



2011 ANNUAL REPORT

PRESIDENT'S MESSAGE



BILL HANNA
AIPRO
PRESIDENT

Our industry has been blessed with many opportunities, but we still feel the effects of growing pains.

AIPRO continues to grow and can boast about our involvement in this year's legislative season. Elected officials are another year wiser and are learning more about our vital industry and the positive effects it has on our economy through jobs and tax revenue.

The 2011 session began with the introduction of some poorly written legislation aimed at the oil and natural gas community, but it was not enacted. That legislation could easily return in the future. If so, we can hope it will be amended so it can be acceptable to all concerned. If not, AIPRO will continue its efforts to educate, combat and defeat.

We invite scrutiny and have an open door to all who have an opposing view; we all benefit from transparency. The companies working today are professionally managed and attempt to inform landowners and work with community

leaders. The state should be proud they are here and encourage a healthy business climate for them.

Jobs are the key for a rebounding economy and our oil and natural gas community is doing its part to provide good, high-paying positions. Today, oil and natural gas support more than 30,000 Arkansans working at an average annual salary of \$64,000, which is \$30,000 higher than the state average. There are also more than 550 new industry-related businesses that have set up shop in Arkansas—all paying corporate, payroll and sales tax. This is certainly a great development.

But it seems like some people can't leave well enough alone. There is an ongoing effort to raise the severance tax on natural gas, even though it was dramatically increased in 2009. Because of depressed market prices since the new tax structure was enacted, the severance tax has not generated as much revenue as predicted.

Does it make sense to

increase a tax on a commodity because prices have fallen? A sustained drilling environment will certainly do more for the state than this "get-it-now" attitude. There is one sure way to discourage drilling activity: create economic disincentives and increase regulation.

It makes me think of the proverb: "Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime." It is imperative that our industry have an opportunity to find new plays and drill new wells. This will lead to more jobs, tax revenue and opportunities.

I am proud of my company and our industry and have enjoyed being involved in AIPRO—watching it evolve into a strong industry voice. In time, our state will be more informed about the important resources we have and realize we are in an enviable position.

A positive business environment is essential to a healthy industry, where companies will be encouraged to come here and invest. It is the smart and "right" thing to do.

REPRESENTING YOUR INTERESTS

AIPRO sincerely appreciates its members. So many of you provided encouragement and support during the General Assembly. But more importantly, you engaged in the process. All of the state's production areas were involved—whether showing up at the Capitol, making calls, sending emails or using AIPRO's "contact your legislator" website. Our successes were possible because of you.

As frustrated as we may become with the process, it's still far and away the best ever created. Our freedoms via democratically-elected officials are a privilege not found in all places. Let's be grateful for that and remember to thank legislators and other office holders who work with us and respond to our concerns.

Following is a review of legislation that AIPRO tracked: *(Note: "Interim study" means the legislation was not enacted and may be discussed by legislative committees before the next regular session in 2013.)*

House Bills

(Denotes bills that were part of the Arkansas Public Policy Panel/Citizens First Congress packet aimed at the oil and natural gas community.)*

***HB1392** - To create a program for an annual



KELLY ROBBINS
EXECUTIVE VICE
PRESIDENT

inspection of gas wells to account for the use of and effects of chemicals in the drilling process. *Sent to interim study.*

***HB1393** - To protect Arkansans by requiring bonds for gas drilling operations. This legislation called for increased financial

assurance bonding for natural gas wells. Additionally, it called for Arkansas Oil and Gas Commission (AOGC) to require wells not producing in paying quantities for one year or more to be returned to production, temporarily abandoned, plugged and reclaimed, or have a bond purchased equal to the cost of plugging and reclaiming. *Sent to interim study.*

***HB1394** - To protect the state's water in areas affected by gas drilling operations. (AOGC has strong casing and cementing standards and has worked with the Arkansas Department of Environmental Quality to create regulations regarding salt water pollution.) *Sent to interim study after failing on a voice vote in committee.*

***HB1395** - To protect air quality in the vicinity of natural gas drilling fields. (ADEQ has air quality monitoring stations and this bill called for the monitoring of up to 200 different pollutants) *Sent to interim study.*

***HB1396** - To require full

disclosure regarding natural gas drilling chemicals. The bill called on drilling companies to disclose the volumes and source of water used, as well as chemicals, quantities and disposal methods. *(Note: With the implementation of AOGC Rule B-19 on January 15, Arkansas now has one of the very few frac fluid disclosure requirements in the country.) Sent to interim study.*

