

RESTORING THE AMERICAN DREAM



2017 ANNUAL REPORT

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FROM THE CHAIRMAN

We've all heard it — disparaging comments about our industry, mislabeled as "Big Oil" and falsely depicted as large, faceless corporations. But the backbone of our industry doesn't wear suits and ties. They are hardworking men and women who wear coveralls and hard hats.

Now, more than ever, our companies must share the compelling story of economic freedom for a diverse workforce where, regardless of educational level, workers have access to quality middle class careers.

This year's report is dedicated to our oil field employees. The men and women who work day in and day out to drill and operate the wells and then put the oil in the tank. Many of these workers have been part of our industry for decades. Most have powerful stories about what they have been able to accomplish and what their careers in the oil industry have meant for them, their families and their communities.

When anti-oil activists attack our industry, their attacks don't just hurt the industry or a particular company. More than anything, these attacks hurt the dedicated oil field workers and their families by putting their financial security in jeopardy. Many recent hires to our industry came from jobs that left them living paycheck to paycheck. It would be devastating for any of our workers to lose their jobs due to the actions of activists or policymakers.



"The testimony of our workers will send a crystal clear message to the lawmakers who talk about creating a prosperous middle class but often fail to realize that the job-killing policies they adopt hurt the very families they want to help."

Employees of CIPA companies speak with pride of quality careers in the industry which enable them to build better lives for their families. Some of these milestones, achieved through hard work and dedication, include purchasing their first family home, seeing their child become the first in their family to graduate from college, or earning a good living when past life choices make it difficult to find employment with such generous wages and benefits.

Oil and gas industry workers not only take great pride in supporting their local communities but also want to become more involved by sharing their stories with those who make the rules and laws that can have such a profound effect on their future. The testimony of our workers will send a crystal clear message to the lawmakers who talk about creating a prosperous middle class but often fail to realize that the job-killing policies they adopt hurt the very families they want to help. They will hear first-hand that if they allow overregulation and anti-oil zealots to kill oil and gas jobs, there are few, if any, career opportunities with the same level of compensation. In Kern County, typical oil field workers earn about \$80,000 annually, which is about double the average compensation for all jobs in Kern County.

CIPA will continue to do effective advocacy work within the state and federal legislative arenas by addressing our members' concerns, and defending their livelihood and that of their employees and families in the never-ending battle with the anti-oil activists inside and outside of government. In order to succeed, we must bolster this effort by helping CIPA communicate the real-life impact of policies that threaten California's energy independence and, just as importantly, the financial well-being of our dedicated workers and their families.

A handwritten signature in blue ink that reads "Stephen Layton".

Stephen Layton
CIPA Chairman
President, E&B Natural Resources

2017 Executive Committee

Chairman	Stephen Layton	E & B Natural Resources Management
Treasurer	Gregory Brown	Breitbart Energy
Secretary	Michael Gooding	San Joaquin Facilities Management
CO Vice President	Larry Huskins	Venoco, Inc.
LA Vice President	Chris Hall	Drilling & Production Co.
NC Vice President	Rod Eson	Foothill Energy LLC
SJ Vice President	Trent Rosenlieb	Berry Petroleum
LA Division	Christine Halley	Sentinel Peak Resources
At Large	Hormoz Ameri	Naftex Operating Company
At Large	Craig Barto	Signal Hill Petroleum
At Large	Sean Brake	Seneca Resources Corp.
At Large	Scott Corby	Aera Energy LLC
At Large	Donald Macpherson	Macpherson Energy Corporation
At Large	Charles Weiss	California Resources Corporation
Ex-Officio Member	David Kilpatrick	Kilpatrick Energy Group
Ex-Officio Member	Rock Zierman	CIPA

A special thank you...

CIPA extends its gratitude to the outgoing members of the 2016 Board of Directors who generously donated their time to serve in leadership roles. CIPA is a stronger organization thanks to your contributions:

- **Robert Booher**, Robert A. Booher Consulting
- **Bob Devine**, DMC Oil Marketing
- **Steve Rusch**, Freeport-McMoRan Oil & Gas
- **Mac McFarland**, McFarland Advisors, Inc.

