

OIPA Looks To The Future With Guarded Optimism

By Danny Boyd
Special Correspondent

OKLAHOMA CITY—Members of the Oklahoma Independent Petroleum Association find themselves guardedly optimistic as they prepare for their 2008 fall conference, Oct. 24-26 at the Westin Kierland Resort & Spa in Scottsdale, Az.

After successfully convincing lawmakers to extend tax breaks for deep-gas drilling in the 2008 session of the Oklahoma Legislature, the association is hopeful about influencing legislators in the coming session to adopt tax incentives for horizontal drilling, which continues to spur development in basins around the state. But operators also face prospects for growing water-related regulation on national and state levels. The presidential election, which is a week and a half after OIPA's meeting, is adding to the uncertainty.

High gasoline prices seem to have awakened the American public—and political leaders—to the reality of the nation's dependence on foreign oil and refined products, and the need to produce more domestic energy, observes OIPA Chairman John Pilkington. But policy changes could include a mixed bag of incentives and attempts to punish the industry in reaction to large profits reported by the major oil companies.

"The good news is I think we are starting to get on the right path with the American people realizing we are going to have to do something to secure our future energy needs," says the Tulsa-based president of Muirfield Resources Co. "It's going to be a while before we develop alternative fuels, so as a nation we need to pay better attention to this warning sign. The problem is, we just play politics with the energy policy and that hurts us all."

OIPA Fall Conference

In addition to hearing about the potential policy ramifications from the outcome of the presidential race, OIPA members gathering in Scottsdale will consider what

is at stake in congressional elections and races at the state level, says President Mike Terry. He reports that Keith Gaddie, professor of political science at the University of Oklahoma and a polling expert, will discuss the 2008 elections. Also, Joseph Deffner, executive director of UBS Energy LLC, will talk about financial opportunities for producers.

Conducting a meeting in a resort setting and over the weekend instead of early in the week is expected to bolster attendance at this year's fall conference, Terry says. The Kierland section of Scottsdale includes resorts, upscale shopping, and amenities that make it a community-within-a-community similar to Las Colinas in suburban Dallas, where the association conducts its annual meeting in June.

OIPA Fall Conference Scottsdale, Az.

Friday, Oct. 24

8 a.m.-4 p.m. Exhibitor Booth Setup, Westin Kierland Resort and Spa
2-6 p.m. Meeting Registration
3-5 p.m. Board of Directors Meeting
5-7 p.m. Exhibitor Booths Open
5-7 p.m. Welcome Reception
7-10 p.m. Wild West Cookout and Activities

Saturday, Oct. 25

7-9 a.m. Buffet Breakfast, Westin Kierland Resort and Spa
8-11:30 a.m. Exhibitor Booths Open
8-9:30 a.m. 2008 Election Overview
Keith Gaddie, University of Oklahoma
9-45 a.m.-Noon General Session
Joseph Deffner, UBS Energy LLC
Speakers TBA
Noon-1:30 p.m. Keynote Luncheon
1:30-11 p.m. Exhibitor Booth Tear-Down
4:30-10 p.m. Taste of Old Scottsdale
Chartered Buses Available to Ferry Participants from Westin Kierland to Downtown Scottsdale

Sunday, Oct. 26

6:30-8 a.m. Golfers Buffet Breakfast
8 a.m.-1 p.m. OIPA Fall Classic Golf Scramble
1-2 p.m. Golf Awards Luncheon

The annual summer gathering at Las Colinas is very successful, and OIPA believed its members were ready for a break from the association's tradition of shifting its fall meeting back and forth between Oklahoma City and Tulsa, notes Terry.

"There is no question that the meeting in the Dallas area has changed the way we look at things," he says. "Our members have made it clear that, even though we hate spending money outside our own state, we just don't have accommodations like that in Oklahoma right now. The fall meeting has not been as big a deal in the past, but there is no reason it shouldn't be."

Pilkington points out that, despite initial concerns about an out-of-state meeting, members use the Las Colinas event as a vacation opportunity for themselves and their families. The Scottsdale meeting offers similar appeal.