***HB1399** - To create the "Rural Good Neighbor Act." This would limit noise from drilling operations, wells and compressors and called for "best noise practices" in the building of roads, well pads and pipelines. *The bill died in committee.*

***HB1400** - Creates a "Landowners' Bill of Rights." *The bill was never amended and remained a "shell bill."*

HB1914 - To provide incentives for converting the operation of motor vehicles to compressed natural gas. This legislation gives a rebate for a portion of the conversion cost. *Enacted as Act 832.*

HB1992 - Official name: "An act related to the development and production of certain energy sources; to repeal certain definitions; and to declare an emergency." Appropriate name: "An increase in the severance tax on natural gas." Though introduced by others, this bill was promoted by House Speaker Robert Moore. *Briefly heard in committee, it was withdrawn and sent to interim study.*



Senate Bills

SB265 - To clarify the time of expiration of oil and gas leases and the severance of sections or units in which production has not been obtained during the primary term of the leases.

Future oil or natural gas leases executed after the enactment date of this legislation (approximately August 1, 2011) will not be able to be extended by production, unless specific "distinctive" language to the contrary is included in the lease. The bill was amended so that specific lease language is allowed in future leases, and it distinguishes and defines production units in uncontrolled oil fields (South Arkansas). *Signed into law as Act 857.*

SB275 - To decrease the sales and use tax on natural gas and electricity used by manufacturers. This further increases the reduction of sales tax on electricity and natural gas used in manufacturing. It also

brings the sales-tax rate for independent power producers' use of natural gas to the same level as that of manufacturers. *Became Act 754.*

SB314 - To establish a landowner's surface property rights in relation to a mineral exploration or development company. This legislation provided surface owners the right to dictate well locations. The only restriction is that they cannot make the extraction of minerals "impossible." *Discussed in committee and moved to interim study without a vote.*

SB849 - An act concerning the assessment of mineral interests. Requires county assessors to assess producing mineral interests. *Enacted as Act 867.*

SB870 - To regulate noise levels for continuously operated non-wellhead compressor facilities. This would have established reasonable noise level criteria for natural gas compressor stations. *The bill was discussed by the committee and failed.*

Throughout the year, AIPRO works with a variety of organizations, participates in meetings and conference calls, and signs joint letters in support of its mission to be the voice of the state's oil and natural gas industry.

- › Liaison Committee of Cooperating Oil and Gas Associations
- › Independent Petroleum Association of America Midyear Meeting
- › Bureau of Land Management Hydraulic Fracturing Forum
- › Arkansas Rural Development Conference
- › American Petroleum Institute Hydraulic Fracturing Conference
- › Arkansas Assessors Association
- › Arkansas Bar Association's Annual Natural Resources Institute (served as a sponsor)
- › STRONGER review of the state's hydraulic fracturing regulations
- › Signatory on joint letters addressing a variety of issues such as federal tax proposals and the Keystone XL pipeline, among others

AIPRO staff and members meet regularly with personnel from the following agencies regarding policy and regulatory issues:

- › Arkansas Oil and Gas Commission
- › Arkansas Department of Environmental Quality
- › Arkansas Assessment Coordination Department

PROGRAMS & EVENTS

The **ANNUAL MEETING**—held September 28-29 at The Peabody Hotel in Little Rock—was a great success with 140 attendees, 31 sponsors and nine exhibitors.

Golfers and sporting clay shooters had a great time on Wednesday before the meeting kicked off with an exhibitor's reception and keynote speaker Dr. Kent Moors.

On Thursday, we had an exceptional slate of presenters:

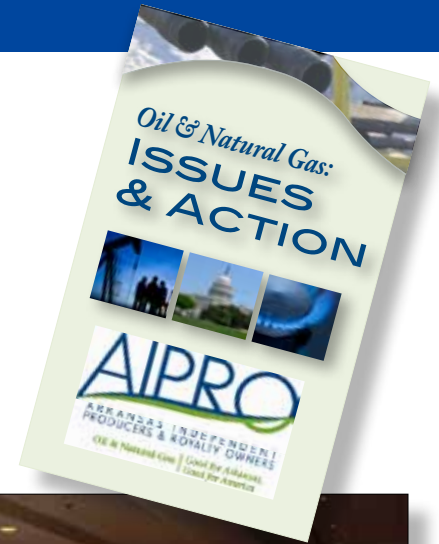
- Congressional Update – U.S. Rep. Mike Ross
- Oil and Gas Air Issues – Doug Deason, ExxonMobil
- Arkansas Water Plan – Dannielle Gray,

