Threats to National Energy Security Continue
Oil & Gas Industry Targeted with New Tax Bills

On May 1st, news spread across the nation of the successful American operation in Pakistan that resulted in the death of Osama Bin Laden, the al Qaeda leader and mastermind of the terror attacks of September 11, 2001. The momentous news of Bin Laden’s death is a historic success in the war on terror. The success of the operation speaks to the resolve of our American troops and intelligence officers who worked relentlessly for this moment. Regardless of our political beliefs or our opinions of the President’s policy and positions, we should all be grateful for this monumental accomplishment.

President Obama received a bump in his national approval rating following the operation. On May 5th, Gallup polling reported the president received a six-point bounce in his approval rating. Most likely, the president expected a bigger bounce. The relatively small bounce in the president’s approval rating probably indicates many Americans are entrenched in their opinion him.

Federal Oil & Gas Tax Issues - A Dynamic Debate

The Obama Administration has been trying to eliminate the domestic industry’s primary tax provisions (percentage depletion and intangible drilling costs) ever since they took office in 2009. They met with no success during his first two years in office, in part because of opposition of a key group of moderate Democratic Senators from producing states. The President and his allies in Congress have stepped up the rhetoric against the oil industry in recent months because of high major oil company profits and significant increases in the price of gasoline at the pump. This all occurs against a backdrop of growing public concern about the size of the national debt. President Obama has targeted $4 billion a year in “tax breaks” for the oil and gas industry. He has been claiming that these breaks go to major integrated companies such as Exxon, BP, and others when in fact a very significant part of the provisions go to small independents. The media has swallowed the President’s rhetoric whole and almost never makes a distinction between the majors and independents.

Recent Events - On April 25th, U.S. House Speaker John Boehner said he was open to calls from the White House to curb some of the oil and gas tax incentives. Seizing upon the comments made by Boehner, President Obama sent a letter to House and Senate leaders on April 26th urging them to pass his proposal to end tax credits for oil companies and transfer them to other companies that produce energy through other means. President Obama continues to use the tired old arguments we’ve been hearing the last two years. The federal government by no stretch of the imagination subsidizes the oil and gas industry. President Obama has long supported policies that would increase the price of oil and is now pointing fingers at the oil companies for high gas prices. Now that his policies are bearing expensive fruit Americans don’t like, Obama is attempting to shift blame away from his actions. On April 27th, Senate Majority Leader Harry Reid said he would schedule a vote on legislation to repeal the oil and gas tax incentives.

The U.S. Senate has twice voted on the President’s proposal to end the $4 billion a year in tax provisions targeted by the Administration. The first vote occurred on amendment to a pending bill offered by Senator Sanders of Vermont last summer. It fell far short of the 60 votes needed for passage and received only 35 affirmative votes. The second vote occurred early this year as a way for paying for ending an unpopular feature of Obama’s health care reform law and also fell far short of the 60 votes needed for passage. The House recently voted on a Democratic proposal to end the Section 199...continued on page 8
MESSAGE from the CHAIRMAN

Dear KIOGA Member,

The oil and gas industry continues to draw media attention nationwide. President Obama’s continual call for oil and gas tax hikes, the Gulf spill incident, GASLAND, controversy over hydraulic fracturing, and more all cast a negative light on our industry.

The public needs education, not misinformation. They need to hear from rational sources the truth of the benefits of extracting hydrocarbons domestically rather than being bombarded by the commentary of wingnuts that constantly seem to make their way into the media. KIOGA has been working diligently on public information campaigns for a number of years leveraging our early preparedness to create opportunities with congressional lawmakers, opinion leaders, media, and third party groups. Indeed, positive news coverage of the oil and gas industry increased by 11% over the last year. While the Association continues our public information efforts, we need to use the best ambassador the industry has available – You!

Each one of us has the responsibility to promote our industry in our respective community. It starts at home. Our families need to know the benefits of domestic oil and gas production. They need to know how advancements in technology like 3D seismic, horizontal drilling, and hydraulic fracturing has unlocked previously unproductive reservoirs. Many times our children, unfortunately, are fed misinformation in the school systems. We must educate our children on our industry. Talk to their teachers so they will have a better understanding of our industry and its positive impact.

Seek out your neighbors and community leaders to explain the oil and gas industry’s contribution to our nation, state, and society. Our industry provides 13,800 good-paying jobs directly to Kansans with an average annual salary of nearly $60,000. Throw in every Kansas job touched by the oil and gas industry and the number of employees swell to 68,000. Over $330 million in severance and ad valorem taxes were paid by oil and gas companies to the State and local governments last year. Remind your local elected officials whenever possible that Kansas is a top-ten oil and gas producing state and is an important contributor to our nation’s energy security.

Grassroot public information initiatives are keys to success. It won’t happen overnight, but we can’t wait. Ask yourself, “If not me, who? If not now, when?” Let’s all be ambassadors for our great American industry.

Dick Schremmer
Your Chairman
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Proud to have been a part of the first 150 years of the KANSAS oil industry.
Line 1 Ed Cross, KIOGA President - Ed will discuss the biggest challenges the oil and gas industry is facing at this time.

Line 2 Chris Tucker, Energy in Depth - Chris will talk about regulatory and policy considerations associated with hydraulic fracturing.

Line 3 Tom Ward, Chairman & CEO of SandRidge Energy - Tom will talk about the “game changing” new horizontal oil play in the Mississippian Lime.

Line 4 Dr. Malcolm Harris Sr., Professor of Finance at Friends University in Wichita - Dr. Harris will talk about the threat to the U.S. dollar from our nation’s chronic balance of payments deficit and the role of energy in that threat.
Reaching Out
KOOGA’s Communications Efforts Expand

For years, KIOGA has served as a primary source of information for the media on issues ranging from oil and gas taxation, environmental issues, economic impact of oil and gas industry and more. In 2011, the association’s media outreach efforts are reaching new highs with 38 media mentions already this year. As issues affecting the oil and gas industry continue to dominate media focus, KIOGA has raised our profile as a source for the media. The message we send is clear. Domestic oil and gas production must remain a top energy priority because it’s good for the economy, jobs, government revenue, and energy security.

Leading the way for the Kansas oil and natural gas industry in Topeka, Washington, and the media, KIOGA has established a set of core policy initiatives and laid an impressive amount of groundwork over the past two years in a positive direction and prepare for 2011. These efforts have been guided by a volunteer board of directors and leadership structure that KIOGA President Edward Cross believes has resulted in one of the strongest and most unified voices for the industry in Topeka and Washington.

KIOGA’s efforts are focused on core policy initiatives. In consideration of the actions and posturing by the Kansas Legislature, U.S. Congress, and the Obama Administration over the past year combined with the points most vital to the sustained success of our industry, KIOGA has committed itself to the matters of energy taxes and regulatory issues.

KIOGA Public Information Campaign

KIOGA targets policymakers and the public with messages and energy education initiatives to set the record straight on many issues. Current focus is on bringing a wealth of new information on energy to the forefront, deploying an aggressive communication strategy designed to separate fact from fiction, reality from myth, and proven practices from hyperbole. KIOGA is advocating sensible state and federal policies that will help encourage more American oil and natural gas production. We are leveraging our early preparedness to create opportunities with congressional lawmakers, opinion leaders, media, and third-party groups. As signs of success, we’re seeing more and more third party organizations, lawmakers, and congressional and state legislator staffers using KIOGA talking points, fact sheets, and analyses in their communications.

KIOGA is playing an important role in energy education advocacy efforts, from state and federal advocacy to working with the media to educating teachers and students. KIOGA’s energy education advocacy efforts work hand-in-hand with our government relations activities to optimize KIOGA’s effectiveness as an advocate for the Kansas independent oil and natural gas industry.

KIOGA’s efforts are complemented by the public service announcements developed and disseminated by the Kansas Oil & Gas Resources Fund (KOGRF). The KOGRF public service announcements are not advocacy programs but messages designed to improve the image and credibility of the Kansas oil and natural gas industry and educate the public on the oil and natural gas industry’s impact to Kansas’ economy and society.

Developing Good Media Relations

KIOGA has taken on a number of communication and advocacy initiatives to educate lawmakers, consumers, media, and school children about the importance of American, and more specifically Kansas, oil and natural gas production and why it is so critical to the future of our economy and energy security. KIOGA’s employs a 5-point strategy for developing media relations and improving the industry’s image and credibility:

1. **We provide sincere, honest, and frequent communication with media.** While KIOGA continues to grow as a source for the media, we also continue our visits with editorial boards and individual reporters. In addition, we continue developing and distributing timely opinion editorials, letter to editors, and press releases.

2. **We put a face on the industry.** Several KIOGA members have been interviewed by news outlets across Kansas. One of the association’s biggest homeruns this year came in March when KIOGA Chairman Dick Schremmer appeared on KSN-TV in Wichita. The NBC feature took a look at why gasoline prices were so high. Schremmer did an outstanding job explaining how oil is a commodity with price determined by supply and demand.