"There are nonstop flights to Phoenix from both Tulsa and Oklahoma City," he says. "We surveyed our members, sponsors and exhibitors, and they all were very positive about it. We are hoping to have more members bring their spouses and children, and make it more of a family vacation like our Las Colinas meeting turned out to be."

Good Timing

OIPA reserved seats on specific Southwest Airlines flights from Oklahoma City and Tulsa as part of a special convention offer to members, Terry reports. The association was fortunate to be able to schedule the fall conference on a rare weekend when neither the University of Oklahoma nor Oklahoma State University had a home football game, he adds. The meeting is being conducted Friday through Sunday instead of the traditional Sunday through Tuesday in hopes of further bolstering attendance.

The resort includes attractive meeting rooms, conference areas, and a plush golf course for members, but the Scottsdale area also has amenities for the whole family, Terry mentions.

"There is so much business to take

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care of and everybody is so busy at work, that when our members get away from their workplace they want to have a combination of work and fun," he says. "They like the resort environment. We also changed the schedule so they could bring their families and enjoy the weekend before returning to work. We are hoping to get more involvement from our membership and conduct an event where we can learn, network and enjoy ourselves."

With members beginning to arrive on Friday, Oct. 24, the OIPA Board of Directors will meet from 3 to 5 p.m. A reception is scheduled for 5-7 p.m., followed by a Wild West cookout. After breakfast on Saturday morning, Oct. 25, members get down to business with an overview of the 2008 presidential race from 8 o'clock to 9:30, followed by a general session that will include talks from Gaddie and Deffner. Following the keynote luncheon, members will have free time to browse the exhibits, enjoy three nine-hole golf courses, or see the sights with their families, Terry remarks.

From 4:30 to 10 p.m. Saturday, members and their families can take chartered buses downtown and enjoy a "Taste of Old Scottsdale." The downtown area is a nationally known tourist attraction that includes shopping, restaurants, a railroad, an "old West" town, family sports parks, a ranch of the future, and museums. OIPA's meeting concludes Sunday

with the OIPA Fall Classic Golf Scramble, followed by the Golf Awards Luncheon.

CBM Produced Water

During the sessions, OIPA members are expected to hear the latest on how regulatory matters could affect their businesses in the years ahead. In Oklahoma, as in much of the oil patch, debates over water usage and produced water have become major issues.

Independents exploring for natural gas in the Woodford Shale could face challenges disposing produced water if an Environmental Protection Agency survey on coalbed methane produced water results in a rule making to set national water quality standards, explains Angie Burckhalter, OIPA's vice president of regulatory affairs.

OIPA, along with producer associations in basins throughout the country, continue to engage the EPA as the agency considers the final form of a detailed survey to gather data from selected CBM operators. Following the latest round of industry comments, the EPA was expected to issue a screener survey to operators as soon as early to mid-October, Burckhalter says.

"The EPA is trying to find some basic information about operators, such as whether they operate coalbed methane wells," she outlines. "EPA wants to get in-

formation about companies' CBM projects. For example, it wants to know how many CBM wells operators have, and how operators break those into different projects."

From the screener survey results, the EPA is expected to identify which CBM operators will receive a more detailed survey, probably in early 2009, Burckhalter says. Despite the EPA taking comments and considering survey content, OIPA still is concerned about the depth of information on coalbed production the agency may seek in the final survey. She says preliminary drafts also have asked about production that isn't related to coal seams, which she says OIPA and other associations deem completely unnecessary.

"We have questioned many times why the EPA feels it needs to collect this type of detailed information at this stage," Burckhalter affirms. "We think EPA should first determine whether there are any problems and identify any data gaps or additional information that would lead it to believe there is a need to do a detailed study or have additional rules."

Proprietary Information

Terry adds that the EPA is asking questions in the survey that could force companies to needlessly divulge proprietary information that could compromise their planning and operations. "We feel the survey detail is inappropriate in a

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number of ways," he says.

Survey drafts have asked operators for information on economic return, capital expenditures, the identity of partners, and types of depreciation, among other inquiries that Pilkington says he and other producers in the Woodford Shale consider intrusive.