Arkansas Natural Resources Commission

➤ Market and Policy Issues - Rayola Dougher, American Petroleum Institute

➤ Using Technology to Meet Regulatory Challenges – Bill Grieser, Halliburton

➤ Doing Business in Arkansas: CEO Roundtable



Above: (Left to right) George Sheffer, Southwestern Energy; Warner Smith, WTS Petroleum Services; David Harper, Hanna Oil & Gas; Jimmy Chilton, BHP Billiton; and Danny Games, BHP Billiton.



Doing Business in Arkansas: CEO Roundtable with (left to right) moderator John Peiserich, Perkins & Trotter; Bill Hanna, president and chairman, Hanna Oil & Gas; Steve Mueller, president and CEO, Southwestern Energy; and Roger Smith, president, Smith Exploration.



Scan this code with your smart phone to see the speakers' presentations.

More than 50 people attended the second **SOUTH ARKANSAS AIPRO FISH FRY** event at the Arkansas Museum of Natural Resources in Smackover. Mitigation Solutions USA provided a very informative program on wetland mitigation and AIPRO Executive Vice President Kelly Robbins provided a review of the legislative session.

Many thanks to Lion Oil for cosponsoring the event—an excellent opportunity for fellowship and networking.



Members of AIPRO's Regulatory Committee formed a Health, Safety and Environment Task Force to create a training course to help operators, producers, and suppliers and vendors become more knowledgeable about regulations, and create a safer working environment.

The task force adopted a successful program used in other states that has a national support system—the **STEPS NETWORK**.

The National STEPS Network's mission is to promote safety, health and environmental improvement in the exploration and production of oil and gas in onshore operations.

Arkansas STEPS Network

The National Foundation for Energy Education (NFEED) sponsors **THE GREAT AMERICAN ENERGY DEBATE**. AIPRO supports the program in Arkansas.

Using illusions, science demonstrations, jokes and even a song, Mr. Energy—aka Jerry Katz, NFEED president—entertains and educates students about energy and energy issues in a science-based presentation. Katz has been teaching tens of thousands of students and teachers around the country for the past 32 years.

To date, he has conducted Energy 101 presentations in five Arkansas schools: Farmington Middle School, Little Rock Central High School, Pine Bluff High School, Maumelle Middle School and Dollarway High School.

kicked-off its program on October 13 at the Agora Conference Center in Conway, with more than 220 in attendance. Meetings will be held on the third Thursday of each month at Agora.

Thanks to generous industry sponsors, the program is free, but registration is required. For more information, look online at arstepsnetwork.org.

Meeting Themes

- › November: Winter Safety
- › December: Fall Protection and Hypothermia
- › January: Department of Transportation and Hearing Protection
- › February: Environmental Protection

To find out what students think about our energy future, NFEED recently conducted the National Student Energy Survey—posed to 3,598 secondary students in 21 states, including 238 students from Arkansas.

"You would think after 38 years of energy education, high school graduates would know basic energy information and have opinions on major issues," said Katz. "The survey shows that the knowledge level of energy and related issues of these students has not increased—a sad prospect. We need an energy-educated citizenry capable of making sound decisions."

"Americans of all ages are not energy educated and are often ill informed. If we are going to meet complex energy



Marc LaRocca, with Southwestern Energy, speaks at the Arkansas STEPS Network kick-off event in Conway.



challenges, we need to start the education process," said Bill Hanna, AIPRO president.

For more information, look online at TheGreatAmericanEnergyDebate.org.



Mr. Energy—aka Jerry Katz—entertains and educates.

PUBLIC OUTREACH & COMMUNICATION

As part of its ongoing public outreach and education efforts, AIPRO provides speakers for community organizations.

Consultant Paige Miller (pictured on the right) has traveled the state sharing the past, present and future of oil and natural gas production in Arkansas with civic clubs, associations and other groups (listed to the right).

“Meeting community leaders and talking frankly about the importance of Arkansas’s energy solutions has been a wonderful experience. Everyone has been very appreciative of our efforts and they are keenly interested in the growth of the oil and gas industry in Arkansas,” Miller said.

