Greetings, PPROA Members:

I hope you all had a wonderful Christmas and will have a blessed 2019.

The oil price took a tumble at the end of 2018, but there are reasons to be optimistic in the new year. OPEC and partners have agreed to curtail production by 1.2 million bpd. That should have a positive impact on oil price. The drop in the Permian to less than $40 per bbl will cause many operators to curtail drilling. That is a good thing overall and will result in increased oil prices.

We continue to be our own worst enemy. In September, US oil production hit an all-time high of 11.5 million bpd. This represents an increase of two million bpd over 2017 production. Thus, all the current surplus in supply can be attributed to US production and most of that increase came from the Permian Basin. September also saw an all-time high in US gas production at 95.9 Bcf/d. As a result, the gas price began to drop, even as we were entering the winter heating season.

So, what is the good news? The economic fundamentals are still strong, and oil demand should increase by 1.2 million bpd during 2019. If OPEC and Russia stick to their proposed production cuts for six months, oil price should rebound nicely, and the increase in demand should take care of their production increase in the second half of the year. On the gas side, there are several LNG plants under construction that will come on stream in 2019. We currently export about 3.6 Bcf/d. The added LNG capacity should process an additional 5.3 Bcf/d, resulting in gas exports of about 8.9 Bcf/d by the end of 2019. This should have a positive effect on gas price. If we can just hold back a little and not let production get ahead of demand, we will have a good year in 2019.

The legislative season has begun and over 500 bills have already been filed by the Texas Legislature. Some will be positive for the oil and gas industry and many will be negative. We will monitor the ones that affect us and will keep you posted when we need your help in supporting or opposing bills.

One bill that I am absolutely in support of is Rep. Lyle Larson’s HB 49 to end Daylight Savings Time (DST). Some of you like DST and will not want to see it end. I think its time has passed, and I will tell you why. During the Arab Oil Embargo, in the 1970s, it was argued that DST would result in energy savings. DST has been extended twice since then with the same expectation of energy savings. Multiple studies have been conducted that have determined that DST does not save energy and, in fact, may result in added energy consumption. More importantly, studies of DST have determined that accidents and deaths can be associated directly to the changes to and from DST each year. It is estimated that 170 pedestrian deaths occur each year in the USA because of the change to darker mornings in the Spring and darker evenings in the Fall. Many of these deaths are school children on their way to or from school who are not seen by automobile drivers. A further 195 people are killed each year in auto accidents due to drowsy or distracted drivers, due to the change to or from DST. Even if these estimates are grossly overstated, does even one death per year justify you being able to mow your lawn at 9:00 at night? I think we need to end this foolishness and pick a time and stay with it. I will support Rep. Larson’s bill and encourage you to do so, too.

Every year the local Boy Scout Council has a ‘Good Scout Luncheon’ as a fund raiser for the local Boy Scouts. I have been an active scouter for many years and always enjoy the speakers at the Good Scout Luncheon. This year the speaker will be one of our own. Joe Gorder, the CEO of Valero, is the featured speaker this year and he should share some interesting information on our industry. I encourage you to support the Scouts and our industry with your attendance. The lunch is free and is always wonderful, but you will be asked for a donation. The date is Feb. 20th. An RSVP at 806-358-6500 is required.

Remember, we want to hear your questions and comments, particularly on the legislation that is being presented or that you would like to see presented. Thank you for your support and keep in touch with us. Wishing you all the best in the New Year!
Permian Oil Reserves Now at 50 Billion Barrels
BOOM or BUST
World Over Supply

News of the size of oil reserves in the Delaware Basin (New Mexico's share of the Permian) while OPEC was deciding how many barrels it will cut from the world market to lift prices caused epic confusion and revelations of how little "authorities" and the media understand petroleum economics.

The New Mexico media which relies mainly on interviews with petroleum industry spokespersons got it wrong. Government numbers came out as 46 billion barrels (Permian total) with 26 in New Mexico. This means nothing but oil in good rock along with technical recovery as an estimate. Some excited "authorities," who should know better, exclaimed that there was more.

However, the estimate is based on the application of technical means to recover the oil. The reserves of real oil depend on ultimate economic recovery. This means technical based on geology plus economics. A high price will recover the billions of barrels while a low price will not. In short, the numbers reflect the rocks without economics.