In Remembrance...

of longtime CIPA supporter Robert A. Booher, principal of Robert A. Booher Consulting, who passed away in April 2017 after a battle with gastric carcinoma. In 2013, CIPA honored Bob with the Lee McFarland Award, bestowed annually by CIPA's membership to an Associate Member who contributed to the viability of California's independent crude oil and natural gas producing industry. The award recognized that Bob had faithfully served both the industry as a whole and CIPA in particular. As a board member and CIPA booster, Bob worked hard to make the association thrive.

2017

Board of Directors

BOARD MEMBER	MEMBER COMPANY	BOARD POSITION
Alan Adler	ABA Energy Corporation	NC Division
Hormoz Ameri	Naftex Operating Company	At Large
Craig Barto	Signal Hill Petroleum	LA Division
Bruce Berwager	Beta Offshore	At Large
Sean Brake	Seneca Resources Corp.	At Large
Gregory Brown	Breitbart Energy	LA Division
Bill Buss	Termo Company	At Large
Brad Califf	Longbow, LLC	SJ Division
Charles Comfort	TRC Operating Company, Inc.	At Large
Steven Coombs	Patriot Resources LLC	Coastal Division
Jeff Cooper	Cooper & Brain, Inc.	LA Division
Scott Corby	Aera Energy LLC	At Large
Brad DeWitt	Summit Energy, LLC	At Large
Joe Eller	Holmes Western Oil Corporation	At Large
Stanford Eschner	Trio Petroleum LLC	SJ Division
Rod Eson	Foothill Energy LLC	NC Division
Guy Evangelista	Bank of Oklahoma	Associate
Michael Gooding	San Joaquin Facilities Management	At Large
Joseph Grigg	American Energy Operations, Inc.	At Large
Chris Hall	Drilling & Production Co.	LA Vice President
Christine Halley	Sentinel Peak Resources	LA Division
Chad Hathaway	Hathaway LLC	At Large
Larry Huskins	Venoco, Inc.	CO Vice President
Derek Jones	Vern Jones Oil & Gas Corporation	NC Division
Johnny Jordan	Matrix Oil Corporation	At Large
Kristen Kang	Commercial Global Insurance Services of California, LLC	At Large
David Kilpatrick	Kilpatrick, David – Royalty Owner	Ex-Officio Member
Stephen Layton	E&B Natural Resources Management	At Large
Larry Lorenz	Ensign United States Drilling	At Large
Donald Macpherson	Macpherson Energy Corporation	SJ Division
Ryan Nielsen	Brown Armstrong Accountancy Corporation	At Large
Jerry Reedy	Reedy Family Partnership	NC Division
Wolf Regener	R & R Resources, LLC	Coastal Division
Dean Robinson	Baker Hughes	At Large
Tracy Rogers	Capitol Oil Corporation	NC Division
David Rose	Freeport-McMoRan Oil & Gas	Coastal Division
Trent Rosenlieb	Berry Petroleum Company	SJ Division
Joe Selgrath	EnviroTech Consultants Inc.	At Large
Clifton Simonson	BFLP (Bentley Family Limited Partnership)	Coastal Division
Jeff Smith	Maranatha Petroleum, Inc.	SJ Division
Kevin Tougas	Long Beach Gas & Oil	LA Division
Charles Weiss	California Resources Corporation	SJ Division
Rock Zierman	CIPA	Ex-Officio Member

ABOUT CIPA

Now in its 41st year, the California Independent Petroleum Association (CIPA) is a non-profit, non-partisan trade association representing approximately 450 independent crude oil and natural gas producers, royalty owners, and service and supply companies operating in California.

Since 1976, when the Independent Oil & Gas Producers Association merged with the California Independent Producers & Royalty Owners Association to form CIPA, the association has kept the political, regulatory, and public policy interests of independent oil and gas producers at the forefront of its agenda.

