proactive measures implemented by oil and natural gas companies to conserve and protect species and their habitats, and components of the law that may require updates to make it work better for both species and people.

The report finds that “When compared to the tactics employed by activist groups, the voluntary and proactive measures taking place in Texas are more efficient, as they help protect species with positive impacts on the ground, without the economic harm that comes from restrictions associated with the ESA.”

Additional key findings in the report:

- The ESA has significant impacts in Texas.
  - There are 97 species (67 animals and 30 plants) in Texas on the ESA list. In addition, there are 10 candidate species and 62 species awaiting a 12-month finding.
  - Since 2013, the Texas Legislature has appropriated $10 million for research on Texas species.

- Activist groups have overwhelmed FWS with listing petitions and lawsuits.
  - Between 2007 and 2010, FWS received petitions to list over 1,000 species. This is more species than had been listed under the ESA in the previous 30 years.
  - 141 ESA lawsuits related to missed deadlines were filed between 2006 and 2015. 79 percent of these lawsuits were filed by environmental groups.
  - Environmental activists have discovered that raising ESA concerns is one of the most effective ways of impeding energy development, and they have called the law an “Achilles heel” for operators in Texas specifically.
  - ESA-related lawsuits are deliberately employed as “psychological warfare,” according to the Center for Biological Diversity, one of the most litigious “Keep It In the Ground” groups.
  - Current and former FWS officials say that activist lawsuits forcing compliance with ESA have actually impeded government and industry efforts to protect species.

- Texas oil and natural gas operators proactively implement conservation efforts to protect species.
  - Operators are using advanced technology, such as horizontal and directional drilling, to reduce their environmental footprint and limit surface disturbances.
  - Six oil and natural gas companies, in a partnership with the National Fish and Wildlife Foundation (NFWF), have committed $3.5 million in funding for conservation projects in the Permian Basin.
  - Oil and natural gas companies have enrolled over 9 million acres in conservation plans and have committed more than $50 million to help fund conservation and restoration programs for the lesser prairie-chicken.
  - FWS worked with the Texas Comptroller and oil and natural gas operators to secure protections for over 85 percent of the dunes sagebrush lizard’s habitat.
  - Since implementation of the Texas Conservation Plan, fewer than 300 of 200,000 acres of the dunes sagebrush lizard’s Texas habitat have been disturbed by program participants.
  - The state of Texas has allocated more than $3.6 million on research for the Texas hornshell and 11 other freshwater mussels.
  - The ESA was intended to help at-risk species, not be used as a tool to impede energy production. Unfortunately, ESA petitions and lawsuits have become a go-to strategy for activists looking to further their radical “Keep It In the Ground” agenda,” said Steve Everley, spokesman for Texans for Natural Gas.
  - “Texas oil and gas operators have proven that conservation and energy production are not mutually exclusive. Companies operating in the Permian Basin and Eagle Ford have implemented ground-breaking, voluntary conservation efforts that have effectively protected species without harming our Texas economy.”

“Constant contact is our promise to you.”

- Steve Everley
Spokesman
Texans for Natural Gas
214-397-1626

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- Steve Everley
Spokesman
Texans for Natural Gas
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### RRC District 10 Production Data
**Sept 2016 - Nov 2017**

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<td><strong>442,161,186</strong></td>
<td><strong>8,962,463</strong></td>
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</tbody>
</table>

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**What do four containers of ink and four barrels of oil have in common?**

They all keep YOUR company **MOVING!**

**TRANSPORT OIL**

Whitney Russell Printers

806.374.7005
1500 S. Polk
P.O. Box 664
Amarillo, TX 79105-0664

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PPROA Pipeline - 16 - January 2018