3. **We explain oil and gas industry values and educate about the integrity of our industry.** KIOGA on-air awareness messages are broadcast on 58 radio stations across Kansas providing important information about the oil and gas industry to folks in every Kansas county.

4. **We provide industry information.** KIOGA provides credible information to media about oil and gas economic and environmental issues including fact sheets, data and statistics, economic impact studies, and issue briefs.

5. **We establish a long-term commitment.** KIOGA media relations efforts foster a better public understanding of energy issues. We will continue to advance messages and materials that redefine the energy debate and inspire outside groups and everyday Americans to stand up on our behalf.

KIOGA’s aggressive energy education efforts have resulted in thousands of Kansans who have heard KIOGA’s key messages. Major Kansas news outlets - from the Kansas City Star, Wichita Eagle and Topeka Capital-Journal to the Hays Daily News, Manhattan Mercury and Eagle Radio - are turning to KIOGA as the leading oil and natural gas industry news source.

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Reaching Out….continued from page 6

Another major part of KIOGA’s communication efforts continues to be the work the association does as a member of the Energy in Depth (EID) coalition. Through EID, KIOGA and our allies have found unprecedented new reach in the media to proactively explain the importance of the industry and the effectiveness of current regulatory procedures. These efforts have helped the industry defend against new federal hydraulic fracturing legislation and is now venturing into other environmental areas including water and air issues.

KIOGA has established a strong voice with federal and state lawmakers and the media and have kept misguided legislation from advancing further. Thanks in large part to KIOGA’s aggressive education efforts, lawmakers and the public are beginning to understand the importance of oil and natural gas and how oil and natural gas can change the future of U.S. energy supply and U.S. energy security. Positive news media coverage of the oil and natural gas industry increased over 11% in Kansas over the last year.

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Expanding the Message of Oil & Gas

Radio advertising plays an important role in the success of KIOGA’s media campaign. Radio advertising allows KIOGA to bring the truth about the Kansas oil and natural gas to a large market that, many times, have negative impressions and perceptions of the oil and natural gas industry.

KIOGA on-air awareness messages are broadcast on 58 radio stations across Kansas providing important information about the oil and natural gas industry to folks in every Kansas County. Four separate awareness messages are rotated throughout the campaign. The radio advertising campaign is conducted in conjunction with Kansas State University, University of Kansas, and Wichita State University sporting event venues. KIOGA also provides live-interviews during the Kansas State University football and basketball games. Feedback on our radio campaign has been overwhelmingly positive with folks across Kansas and other states relating positive comments about the awareness messages.

Energy Security for America

KIOGA opinion editorials (OpEd) continue to be published by newspapers across Kansas and the nation. KIOGA President Edward Cross wrote and distributed opinion editorials on a number of energy issues that have been picked up by the Kansas City Star, Wichita Eagle, Salina Journal, Topeka Capital-Journal, Johnson County Sun, Great Bend Tribune, Abilene Reflector-Chronicle, Holton Recorder, Manhattan Mercury, Garden City Telegram, McPherson Sentinel, Southwest Daily Times as well as newspapers in Illinois and Florida. All KIOGA OpEd’s focus on relaying messages

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manufacturing deduction for major oil companies only and it was rejected on almost a straight party line vote. This latter vote did not affect independents but it demonstrated that even an attack clearly directed to the majors couldn’t pass the House.

On April 5th, Senator Wyden (D-OR) and Coats (R-IN) introduced the Wyden-Coats Bipartisan Tax Fairness & Simplification Act of 2011. This Act is a budget plan for 2012. In exchange for lowering the overall corporate rates broadly, the legislation removes some oil and gas tax provisions. It left IDC’s alone, but repealed percentage depletion. KIOGA joined our colleagues from Oklahoma and Texas on April 6th-7th to visit with key U.S. Senate members on this Act and other issues. After discussing the Act in great detail with Senator Coats, he said there was an error in the bill draft and he would correct the legislation to include keeping IDC’s and percentage depletion. We are certain that Senators view this as the starting point for discussion. We must stay vigilant to protect these critical tax provisions.

Senator Menendez (D-NJ), Brown (D-OH), and McCaskill (D-MO) announced the Close Big Oil Tax Loopholes Act of 2011 on May 10th. The bill was aimed at the 5 largest oil companies (the Big 5 - BP, Exxon, Shell, Chevron, and ConocoPhillips). The legislation proposed to modify the foreign investment tax credit to not allow U.S. oil companies to characterize royalty payments to foreign governments as taxes. The bill would have also eliminated the Section 199 deduction for the Big 5 and would deny the Big 5 the option of expensing IDC’s and require such costs to be capitalized. Ironically, the bill also purports to repeal percentage depletion for the Big 5 even though Congress terminated those provisions for major integrated companies in 1975. Senator Baucus (D-MT) also has a similar proposal. Senator Baucus, Chairman of the Senate Finance Committee, announced in early May that he would introduce legislation directed strictly at attacking tax breaks enjoyed by the majors. He announced that he would seek to end the Section 199 manufacturing tax deduction for major oil and gas companies and that he would change the way royalties are characterized by the major companies under the law governing foreign tax credits, but would hold independents harmless.

Senator Baucus, Chair of the Senate Finance Committee, had “Big Oil” in front of the Senate Finance Committee answering for huge profits on May 12th. On May 11th, KIOGA met with Senator Baucus and his finance committee staffers. They were very supportive of small independents stating at one point, “you are preaching to the choir here, we know how important independent producers are . . . and we would not allow percentage depletion and IDC’s to be taken away from you.” We applauded Senator Baucus for making the distinction between small independents and major integrated companies. The entire purpose of the May 12th hearing was to react to public outrage over higher gasoline prices by punishing someone. In this case it was big oil. Many policymakers and energy experts have been pointing to the failed energy policies of the Obama Administration as the root cause of high gasoline prices. The entire debate was highly politically charged. Any tax bill not tied to deficit reduction and/or tax reform will have a difficult time passing. The Menendez bill and the Baucus bill as stand-alone bills will have a very difficult time getting the 60 votes needed for cloture in the Senate and would have an even more difficult time getting out of the House Ways & Means Committee, where all tax bills have to originate.

What has been going on in Washington is simply politics. Absent a strong effort to reduce the deficit or major tax reform, the Senate does not have the votes to pass such legislation. Senator Reid knows that a bill to eliminate the oil and gas tax provisions will fail, but he is simply trying to put our friends who vote against eliminating these tax provisions on the record voting for oil industry incentives (they call subsidies) as gasoline prices rise in an attempt to fix blame. KIOGA and our Oklahoma and Texas colleagues are staying the course to continually educate congressional members and the public about how the free market system creates new businesses and jobs and how our nation is better off with us investing our own money.

Forums where our issue could come up - There are three basic places where our provisions could come up in the months ahead — a vote on raising the country’s debt limit, deliberations by the Gang of Six on deficit reduction, and deliberations by House and Senate leaders on debt reduction being chaired by Vice President Biden.

Debt ceiling vote: Republican leaders are expected to insist that Congress make some progress in dealing with the national debt as a condition of voting to increase the debt ceiling this summer. This is an explosive issue because many people in the business community are worried that failing to increase the debt ceiling could put our country into default and cause great harm to our economy. Negotiations by the Gang of Six and by the Biden group could lead to some agreements that would make it easier to increase the debt ceiling.

Gang of Six: The Gang of Six is a group of three Republican Senators and Three Democrat Senators who are working on a bipartisan debt reduction plan. Members include Democrats Conrad (ND), Warner (VA), and Durbin (IL) and Republicans Coburn (OK), Chambliss (GA), and Crapo (ID). Presumably this group will only be able to make recommendations if all six members agree. Senator Coburn has said publicly that he will oppose any final product that includes elimination of oil and gas tax provisions. Senator Coburn’s position is critical. Also, Senator Conrad has recently expressed concern that they will ever be able to reach agreement and has said that he expects to start work on the 2012 budget in his capacity as chairman of the Senate Budget Committee and not wait for any agreement by his five other colleagues that could break the budget deadlock.

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Biden negotiations: So far Republicans have indicated that they will oppose any tax increases as a part of a short term or long term budget agreement and Democrats have said they will not agree to Republican proposals to dramatically change the nature of Medicare contained in the budget recently passed by the House. This group of House and Senate leaders along with Vice President Biden could produce some type of agreement on automatic spending cut triggers when the deficit reaches a certain level but it is also possible that they could consider some type of automatic tax increase triggers which could put our oil and gas tax issues in play.

