



TEXAS LAND & MINERAL OWNERS ASSOCIATION

OFFICIAL NEWSLETTER

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4th Quarter 2016

A PREVIEW OF THE 85TH TEXAS LEGISLATURE

The 85th Regular Session of the Texas Legislature begins on January 10th, and it promises to be a very busy 140 days. Following the elections in November, the Legislature will see some new faces with 3 freshman Senators and 22 freshman Representatives. In addition, we will see some old legislative issues rehashed.

During the interim, the Railroad Commission went through another sunset review, so a comprehensive sunset bill will be filed in the upcoming legislative session. After an in-depth review, the Sunset Commission staff made recommendations to continue the Railroad Commission with improvements to the efficiency, effectiveness, and transparency of the agency. The Sunset Commission adopted many of the staff's recommendations, but the Commissioners opted against changing the name of the agency to the Texas Energy Resources Commission; they did not adopt the recommendations to move contested-case hearings to the State Office of Administrative Hearings or to move gas-utility regulation to the Public Utility Commission; and the Commission chose not to take the staff's recommendation to amend blanket bond requirements, which were set in 1991, to help address the backlog of abandoned wells.

Besides the sunset bill, legislative issues that we have seen before will again require attention throughout the legislative session. Senator Van Taylor has already filed a forced-unitization bill—SB 177—that would allow an operator to force mineral owners into a unit over their objections, although State of Texas lands are exempt. We also expect to see another allocation-well bill sponsored by the oil-and-gas industry. Despite the fact that operators continue to receive permits for and drill allocation

wells, some industry representatives are eager to see the Legislature pass a law making allocation wells legal before a court has a chance to rule on a case and say otherwise. TLMA will continue to fight against any legislation that strips Texans of private property rights.

TLMA will also advocate for improvements in eminent domain laws. TLMA joined a coalition of Texas landowner groups to push for much-needed changes to make the eminent domain process more fair for landowners. You can find out more and get involved by visiting the website at TexasForPropertyRights.com.

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TAKE A MOMENT TO SHARE YOUR THOUGHTS

TLMA wants to hear from you! We have set up a survey on our website to gather feedback, thoughts, and opinions on how TLMA can best serve our membership and the State of Texas. When you have a free moment, please visit the website and tell us your thoughts about TLMA and our current and future activities.

Every survey response will help TLMA improve and evolve as the changing landscape of Texas evolves. Let us know how we are doing and what we can do better. Thank you!

STATEWIDE MEMBERS MEETING MINUTES

BOARD OF DIRECTORS

Chairman

Carolyn Frost Keenan
Keenan Family Interests

John D. Alexander, Jr.
King Ranch, Inc.

James C. Broussard
J.E. Broussard Heirs O&G, LP &
LaBelle Properties Ltd.

Scott Petty, Jr.
Petty Ranch Company

George E. Tanner
Cuatro Estrellas, Ltd.

Barry Coates Roberts
Coates Energy Trust

Lica Pinkston
Santa Fe Ranch

James P. "Rick" Walker
Huisache Cattle Co., Ltd.

DISTRICT REPRESENTATIVES

Dr. John S. Baen
University of North Texas

Tom Daniel
Six Mountain Properties LP

Trey Scott
Trinity Mineral Management

Kimberley K. McTee
Catharine C. Whittenburg Trusts
Turkey Track Ranch

EXECUTIVE DIRECTOR

Laura Buchanan

TLMA's mission is to create a business and legal environment that is accommodating to the continued exploration for and production of oil and natural gas by ensuring that the rights of both the mineral and surface owners are protected, reduce litigation and to protect our precious groundwater resources.

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At 9:00 a.m. on October 20, 2016, Carolyn Frost Keenan, TLMA Chairman of the Board of Directors, welcomed TLMA members to the Statewide Members Meeting at the Pearl Stable in San Antonio, TX. She recognized and thanked the meeting sponsors.

John W. Conner, attorney with Graves Dougherty Hearon & Moody in Austin presented "Estate Planning with Mineral Interests: Structures for Managing and Transferring Mineral Interests."

Chairman Keenan called the TLMA Business Meeting to order. She began by detailing and calling for a vote, one by one, on the eight items in the proposed TLMA bylaws revisions. The question was asked on Item 5 whether Honorary Directors would be separate from the Board of Directors. Chairman Keenan clarified that Honorary Directors would not be voting board members. The question was asked on Item 6 if Vice Presidents, proposed to be renamed District Representatives, are members of the Board. Chairman Keenan clarified that Vice Presidents are nonvoting board members. The question was asked on Item 7 why the Nominating Committee would be eliminated. Chairman Keenan clarified that, given the Board's size and congeniality, the Nominating Committee had never been used. The other items were all proposed and motions made with no discussion. All proposed bylaws revisions were adopted by a voice vote of the members present, and there were no dissenting votes.