"They said it was going to be confidential, but it was so intrusive," he says. "It was like me peering into the books of my competitors or having them look at all my numbers and see what I did. To me, it's an invasion of privacy. The EPA's questions had nothing to do with production operations. They had to do with the economics of the business."

Operators likely will be required to fill out the final survey under penalty of law, Burckhalter notes. The requirement could be especially challenging for small companies because of the amount of time and resources that would have to be committed to the task.

"One of the problems we found with coalbed gas is EPA is making it difficult to get rid of that water, and that really could impede a lot of development," Pilkington says. "In Wyoming, you can drink a lot of the water coming out of CBM wells."

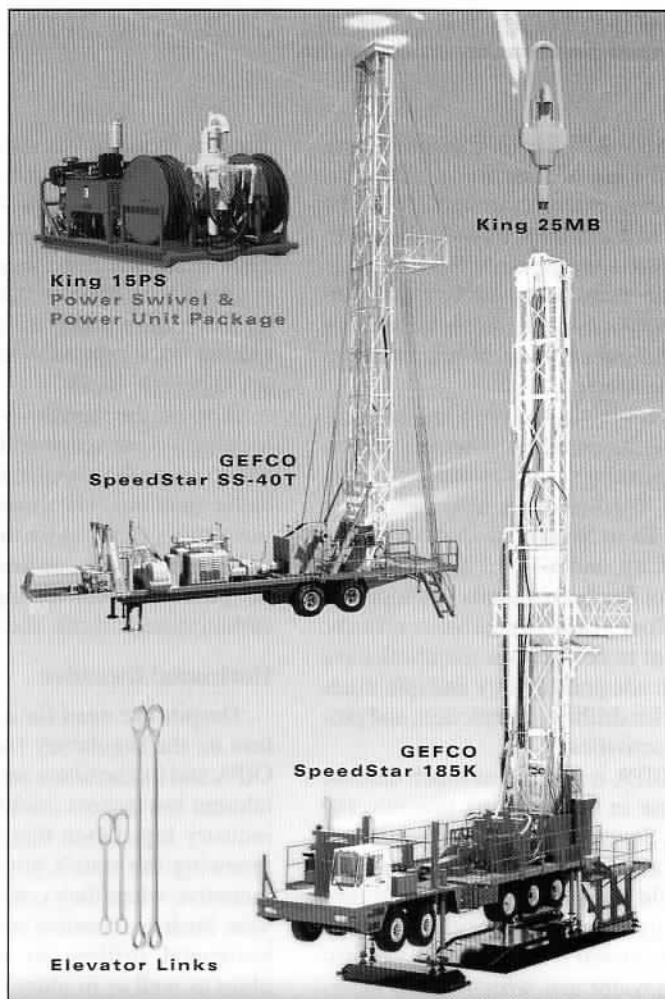
Operators in southeastern Oklahoma's Woodford Shale do not discharge water directly to the surface, but re-inject it, Burckhalter notes. Disposal wells are regulated under the Safe Drinking Water Act, but EPA is seeking information for a potential rule making under the auspices of the Clean Water Act, which governs surface water, she says. OIPA and others question whether EPA has the authority to collect information from operators that discharge into underground formations, she adds.

"All Oklahoma operators use disposal wells," Burckhalter points out. "We also are concerned about whether the EPA is going to make changes that require some type of treatment before water is disposed of, whether it be here in Oklahoma or in the Powder River Basin in Wyoming. Those additional treatment technologies are expensive, and we would be concerned about additional costs and potentially reducing exploration and production."

Water Use Planning

Handling CBM-produced water isn't the only water related issue facing Oklahoma operators. OIPA and its members are involved in the Oklahoma Water Resources

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Board's (OWRB) five-year planning process on the use of state water. The planning process extends through 2011. The OWRB will eventually forward recommendations to the governor that will guide Oklahoma water policy for 50 years, Burckhalter says, noting the recommendations will affect industry use of both surface and groundwater.