Tax Reform - We have to be concerned about the movement toward long-term tax reform proposed by the President’s Deficit Reduction Panel last December and being considered by the various groups mentioned above. If enacted, this would lower the maximum corporate and individual rates from 35% to 25% and eliminate or drastically reduce virtually all the tax reductions currently in the code. While tax reform resonates well with both Democrats and Republicans, it is unlikely that Congress could ever lower rates enough to make up for the investment incentives necessary for independents to be able to attract the capital necessary to drill wells. This is an issue we have to be vigilant with between now and August with both Democrats and Republicans. It is clear that when that debate begins, we may loose some traditional friends that will be compelled to support a lower tax rate in exchange for the surrender of deductions. That is why it is imperative that we continue to demonstrate to policymakers (both Democrat and Republican) that raising taxes on domestic independents will take billions of capital away from an industry that is producing the oil and gas here in America and employing a significant number of American workers. We will have to have Democrats in the Senate to vote with us when this debate begins. We will lose some Republicans who will find tax reform with lower rates irresistible.

We were right in staying out of the partisan political games with the Menendez and Baucus bills. With the tax reform/deficit reduction debate on the horizon, we will continue to educate policymakers and differentiate ourselves from the majors in order to keep the capital we need to continue to produce the energy and jobs America needs.

What is our impact?

KIOGA began in 2009 with a strategy to build positive relationships with Democratic Senators from oil producing states and began building such relationships with 11 Democratic Senators. In 2010 we expanded our efforts to include key Democratic and Republican policymakers and met with 25 Senators and 41 Representatives. In 2011, we have met with 20 Senators and 24 Representatives. Many key U.S. Senators and Representatives are looking more and more to our group for guidance on issues impacting the small businesses that make up the independent oil and gas industry. **We have gotten the undivided attention of a number of key Democratic and Republican policymakers.** In short, we are making a difference! The outcome of our latest efforts in Washington was that we found we are becoming increasingly more productive.

Have any great pictures you would like to share of the Kansas oilfield? Please send them to: kioga@swbell.net
and key staffers in 2011:

Senator Pat Roberts (R-KS) and staff, Senate Finance Committee
Senator Jerry Moran (R-KS) and staff, Senate Appropriations Committee
Senator Jim Inhofe (R-OK) and staff, Senate Energy & Public Works Committee
Senator John Barrasso (R-WY) and staff, Senate Energy & Natural Resources Committee
Senator Sherrod Brown (D-OH) and staff, Senate Appropriations Committee
Senator Mark Pryor (D-AR) and staff, Senate Appropriations Committee
Senator Jon Tester (D-MT) and staff, Senate Appropriations Committee
Senator Mark Begich (D-AK) and staff, Senate Budget Committee
Senator Mark Udall (D-CO) and staff, Senate Energy & Natural Resources Committee
Senator Ben Nelson (D-NE) and staff, Senate Appropriations Committee
Senator Michael Bennet (D-CO) and staff, Senate Energy, Science, & Technology
Senator Mary Landrieu (D-LA) and staff, Senate Appropriations Committee and Senate Energy & Natural Resources Committee
Senator Marco Rubio (R-FL) and staff, Senate Commerce, Science, & Transportation Committee
Senator Mark Warner (D-VA) and staff, Senate Budget Committee and member of Gang of Six)
Senator Max Baucus (D-MT) and staff, Chair of Senate Finance Committee
Senator John Hoeven (R-ND) and staff, Senate Energy & Natural Resources Committee
Senator James Risch (R-ID) and staff, Senate Energy & Natural Resources Committee
Senator Dan Coats (R-IN) and staff, Senate Appropriations Committee
Senator Jon Tester (D-MT) and staff, Senate Appropriations Committee
Senator Kent Conrad (D-ND) and staff, Chairman of Senate Committee on Budget

Senate Finance Committee

Rep Lynn Jenkins (R-KS) and staff, House Ways & Means Committee
Rep Tim Huelskamp (R-KS) and staff, House Budget Committee
Rep Kevin Yoder (R-KS) and staff, House Appropriations Committee
Rep Mike Pompeo (R-KS) and staff, House Energy & Commerce Committee
Rep Rick Berg (R-ND) and staff, House Ways & Means Committee
Rep John Sullivan (R-OK) and staff, House Energy & Commerce Committee
Rep Joe Barton (R-TX) and staff, House Energy & Commerce Committee
Rep Pete Olson (R-TX), House Energy & Commerce Committee
Rep Lee Terry (R-NE), House Energy & Commerce Committee
Rep Mike Burgess (R-TX), House Energy & Commerce Committee
Rep Dave Camp (R-MI) and staff, Chairman of House Ways & Means Committee
Rep Pete Roskam (R-IL) and staff, Chief Deputy Majority Whip;

House Ways & Means Committee
Rep Sandy Levin (D-MI) and staff, House Ways & Means Committee
Rep Fred Upton (R-MI), Chairman of House Energy & Commerce Committee
Rep Charles Boustany (R-LA) and staff, House Ways & Means Committee
Rep James Clyburn (D-SC) and staff, Assistant Democratic Leader and member of Vice President Biden’s Budget Working Group)
Rep Diane Black (R-TN) and staff, House Budget and House Ways & Means Committees
Rep Chris Van Hollen (D-MD) and staff, House Budget Committee ranking member
Rep Kevin McCarthy (R-CA) and staff, House Majority Whip
Rep Steny Hoyer (D-MD) and staff, Democratic Whip
Rep Kenny Marchant (R-TX) and staff, House Ways & Means Committee
Rep Mike Thompson (D-CA) and staff, House Ways & Means Committee
Rep Jim Jordan (R-OH) and staff, House Oversight and Government Reform Committee
Rep Tom Price (R-GA) and staff, House Ways & Means Committee; House Budget Committee Chairman of House Republican Policy Committee
McKie Campbell, Staff Director for Senate Energy & Natural Resources Committee
Rob Guido, Legislative Director for House Ways & Means Committee
Stephen Pinkos, Policy Director for House Majority Whip
Ryan Abraham, Senate Finance Committee Counsel

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Moving Forward

Over the past two years, KIOGA has worked with our Oklahoma and Texas colleagues to build credible relationships with key members in Congress. We invested a considerable effort to build credible relationships with Democrat and Republican policymakers. This year, the challenge has changed but it is still just as great, if not greater. The Obama Administration is trying to combine fear over the mounting deficit with tax code reform as justification to eliminate oil and gas tax provisions. Tax reform with a strong emphasis on deficit reduction has both Republican and Democrat proponents. We have significant challenges ahead of us. Progress is being made as we are now starting to see some of the Democratic policymakers with whom we have established credible relations over the past couple of years come out in support of proposals that make the distinction between small independents and major integrated companies. This is a positive development. However, the situation is very fluid and could turn against independents very quickly. During this critical time, it is imperative for us to remain committed to educating policymakers on the difference between small independents and major integrated companies and to be there to continually explain why oil and gas tax provisions are so critical for the small independents.

KIOGA has been emphasizing that independents are the backbone of the oil and gas industry in the U.S. Independents drill 93% of the new wells in the U.S. each year. IPAA estimates that 67% of the oil and gas produced in the U.S. comes from wells drilled by independents. The two largest tax provisions targeted by the Obama Administration only apply to wells drilled in the U.S. Further, one of these provisions (percentage depletion) was terminated by Congress for the major oil companies in 1975. Additionally, since intangible drilling costs only apply domestic production, two-thirds of its benefit goes to independents. Industry projections are that ending percentage depletion and intangible drilling costs for independents would reduce the number of wells drilled by 30%-40%, thus costing the country a large number of high paying jobs. These provisions are necessary for independents to attract the capital necessary to drill wells.

KIOGA will continue to work with our Oklahoma and Texas colleagues to educate policymakers on how the free market system creates new businesses and jobs through entrepreneurial thinking and risk taking, which only comes when there is the promise of a reward at the end, not a big tax bill. The oil and natural gas industry supplies a needed natural resource for the welfare of the nation, which created a tremendous number of jobs. Taking away our tax provisions will only choke the small independent oil and natural gas industry and sustain the recession as more people will be without jobs and looking toward the government for help.

The bottom line is that we still have many challenges ahead of us. KIOGA has developed communications that highlights the inconsistencies between President Obama’s statements about energy policy, his plans to stimulate the economy, and the outcome of his proposed policies and actions moving ahead. We will continue to distribute the communications to key congressional members and the Kansas congressional delegation. The battle will be grueling, but we are confident we will succeed.
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¹ Welling & Company Geological & Geophysical Software Study, 2009
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<td>IOGCC Midyear Issues Summit</td>
<td>June 27-29, 2011</td>
<td>Bismarck, ND</td>
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<tr>
<td>AESC Annual Summer Meeting</td>
<td>July 27-29, 2011</td>
<td>Traverse City, MI</td>
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<tr>
<td>KNS Oil &amp; Gas Seminar</td>
<td>August 3-4, 2011</td>
<td>Hays, KS</td>
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<td>2011 Summer NAPE Expo</td>
<td>August 17-19, 2011</td>
<td>Houston, TX</td>
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<tr>
<td>KIOGA 74th Annual Convention</td>
<td>August 21-23, 2011</td>
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Paul R. Attwater III is inducted into the Business Owner Executive Council

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First Vice President — Wealth Management
Financial Advisor
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Wichita, KS 67206
316-630-4402
paul.r.attwater.iii@mssb.com
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For more information on the Business Owner Executive Council and how Paul R. Attwater III can help you, please call to arrange a meeting.