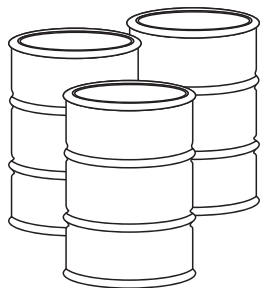
CIPA represents the diverse interests of its membership before the California State Legislature, the United States Congress, and numerous federal, state, and local regulatory agencies. The association is an advocate of free market principles, eliminating duplicative regulation, stimulating recovery of domestic resources, and educating the public about industry issues.

CIPA is governed by a 48-member Board of Directors. The board is comprised of producers, both large and small, from the L.A. Basin, San Joaquin Valley, Central Coast, and Northern California to ensure the association's policies are broad-based and reflect the interests of the state's producers as a whole.

In 2001, CIPA established the California Natural Gas Producers Association (CNGPA) as a wholly-owned subsidiary. CNGPA was established with the specific intention of increasing public awareness and addressing policy issues specific to the state's natural gas resources. The association is governed by an eleven-member Board of Directors.

CIPA

ABOUT CALIFORNIA OIL & GAS PRODUCTION



539,000
barrels of oil
produced per day

**Third
highest
in the
nation**

**Down
from
1 million
barrels
per day
30 years
ago**

All oil produced in California is used in California,
but it only accounts for **38%** of the state's demand for oil.

62% is imported from other
states or nations that do
not follow California's
strict environmental
protection laws.



75%
of the oil produced
in California comes
from Kern County

183 billion
cubic feet of natural
gas produced in 2015

2111 billion
cubic feet of natural
gas consumed in 2015

30%
of California's energy
source portfolio relies
upon natural gas

2/3
of California households
use natural gas for
heating.

60%
of the state's utility
electrical needs comes from
natural gas

\$55 billion
taxes paid to local,
state and federal
government

\$38 billion
in labor income

456,000
total jobs

3.4%
of the state's gross
domestic product

PROMOTING FEDERAL PRO-ENERGY POLICIES

A new administration in the White House has created new opportunities to educate federal officials about obstacles facing independent operators. CIPA's annual Federal Call-Up provides members an opportunity to meet in with key decision makers at the federal level.

Urging the U.S. EPA to continue working diligently on aquifer exemption application reviews was a top priority for the Federal Call Up. Delays could give anti-oil activists the opportunity to file lawsuits for what is essentially an artificial paperwork problem. Banning injection could result in problems for California's energy security by potentially halting up to 105,000 barrels of oil per day in production.



CIPA CEO ROCK ZIERMAN PRESENTS HOUSE MAJORITY LEADER KEVIN MCCARTHY WITH A PICTURE IN HIS CAPITOL OFFICE.



U.S. EPA ADMINISTRATOR SCOTT PRUITT RECEIVES A BRIEFING FROM CIPA CEO ROCK ZIERMAN ON CALIFORNIA EPA ISSUES.



Another point of discussion was the ongoing push to protect economic relief for small producers through key tax provisions such as percentage depletion.

An emerging issue of concern that CIPA lobbied against is a pending loan between a Venezuela state-owned oil company that has refining assets in the United States and a Russian oil company that is under U.S. sanctions. Venezuela's oil company owns refining facilities in the U.S. which refine the medium and heavy sour crude from foreign sources. If Venezuela defaults on the loan, which experts say is likely, then Russia would effectively have control over 749,000 barrels per day of U.S. domestic refinery capacity and infrastructure. This obvious threat to U.S. energy security has an environmentally-friendly solution: increase domestic production. Domestic crude is light sweet oil and requires 20 percent less energy to transport and reduces refinery emissions by 60 percent.



The Federal Call Up included a meeting with Senator Cory Gardner (R-Colorado), who serves on the Senate Energy & Natural Resource Committee and is Chairman of the Energy Subcommittee. CIPA members also met with the Acting Director of the Bureau of Land Management as well as Congressional and Trump Administration senior staff.