The Delaware reserves plus the Texas Permian are now there to expand supply over 12 million b/d in the United States. This writer has warned that world oil demand is sluggish and imprrise with only references to legacy guesswork that the developing world plus China's demand will support prices long term or forever. Yet, world oil consumption has increased only 5% in the last ten years.

OPEC with Saudi Arabia as its leader has expired as the world manager of world oil has removed about 500,000 b/d between January and December of 2018. America via Trump and without U.S. President could achieve since 1973, Trump as a geopolitical manager of world oil has removed about 500,000 b/d between January and December of 2018. America via Trump and without a formal cartel alignment determines much of the price of world oil.

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Nearing 12 million b/d and over the Permian producers will be individually required by this price to revise capital spending and place production into DUC (non-completions) and storage. There is doubt that the export of light or shale oil would continue if the Brent price falls lower and loses its premium status over WTI. A net cutback of Permian between 500,000 to 750,000 b/d should be a non-OPEC response to an oil glut even more serious than 2014.

Saudi Arabia is untouched as an American strategic ally in confronting Iran in the Middle East as a hegemonic threat. Despite some Republicans and the Democratic Party in Congress, violation of human rights over the death of a Saudi journalist critic of the Crown Prince will not override U.S. national interests in the Middle East. President Trump has not deviated from post-World War Two foreign and defense policy.

Trump wants low oil prices for American consumers and forced OPEC this summer to pump more to offset export sanctions on Iran. Iran, with OPEC under a deep organizational split which no U.S. President could achieve since 1973, Trump as a geopolitical manager of world oil has removed about 500,000 b/d between January and December of 2018. America via Trump and without a formal cartel alignment determines much of the price of world oil.

The United States with its Texas-New Mexico tight and shale oil has changed from dependence on world oil to domination. Never again can OPEC engage the U.S. in a price and market share war as it did in 2014-2016 through supply acceleration in an oversupplied world market. WTI emerges as the new world price. It is American barrels that set the price and OPEC becomes a price-setter. Since there are USGS-declared 50 billion barrels in reserve in the Permian, how will the Permian producers set a return on investment in a new free market for petroleum?现实与期望的差距

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As the worst unrest to grip France in 50 years rages on, triggered by a pending climate change fuel tax (since postponed), President Macron announced a slate of measures designed to appease the masses. Included in the government giveaways: a minimum wage hike of about $1.75 an hour, no taxes on overtime pay and reforming pension benefits for low-wage earners.

Macron said in a national address, “I know I’ve hurt some of you with my words” and then declared “an economic and social state of emergency.” But perhaps that state of emergency is due to the protesters viewing the proposed “green” fuel tax increase is a little more harmful than words.

Meanwhile, the unrest in France appears to be spreading elsewhere in Europe.

Here in America, will Democratic members of Congress and their climate activist allies learn the lessons of France?

If France can erupt into riots over what amounted to a 25 cent per gallon tax hike on gas — 10 cents on diesel — on top of fuel prices of a little more than $7 per gallon, imagine the electoral drubbing that awaits a party that enacts far higher fuel taxes. But more on that in a moment.

Of course, prior to enacting any ambitious program of tax hikes, carbon dioxide emission restrictions, mandates, subsidies, and a large government R&D push, the stage must be set. These ideas must gain public acceptance.

With only 45 percent of Americans seeing global warming as a serious threat in their lifetimes, more work has to be done to convince U.S. voters to accept actions that will cause their standards of living to fall.

That’s where climate change studies, with their temperature models and allied economic assumptions come in. It’s also where things start to get hinky. The global temperature predictions published by the latest U.N. Intergovernmental Panel on Climate Change say the planet is likely going to be another 0.5 degrees Celsius warmer sometime between 2030 and 2052.

To prevent that 0.5-degree increase from going higher, the U.N. experts estimate that there will have to be some sort of global tax on carbon dioxide equivalents of something in the range of $157 to $7,018 per ton by 2030 (in current dollars).

Since each gallon of gasoline produces about 20 pounds of CO2 when it’s burned, the U.N. recommended carbon tax on gas could range from $1.41 per gallon all the way up to $63.66 (revised up from $49 per gallon in 2010 dollars in the U.N. climate report draft released in October).

This is a pretty wide range for both the projected rate of warming and the costs estimated to combat it.