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Leadership Expert & Political Analyst
Annual Convention Speakers

KIOGA is pleased to announce that Bill Snyder and J.C. Watts, Jr. will be our featured keynote speakers for the 74th KIOGA Annual Convention to be held at the Hilton Wichita Airport in Wichita, Kansas on August 21-23, 2011.

Bill Snyder is the head football coach at Kansas State University. Snyder was recognized as the National Coach of the Year by the Associated Press and awarded the Bear Bryant Award and the Bobby Dodd Coach of the Year Award in 1998. Snyder will share his views on what it takes to be a leader and strategies for leading during times of great change.

J.C. Watts, Jr. is a former University of Oklahoma quarterback, former Oklahoma Corporation Commission Commissioner, and former Oklahoma Congressman. He is currently Chairman of JC Watts Companies, a corporation devoted to executing market development, communications, and public affairs strategies with its partners, customers, and clients. Watts will share his views on the state of the current political scene and what may lie ahead.

Plans are still being completed for this year’s annual convention with several value-added features being organized including seminars, trade show, golf tournament, ladies program, and more. Mark your calendars for August 21-23, 2011!

David A. Morris, P.A.
Attorney at Law

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The 2011 Kansas legislative session was busy for KIOGA but successful on many fronts. KIOGA achieved nearly all of our priorities during the 2011 legislative session. The 2011 session was one in which KIOGA's worked to minimize legislative assaults on the oil and gas industry and optimize legislative targets of opportunity. Educating and informing legislators on the impact and value of the Kansas oil and gas industry was keen. In preparation for this year's session, KIOGA once again provided our annual Kansas Oil & Gas Industry Strategic Analysis report that helps educate and inform lawmakers, government decision-makers, and others on the contributions, the Kansas oil and gas industry makes to our economy and society. KIOGA provided informational briefings to Governor Brownback and his staff as well as Senate and House leadership and other lawmakers outlining the challenges facing the oil and natural gas industry and urged them to help our industry grow the State’s economy out of the recession by not increasing our costs.

KIOGA co-sponsored an oil and gas day legislative reception in Topeka on January 19th. The “Oil & Gas Day” event was very effective for building goodwill and providing an opportunity to communicate with legislators and decision-makers on issues important to our industry.

“Our two-fold goal to minimize impact of negative legislative assaults on the independent oil and gas industry and optimize legislative targets of opportunities was completed successfully,” said Edward Cross, KIOGA President. “Our personal and frequent contacts with key legislators and decision-makers were instrumental in helping protect the interests of independent oil and gas producers.”

Session Summary

From an almost staggering budget balance in tight economic times to accumulation of power for dealing out millions of economic development dollars, Governor Brownback has clearly taken the reins of Kansas government. There was little Brownback wanted that he didn’t get from the 2011 session and that sets him up to manage the state the way he wants. The Senate has lost horsepower in the operation of state government and the House’s moderate Republican/Democratic majority is gone. After two years of having the budget passed over his objections, House Speaker Mike O’Neal is now running the show. Democrats and moderate Republicans now appear to be unlikely to shape the reapportionment map next session. That reapportionment will be key to the political makeup of the new legislature in 2013.

KIOGA tracked 23 legislative issues of interest to independent oil and gas producers during the 2011 Kansas legislative session. A brief summary of some of the most important issues for KIOGA are as follows:

Budget - The defining issue of the session was the state budget. The legislature was able to turn a $500 million deficit into a $50 million surplus without raising taxes. Some high tension budget battles took place. In the end, a budget deal was passed by both chambers. The budget sent to the Governor has a FY 2012 ending balance of $72 million if you count the April $22 million over-estimate revenue or $50 million if you do not include the April over-estimate revenue. The Senate counts that money and the House does not. The budget passed the Senate 28-11 and House 69-55. The ending balance was made possible by spending cuts, namely to schools, social programs, and elimination of a program to increase below-market pay to state employees. Democrats said they didn’t agree to having a $50 million-plus ending balance with schools, social programs, and state employees suffering. Republicans said some difficult decisions had to be made but they stepped up to the plate and found responsible ways to balance the budget and keep our economy on track. After the budget bill cleared the Legislature, both houses quickly passed the Senate-generated University Engineering Initiative Act, which kicks off an $11.5 million effort to encourage new engineering students at KU, KSU, and Wichita State University and a companion piece which allows KU to issue up to $65 million in bonds to expand its engineering facilities.

Hydraulic Fracturing Resolution - The House Energy & Utilities Committee introduced a Concurrent Resolution urging the United States Congress to preserve the primacy of the Kansas Corporation Commission to regulate hydraulic fracturing. The resolution was brought at the request of Representative Dennis Hedke (R-Wichita). KIOGA President Edward Cross along with David Bleakley representing EKOGA and Doug Louis representing the KCC, testified in support of the resolution on March 8th. Cross explained hydraulic fracturing, why it is necessary, what is in fracturing fluid, how it is regulated, and summarized the efforts KIOGA has been involved in at the federal level addressing the concerns surrounding proposals to involve the EPA in the regulation of hydraulic fracturing. The resolution passed out of committee on March 10th and passed the House floor 123-0 on March 15th. The resolution was never addressed by the Senate.

EPA Train Wreck Resolution - The House Energy & Utilities Committee introduced a Resolution opposing the Environmental Protection Agency’s regulatory train wreck. KIOGA President Edward Cross testified in support of the resolution on February 22nd. Cross expressed that Congress never intended to use the Clean Air Act to regulate GHG emissions and EPA’s flawed interpretation of the Clean Air Act is creating a regulatory crisis. He emphasized that harmful, top-down policies that would affect the price and availability of energy for every American consumer should not be carried out by unelected EPA officials. The bill passed out of committee on March 18th and passed the House floor 100-22 on March 28th.

Immigration - Representative Lance Kinzer (R-Olathe) introduced immigration legislation on March 4th. The bill proposed significant changes to Kansas law to address failed immigration policy through increased regulations on employers and increased pressure on local law enforcement (Arizona-like law enforcement provisions).
2011 Legislative session...continued from page 16

Governor Brownback has said that immigration policy is a federal issue that needs to be addressed by the federal government. However, Brownback had not made any comments regarding this specific bill. KIOGA, along with a coalition of 38 organizations, opposed immigration proposals in 2008. Those proposals did not pass. Many of the most significant provisions KIOGA opposed in 2008 are removed from the Kinzer bill. KIOGA monitored progress of the bill very closely for amendments that would be onerous to businesses. KIOGA realizes there could be a number of pitfalls for businesses in any immigration legislation with lost economic output, earnings, tax revenue, and jobs already identified. KIOGA is also concerned about unidentified or unintended consequences. KIOGA worked closely with a business coalition formed to further review the proposed legislation and, if necessary, stand together in opposition. The bill failed to pass out of committee on March 15th.

Workers Compensation - Legislation has been introduced to amend the workers compensation act. The proposal appears to be very beneficial for the oil and natural gas industry. The proposal ends payment of unwarranted conditions. In other words, the employer pays only for claims by raising the threshold required for an incident to be compensable under the worker compensation act and clarifies employers are entitled to a credit for pre-existing jobs already identified. KIOGA is also concerned about unidentified or unintended consequences. KIOGA worked closely with a business coalition formed to further review the proposed legislation and, if necessary, stand together in opposition. The bill failed to pass out of committee on March 15th.

Kansas Mineral Severance Tax Issues - Several recent audits of oil and gas producers pertaining to the Kansas Mineral Severance Tax Act have been conducted by the Kansas Department of Revenue (KDOR). KDOR auditors have taken the position that mineral severance tax should be assessed upon volumes of gas determined by pumper estimates as opposed to meter readings claiming that the operator’s had underreported natural gas volume because they had not reported all the natural gas volume severed from the earth. The KDOR auditors included an additional amount of natural gas they estimated would have been consumed on the lease and adjusted the reportable volume and furthermore attempted to collect the KCC conservation assessment on the additional volumes. KCC regulations clearly state that the assessment should be based on sales volume. KIOGA representatives met with the KDOR Chief Auditor on June 14th and were advised that KDOR would cease using pumper estimates to calculate severance taxes.

