At the Central Tx Env. Summit with TCEQ Commissioner Rubinstein and Railroad Commissioner Porter

Speakers:

Andy Saenz – TCEQ Communications Director

Carlos Rubinstein – TCEQ Commissioner

Commissioner David Porter – Railroad Commission of Texas

Andy Saenz: Next, to give us a few brief remarks and to help us introduce our next speaker is our last TCEQ Commissioner, Carlos Rubinstein.

Carlos Rubinstein: If you're wondering why we are back here after we had our first session here in San Antonio a little bit over a year ago, I think if you just hear Senator Van de Putte, you got your answer. It was a little over a year ago that we decided to hold our first ever Environmental Summit here. Senator Van de Putte was the driving force behind that one as much as she is for this one as well and in the middle of the summit, I remember right outside those doors, she came up to me and she goes, you know, Carlitos – and I always know that when the sentence starts with Carlitos, something good is coming – she goes, we are going to have to do this every year here. And it is through her leadership that we are back, not only that she asked us to hold this again, but she also picked the topics that we're discussing today. For that and your driving force, Senator, we absolutely thank you and thank you for your kind words as well today.

For those of you that were here a little over a year ago, you remember we were talking about the drought and we were right in the middle of what ended up being the worst one-year drought on records for Texas. We did not know that then, we just knew that it was pretty bad. And I remember back then we talked about how 2009 had been pretty awful as a drought. We had seventy counties that were in exceptional drought conditions and how important it is to talk about drought, but not only to talk about drought when you're in one, but also to talk about a drought when you're not in one. Because if you talk about a drought when you're in the middle of it, all you're doing it you're talking about the one you're already in. There's very little you can do about that other than pray for rain, so we discussed how bad it was the response to the drought in 2009 and we talked about how great it was that it rained a little bit in 2010 and we talked about how 2011 looked like it was getting pretty bad. Little did we know that we would've done anything to be back in 2009. Seventy counties in 2009 in exceptional drought conditions; try 254. Every single one of them in significant or exceptional drought conditions in 2011. We did not know that the last time we met, but we did learn that later on.

So 2012 comes around and it rains a little, but there was something significantly different and I think it's part of the point that certainly the Senator was talking about. We didn't stop talking about our needs and the impacts of the drought and while parts of the state were fortunate enough to get out of drought conditions, certain parts did not. One of the things that we carry forward and I think you're probably going to hear it a little bit

later on in the presentation are the lessons that we have learned on how we respond to drought and one of the things that all of us have bragged about. I know Chairman Shaw and Commissioner Baker and I have talked about it and when we go throughout the state and talk about water, it's particularly the lesson of how to manage water responsibly and, to us, nobody does it better than this area for all of the reasons that the Senator just spoke about. When you talk about your consumptive rate of water per capita, you know, I mean, you all in El Paso, we can learn a lot from those areas as well and so now you're having a discussion – a very timely discussion – about how it is that we're going to manage water for Texas, but not just in drought conditions, but also how we're going to manage water, as the Senator said, to meet our future demands and to be able to meet our growth demands as well because we all know how the cyclical pattern always turns out being.

I'm excited about the discussions on water, not only from the funding side and I think it's important to understand that the way that you all are talking about water now and how we're going to fund it, is that it is going to be a reoccurring fund. In other words, it's going to build on itself and hopefully from a little seed that we plant right now, we can actually do a greater good with a fifty-year plan that we have for the water plan itself. So I think that that's important, too. I'm also thankful for the authority that you granted the agency during the last legislative session that has allowed us to better address active water management in Texas. You know, you don't know that you have a need for new flexibility until you're right in the middle of a problem like we had in 2011 and it's something that we continue to tackle at the commission and it is not something that is lost on us that whatever decision we make on how we're going to manage water today, particularly because of the drought, that somebody ends up being impacted. And we wish that we could do it in a way that we could minimize that impact to all, but somebody ends up losing in the end and that is unfortunate, but that is the nature of the quantity of water that you have and how difficult it is when we are in the middle of a drought situation and it's something that we continue to tackle as well.

I'm very proud of the work that our staff has done. I know you're going to hear from Loriella in a little bit about how we've responded to the drought. I think you will find that interesting as well. And I also think indicative of the future growth in Texas and the opportunities and why it is that we need to continue to work together to be able to meet those demands, I think the discussion on Eagle Ford Shale is also very timely. I'd be remiss if I didn't thank Brian Christian, who's here at this table, and his staff, for the great work that they do, not only hosting this summit, but all the ones that we hold across the state, so Brian, to you and your staff, thank you very much. It is very much appreciated.