Further bolstering CIPA's voice on a national level, CEO Rock Zierman serves on the board of the Domestic Energy Producers Alliance (DEPA). DEPA was founded by Harold Hamm, chairman and CEO of Continental Resources, and pioneer of developing shale recovery in the Bakken formation. Zierman has participated in DEPA events in Washington D.C. which has included meetings with Trump Administration officials, such as U.S. EPA Administrator Scott Pruitt, and key members of Congress, such as House Speaker Paul Ryan and House Majority Leader Kevin McCarthy.



STATE LEGISLATIVE ADVOCACY

The volume of legislation aimed at restricting domestic oil production has grown exponentially in recent years.

To combat these growing threats, CIPA has effectively engaged in educating lawmakers about upstream activities and built coalitions to stop the most egregious bills from becoming law.

The landscape of the Legislature constantly changes, thanks to term limits and the revolving door of lawmakers who leave the State Capitol for other public offices. Educating lawmakers about responsible oil and gas production, as well as the economic and environmental benefits of our industry, has become essential.



Bipartisan Legislative Dinner

Throughout the year, CIPA hosts a number of events to build relationships with lawmakers and to keep them informed about the unique needs of independent producers. The capstone event is the Bipartisan Legislative Dinner which is held each year new lawmakers are elected. CIPA brings together freshman lawmakers for a discussion led by veteran legislative leaders.

In 2016, former Assembly Speaker and San Francisco Mayor Willie Brown and California Republican Party Chairman and former Senate Republican Leader Jim Brulte joined together for a candid conversation about the need for lawmakers to get to know their colleagues in order to collaborate on stronger public policy. Newly-elected lawmakers who attended the 2016 event were:

- Asm. Dante Acosta (R-Santa Clarita)
- Asm. Anna Caballero (D-Salinas)
- Asm. Phillip Chen (R-Diamond Bar)
- Asm. Heath Flora (R-Modesto)
- Asm. Vince Fong (R-Bakersfield)
- Asm. Tim Grayson (D-Concord)
- Asm. Kevin Kiley (R-El Dorado Hills)
- Asm. Sharon Quirk-Silva (D-Fullerton)
- Asm. Randy Voepel (R-Santee)

State Call Up

Another key event is CIPA's annual State Call Up which includes roundtable discussions with lawmakers from across the state.

The event gives CIPA members the opportunity to engage in conversations with elected officials about the future of energy production in the state.



State Oil Symposium

CIPA hosts an annual oil symposium to educate elected officials about the challenges industry faces in California. This year, the event showcased a video that CIPA created as a new outreach tool. The video highlighted longtime workers who shared their testimony about what their careers in domestic oil production have meant for them, their families and their community. This year marked the 7th annual symposium and was well-attended by elected officials from both sides of the aisle:

- Sen. Tom Berryhill (R-Modesto)
- Sen. Steven Bradford (D-Compton)
- Asm. Phillip Chen (R-Diamond Bar)
- Asm. Steven Choi (R-Irvine)
- Asm. Kansen Chu (D-San Jose)
- Asm. Tom Daly (D-Anaheim)
- Asm. Vince Fong (R-Bakersfield)
- Asm. Jim Frazier (D-Oakley)
- Sen. Jean Fuller (R-Bakersfield)
- Sen. Cathleen Galgiani (D-Stockton)
- Asm. Cristina Garcia (D-Bell Gardens)
- Asm. Mike Gipson (D-Carson)
- Sen. Steve Glazer (D-Orinda)
- Asm. Tim Grayson (D-Concord)
- Asm. Chris Holden (D-Pasadena)
- Asm. Kevin Mullin (D-South San Francisco)
- Asm. Patrick O'Donnell (D-Long Beach)
- Hon. Leticia Perez, Kern County Supervisor
- Asm. Sebastian Ridley-Thomas (D-Los Angeles)
- Asm. Freddie Rodriguez (D-Pomona)
- Asm. Blanca Rubio (D-West Covina)
- Asm. Rudy Salas (D-Bakersfield)

Local Officials Oil Symposium

The state oil symposium has been such a success that a similar event was held last year in the Los Angeles basin aimed at local government officials.