Conservation Fee Fund Sweep - Conservation Fee Fund sweeps occurred at the close of the 2009 Kansas legislative session when the Legislature transferred $1.9 million from the Kansas Corporation Commission (KCC) Conservation Fee Fund to the State General Fund (SGF), leaving the fund with about $2.1 million. The 2010 Kansas Legislative session saw an additional $500,000 transfer from the KCC Conservation Fee Fund. Some question whether the Legislature could legally sweep agency special revenue funds. The conservation fee fund is one of several fund sweeps being challenged by a class action law suit against the State of Kansas. A hearing was conducted in the case. The Judge took up the State’s Motion to Stay the case pending discovery on the State’s attempt to explore disqualification of Mike O’Neal and his firm as plaintiff attorneys. After discussing the posture of the case, the court granted the Stay and ordered the State’s limited discovery be completed by the end of October 2010. The court gave the State until November 15th to file any Motion to Disqualification and plaintiffs were given until November 24th to respond. On November 15th, the State asked for additional time. Oral argument on the State’s Motion to Dismiss was scheduled for December 17th in Topeka. On December 15th, the Attorney General’s office asked for a continuance due to the Assistant Attorney General’s illness. The argument was rescheduled for January 14th. The delay tactic of the Attorney General’s office during 2010 was brought to the attention of the new Attorney General Derek Schmidt. Mike O’Neal, plaintiff attorney, said he was hoping to work out a set of stipulated facts with Attorney General Schmidt to submit to the court for decision on the law.

Other Bills and Issues of Interest - KIOGA also tracked bills concerning blanket easement, wind and solar agreements, pore space ownership, underground storage of natural gas, targets for energy development, and a host of tax and budget bills.

The 2011 Kansas legislative session is now complete. The Kansas legislature adjourned May 13th and concluded with Sine Die on June 1st. The session was good for oil and gas producers. The Legislature had to address a $500 million deficit and did so without raising taxes. KIOGA will continue to diligently monitor legislative activities and interim committee meetings. As always, your KIOGA team has and will continue to give our all.
that our state and nation must continue to move forward to promote comprehensive energy policy that will improve America’s energy supply and national security and that oil and natural gas must be a part of our energy solution.

KIOGA members have also been interviewed by a variety of news outlets on a number of energy issues over the last year. Dick Schremmer, Alan Banta, Dave Dayvault, Jon Callen, Jeff Kennedy, Matt Edwards, and Josh Bauer are a few KIOGA members who have spoken to media about energy issues over the last year. Interviews, mentions, and quotes from KIOGA members have appeared in *Wichita Business Journal*, *Wichita Eagle*, *Topeka Capital-Journal*, *McPherson Sentinel*, *Kansas City Star*, *Hays Daily News*, *Salina Journal*, *Manhattan Mercury*, *Garden City Telegram*, *Johnson County Sun*, *Kansas Ag Network*, *Kansas Public Radio*, *Eagle Radio*, *New York Times*, *McLeansboro Times Leader*, *Oil & Gas Journal*, *American Oil & Gas Reporter*, *EcoWorld*, *US Executive Journal* as well as television news broadcasts in *Wichita* and *Kansas City*.

KIOGA Promotes Kansas Oil & Gas Careers

The oil and natural gas industry is one of the nation’s premier job creating engines today and has the potential to expand that role tomorrow. As Kansas’ oil and natural gas industry tries to supply ever-increasing energy demand, we are looking for the next generation of energy industry leaders. KIOGA developed the *Kansas Oil & Gas Career Toolkit* in 2008 as part of our Association’s Career Center. KIOGA’s Career Center is designed to better connect job seekers and employers in the Kansas oil and natural gas industry. The Toolkit helps encourage qualified and talented individuals to the Kansas oil and gas industry.

The *Kansas Oil & Gas Career Toolkit* outlines job descriptions, typical education requirements, typical career paths, routine working conditions, salary information, and more information for over 70 jobs and careers in the Kansas oil and natural gas industry. The Toolkit provides information that helps individuals map out a career strategy and provides reassurance that careers in Kansas’ oil and natural gas industry are diverse, challenging, rewarding, and attainable. The Toolkit communicates that opportunities exist for men and women, blue collar and white collar, those with college degrees and those without. KIOGA frequently participates in “career days” at schools and other venues throughout the state. Most recently, KIOGA participated in workforce events at the 2011 *Kansas Workforce Summit* in *Topeka*, *Allen Community College in Burlingame*, and *Great Bend High School*. Visit the KIOGA Career Center at [www.kioga.org](http://www.kioga.org).

Classroom Education

KIOGA’s Petroleum Professionals in the Classroom Program (Petro Pros) has grown enormously over the years. Petro Pros are trained Kansas oil and gas professionals who volunteer their time and effort to visit Kansas schools and educate students about the science and business aspects of the Kansas oil and gas industry. The program reached 1,618 school children in Kansas during 2010, pushing the total cumulative number of Kansas students impacted by our energy education programs to over 11,500.

The “Story of Petroleum” education series of classroom presentations and curricula developed by KIOGA describes how oil and gas are formed, discovered, and produced in Kansas and the uses of petroleum. KIOGA has provided standards-based energy education, specifically aligned to KSDE learning standards, needed for utility in Kansas schools. KIOGA developed primary and secondary curricula and lesson plans that allow K-12 students to learn how oil and gas is found and why nearly every person uses some product from petroleum in their daily life. The curricula also details in a fun and exciting way the resolve of the Kansas oil and gas industry to protect the environment and how petroleum resources help keep our state and nation healthy and make our lives so much easier and better. KIOGA’s energy education program teaches students the truth about the Kansas oil and gas industry, dispelling misconceptions about important environmental and economic issues and explaining what the Kansas oil and gas industry is doing to make the future of Kansas brighter.
Reaching Out...continued from page 18

In 2008, the Kansas Oil & Gas Resources Fund (KOGRF) energy education program was launched. The KOGRF program was formed to broaden the base of support in Kansas and to help ensure that energy education in Kansas was industry-driven. In September 2010, the KOGRF began the process of assuming the classroom energy education program. Some of KIOGA’s energy education programs, including the Petro Pros Program, were rolled into the KOGRF effort. The KIOGA Educational Foundation is working to help the fledgling KOGRF classroom energy education effort move forward.

Moving Forward

KIOGA's public information efforts continue to make a huge positive difference for the Kansas oil and natural gas industry, fostering a better public understanding of energy issues and creating legacy value for the Kansas oil and natural gas industry. Events in Topeka and Washington determine the direction of KIOGA's public information initiatives going forward. With continued public misconceptions about important oil and natural economic and environmental issues, KIOGA will continue to provide credible information and education to lawmakers, media and the general public. We will continue to advance messages and materials that redefine the energy debate and inspire outside groups and everyday Americans to stand up and act on our behalf.

Need More Information?

Visit the KIOGA website at www.kioga.org to find the latest fact sheets, talking points, etc. on current topics and learn more about KIOGA's energy education advocacy efforts. Contact KIOGA for background materials, data and statistics, industry information, and issue briefs. KIOGA can provide assistance writing Letters to the Editor, opinion editorials, press kits, speeches, and PowerPoints. Our guidance document titled What We Say and How We Say It! provides a basic overview about how we communicate with the media. Please contact the KIOGA Wichita Office at 316-263-7297 for more information.

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<td>Jim Wagner</td>
<td>Commenco Wireless</td>
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<td>Coppell, TX</td>
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![Jayhawk Oilfield Supply](image.jpg)
### New Members

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<td>Timothy E. McKee</td>
<td>Triplett, Woolf &amp; Garretson, LLC - Wichita, KS</td>
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<tr>
<td>Lonnie &amp; Melody Barton</td>
<td>Barton Exploration, Inc. - Hays, KS</td>
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<td>Jamie Maddy</td>
<td>Chesapeake Energy Corporation - Oklahoma City, OK</td>
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<td>Terri Pemberton</td>
<td>Cafer Law Office LLC - Topeka, KS</td>
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<td>Trent Chriestenson</td>
<td>Phoenix Geology - Neosho Falls, KS</td>
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<td>Bob Mickelson, Brent Edwards</td>
<td>Falcon Drilling LLC - Scott City, KS</td>
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<td>Mike Deterding</td>
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<td>JR Neill</td>
<td>Rein Resources - Russell, KS</td>
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<td>Aaron Maresch</td>
<td>Aaron’s Repair Supply Inc. - Great Bend, KS</td>
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<td>Brian Gabel</td>
<td>Gabel Lease Service Inc. - Ness City, KS</td>
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<td>Craig Lacey</td>
<td>C&amp;C Tank Service - Sterling, KS</td>
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<td>Jay Maupin</td>
<td>Maupin Truck Parts - Dodge City, KS</td>
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<tr>
<td>Brad Basgall</td>
<td>Basgall Tank Service - Hays, KS</td>
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<td>Paul Ryker</td>
<td>Global Artificial Lift - Tulsa, OK</td>
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<tr>
<td>Jeremy F. Kinney</td>
<td>Kinney Oil Company - Denver, CO</td>
</tr>
<tr>
<td>Dan Samuelson</td>
<td>Caesco Truck Body - Claremore, OK</td>
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S everal environmental groups continue efforts to block responsible oil and natural gas development by attacking a host of environmental and regulatory statutes governing the oil and natural gas industry. Our nation’s economic prosperity and competitiveness are in large part dependent upon access to ample supplies of affordable, reliable energy. It simply makes no sense to further hinder our ability to find these new supplies by restricting access to new areas, unfair taxation, regulation, or other restrictive policies.