Chairman Keenan announced the resignation of Morgan Dunn O'Connor from the TLMA Board of Directors, effective October 20, 2016. Mrs. O'Connor will remain a part of TLMA, but is stepping down from her leadership position.

Chairman Keenan presented the TLMA Board of Directors slate for election and introduced each Director on the Board. The motion was made, and the members voted unanimously to elect the proffered slate. Chairman Keenan introduced the TLMA District Representatives. She explained their role in the Association and thanked them for their service.

Executive Director Laura Buchanan reported on the mission of TLMA and its activities in furtherance of that mission. She provided the Association's most recent fiscal-year Compiled Financial Report and the continued fiscal health of the Association. Ms. Buchanan reminded members to pay attention of the emailed ALERTS that TLMA sends during the legislative session when member action is required. She also spoke about the importance of members filing complaints with the Railroad Commission so that the Commission and the Legislature can see accurate data on how widespread a problem is in the state.

Billy Phenix, TLMA Director of Government Affairs, presented the legislative update and spoke about current and anticipated issues affecting TLMA members.

Chairman Keenan closed the TLMA Business Meeting and lunch was served.

Joseph B.C. Fitzsimons of Uhl Fitzsimons Jewett & Burton in San Antonio presented "Rights of the Surface Owner in Oil and Gas Development."

Mark Havens, General Counsel to Texas Land Commissioner George P. Bush, presented "The Legislative Road to Allocation."

There being no further business, the TLMA Statewide Members Meeting was adjourned before 4:00 pm.

TLMA STATEWIDE MEMBERS MEETING A SUCCESS

The Texas Land & Mineral Owners Association hosted a successful Statewide Members Meeting on October 20 at the Pearl Stable in San Antonio, TX. In addition giving members a chance to ask questions and share stories with other land and mineral owners, members also had the opportunity to help shape the direction of TLMA in the business meeting by voting on bylaws revisions and electing the panel of the Board of Directors. Attendees of the Statewide Members Meeting listened to engaging and informative presentations by guest speakers John W. Conner, Joseph B.C. Fitzsimons, and Mark Havens, and by TLMA's Government Affairs Director Billy Phenix.



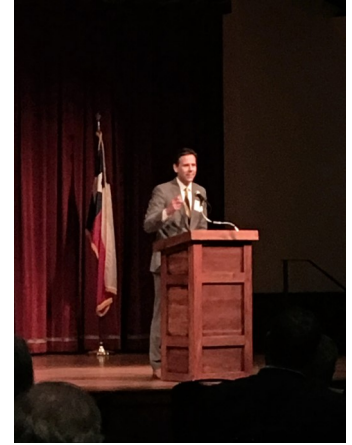
New TLMA members Faye Hilpert & Mary Garza



TLMA Government Affairs Director Billy Phenix & Joseph Fitzsimons



Roxanne Elder, John McFarland, & TLMA District Representative Tom Daniel



Mark Havens, General Counsel to the Texas Land Commissioner

If you were unable to attend the meeting, you can find the agenda, links to meeting materials, and links to the presentations by Mr. Conner and Mr. Fitzsimons on the TLMA website.

A special thanks to the sponsors who make the TLMA Statewide Members Meeting possible—Carolyn Frost Keenan and P7 Kettle Ranch, Beaumont Rice Mills, Bissett Ranch Partnership, C.H. Guenther & Son, Coates Energy, Petty Group, LLP, Santa Fe-East Partners, Ltd., Trey and Paula Scott, Graves Dougherty Hearon & Moody, Helen K. Groves and Silverbrook Ranches, Womack Land and Cattle Company, a Friend of TLMA.

TLMA VICE-CHAIRMAN STEPS DOWN

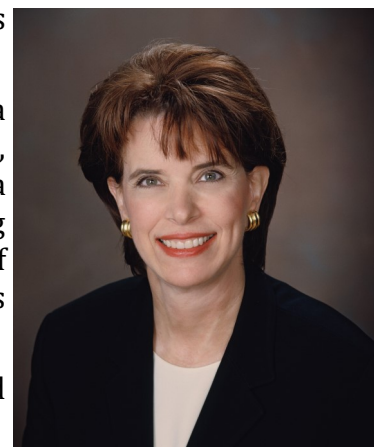
As many of you heard at our biennial meeting, Morgan O'Connor retired as Vice-Chairman of TLMA, effective October 20, 2016.