More than three dozen city and state staff members attended CIPA's local officials oil symposium in 2016. CIPA Chairman and President of E&B Natural Resources Management, Steve Layton, discussed the unique nature of urban production in the Los Angeles basin.

Todd Stevens, CEO of California Resources Corporation, talked about the quality jobs the industry provides and how industry benefits local communities.



STATE LEGISLATIVE ADVOCACY



Assembly members Mike Gipson and Sebastian Ridley-Thomas provided insight from a state legislative perspective.

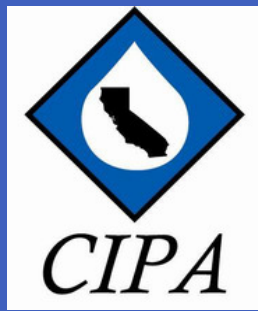


CIPA CEO Rock Zierman presented about the strict regulations industry must face at the local, state, regional and federal levels. Deputy Director of the Department of Conservation, Jason Marshall, gave a presentation about how his state agency regulates downhole operations.



Ed Hazard, of the National Association of Royalty Owners, discussed how strict regulations imposed by government agencies can impact the livelihood of royalty owners, many of whom are senior citizens and depend on the modest income to make ends meet in their personal budgets.

Following the presentations, local government officials had the opportunity to take a tour of operations at THUMS Islands.



2017 *PRIORITY LEGISLATION*

CHANGING REGULATORY SCOPE: Senate Bill 465 by Senator Hannah-Beth Jackson (D-Santa Barbara) falls under the guise of clarifying the job duties for the top regulator of oil and gas production. However, Sen. Jackson is a frequent critic of industry and has used this measure as a way to abolish the California Conservation Committee, a valuable advisory panel of technical experts to DOGGR. The bill would create in its place an advisory committee made up of 16 members, including “environmental justice” representatives with no oil and gas experience. The Conservation Committee advises DOGGR on technical issues related to oil recovery. Having unexperienced members would not serve the state well.

REQUIRING DUE PROCESS FOR ABATEMENT ORDERS: Assembly Bill 1328 by Assemblymember Cristina Garcia (D-Bell Gardens) originally gave regulators with the Air Pollution Control District (APCD) unbridled power to stop production. With engagement by CIPA and other members of the business community, amendments were made to the bill that would require the officer to make contact with an operator who they believe is violating an air regulation, state what the violation is and allow the operator to address the issue before any abatement order is issued. These improvements have changed CIPA’s original opposition to the bill.

IMPOSING UNREALISTIC REPORTING REQUIREMENTS: Assembly Bill 1132 by Assemblymember Monique Limón (D-Santa Barbara) would require operators to report chemical usage on per well basis and make this information available online. Previous legislation signed into law, SB 1281 (Pavley, 2014), requires operators to report every molecule of water used or produced. This voluminous data, which is expensive for operators to collect, crashed DOGGR’s website and state officials say only about a hundred people, including industry representatives and government officials, have accessed the information in the last two years. This measure appears to be another similar expensive mandate that could be a de facto production ban. CIPA is opposed to the bill.

MARKET CONTROLS TO ADDRESS CLIMATE CHANGE: A key legislative debate this year will center on how to renew the state’s complex Cap and Trade system, which is intended to use market forces for industry to comply with stricter greenhouse gas emissions requirements. The Governor has made it clear that he wants it done by the state’s fiscal new year in July and that it needs two-thirds approval of the Legislature to help offset litigation challenging how the original system was established. Assembly Bill 378 by Assemblymember Cristina Garcia (D-Bell Gardens) would only require a simple majority vote and is facing opposition from key constituencies including labor and the business community. Another proposal, Assembly Bill 151 by Assemblymember Autumn Burke, is still in development but is expected to be more balanced since it is being crafted in consultation with a wide range of stakeholders. CIPA is working to ensure that any Cap and Trade renewal proposal focuses on cost containment for permittees to make compliance as cost effective as possible. In particular, CIPA is working to ensure the creation of adequate “off-sets” which are emission-reducing actions companies can take on behalf of others outside the program when it is more cost effective than buying a credit. Currently, program participants are limited to meeting no more than 8 percent of their obligation using off-sets. If the program is truly about reducing emissions, such limitations do not make sense.