She says the association has been encouraging its members to attend regional input meetings being conducted across the state. The final three meetings are set for Oct. 23 in Muskogee, Nov. 6 in Oklahoma City, and Nov. 13 in Seminole.

"Water has been a pretty hot topic for three or four years," Burckhalter reflects. "We want to be sure our members have access to adequate quality and quantities of water for drilling, completion, and production activities."

But OIPA is playing as much defense as offense in the planning process, she advises. Several possibilities being considered as part of a final recommendation could inhibit exploration and production by curbing vital access to water. Being discussed is the possibility of prioritizing water use, which would inherently lead to conflicts among various water consumers, Burckhalter contends. Another matter being discussed is a proposal to mandate a minimum amount of runoff into the state's streams in order to preserve aquatic life. That proposal could effectively limit the amount of stream water available for industry use, she explains.

The OWRB also is considering whether to limit groundwater use to no more than basin recharge amounts, which could effectively restrict groundwater consumption to no more than rainfall amounts in order to maintain groundwater levels, Burckhalter goes on.

"What complicates it even more is that

Texas is trying to buy water from southern Oklahoma, and there are some areas and some groups in the state that think that is a good idea, whereas others don't. That could turn into a federal issue," Terry comments. "So you have the state water discussion going on and a potential federal issue related to selling water; it could get real dicey."

Also on the regulatory front, OIPA is keeping a close watch on the national debate over carbon sequestration, Burckhalter mentions. The association is studying a rule proposed by the EPA on CO₂ storage that could needlessly complicate the process of converting idle wells to carbon storage wells, she says.

Horizontal Incentive

Despite the need for a defensive posture on the regulatory front, Terry says OIPA and its members are optimistic Oklahoma lawmakers could consider pro-industry legislation that could include renewing the state's horizontal drilling incentive when they convene early next year. Such an incentive could further spur horizontal drilling in unconventional plays as well as in older fields where oil and gas are trapped outside the reach of conventional vertical wells, he speculates.

OIPA is seeking to renew the incentive that gives operators a break from the state's gross production tax until a horizontal well pays out. "That is probably the most important thing we will be talking about and trying to educate legislators about during the next session," Terry attests. "It has become more and more important because of unconventional exploration, particularly in the shale plays."

Thanks to the advantages of horizontal wells, development in the Woodford Shale in southeastern Oklahoma continues to expand rapidly, Pilkington says. He adds that horizontal drilling is expect-

ed to benefit exploration in deeper basins as well.

"Oklahoma needs to stay competitive with other states because many of the other states offer similar incentives," Terry points out. "We think Oklahoma is one of the best places to drill and produce, and we have to keep it that way. There are always some who think the industry's pockets are so deep that we don't need incentives. They don't understand how important incentives are in competing with other states."

Find More Oil

Horizontal drilling isn't limited to the Woodford Shale. Operators have had success with horizontal wells in the Mississippi Chat formation in the Osage region northwest of Tulsa over the past several years, Pilkington ventures. Exploration there generated riches for the Osage Tribe a century ago.

Now by branching out with multiple laterals from a vertical well bore, he says companies are tapping trapped oil and gas left behind by conventional production methods. Laterals of more than 1,000 feet are exposing a substantial amount of the formation to the well bore. Previously, conventional vertical wells tapped only about seven feet of formation surrounding the well bore, Pilkington explains.

"We have been able to take that horizontal technology up into the Osage and get into the Mississippi Chat, and with the aid of 3-D seismic, find trapped oil in some of these older fields," he says.

Horizontal drilling in the Osage leaves a smaller surface footprint than conventional drilling, which protects the environment, and drilling multiple laterals from one vertical well bore saves money because the rig doesn't have to be moved as often, he adds. Similar success stories are possible in other producing regions of the state, he predicts.

"It's a win-win deal all the way around," Pilkington enthuses. "You open this area by trying to intercept porosity and little fractures where you can get the oil that has been trapped. In the past, because of tight spots in the formation, you couldn't get some of that oil to come to the well bore."