Morgan has been an incredible asset for our association from 1999, as a founding member, through her tenure as a Vice President, a board member, and finally as Vice-Chairman in charge of lobbying. Her skill and success as a TLMA representative is unequalled. More importantly, she pulled off amazing successes in the legislature using her wonderful people-skills, great sense of humor, and knowledge of oil and gas and property rights issues. She always steps up and has given unparalleled support for all of TLMA's projects.

Morgan has become and will continue to be a great friend to both TLMA and me.

THANKS, MORGAN, WE WILL MISS YOU!!

- Carolyn Frost Keenan, TLMA Chairman of the Board



Morgan Dunn O'Connor

TLMA AND TSCRA FILE AMICUS BRIEF IN EXXON V. LAZY R RANCH

The Texas Land & Mineral Owners Association, together with the Texas and Southwestern Cattle Raisers Association, recently filed an amicus curiae brief in a Texas Supreme Court case that may have strong repercussions for landowners and their ability to seek relief from ongoing damage caused by oil and gas operations. A favorable decision for the landowners could provide a much-needed avenue to hold operators accountable for cleaning up hazards that may not be immediately discoverable.

Exxon leased the Lazy R Ranch for development of oil and gas under the property. After years of operations, Exxon abandoned the lease. Despite Exxon's assurances that it had cleaned up the site, clean up did not occur. More recent testing revealed that Exxon's operations had caused extensive soil and subsurface contamination which was beginning to impact one of the most precious resources on the ranch – its water resources. Despite requests to Exxon to clean up the mess that it caused, as it had promised to do by its lease terms, Exxon refused. The landowners filed a lawsuit against Exxon seeking an injunction to prevent future harm to the as-yet unpolluted fresh groundwater. They were not seeking money damages, only a court order to force Exxon to undertake what it originally promised to do and to protect the vital groundwater resources of the ranch for future generations.

Exxon argued that the suit was barred by the statute of limitations because the surface contamination occurred more than two years ago. However, the statute of limitations applies only when seeking legal damages; Lazy R is not seeking money but an injunction to halt an ongoing nuisance.

The Supreme Court of Texas heard oral arguments in the case in November. TLMA will keep members apprised of any developments and the impact of the Court's decision.

RAILROAD COMMISSION ADOPTS RULE CHANGES AFFECTING INACTIVE WELLS

As part of Railroad Commissioner Christi Craddick's Texas Oilfield Relief Initiative, the Railroad Commission has adopted two proposed rulemakings to ease the administrative burden on oil-and-gas companies. The Commissioners amended Statewide Rule §3.15 ("Rule 15") to relax the production requirements to return a well in active status, and the changes to Statewide Rule §3.28 will minimize the frequency of deliverability testing requirements for gas wells.

TLMA filed comments on the proposed rule changes to Rule 15. The rulemaking on Rule 15 proposed to cut in half the volume of oil or gas a well must produce each month for 3 consecutive months—5 barrels of oil instead of 10, or 50 Mcf of gas instead of 100—in order for a well to be deemed active and avoid triggering site-clean-up obligations. In addition, the rulemaking added a new provision that would allow a well be returned to active status if it reported any amount of production each month for a year.

TLMA expressed concern that the changes could affect lease terms where the lease refers to Commission rules. In addition, TLMA noted the serious impact to surface owners who do not own the minerals beneath their land and have no say-so in the oil-and-gas operations on their land. Relaxing production requirements means a landowner could find themselves stuck just-barely-active wells that affect the health and use of their land, and that never trigger site-clean-up obligations for the operator.

TLMA also took the opportunity in our filed comments to highlight a related concern for mineral owners—the inability to audit production reporting to ensure accuracy. It is practically impossible for a royalty owner to audit reports to make sure that production from an active well has not been attributed to a marginal well in order to keep that well in the active designation.

The Commissioners unanimously adopted the proposed rules. Despite receiving numerous comments in opposition to the proposal for Rule 15, the only revision was to the addition stating any amount of monthly production for a year could return a well to active status. The Commission's online production-reporting system only recognizes a minimum volume of 1 barrel of oil or 1 Mcf of gas per month, so the rule adopted reflects those units of measure as the threshold minimum production each month for a year.