ORPHAN WELL MANAGEMENT CHANGES: Senate Bill 724 by Senator Ricardo Lara (D-Bell Gardens) would extend the time period to commence operations related to a DOGGR permit from the current one year to 24 months before the notice is deemed canceled. The bill increases the orphan well fund by \$3 million a year and also allows a city or county to enter into an memorandum of understanding with the state to abandon an orphan well. CIPA successfully requested that the bill provide a credit to be applied on idle well management plans when an operator exceeds their obligations on idle well management plans in any given year. That operator can deduct that credit from their obligation in a future year. Senate Bill 809, which cleans up idle well legislation from last year (AB 2729 – Williams), is expected to make positive changes by clarifying that active observation wells are not idle wells and deleting redundant reporting requirements. CIPA is also working with DOGGR to change SB 1281 water reporting requirements to a field basis, not well by well, which would save operators thousands of man hours of inputting useless data that serves no public benefit.

MANAGING COMPLEX REGULATORY REQUIREMENTS



Independent operators must follow an ever-changing landscape of regulations at the federal, state and local levels. CIPA educates regulators so they better understand the science behind oil recovery operations. Additionally, CIPA fights to ensure independent operators are treated equitably when these policies are developed and put into practice.

Kern County Oil & Gas Ordinance

To prevent anti-oil activists from suing state officials in lawsuits they would not defend, industry helped fund an effort to make Kern County, not DOGGR, the lead regulatory for oil activities. This streamlined process has been in effect since the end of 2015. This year, CIPA played a leadership role in negotiating reductions in the fees paid for minor rework activities; the lower fee schedule resulted in 32% savings for large producers and 25% savings for smaller producers.

Three lawsuits are underway challenging the local ordinance, two of which name CIPA as a party of interest. There will be hearings in June 2017 and rulings are expected later in the year.

Aquifer Exemptions

As a result of a bureaucratic paperwork mix-up, the state and federal officials have been reviewing the exemption boundaries for almost 50 California oil fields. The process has been underway since 2010. This year, state officials hosted a number of public hearings where CIPA testified in support of this environmentally-friendly treatment of produced water. When the state missed a self-imposed deadline, CIPA quickly sought legal remedies which protected more than 105,000 barrels of daily production. Only four applications have received final approval by state and federal officials. Nine applications are under review by the federal government. The state anticipates about the same amount to be sent to the federal government for review before this summer. More than half of the remaining applications are still under review by either DOGGR or the State Water Resources Control Board.

Central Valley Water Board

CIPA has been working for more than 2 years to lead the effort for a more equitable fee structure for the pond emergency surcharge. Last year, CIPA made significant progress in achieving savings for smaller operators. Recognizing the disparity in how the fees were assessed, the Central Valley Water Board (CVWB) has now proposed eliminating the surcharge. The new cost recovery structure will be spread out over all permitting fees under their new proposal.

This year, the CVWB also unanimously approved general orders for oil field discharges to land. During the process, CIPA provided testimony at public hearings and worked closely with water board staff during revisions of the final orders. In fact, the final version adopted many of the revisions lobbied for by CIPA. As the regulations move into implementation, CIPA will monitor that process closely and work with the CVWB to adopt any adjustments if they are needed.

California Air Resources Board

In the spring of 2017, the California Air Resources Board (CARB) adopted what is considered to be the toughest methane emissions regulation in the nation. CIPA had an open line of communication with CARB during the extensive rulemaking process and will continue that same level of engagement during the implementation process. CIPA reminded regulators that our industry is not the top methane emitter in the state. CIPA also urged CARB to provide ample time for implementation and ensure that the program is fairly and consistently enforced across the state.