One of the things that we like the most about these kind of summits is that you all get to identify the problems that you want addressed that are important to your area. It isn't that we are coming down and saying we think that this is what you should be concentrating on. You all pick the topics. You all get to have the discussions and, from here, we end up having ideas that we can carry forward that can help address not only the concerns here, but also maybe teaches a little bit about how we should probably address it statewide. It is true when we held our very first ones in El Paso and they keep going. I

think they just did their thirteenth or fourteenth one. I'm very proud of them and what's going on in the valley and what's going on in Laredo and what's going on here. What is the same for all of them is that local folks are coming together to try to identify their issues. What is unique to them is that it's their issues and I think that that's important as well. We're also very thankful that we're joined in this summit by our sister agency, the Railroad Commission, in that it is going to help us address one of the concerns that was raised that I know the Senator wanted us to talk about.

So joining us today from the Railroad Commission of Texas, Commissioner David J. Porter who was elected on November 2010 to serve a six-year term. Since taking office, Commissioner Porter has been appointed to the Interstate Oil and Gas Compact Commission as an associate representative by Texas Governor Rick Perry. He has also been appointed as Governor Perry's official representative on the Interstate Mining Compact Commission and currently serves as an advisor board member to the Texas Journal of Oil, Gas, and Energy Law. Commissioner Porter created the Eagle Ford Shale Task Force, the first of its kind, at the Texas Railroad Commission to establish a forum that will bring the community together and foster a dialogue regarding drilling activities in Eagle Ford Shale. Comprised of local community leaders, elected officials, industry representatives, environmental groups, and land owners, the goal of the task force is to open the lines of communication between all parties involved, establishing recommendations for developing Eagle Ford Shale, and promote economic benefits locally and statewide. Commissioner Porter knows his way around gas and oil field as well. Before taking office, Commissioner Porter built a successful small business around his CPA practice in Midland, Texas providing accounting and tax service to oil and gas produces, royalty owners, oil field service companies, and other small businesses and individuals. Please help me in welcoming Commissioner David Porter.

Commissioner David Porter: Thank you, Commissioner Rubinstein for that introduction. Hello, I am David Porter, Texas Railroad Commissioner. I would like to thank all of you for being here and, of course, special thanks to the CCQ for hosting this summit and for inviting me to speak today. I think it's great when we as state agencies can work together to educate the people of Texas and I also appreciate Senator Campbell and Senator Van de Putte for being here today as well.

I'd like to take this opportunity to share with you my thoughts on the importance of shale oil and gas in Texas. Of course, one other thing I want to mention to you as we get started, there are a number of exhibits out there and one of the exhibitors in the open house is the Railroad Commission and we have one of our big experts from Austin here today and our Deputy Director of the Oil and Gas Division, Ramón Fernandez, so if you have any questions about the Railroad Commission and what we do, be sure and take the opportunity at the open house to talk to Ramón.

Remember ten/fifteen years ago when the experts were concerned about that we were going to run out of natural gas? Now with the development of shale oil and gas, we know that we have enough natural gas reserves to last one hundred, maybe even two hundred, years. In 2011, production from shale gas represented thirty percent of U.S. total gas production. By way of comparison, it was eight percent in 2007. Because of

shale production and the use of hydraulic fracturing, America is one step closer to achieving energy independence. The International Energy Agency is now projecting that the United States will become the world's top oil producer by 2020 surpassing countries like Saudi Arabia and Russia. Among the shale formations, the Eagle Ford Shale is rapidly becoming one of the largest domestic crude oil and natural gas discoveries in more than forty years and it's having a huge effect on the communities of south Texas. I've said it before and I'm going to say it again, the Eagle Ford Shale has the potential to be the single most significant economic development in our state's history.

