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Kentucky Oil & Gas Association

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FROM THE PRESIDENT

Next June, I will complete my two-year term as president of the Kentucky Oil & Gas Association. With six months left, I have started to look back on what we have accomplished–not only during my term, but in the past several years.

In 2010, KOGA launched a comprehensive strategic vision process that produced a wide-ranging roadmap for the association's future. We set a high bar for what we want from KOGA: an active and engaged, member-oriented voice for the industry in Kentucky. As I look back, I am happy to inform my colleagues that we are well on our way to realizing that vision.

My time as president corresponded with the strategic plan's implementation phase. Our rapid progress stems from a collaborative commitment from our Board of Directors and the strong leadership of past presidents. We quickly recognized that the transformational goals we were setting for KOGA would be realized only if everyone "rowed together." Seeing the board and our membership come together to make the vision a reality will be among the most rewarding memories I take away from my time as president.

Among the many accomplishments KOGA realized in 2013, the most important was releasing our first industrywide economic impact research. Compared with other states, the numbers may seem small. However, from the standpoint of communicating with Kentucky's policymakers, industry allies and the broader stakeholder community, the research represents a breakthrough. We are a $1.1 billion industry and more than 9,000 Kentuckians work and invest in oil and gas. In a time of tight state budgets, revenues from oil and gas actually have increased during the past three years.

Ninety-eight percent of Kentucky's natural gas production is in the Appalachian Basin of eastern Kentucky. This region's economy has been decimated by the loss of more than 4,000 coal jobs. While our industry is not positioned to fill the tragic employment void, Kentucky's operators in the region still provide many good, well-paying jobs for their skilled employees.

In western Kentucky, production remains steady. Kentucky industry-watchers continue to monitor things unfolding across the Ohio River in Illinois. KOGA put on several technical programs that focused on the Lower Mississippian Carbonate and New Albany Shale.

Regulatory Excess

Like everyone else, Kentucky's industry found itself dealing with a new set of regulations that traditionally had little, if any, relevance to oil and gas operations. The new source performance standards air quality regulations for storage vessels required a major time investment from KOGA's Technical & Regulatory Committee. We also have been paying very close attention to the Clean Water Act 404 regulations working through the Office of Management and Budget, and keeping tabs on the possibility that Kentucky could see as many as 40 new species listed for protection under the Endangered Species Act.

Independents continue to constitute the overwhelming majority of Kentucky operators. These mom-and-pops obviously lack dedicated environmental compliance staff and typically cannot afford to hire outside consultants. On the industry's behalf, KOGA has been at the forefront, evaluating these new regulations' complicated requirements and providing educational opportunities so our membership can develop compliance strategies.

Along those same lines, the reduced emission completions requirements known as "green completions" still loom. As I shared last year, vertical well stimulations in Kentucky are almost exclusively nitrogen fracs and, therefore, will not be able to meet the new rules' flaring requirements.

This points to a troubling trend from federal regulatory agencies: one-size-fits-all regulatory requirements. The U.S. Environmental Protection Agency is in largely uncharted waters, aggressively regulating oil and gas without considering important regional differences. The EPA's original green completion rule proposal clearly was aimed at overpressured reser-

voirs such as the Marcellus and Utica shale plays. Without the necessary well treatment distinctions for low pressure reservoirs, Kentucky operators face cost prohibitive compliance options.

KOGA has been fortunate to join with the Independent Petroleum Association of America and a coalition of other state associations to get a place at the table as the EPA prepares to reconsider the rule. By coming together with larger state associations and industry players, Kentucky has a voice that potentially could grant our operators the necessary relief from these technically unfeasible regulatory requirements.

The U.S. oil and gas industry is stronger when we recognize that much of our strength is based on regional diversity and collaboration between large and small producers. For example, small producers benefit from the research and development in which only large corporations can invest, and we depend on the relationships large companies cultivate in Washington to carry the message on critical tax issues such as those dealing with intangible drilling costs and percentage depletion.

At the same time, large operators benefit from the relationships that smaller operators have cultivated through the multigenerational commitments we have made in our communities and with state and local leaders. In the face of motivated activists working state by state to vilify hydraulic fracturing, small operators' community connections are indispensable.

Without question, there are issues that divide us. We cannot, however, allow those issues to keep us from working together toward mutually beneficial goals. That is how we came together at KOGA to put our association on a new and exciting path forward. We must continue to recognize that large and small operators supporting one another is our entire industry's most effective way forward. ❐