Hydraulic Fracturing

Some environmental groups have been campaigning for years to move hydraulic fracturing oversight from states to federal jurisdiction, where it could be subject to a host of new regulatory burdens that could discourage exploration, slow production, reduce oil and natural gas supplies, raise energy costs, and erode high-paying jobs. For decades, hydraulic fracturing oversight has remained with the states, which continue to compile a remarkable record of oversight and enforcement.

Duke University Releases Report on Hydraulic Fracturing - Duke University released a study on May 9th that raised many questions about the drilling activity in the Marcellus Shale in Pennsylvania. The study titled Methane Contamination of Drinking Water Accompanying Gas-well Drilling and Hydraulic Fracturing had reporters tripping all over themselves to trumpet the groundbreaking Duke study linking methane migration to hydraulic fracturing. The problem is the study doesn’t actually do that. Reporters told one story while the guys who actually wrote the report tell and entirely different one.

The researchers basically admit that hydraulic fracturing itself is not responsible for methane migration into water wells, additionally conceding in their paper that neither brine nor fracturing fluids were detected in any of the water wells they sampled, even in areas where development operations are most active. They were also forced to admit that methane is a natural and common constituent found in just about every water well across the entire region, even in areas where no oil and gas development has taken place. Geology has plenty of answers to the question of how methane gets into the water. But the authors of the report are not geologists, so they chose to ignore that question in its entirety.

Several problems with the Duke report raise serious doubts about the veracity and statistical significance of the project. The study relies on an outrageously small data set. The authors tested 68 wells in a state where more than 20,000 new water wells are drilled every year. The authors downplay the fact that methane was found in nearly every well sampled, even in areas with no natural gas development. The authors concede that hydraulic fracturing likely had zero impact on water wells, but you would never know by the paper’s title. And politics obviously played a central role in guiding the direction and recommendations of the paper when the authors told the Philadelphia Inquirer “We would like to see shale gas become largely unnecessary, along with coal and oil. The faster we develop and adopt renewable energy technologies, the less we will have to worry about whether it’s safe for people to drink their water.”

Neither a lack of expertise nor a small data set slowed down the researcher’s aggressive campaign to generate media coverage of their report. The research team at Duke University tried to connect methane in drinking water supplies to drilling activities in Pennsylvania’s Marcellus Shale, but instead ended up making a case that hydraulic fracturing chemicals could not be found in any of the 60 drinking water wells that were sampled.

Frac Fluid Registry - Congress continues to explore the issue of fracking with several members on both sides of the debate voicing concerns. Some members contend that fracking is endangering their constituents. Other members rightly contend that fracking is properly regulated at the state level and has not been successfully linked to drinking water contamination. The main issue Congressional members gravitate toward is fluid disclosure provisions. The composition of fluids commonly used in the fracturing process are greater than 99.5% water and sand with the remaining materials consisting of components typically found in your kitchen. The Ground Water Protection Council (GWPC) and the Interstate Oil & Gas Compact Commission (IOGCC) created a web-based database that will allow companies to voluntarily disclose chemical constituents in frac fluids. The website will provide greater transparency regarding the composition of frac fluids and is hoped to create greater public confidence in the safety of the hydraulic fracturing process. The effort marks the first time fracking data has been collected and made available to the general public in one place. GWPC plans to develop “customizable solutions” for state regulators over the next 2-3 years. This stage would essentially be an extension of the Risk Based Data Management System (RBDMS) currently used in most oil and natural gas producing states.

New Hydraulic Fracturing Education Video Developed - KIOGA worked with our partners in Oklahoma and Texas to develop an educational video explaining hydraulic fracturing. The video is an animation and narrative of the hydraulic fracturing process. KIOGA and others have shared the video with a number of Congressional members and will be sharing it with more federal and state lawmakers and decision-makers as we continue to educate policymakers, media, and general public about the hydraulic fracturing procedure. You can view the video on the KIOGA website at www.kioga.org.

Congressional Actions and KIOGA’s Response - Some environmental groups and policymakers propose to...
subject all hydraulic fracturing of oil and natural gas wells to the requirements of the federal underground injection control (UIC) program under SDWA, despite language excluding this in the Energy Policy Act of 2005. Despite its longstanding record of safety and widespread utilization in the United States, many of the hard facts about hydraulic fracturing are not widely known, or have been misrepresented in the public light. For decades, hydraulic fracturing oversight has remained with states, which continue to compile a remarkable record of oversight and enforcement. The EPA confirmed as much to the U.S. Senate in 2010 when they said there existed no evidence that states aren’t doing a good job already when it comes to regulating HF activities. Also, on February 15, 2010, Steve Heare Director of EPA’s Drinking Water Protection Division said that state regulators were doing a good job overseeing HF and there was no evidence the process causes water contamination.

KIOGA remains fully engaged in federal advocacy on hydraulic fracturing issues. KIOGA visited 20 U.S. Senators and 24 U.S. Representatives this year expressing our concern that the states have regulated hydraulic fracturing effectively for decades through laws and regulations related to well design, location, spacing, operation, abandonment as well as environmental activities and discharges including water management and disposal, waste management and disposal, air emissions, underground injection, surface disturbance, and worker health and safety. We emphasized that all laws, regulations, and permits that apply to oil and natural gas exploration and production activities also apply to hydraulic fracturing. In addition, we also informed the Congressional members of the ongoing GWPC/IOGCC effort to develop a web-based database that would allow companies to voluntarily disclose chemical constituents in frac fluids. We urged that any congressional action keep the regulation of hydraulic fracturing with the states and away from the EPA.

**RCRA Exemptions**

The Natural Resources Defense Council (NRDC), an aggressive anti-oil and natural gas development group, submitted a petition to the EPA on September 10, 2010 requesting reconsideration of the 1988 Regulatory Determination that concluded the federal Resource Conservation and Recovery Act (RCRA) was not appropriate for regulating oil and natural gas drilling fluids and produced waters. This action is consistent with NRDC’s pattern of opposing the development of American oil and natural gas in every possible venue.

In 1978, EPA proposed hazardous waste management standards for several large volume wastes. The EPA generally believed that drilling wastes were of the high volume, low-toxicity variety. In 1980, Congress amended RCRA to exempt mining, oil and gas, and geothermal wastes from regulation on a temporary basis until a study by the EPA was completed. In this study, the EPA would determine if such wastes required federal regulation as a hazardous waste under Subtitle C of RCRA.

Between 1986 and 1987, the EPA studied both E&P waste management procedures and state regulations on E&P wastes. The EPA issued their report to Congress in December 1987 and held public hearings and solicited written comments on their study. As a result, in 1988, the EPA issued a regulatory determination stating that federal regulation of E&P wastes under RCRA is not warranted. More importantly, states were not precluded from making their own regulations on E&P wastes.

The EPA did note in the report that there may be some gaps in waste regulation by states. When such an event arises, the EPA created a three-pronged approach to deal with any concerns. The approach is: 1.) Improve federal programs under existing authorities in the RCRA, Safe Drinking Water Act, and the Clean Water Act. 2.) Work with states to encourage state enforcement and regulation within their own state program. 3.) Work with Congress to develop additional statutory authority that could be needed.

From these events came the need for EPA to measure the effectiveness of state regulation. The state review process was created to address this need. The IOGCC established a state review process in the 1990’s and management of the process was shifted to a non-profit corporation known as the State Review of Oil & Natural Gas Environmental Regulations or STRONGER. Since 1999, STRONGER has been active in reviewing state regulations on oil and natural gas and reporting on the progress of state regulation. The success of the STRONGER process is the key reason the federal regulation of E&P wastes have not been seriously promoted.

However, the NRDC does not share this view. The NRDC states the need for federal regulation due to the “overwhelming evidence that waste from exploration, development, and production of oil and natural gas is hazardous, taking into account its toxicity, corrosivity, and ignitability, that it is released into the environment where it can cause harm, the state regulations are inadequate, and that there are numerous methods available to manage it as hazardous waste.”

This is just the latest move by the NRDC to institute their plans to ban oil and natural gas exploration in our country. On April 13th, KIOGA joined our colleagues at IPAA and Energy in Depth in comments to the EPA explaining how the NRDC is trying to bait the EPA into a reconsideration process by mischaracterizing all of the key factors. NRDC demeans state regulatory programs, distorts the availability of new waste management technologies and ignores that E&P waste management systems are not designed to meet Subtitle C requirements. The NRDC’s simplistic collection of arguments do not justify action by EPA and we urged the EPA to not waste time or money pursuing such inappropriate action.