Internationally, the Eagle Ford Shale now ranks as the largest single oil and gas development based on capital expenditures and has clinched the title of the top liquids producing shale in the world; that according to a recent analysis by Woods McKenzie. Here's just a few stats to illustrate just how much growth we are seeing: in 2010, the Railroad Commission issued just over a thousand permits for the Eagle Ford Shale. In 2011, it was almost three thousand permits. In 2012, a little over four thousand permits. Ratchet back to 2009, less than a hundred permits. The growth is phenomenal and this is a stat that really blows my mind: in 2009, Eagle Ford Shale operators reported a total oil production for the year in the Eagle Ford of about 300,000 barrels per year. Today, total oil and gas – or total oil production in the Eagle Ford Shale is over 300,000 barrels per day. And those numbers are just as astounding for oil and gas – for gas and condensate production. As you all know, that means job creation, increased tax revenue, and overall economic development. I was going to give you a few statistics about jobs, but I see Tom sitting over there and I'm sure he's going to address that shortly, so I won't bore you with those.

But on the other hand, we must not act with haste. We must develop these shales responsibly; finding the proper way to utilize these resources while ensuring environmental protection. While the development of the Eagle Ford has been beneficial in so many ways, it has brought with it a unique set of issues that I, as Texas Railroad Commissioner, am working to address. One such issue as I'm sure you are all aware of, and as Senators Campbell and Van de Putte just mentioned in their talks, is water. With the continuous population growth that Texas has experienced over the last two decades combined with the historic drought we are facing, it is more important now than ever that we do all we can to conserve water. At the Railroad Commission, we are currently in the process of amending our rules regarding water and waste recycling as they pertain to oil and natural gas production in order to promote innovation and production while ensuring that health and safety standards are not compromised. I'm doing everything I can to encourage industry to recycle more water and look for alternative water sources, such as brackish water, instead of using fresh water. I must say that I am encouraged by the progress I am seeing.

Although the energy industry has increased their water usage, specifically for hydraulic fracturing, it is important to know that it still represents a small percentage of Texas overall water consumption: less than one percent. One thing I really always want to emphasize is that the reason that we're facing a water shortage in Texas is not because of hydraulic fracturing. It's because of the extreme population growth that Texas has been experiencing. That's the number one reason. Secondarily, the drought, but it is

issues such as this that led me to create the Eagle Ford Task Force comprised of capable representatives, including local elected officials, small and large oil and gas company, water organizations, environmental groups, pipeline companies, land owners, and community leaders. This task force is not only helping to advise me regarding policy decisions as we move forward, but it has also served as a convener in bringing all interested parties and stakeholders together to foster a dialogue, share information, build relationships, and most importantly, encourage solution-based thinking. So far the task force has tackled hard issues such as road conditions, general infrastructure concerns, work force issues, the housing shortage, water quality and usage, medical and social services in the area, and Railroad Commission rules and regulations. And the group has brought about some real changes in the way things are done, both at the Railroad Commission and from the industry's perspective. For example, the water recycling rules being amended, I mentioned earlier were a result of discussions we've had at task force meetings.

While not all of the concerns arising from the development of the Eagle Ford fall under the Railroad Commission's jurisdiction, I believe the only way to achieve success in the area and sustain ability is to continue on the path of shareholder engagement. Yes, there are problems as we all see so widely reported in the media, but the opportunities far outweigh the problems and, frankly, I think the biggest threat to the development of the Eagle Ford Shale is the federal government, not the abundance of oil and natural gas beneath our feet. I firmly believe that the primacy of state regulation is the most important issue we face. We must not let the federal government gain control over oil and gas regulation. It will cripple the industry and cripple our economy. We must keep regulations of Texas's natural resources in Texas by Texans who appreciate the importance of the oil and gas industry, so that the regulatory climate remains fair, steady, and predictable.

And I must say along those lines that I appreciate my colleagues at TCEQ. I feel like they're fellow laborers in the effort to keep good regulation of our resources in Texas by Texans. But it's not enough to just call for state primacy. You know, it's one thing to stand up here and grand stand and say we must keep the federal government out. It is another to understand that in order to keep the federal government out, we must fight for a fully-funded, fully-staffed Railroad Commission doing the job; the job of protecting the groundwater and the health and safety of the people of Texas as well as protecting the jobs, tax base, and economic vitality of our state. Yes, sometimes it is a difficult balancing act, but we can and we will do it. As the Texas Railroad Commissioner, that is my job. As a Senior Energy Regulator in our nation's top energy-producing state, I pledge to do everything in my power to protect the most important economic generator in Texas. It is the Railroad Commission's long history of wisely enforcing state regulations that has allowed oil and gas to drive our economy and establish Texas as a national economic powerhouse. Thank you.

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