CIPA also continues to work with CARB on a program, the Innovative Crude Methods program, which creates incentives for reducing carbon intensity under the state's Low Carbon Fuel Standard LCFS. LCFS credits are difficult and potentially expensive for refiners to obtain. The Innovative Crude Methods program makes solar installations in oil patches eligible to generate credits. CIPA also worked to ensure the program allowed solar co-ops amongst numerous producers utilizing the same solar facility.

Favorable Energy Rates

The E37 preferred PG&E rate for energy was established during the oil and gas market drop in the nineties and was being phased out as prices rebounded. However, lifting and acquisition costs have risen dramatically making much of California's in-state production non-economic. Given California's prevalence of heavy crude, which is energy intensive to produce, electricity is the single largest expense for many of our members. Adding the large increases in electricity rates will further undermine the economic viability of many in-state producers.

Because of these serious economic concerns that also threaten the state's energy independence, CIPA joined in PG&E's General Rate Case to request that the Public Utilities Commission and PG&E consider either halting the scheduled rate phase-out or develop a new schedule that addresses increased electricity costs. CIPA's proposal would save producers \$15 million over 3 years.

INDUSTRY ASSISTS AGRICULTURE DURING HISTORIC DROUGHT

New research underscores the benefits of produced water as a safe and reliable water source. It has been a particularly important resource during California's historic and prolonged drought, and helps ease pressure both on groundwater resources and sensitive ecosystems.

The California Forum for Leadership on Water Solutions (CalFLOWS) commissioned Brad Williams, Senior Partner and Chief Economist at Capitol Matrix Consulting, to study the economic contributions of beneficial reuse to both the oil and agricultural industries in Kern County, in addition to multiplier effects on the broader California economy.

Among the report's key findings were:

- \$860 million in annual economic output is generated from oil production tied to beneficial reuse.
- \$267 million in annual economic output is generated from agricultural production that relies on treated produced water.
- About 2,910 jobs, representing \$310 million in annual labor income, are directly and indirectly related to oil production tied to beneficial reuse.
- Another 1,450 jobs, representing \$71 million in annual labor income, are directly and indirectly related to agriculture production reliant on treated produced water.
- 21 million barrels of oil production per year, or 11 percent of California's total oil production, are tied to beneficial reuse.
- About 43,000 acre-feet of treated produced water is supplied annually to farmers in Kern County.
- About 12,400 acres of crops, worth approximately \$123 million in annual sales value, are irrigated with treated produced water.



REGULATORY AFFAIRS

Activists have called for a moratorium on this beneficial use of water. The study examined impact of this type of moratorium and found, "The loss of up-to 11 percent of the state's total crude oil production would likely raise California's dependence on crude oil from other countries to meet demand for gasoline and other refined petroleum products. This would leave the state more vulnerable to supply disruptions and, potentially, higher petroleum prices."



In the summer of 2016, California Independent Petroleum Association and the California Energy Research Center held a Water Symposium at CSU, Bakersfield. The event, titled, "Tackling the Drought: Exploring Safe, Innovative Water Sources," featured speakers from across the nation.

The day-long event was free and focused on the existing regulatory framework regarding the treatment of alternative sources of water, assessed the viability of using produced water in further alleviating the drought, and presented research and case studies on projects currently or previously underway in the region.

The event made at least one message clear — the oil and gas industry stands ready to aid in minimizing the devastating effects of the drought by using produced water for beneficial use.



California Natural Gas Producers Association

NATURAL GAS: THE CLEAN & AFFORDABLE CHOICE

Natural gas is a highly efficient form of energy due to its simple chemical composition consisting of one carbon atom and four hydrogen atoms (CH₄). Natural gas' advantages over other fuels include the following: it has fewer impurities, it is less chemically complex, and its combustion generally results in less pollution.

It is also affordable, abundant, and domestic. Households that use natural gas for heating, water heating, cooking and clothes drying spend an average of \$874 less per year than homes using electricity for those appliances.

The natural gas boom, made possible by responsible hydraulic fracturing, has cut U.S. emissions more than ten times as fast as solar power has.