THE CRISIS IN ENFORCING RRC RULES AND ABANDONED WELLS

In the world of oil and gas in Texas, the State Legislature proposes, votes and passes laws that it determines are in the best interest of the people of the State. These laws are codified to give the laws effect. The Railroad Commission of Texas (the "RRC") is the rule-making and enforcement agency for oil and gas matters in the State of Texas.

In 1919, the RRC adopted the first Statewide Rule regulating the oil and gas industry. As time progressed and tens of thousands of wells were drilled, the ability of the RRC to keep up with the inventory of wells became a daunting task; not to mention enforcing the various rules and regulations it was charged with enforcing. The matter of oversight and compliance was compounded with the booms and bust of the industry. Through the years, as exploration activity increased, so did the need for additional rules and regulation. What was once uncomplicated and well-intended became a maze of paperwork entwined in bureaucracy. There never seemed to be enough time or money for the RRC to fulfill its duties. This led to the RRC adopting policies that, intentional or not, allow the oil operators to circumvent the laws enacted by the legislature. This led to many abandoned "orphaned" wells with no operator held accountable for cleaning up abandoned sites.

In a strongly-contested battle, the 2009 legislative session passed House Bill 2259 (HB-2259) which attempted to address the growing inventory of inactive wells and surface equipment clean-up and removal based on the length of time a well has been reported shut-in. It was subsequently adopted as RRC Statewide "Rule 15."

Once a well has been shut-in for 10 years, the operator is required to remove all surface equipment associated with the well and infrastructure not associated with other producing wells. To get around this responsibility, the operator simply needs to classify one of the wells as producing and file a W-10 report. A short time later, the operator can reclassify the well, once again, as shut-in. In the sea of dozens or hundreds of wells in a field, it is unlikely the RRC would discover the falsified W-10.

Well intended, good operators were already in the practice of managing their inactive well inventories. The rub comes when the leases are sold further down the road to less responsible operators that are willing to produce the last fraction of oil, sell off the hard assets and never consider the plugging and cleanup obligations that come with the package. In fact, there are operators that have plugging obligations far more than the value of the leases and wells they own.

This is why HB-2259 and Rule 15 are so critical. The first option an operator has available is to reduce its inventory of inactive wells, as required by Rule 15, either by plugging or restoring to production 10% of its inactive well inventory each year. However, there is simply no incentive for operators to take the initiative to comply with Rule 15. The inadequate monitoring and complex enforcement policies combined with lenient remedies and nominal fines strangle the efforts of the RRC staff to hold operators accountable.

(Continued on page 6)

FILE A COMPLAINT WITH THE RAILROAD COMMISSION

It is difficult to advocate for improving laws that protect land and mineral owners with no measurable data to prove a problem. Even when it feels futile, landowners and mineral owners need to file complaints with the Railroad Commission to help the Commission and the Legislature understand the gravity and frequency of problems that landowners encounter when dealing with oil-and-gas operations on their property.

If you have a conflict or complaint regarding production on your land, please file your complaint with the Railroad Commission. To do so, contact your Railroad Commission District office. You can find a list of the offices and contact information on the Railroad Commission website at <http://www.rrc.texas.gov/about-us/organization-activities/rrc-locations/#OilGasLocations>



It is unfortunate for the people of the great State of Texas that the RRC lenience in enforcing Rule 15 is leading to an unimaginable number of inactive wells that may become orphaned. These orphaned wells will eventually become wards of the state and plugged with tax dollars. Unfortunately, there is not enough money in the State's plugging fund to plug these wells.

The RRC "Orphaned Well" Program was established to address the issue of wells that have been inactive for 12 consecutive months and the listed operator's P-5 status has been revoked. State funded plugging is a last resort when, not only is the operator delinquent, but is nowhere to be found for the RRC to try to assign plugging payment responsibility.

The RRC faces a growing inventory of Orphaned Wells that it must high-grade to be plugged by prioritizing wells that present a pollution risk. While the RRC performs initial testing to determine an orphan well's pollution risk for ranking of its threat level, thereafter the RRC does not perform periodic testing of wells. They do occasionally "re-visit" wells that have been on the Orphan Well list for a long period of time and may re-test some of them to determine if their threat level has changed. Unfortunately, the RRC does not hold itself responsible to the same well-testing standards as they require of the operator.