The 2008 Oklahoma Legislature continued to support the state's oil and gas heritage by extending tax incentives for deep gas drilling in the Anadarko Basin. Wells drilled between 15,000 and 17,499 feet deep receive a 48-month exemption from

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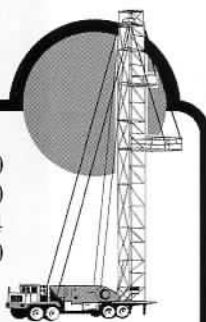
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the state's gross production tax, while wells drilled 17,500 feet and deeper receive a 60-month exemption, Terry says.

In a survey of its members, Pilkington says OIPA discovered that the tax break had contributed to greater participation in deep drilling by smaller independent companies. While gas prices are the primary driver of basin activity, he says the tax break is a significant contributor to exploration planning.

"We found that we have quite a number of members who actually participate in working interests in deep wells, and these are not just the larger independents," he reveals. "With the added cost of these wells, we found that the tax incentive turned out to be a good thing for the state. Some operators probably would not drill these wells without it, so it has been ben-

eficial to the state and to our industry."

County Roads

While the association has enjoyed such pro-industry legislation, Terry notes that it also had to work to defeat measures during the last session that would have been costly. OIPA anticipates similar measures will arise during the next session.

For example, he says OIPA managed to defeat a bill last session that would have returned half the proceeds from fines for overweight trucks to the counties for road maintenance, a move that the association feared would have motivated law enforcement to needlessly target oil and gas trucking while agricultural trucks would have been exempt.

Oklahoma counties generally welcome

additional oil and gas jobs, but county lawmakers also look for ways to make the industry pay for additional wear on roads and bridges, Terry says.

"There will be some transportation issues," he allows. "The counties enjoy the increased revenue from the activity, but they don't seem to understand that the increased activity means additional traffic on roads and bridges, and of course the roads and bridges deteriorate. There are some legislators who want to tax the industry heavily to take care of those issues, but we already are paying much more to those counties."

For the past several years, the state's gross production tax has returned more than \$90 million annually to counties for road and bridge repair and maintenance (*The Reporter*, April 2008, pg. 18). □

OERB Gears For Technology Research

OKLAHOMA CITY—The Oklahoma Energy Resources Board is gearing up to ask for state funding for a legislatively approved effort to develop new oil and gas technologies that could help sustain Oklahoma's production and benefit the industry nationwide.

The OERB, founded in 1993 to oversee remediation of abandoned well sites and support educational efforts aimed at promoting the industry, is forming a technology research and development committee to oversee a program approved by the 2008 Oklahoma Legislature that supports technological research.

The goal for the effort is to get the committee seated and its planning under way as lawmakers prepare to convene their next session in early 2009 and pos-

sibly consider allocating funds, says OERB Executive Director Mindy Stitt. "We do have the ability to accept appropriations from the state legislature, so hopefully we can start those talks during the next session and get some appropriations in place," she says.


OERB also may attempt to secure federal funding and industry donations, Stitt adds. Eventually, she says, research could be partially funded through a portion of OERB's existing revenue stream, which stems from an assessment of 0.1 percent of the value of oil and gas production in the state.

Stitt says hopes are high that the committee and the concerted effort to identify and fund research will help sustain production in Oklahoma, where the in-

dustry is more than a century old. The Technology Committee also is expected to play a role in partnering researchers with companies willing to test new technologies to enhance exploration and production, Stitt says. The board already is being contacted by individual researchers and anticipates participating in some research being conducted by universities, she reports.

Committee Makeup

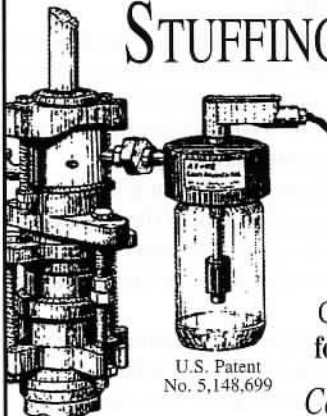
David W. House, a Tulsa independent producer, past chairman of the Oklahoma Independent Petroleum Association and current OERB vice chairman, is heading the new Technology Committee. The panel is expected to have nine or 10 members, Stitt says. When the committee appoint-



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