...continued on page 24
Hydraulic Fracturing. continued from page 23

Kansas Regulatory Issues

KCC Names New Chairman - Governor Brownback appointed Mark P. Sievers of Colorado to the Kansas Corporation Commission (KCC) on March 16th. The Kansas Senate confirmed his appointment on May 4th. Sievers was named Chairman of the KCC on May 17th. Sievers is a lawyer and economist. Prior to his private practice in Cripple Creek, Colorado, he was the Vice President of Law and Regulation at Verizon and prior to joining Verizon, he held senior positions at GTE, Sprint, and Southwestern Bell. He holds a B.A. in economics from the University of Colorado, an M.A. and A.B.D. in economics from the University of California Davis, and a J.D. from the University of Utah. Sievers, 57, took the place vacated by the retirement of Joe Harkins. Sievers joins Tom Wright of Topeka, and Ward Loyd of Garden City of independent oil and gas operators with the KCC in a three-commissioner agency.

KCC 10-Year TA Exception - Last summer, several KIOGA members voiced concerns about the complicated process the Kansas Corporation Commission (KCC) used for 10-year temporary abandonment (TA) exception applications. KIOGA listened and discussed the concerns of independent oil and gas operators with the KCC in a meeting with KCC Chairman Tom Wright. Chairman Wright agreed that the process was cumbersome and indicated he would like to see the 10-year TA exception process streamlined. The KCC subsequently held an open meeting to discuss their proposal for changing internal policy for recommending the 10-year TA exception applications be granted without a hearing. KCC proposed the change to make the 10-year TA exception process an administrative procedure for most applications. The KCC revamped its 10-year TA exception application procedure, and are currently processing applications submitted under the new procedure. However, some operators have reported the new procedures remain very complicated and onerous. KIOGA continues efforts to find a workable solution for a 10-year TA exception that protects fresh and usable water, prevents waste, and protects correlative rights without being overly burdensome on operators. KIOGA Representatives David Nickel and Ed Cross met with KCC Commissioner Tom Wright on May 24th to discuss the issue further.

Wind Development Issues - KIOGA has been working with The Wind Coalition and several individual wind energy developers to develop a dialogue and establish a communication link between wind energy developers and the oil and gas industry to foster a better mutual understanding of the needs and concerns of all stakeholders. KIOGA members Bill Hess, Adam Petz, Jeff Kennedy, Dick Schremmer, and Ed Cross met with The Wind Coalition Executive Director Paul Sadler and Wind Coalition members Steven Wolfgam of Competitive Power Ventures, and Kimberly Svaty of Gencur Svaty Public Relations on February 7th. The meeting was very productive for establishing communication links. The Wind Coalition agreed to provide language some of their members use in their lease contracts that confirm and briefly discuss the existence of the mineral estate under the surface upon which there is a wind easement and we are developing an amendment relating to mineral exploration and accommodation for their consideration. The dialogue is continuing.

Transmission Line Easement - Several KIOGA members have voiced concerns about electric transmission line easements currently being acquired by ITC Great Plains that contain language specifically prohibiting oil and gas activities and structures within their easement. The easements are generally 150-200 feet wide. Prairie Wind Transmission (a Westar Affiliate) is also seeking approval from the KCC to build a new transmission line. The proposed ITC and Prairie Wind lines will cover over 400 linear miles, all through Kansas counties with prolific oil and gas activity: Ford, Rush, Pawnee, Edwards, Sumner, Kiowa, Sedgwick, Ellis, Smith, Osborne, Rooks, Barber, and Harper.

Several KIOGA members, including KIOGA Chairman Dick Schremmer, representatives from Woolsey Petroleum, R&B Oil and Gas, Inc., and Diana Edmiston voiced concerns at a public hearing held by the KCC for the Prairie Wind Transmission Case in Harper on April 7th. A similar public hearing will be held for the ITC Great Plains Case in Greensburg on April 20th. Several operators have petitioned to intervene in the Prairie Wind application pending before the KCC. KIOGA and WAPL (the Wichita Association of Petroleum Landmen) have formed a joint task force to monitor this activity and recommend appropriate action. Those task force members are: Dick Schremmer, Ed Cross, Bill Hess, Steve Dillard, Adam Petz, Mike Pisciotte, David Nickel, and Diana Edmiston. Dialogue between the oil and gas industry and the transmission line companies continues. In the meantime, KIOGA members are encouraged to carefully scrutinize any notices they might receive for easements affecting their operations or

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July is a special month for many Americans. Most of us will eagerly take a break from our busy summer schedules to once again celebrate Independence Day. There will be much fanfare with fireworks, parades, picnics, and other patriotic events celebrating our country’s independence from Great Britain in 1776. But when the festivities have ended, only a few will have reflected upon the true meaning of independence and the role it has played in shaping our nation’s character.

Our founding fathers made it clear in the Declaration of Independence that all men were entitled to certain unalienable rights. Among those rights are life, liberty, and the pursuit of happiness. It is easy to take for granted those rights and freedoms we share as Americans. However, it is important that we understand and appreciate the hard work and sacrifice that our forefathers made in order for us to enjoy the luxury of freedom. Freedom and independence are cornerstones in the foundation of our country’s heritage. The independent ideology of the American people is a fundamental element of our society and a key to our nation’s prosperity. We must protect that independence at all cost.

One important freedom we must protect is our free enterprise system. American business, and certainly the oil and gas industry, was founded upon the ideology of independence and free-market principles. Those principles allow business to be governed by the laws of supply and demand without government interference and excessive regulation. The dynamic free market has led to innovation and wealth creation, and has established an economic environment where hard work is rewarded.

But now, amidst economic turmoil, it seems free-market capitalism and independence are under attack. Government’s heavy-handed intervention into businesses and industries is unprecedented. It is alarmingly obvious that the increased governmental control is dragging on the economy. Where will it stop?

The oil and gas industry is always in the crosshairs of government, and it is certain that they will sharpen their aim as gasoline prices remain high. Even when our industry is on its knees in recession, we are constantly battling excessive environmental regulation, drilling restrictions, and crippling taxation to fund politically expedient, yet questionably viable, alternative energy programs. Furthermore, the administration’s proposal to repeal our most critical and longstanding tax provisions would have a devastating impact on small independent oil and gas producers. Even if those regulations and tax proposals became law, the revenues would not come close to satisfying the President’s and Congress’ appetite for bigger government.

In his 1946 Independence Day speech, John F. Kennedy said, “Eternal vigilance is the price of liberty.” Those words were never so true. Being mindful of the erosion of our independence and free-market system through excessive regulation and government interference cannot be over emphasized. We must, now more than ever, remain steadfast in our resolve to protect and preserve the precious independence that has molded our nation’s character.
Five Inductees Honored
By Kansas Oil & Gas Hall of Fame and Museum

Five men who cut new trails into the oil and gas industry were inducted into the Kansas Hall of Fame on April 16th at the Highland Hotel and Convention Center in Great Bend, Kansas. Theirs are a story of daring talent, of dedication to an idea, even if the odds were great, and of the unshakeable belief that, in America, all things are possible. The triennial awards banquet honoring the inductee’s accomplishments drew a crowd of nearly 400. The banquet included entertainment, dinner, a keynote address provided by KIOGA President Edward Cross, and comments from the honored inductees or their representatives.

The honorees joined 71 other icons of the Kansas oil and gas industry already inducted into the Kansas Hall of Fame since its inception in 1989. Sponsored by the Kansas Oil & Gas Museum Foundation of Great Bend, the Hall of Fame honor is awarded to members of the Kansas oil and gas community who are selected through a nomination process. Recipients are chosen for their dedication to, and participation in, the betterment of the Kansas oil and gas industry, as well as for their involvement and service to church, school, and other civic organizations. The 2011 award inductees were:

Grady Bolding, Jr., Grady Bolding Corporation, Ellinwood, Kansas - Grady began his work in the oil and gas industry in 1950 with The National Supply Company in Shreveport, Louisiana. From 1955 through 1967, he was employed by Tretolite Chemical Company in Magnolia, Arkansas and Great Bend, Kansas serving as district manager. In 1967, he helped form Gordon Lab, Inc. in Great Bend. The firm developed and sold chemicals to the oil and gas industry and Grady served as director, Vice President, and sales manager. In 1980, Gordon Lab was sold and Grady moved on to form his own oil and gas producing company, Grady Bolding Corporation, in 1981. The company has offices in Ellinwood and Ellis County. The company continues to operate today, with Grady serving as the President. The company has grown through drilling and development and acquisition of existing production. Grady Bolding Corporation today operates 155 wells in central Kansas. Grady has been a member of API for 50 years and a member of KIOGA for 53 years.

Marvin Ratts, Shields Oil Producers, Russell, Kansas - Marvin served in the U.S. Army during World War II. After being discharged from the Army at the end of World War II, he had his first experience in the oilfields with a roughneck crew from Atlantic Refining Company of Great Bend. While working as a roughneck, Marvin attended Kansas State University earning a Bachelor of Science in Geology in 1950. He began working for Dowell in Ulysses, Hugoton, and Great Bend and was later transferred to Russell. He worked for Dowell until 1956. In 1956, he joined Shields Oil Producers in Russell developing prospects and doing well site work. During his time with Shields, the company operated approximately 50 leases in central Kansas. Marvin developed secondary recovery waterflood projects for Shields in the late 1950’s. During that time, Shields was one of the few independent producers which were involved in waterfloods.