So here’s an analogy. As a homeowner, you suspect your roof may leak in bad weather. But you’re not sure if there’s really a leak, or how bad it may be. You do know that the weather forecast says a category 5 hurricane may hit in a week or so (and it may not), and that weather event could include tornados and lightning. You’re understandably worried, so you call a roofer for a repair estimate.

But when that estimate comes back, it’s anywhere from $1,570 to $70,180. And the roofer warns you that if the worst-case scenario happens, your house will be flattened anyway, so the roof won’t matter.

So you put off the repair, until you are sure there’s a leak in the first place.

In the same way, we have no firm costs and no real guarantees with carbon taxes. Those unelected U.N. report-writers may be comfortable calling for climate change gas taxes as high

Not New - No Deal

Green Energy Isn’t new

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But when that estimate comes back, it’s anywhere from $1,570 to $70,180. And the roofer warns you that if the worst-case scenario happens, your house will be flattened anyway, so the roof won’t matter.

With such big unknowns for the weather and no firm cost—or real guarantee—for the roof repair, no one would blame you for putting off the repair, until you were sure there’s a leak in the first place.

In the same way, we have no firm costs and no real guarantees with carbon taxes. Those unelected U.N. report-writers may be comfortable calling for climate change gas taxes as high
as $64 per gallon — or just $1.41 per gallon — but the actual elected politicians in France are about to be turned out of office for daring to impose a 25-cent-per-gallon tax.

American climate activists are trying to be a little more subtle about it, and this is where the “Green New Deal” comes in. As Representative-Elect Alexandria Ocasio-Cortez describes it, “This is going to be the New Deal, the Great Society, the moon shot, the civil-rights movement of our generation.”

Rather than raise taxes directly on energy — something that would be transparent, honest and efficient economically (while being deadly at the ballot box) — the Green New Deal aims to seize control of the economy by promising a “green” job to every American who wants one.

The promised employment would include things like building electric cars and installing wind turbines and solar panels. And of course, the jobs would be union jobs (with the added bonus that 99.9 percent of the dues money would go to Democrats).

This massive intervention in the American economy would end up costing voters the equivalent of $1.41 to $64 dollars per gallon in indirect costs brought about by government intervention. It’s just that the costs would be hidden. The cost of living — for fuel, food, electricity — would soar, but direct taxes on the consumer would be obscured.

The funny thing about the Green New Deal is how much it looks like standard, old-school progressive politics from the 1930s, just dusted off and given a new, urgent patina to address the threat of climate change.

The Green New Deal isn’t green, it isn’t new, and it’s not a deal.
Judy Stark
President

CASENOTE

Boothe v. Green, 534 S.W.3d 93 (Tex. App.—Corpus Christi 2017, pet. denied) held that a devise of real property was adeemed only in part because the testatrix still possessed a part of the mineral estate at the time of her death. Testatrix owned an undivided fee simple interest in 1,448.5 acres. In a 1924 will, Testatrix bequeathed to her three grandchildren (J. F., Mary Lee, and Jessie), equally, any farm lands and pasture lands owned by Testatrix at the time of her death. The residue of the estate passed to Jessie. In 1927, Testatrix sold her interest in the land to Buyer, and Buyer immediately reconveyed 1/6 of the minerals to Testatrix, which Testatrix still owned at the time of her death. The parties aligned as successors-in-interest to J. F., Mary Lee, and Jessie. Jessie claimed all of the mineral estate; J. F. and Mary Lee claimed the mineral estate passed equally to the three grandchildren. The issue was whether the devise was adeemed in its entirety or adeemed pro tanto, when Testatrix sold her interest after executing the will.

When a testatrix sells realty devised in a will prior to her death, the beneficiaries of the devise are not entitled to the proceeds; instead the proceeds pass under the residuary clause. The devise is “adeemed.” “[I]t is also well settled that the proceeds of some significance to you. You should consult your attorney if this may be of some significance to you.

The court in Boothe explained that Testatrix had an interest in the mineral estate before and after the sale of the land because the buyer re-conveyed the mineral interest back to her, which she still possessed at the time of her death. The court concluded that only the portion of the bequest that was sold was adeemed, and the resulting ademption operated pro tanto. Therefore, the remaining undivided mineral interest passed equally to the three grandchildren. It was undisputed that the 1,448.5 acres of land constituted pastoral and farm land. The opinion does not discuss whether the “acreage property, to-wt. farmlands and pasture land” (as described in the will), includes or does not include the mineral estate, other than to recite that Testatrix’s “interest in the mineral estate belonged to, or was part of, the respective land.”