With sincere enforcement of Rule 15, the RRC can significantly reduce the number of wells that make their way to the Orphaned Well list. The teeth in Rule 15 provide that an operator would be required to be in compliance with Rule 15 in order to have its annual P-5—the operator's organizational report required to perform operations within the jurisdiction of the RRC—renewed. However, nonrenewal a P-5 permit does not relieve the operator from their plugging liability. In addition, the officers listed on the operator's P-5 will be prohibited from being listed on any other RRC P-5. If the officers are serving as an officer of any other entity, those operators would also lose their P-5 "active" status. One would think, having their P-5 denied, an operator would not be able to operate, all leases would be severed and seals would be placed on all wells and pipelines, but this is not always the case.



Unfortunately, under the RRC's current system of enforcement and accountability, it is much more practical and financially feasible for an operator to falsify its reporting of inactive wells knowing it will not be held accountable. Moreover if it is brought to the attention of the RRC that an operator has manipulated its inventory of inactive wells, the operator can be certain that if the RRC pursues enforcement, the repercussions are negligible and the "death penalty" is stayed. If the operator successfully falsifies their inactive well filings and they are not challenged by the RRC and have no other outstanding violations, then their P-5 is renewed administratively.

For over a hundred years, the RRC has been concerned with the abandonment of oil and gas wells. The magnitude of the issue has multiplied exponentially as time progressed. It was unforeseen that the trend would lead us to the situation we find the industry in today where practical-sense solutions incorporated into law give way to the struggles of inadequate enforcement of rules and regulations leaving land and minerals owners underserved.

Trey Scott has worked in oil and gas for a total of 37 years. He is currently involved in all aspects of managing oil and gas royalty portfolios, including the development of databases and software for oil and gas management, with his company Trinity Mineral Management. Mr. Scott is a member of the Texas Land and Mineral Owner Association where he is currently serving as District Representative, the San Antonio Association of Professional Landmen where he served as President and as Education Chairman, and the American Association of Professional Landmen. He also served on Texas Railroad Commissioner David Porter's Eagle Ford Task Force.

TLMA ANNUAL AWARDS

TLMA Outstanding Service Award

In 2004 the Outstanding Service Award was established to promote and underscore the association's continuing dedication to oilfield cleanup, protection of surface and groundwater, accurate royalty payments, and to encourage new drilling of the state's oil and gas resources. The Board of Directors will award the TLMA Outstanding Service Award to one member who provides outstanding service to TLMA.

The ideal candidate for the 2015 TLMA Outstanding Service Award is dedicated to reinstating a sense of fairness in the relationship between those that use the land and those who live on it, and has made an outstanding contribution to TLMA through active service.

TLMA Outstanding Membership Recruitment Award

The Membership Recruitment Award honors those who have taken an active role in introducing other land and mineral owners to TLMA and helping to bring new members to the association.

Previous award winners are:

Outstanding Service

2004 Doug Beveridge
2005 J. Evetts Haley
2006 George E. Tanner
2007 Renato Ramirez
2008 Carolyn Frost Keenan
2009 Roger Welder
2010 Mike Gillean
2012 Kim McTee
2013 Russell Hayter
2014 John McFarland
2015 James L. Donnell, Sr.



Membership Recruitment

2005 Rod Litke
2006 Dr. John S. Baen &
Morgan Dunn O'Connor
2007 Carolyn Frost Keenan
2008 Billy K. Lemons
2009 Carol Holmes
2010 Rick Walker
2011 Randy Smith
2013 Jim McAllen
2014 Jimmy Broussard
2015 Tucker Bridwell

TLMA Award Nomination Form

Please provide full name and city where member resides.

2015 TLMA Outstanding Service Award Nominee(s):_____

2015 TLMA Membership Recruitment Award Nominee(s): _____

Nomination submitted by (please print):_____

Mail this completed form to TLMA, 1005 Congress Ave., Suite 360, Austin, TX 78701, or
email your nominations to info@tlma.org



Texas Land & Mineral Owners Association
1005 Congress Avenue, Suite 360
Austin, TX 78701



TLMA Membership Information Form

☐ I would like to join TLMA ☐ I am a member, please update my contact info

Please return to: TLMA, 1005 Congress Ave., Suite 360, Austin, TX 78701

Name _____

Organization/Ranch Name _____

Address _____

City _____ State _____ Zip _____

Telephone Number _____

Email Address _____

Referred by _____

Don't forget!

If your contact information changes, be sure to update TLMA and avoid delays in receiving your newsletters, renewal notices, and other correspondence.

To change your address or any other membership information, contact Robbie Querner at (512) 479-5000, mail in this form, or log in to your membership account online at www.tlma.org.

Find more information, join TLMA, or renew your membership online at www.tlma.org