Wayne Woolsey, Woolsey Operating Company, Wichita, Kansas - Wayne was in the U.S. Air Force from 1950-1953 but was also able to complete a degree in business administration from the University of North Texas during that period. In 1955, Wayne attended Texas A&M University to study geology. Upon receiving his masters degree in geology from Texas A&M in 1958, Wayne joined Texaco, Inc. During his tenure with Texaco, Wayne was stationed in Midland, Texas, Wichita, Kansas, and Columbus, Ohio. During his 10 years with Texaco, he was involved with drilling several 25,000 feet wells in the Delaware Basin. He was also charged with keeping 40 rigs continuously operating. After 10 years with Texaco, he joined Mull Drilling Company in Wichita for a year and then worked for Zenith Drilling Company for a year before starting his own company in 1970. From 1970 to 1977, Woolsey Operating Company operations were primarily through joint ventures. In 1978, Wayne formed Woolsey Energy Corporation, the parent of Woolsey Companies that own 100% of Woolsey Operating Company, American Pipeline Company, Bluestem Gas Marketing, and Red Hills Well Service. From 1971 through 2010, Wayne and his companies have drilled or participated in excess of 800 wells. Woolsey Operating Company operates over 400 producing wells and manages the company’s interest in an additional 100 non-operated wells in Kansas, Oklahoma, and Texas. American Pipeline Company operates 350 miles of gas gathering pipeline, currently delivering 20 MMCFGPD to downstream markets.

Rodney Keith Sweetman, Sweetman Drilling, Wichita, Kansas - Rodney Keith Sweetman, known to most as “RK” grew up in the oilfields following his father, TD “Dutch” Sweetman of Great Bend. Following high school, RK served as a motor pool mechanic in the U.S. Army and later attended Wichita University, now known as Wichita State University, earning a degree in mechanical engineering. In 1962, RK and his father formed Sweetman Drilling. Sweetman Drilling started with one rig and later operated two rigs for several years with an office in Wichita and an equipment yard in Pratt. RK used his engineering skills to customize his equipment and Sweetman Drilling’s rigs were always kept immaculate and in good working order. RK often bragged that he was the first to have heating and air conditioning in his doghouse. RK loved KIOGA because of the business.
Inductees. continued from page 9

and social aspects of the organization. RK passed away on August 12, 2006. He was well-respected in the oil and gas industry. Rodney “RK” Sweetman loved his work and loved the oil business.

Red Moffat, Sun Cementing, Great Bend, Kansas -

James W. “Red” Moffat was active in the oil and gas industry for 50 years. University of Kansas basketball coach “Phog” Allen recruited Red to play basketball after high school. While working in Lawrence the summer before he started school, University of Wichita coach convinced Red to play basketball at Wichita University instead. Red did so and graduated with a Bachelor’s Degree in Geology. Red began his career in the oil and gas industry by working for Halliburton Oil Company. Red worked for Halliburton until he became a partner in a start-up oil field service company, Sun Oil Well Cementing Company, Inc. in 1945. Through Red’s example, a sense of pride in the company and a strong commitment to customers was instilled in the employees at Sun Cementing. In 1945, Sun Oil Well Cementing Company, Inc. operated out of Plainville and Hays. By the early 1950’s Red expanded operations to include not only cementing of oil and gas wells, but also drill stem testing and temperature surveys and had equipment in Plainville, Hays, and Great Bend. By the 1970’s, Red had moved equipment and operations to several locations including Hays, Great Bend, Oakley, and Medicine Lodge. For about 12 years, Red operated a complimentary service company, Sun Mud Company, which sold additives for drilling fluids. Sun Oil Well Cementing Company was sold to Hughes Tool Company in the early 1980’s, when it was operated as a division of B.J. Hughes. After a number of transitions, it is today a part of Allied Cementing Company, Inc. James W. “Red” Moffat passed away on August 17, 2004. Red was known for his leadership, hard work, business skills, and integrity.
Oil and gas producers and service company representatives converged on Russell for the KIOGA Midyear Meeting on April 21st-22nd. The meeting, held at the AmericInn Lodge, was a resounding success blending informational plenary sessions with tours of the Diamond S. Vineyard & Winery, White Energy Ethanol Plant, and Oil Patch Museum. The meeting attracted top industry executives, industry professionals, legislators, and governmental officials from across Kansas. The Midyear Meeting Committee consisting of Tim Scheck, Dan Schippers, John Farmer IV, Tom Casey, and Rick Cross organized an outstanding meeting. Also, the hard work and tireless effort of Kelly Rains made the event proceed without a hitch.

The meeting attracted over 200 participants! The meeting also saw 29 exhibitors participate with indoor and outdoor exhibits demonstrating some of the new products and services available to the oil and gas industry. Plenary sessions provided value-added features including a presentation by Ron Cook of Sullivan & Cook, Alan DeGood of American Energies Corporation, and Dave Dayvault of Abercrombie Energy, LLC examining ad valorem tax value issues. Edward Cross, KIOGA President, summarized the value of KIOGA membership underscoring how the Association provides individual members a substantive, united voice. Cathie Thorpe, KOGRF Education Coordinator, provided a seminar for preparing petroleum professionals for delivery of energy education curricula to Kansas schools. The KIOGA Board of Directors Meeting allowed participants to hear first-hand about the latest advocacy, public relations, and business development efforts KIOGA has been involved in to help build Kansas oil and gas businesses and industry.

The evening event included an excellent steak dinner from Meridy’s Restaurant and an exciting Casino Night entertainment. On April 22nd, a golf tournament was held at the Russell Golf Course and a Sporting Clay Tournament was held at LaSada Sporting Clays.

The event captured the attention of several federal and state officials including Kansas 1st District Congressman Tim Huelskamp, State Senators Terry Bruce (R-Hutchinson) and Allen Schmidt (D-Hays) along with State Representatives Don Hineman (R-Dighton), Joe Siewert (R-Pretty Prairie), Bill Wolf (R-Great Bend), Larry Powell (R-Garden City) and Eber Phelps (D-Hays). Also participating in the meeting were special guests Doug Louis, Kansas Corporation Commission Oil & Gas Conservation Division Director, Susan Nickerson, Kansas Department of Commerce, Lynn Kent and Margo Rangel from the Kansas Department of Revenue, Gerry Baker, Associate Director of the Interstate Oil & Gas Compact Commission (IOGCC) and Kathy Mitchell, President of the Kansas Society of Certified Public Accountants.

In an effort to strengthen our Association, KIOGA kicked off a major membership drive during the 2011 Midyear Meeting. We encouraged members to bring non-members with them to the Midyear Meeting and offered a seminar describing the efforts KIOGA makes to help our members build their business. The effort was very successful as 24 new members joined the Association during the Midyear Meeting with many more joining in the days following.

The 2011 KIOGA Midyear Meeting offered excellent networking and educational opportunities. Meeting participants learned about key developments in the oil and gas industry and prepared for the challenges ahead.

KIOGA sincerely thanks our members, sponsors, exhibitors, and attendees for making the 2011 KIOGA Midyear Meeting a resounding success!
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The Kansas independent oil and gas industry has an outstanding talent pool that includes experts in a variety of technical specialties. The diversity of thought contributes powerfully to the advancement of KIOGA’s goals. Over the past several years, KIOGA has achieved nearly all of our legislative priorities and the 2011 Kansas legislative session was no exception. We achieve our goals because we have the corporate values and human capital essential to the success of any major enterprise. We have skilled and dedicated oil and gas industry professionals and talented leadership who volunteer their time and efforts. Leveraging our industry’s intellectual capital and leadership is a major driver of our success. The following KIOGA members are some of the many who gave a little extra for the oil and gas industry during the 2011 legislative session:

Dick Schremmer
David Nickel
David Bleakley
Dave Dayvault
Steve Dillard
Diana Edmiston
Dennis Hedke
Bill Hess
Stan Jackson
Dwight Keen
Dan Kelly
Jeff Kennedy
Richard Koll
Ray Merz
Ed Nemnich
Cecil O’Brate
Adam Petz
Emma Richmond

We have learned many things over the past several years. One of the most important things we have learned is that we can accomplish more than we realized was possible. So, we advance in the name of the industry pausing to acknowledge and recognize the accomplishments of the industry leaders named above and to those we may have missed or who we are not aware. To you our gratitude and we say Thank you!
In Kansas, Energy Equals Opportunity. In fact, Kansas is a top-10 producer of both oil and natural gas. We not only have abundant natural resources, we have decades of experience in advanced drilling methods and a strong, trained workforce ready to produce the energy America needs. 85% of Kansas counties produce oil and natural gas and these local resources support nearly 30,000 jobs statewide. Providing jobs for our state and energy of our nation – helping to keep Kansas Strong.
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(The undersigned applies for New Membership)

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COMPANY:________________________________________________________________________________________________

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