The significance of the case is the holding that a severance of the mineral estate and the surface estate after a will is executed does not result in a complete ademption, but an ademption pro tanto.

DRILL BITS

LNG fueling growth, worries from US to Asia

The boom in fossil-fuel production in the United States has been matched by a rush on the other side of the Pacific to build the infrastructure needed to respond to the seemingly unquenchable thirst for energy among Asia’s top economies. Environmentalists counter that the massive new supplies unleashed by American advances in extracting natural gas from shale doesn’t just make coal-fired power plants less competitive. LNG also competes with such zero-carbon sources of electricity as nuclear, solar and wind — potentially delaying the full adoption of greener sources. While it is difficult to estimate how much America’s rise as major exporter of fossil fuels is contributing to a hotter climate, some of the economic benefits are plain to see in South Korea’s shipyards.

Low oil prices could cripple Texas job growth

Oil Price. Job growth in Texas is not exactly screeching to a halt, but low oil prices could start to lead to weaker employment figures. “The Texas labor market will likely tighten further in the months ahead; however, if oil prices continue to linger around $50 per barrel, job growth in the state may begin to decelerate. Texas exports are also likely to weaken,” the Federal Reserve Bank of Dallas said in a report. The oil and gas sector was one of the key drivers of job growth in Texas in 2018. But the crash of oil prices since October could throw sand in the gears of the Texas growth engine. If WTI rebounds in 2019, the impact on employment might not be that large. But the longer WTI wallows below $50, the more likely the energy sector will see layoffs. The Dallas Fed notes that large changes in oil prices impact Texas job growth on a roughly six-month lag. “This pattern suggests that if oil prices remain low, Texas job growth is likely to weaken during second quarter 2019,” the Dallas Fed wrote.

Texas RRC Statewide Rule 16

Beginning September 1, 2018, in accordance with Statewide Rule 16 (16 Texas Administrative Code §3.16) the Railroad Commission of Texas (Commission) will require oil and gas operators to use the Commission’s Digital Well Log Submission application available through the RRC Online System to electronically file well logs with the Commission. Operators can file electronic well log data digitally in both Log ASCII Standard (LAS) and Tagged Image File Format (TIFF). The RRC Online System for filing digital well logs can be found at webapps.rrc.state.tx.us

Texas RRC - Notice to Oil and Gas Operators: Notice of Intention to Plug or Abandon Online Filing Now Available

The Railroad Commission of Texas (RRC) is encouraging oil and gas operators to file the Form W-3A, Notice of Intention to Plug and Abandon, online using the RRC Online System at http://webapps.rrc.state.tx.us/ndl. To view the W-3A: Notice of Intention to Plug and Abandon Online User Guide, visit the RRC website at http://tvrrc.texas.gov/media/46881/w3a-online-guide.pdf. To view the full notice, visit the RRC website at http://www.rrc.texas.gov/media/47277/2018-06-28_nto_w3aonlinefiling.pdf.

A look at Texas’s severance tax situation: boom drove proceeds up 50% in 2018

Oil & Gas 360 Texas taxes on oil and gas aren’t just limited to the local filing station. They’re also applied to the pumping of gas from out of the ground. Every last bit of oil and gas that comes out of Texas Land helps put money into the state budget. And because of the recent drilling boom, tax revenue from oil and gas is up 50 percent from last year. The latest estimates from the Texas comptroller’s office show the state expects to collect a combined $6.7 billion from oil and gas industry taxes for the upcoming 2018-19 budget cycle. This money comes from something called severance tax. “Currently, for oil, the rate is 4.6 percent of the value, and for natural gas, it’s 7.5 percent. … For oil, that rate has been around since 1951 or so,” says Chris Bryan, director of communication for the office of the comptroller, which collects the tax. The state collects that revenue and splits it between the state rainy day fund, the state highway fund and the Foundation School Program. Texas is now producing and exporting more oil than ever, which means the state is bringing in more tax revenue than ever. The comptroller’s office says the rainy day fund is on track to reach about $12 billion by the end of fiscal year 2019.

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JEFF McCARN may be contacted at
(806) 345-6340 or jmccarn@bl-law.com

Texas RRC - Notice to Oil and Gas Operators: Notice of Intention to Plug or Abandon Online Filing Now Available
Treating produced water is a lot trickier than it sounds, said Dan Mueller, approved of the idea and local residents who opposed it.