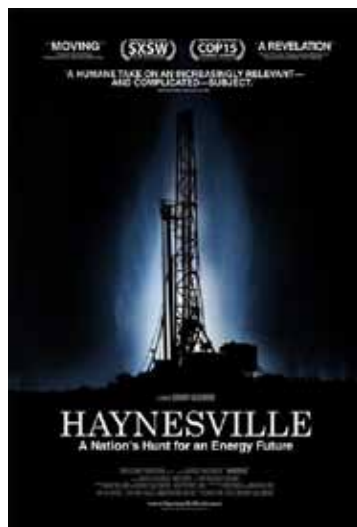
To schedule a presentation in your community, please contact AIPRO.



Scan this code with your smart phone to see the community presentation on YouTube.

*Arkadelphia Sunrise Rotary
Arkansas Tax Collectors Assn.
Blytheville Rotary
Cabot Kiwanis Club
Cabot Rotary
Camden Rotary
Cleburne County Rotary
Clinton Rotary
Conway Kiwanis
Conway Optimist Club
Conway Rotary
El Dorado Rotary
Fort Smith Chamber
Fort Smith Rotary*

*Hughes Rotary
Jacksonville Rotary
Jonesboro University Rotary
Little Rock Metro Rotary
Magnolia Rotary
Marianna Rotary
Morrilton Rotary
Newport Rotary
Paragould
Quad Cities of Sharp County
West Central Arkansas
Planning & Development
District
West Little Rock Rotary*



On September 15, AIPRO partnered with America’s Natural Gas Alliance and the Consumer Energy Alliance to present a free showing of *HAYNESVILLE*—a documentary addressing issues around natural gas development through the experiences of Louisianans and insights from scientists and academics— at the Clinton Presidential Center in Little Rock.

More than 100 people attended the screening, which included a panel discussion. Panel participants were State Senator Gilbert Baker; Gregory Kallenberg, *Haynesville* film director/producer; Kelly Robbins, AIPRO; Tommy Foltz, BHP Petrohawk and chairman, CEA Natural Gas Committee; Gary Hanson, Red River Watershed Management Institute director, LSU-Shreveport professor.



Haynesville director and producers Gregory Kallenberg (left) discusses the film with Chip Estes (right), a consultant for America’s Natural Gas Alliance.

The Oklahoma Energy Resources Board worked with AIPRO and America's Natural Gas Alliance on a four-week advertising campaign designed to broaden favorability and awareness of the oil and natural gas industry in Arkansas.

Entitled **ARKANSAS ANSWERS**, the campaign began in late March and included three ads that ran on television and the Internet.



Scan this code with your smart phone to see the Arkansas Answers ads.



Staying informed today means being plugged in to **SOCIAL MEDIA**. AIPRO is on:



Twitter
@AIPROorg



Facebook
Facebook.com/AIPROorg



YouTube
YouTube.com/AIPROassociation



Executive Vice President Kelly Robbins (pictured on the right) responded to several inquiries from print and broadcast news outlets for quotes and interviews. AIPRO is the respected voice of the industry in Arkansas.



To help members contact elected officials about hot topics, AIPRO added a **GOVERNMENT AFFAIRS ACTION CENTER** to its website for the legislative session only. There, users could get talking points, send email messages and take other actions, even register to vote.



WHAT IS THIS?



Throughout the **AIPRO 2011 ANNUAL REPORT**, you will find these Quick Response Codes—or QR Codes. Smart-phone users whose devices are equipped with code-reader software can scan the image, causing the phone's browser to launch and redirect to the programmed web address. Although initially used

for tracking parts in vehicle manufacturing, QR Codes are now used in a much broader context, including both commercial tracking applications and convenience-oriented applications aimed at mobile phone users.

QR Codes storing addresses and URLs may appear in magazines, on signs, buses, business cards or just about any object about which consumers may want more information.

If you do not have a smart phone, all of the information referenced by the QR Codes is available on the AIPRO website at AIPRO.org, through different pages and links to other sites.

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Mark Boling, Southwestern Energy, Houston

Lindsey Dingmore, XTO Energy, Fort Worth

John Peiserich, Perkins & Trotter, Little Rock

STAFF

J. Kelly Robbins

Executive Vice President

krobbins@aipro.org

Michele Easter

Administrative Director

measter@aipro.org



1401 W. Capitol Ave.
Suite 440
Little Rock AR 72201

Phone: (501) 975-0565

Fax: (501) 975-0566

AIPRO.org