The idea has critics, too. Written comments on a white paper on the topic in New Mexico were about evenly split between trade groups that pay for water, Burnett said. And the cost per barrel doesn’t include the cost of treatment.

But the volume of produced water is so big, the industry can’t absorb it all. In the Permian Basin, companies get an average of a little less than 6 barrels of produced water for each barrel of oil, Capper said. The Permian Basin is producing about 2.1 million barrels of oil a day just on the Texas side, which includes about 12 million barrels, or 904 million gallons, of wastewater a day. That’s about five times as much water as the city of Washington, D.C., consumes in a day.

The wastewater can be highly contaminated, with everything from drilling chemicals to heavy metals and radioactive material carried up from the oil and gas formation. It can also contain as much as six times more salt than seawater.

State regulators have reported thousands of spills involving the salty waste over the years, and they’re a particular concern for farmers and ranchers because the salt can do more damage to soil than an oil spill. It’s technically feasible to clean up produced water and make it safe to drink, but it’s costly, said Jeri Sullivan Graham, an assistant professor at the University of New Mexico who studied ways to reuse salty water.

“It’s more likely that oil companies and regulators will look for some kind of middle ground like an industrial use — using treated wastewater to offset potable water for cooling power plants, for instance.”

“That’s the first place we go, is replacing fresh water when we can,” she said in a phone interview.

David Burnett, a professor at Texas A&M University who also studies technology for reusing produced water, said there are likely to be limits on how much the waste can be reused.

The cost of treatment has fallen dramatically — as low as 50 cents a barrel in some cases — but that’s still 10 times higher than what most farmers pay for water, Burnett said. And the cost per barrel doesn’t include the expense of piping or trucking the water to an end user.

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“NOOOOO!!!!!!” one woman wrote.

Cleaning water isn’t easy

Treating produced water is a lot trickier than it sounds, said Dan Mueller, director of natural gas exploration and production at the Environmental Defense Fund. Most research has focused on getting the salt out of the fluid, but there can also be dozens of chemicals in the wastewater.

Ethylene glycol, for instance, is the main ingredient in most car antifreeze formulas, and it’s often used in hydraulic fracturing. It can be poisonous if it’s ingested, but EPA doesn’t have a standard to regulate whether traces of the chemical are safe in drinking water, Mueller said.

“Treated produced water is an industrial effluent,” he said at the produced water conference. “For the purposes of what you’re doing with that water, clear doesn’t mean it’s clean.”

There are already a handful of examples of states allowing alternative uses for produced water, but they’re on a relatively small scale.

Pennsylvania allowed oil and gas companies to send produced water to sewage treatment plants until about 2010, then scaled back the practice because of concerns about the high levels of salt in the wastewater. A few companies in Pennsylvania still have recycling facilities that discharge treated water into rivers.

Colorado allows some produced water disposal from coalbed methane production, but not from fracking sites, a spokeswoman for the state Department of Public Health and Environment said in an email.

EPA’s Region 6, which handles permitting for most oil- and gas-producing states, has issued only about a dozen NPDES permits in the last year, a spokeswoman for the regional office in Dallas said in an email.

In New Mexico, the state Department of Energy, Minerals and Natural Resources has been working on a white paper exploring produced water issues. In Texas, the state Railroad Commission has asked EPA acting Administrator Andrew Wheeler for assistance getting permitting authority for oil and gas wastewater.

In Oklahoma, the Department of Environmental Quality plans to send an application to EPA by the end of the month, asking for permitting authority over oil field-produced water, Chard said. So far, no companies have applied for permission to use produced water outside the oil field, she said.

Once the state has permitting authority, though, the cleaned-up wastewater could be used for a variety of purposes, including agriculture, industrial or municipal use.

Municipal sewage in the United States is often more contaminated than oil field waste, but it’s treated and returned to rivers and lakes under EPA guidelines, where it’s often consumed by the next town or city downstream. Some communities, particularly in drought-stricken Western states, have even experimented with “toilet to tap” systems that route treated water from sewage treatment plants directly to water supply systems (Climatewire, July 11, 2014).

“Unless you live on the North Pole, you’re downstream of somebody and are likely drinking or using reused water,” Chard said.

Mike Lee - E&E News Reporter
Reporter Ariel Wittenberg contributed.
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