In fact, according to the Manhattan Institute, natural gas has been more effective than solar in cutting greenhouse gas emissions (GHG). The fracking-led natural gas boom has cut U.S. emissions more than ten times as fast as solar power has. After peaking in 2007, U.S. carbon-dioxide emissions in 2014 were 1,022 million tons (Mt) lower than had they grown since 2007. Of that reduction, 19 percent came from a fuel shift toward natural gas for electricity generation. Only 1 percent came from the increased use of solar power.



Natural gas is used to make fertilizer for ethanol.



Natural gas is used to make hydrogen.

Hydrogen is used to eliminate soot for cleaner diesel fuel, as well as fuel for hydrogen vehicles.



Electric utilities use natural gas to generate clean power and to backup and supplement renewable sources when they are not producing.



Natural gas is a raw material that goes into lightweight cars, wind power blades, solar panels and energy-efficient materials.

SOURCE: AMERICAN GAS ASSOCIATION

BUILDING

PRO-ENERGY COALITIONS

The threats against domestic energy production extend beyond the legislative, legal and regulatory fronts with anti-fossil fuel activists attempting to pass far-reaching energy bans at the local level.

To combat these growing attacks, CIPA, along with the Western States Petroleum Association (WSPA), has overseen a statewide campaign called Californians for Energy Independence (CEI) for more than three years.

Through this effort, more than 200,000 Californians stand together in support of energy independence and lower energy costs.





CEI has helped voters and the media understand that oil and gas produced in California – under the nation’s strongest environmental protections – not only help state and local economies by providing quality jobs and vital tax revenue, but also reduce our reliance on oil imported from overseas.

Additionally, CIPA brought in Energy in Depth (EID) to counter efforts by fossil fuel opponents to influence the public and elected leaders. EID is a program started by the Independent Petroleum Association of America (IPAA) to bring forth fact-based evidence about oil and gas production.

THE DIVERSE STATEWIDE CEI COALITION INCLUDES LABOR, FAITH, EDUCATION, PUBLIC SAFETY, ETHNIC COMMUNITY, TAXPAYER, LOCAL GOVERNMENT AND BUSINESS GROUPS.

CEI supports state and local policies that allow for continued domestic energy production and opposes those policies – such as oil taxes and energy bans – that would hinder production and increase reliance on foreign oil.

The diverse statewide CEI coalition includes labor, faith, education, public safety, ethnic community, taxpayer, local government and business groups. CEI has also developed a strong presence on social media with more than 155,000 likes on Facebook and more than 16,000 Twitter followers.

To learn more about CEI, visit www.EnergyIndependenceCA.com.

Now a part of CEI, EID has been effective in representing industry’s point of view in the media with op-eds and letters to the editor appearing last year in statewide newspapers including the *Sacramento Bee* and *San Jose Mercury News*, as well numerous television and radio interviews.

In addition, EID has represented the industry at various local government meetings and other public forums, presenting the facts on the safety and success of domestic oil production.

On the EID website, www.eidcalifornia.org, more than 100 blog posts have been published on a variety of energy production topics.

ELECTING ***JOB-CREATING*** CANDIDATES

A vital component of protecting oil and gas jobs is ensuring those elected to serve in public office understand that a stronger industry will result in a stronger California economy.

For more than 20 years, CIPA has funded Political Action Committees (PACs) to help elect candidates at the federal, state and local levels who understand the necessity of meeting the vast energy needs of nearly 40 million Californians. In 2016, CIPA raised more than \$1 million in the election cycle, helping more than 100 candidates and campaign committees.

**IN 2016, CIPAC RAISED MORE THAN
\$1 MILLION IN THE ELECTION CYCLE,
HELPING MORE THAN 100 CANDIDATES AND
CAMPAIGN COMMITTEES.**

Recognizing the state's growing shift to electing Democrats to the Legislature, CIPAC has strategically supported candidates who are pro-free market and are running against liberal, big government, anti-energy opponents.



In August 2016, CIPAC hosted an event for the California Republican Party at Disneyland Resort attended by the Republican leaders of both legislative houses.

LEGAL VICTORIES

As anti-oil activists have ramped up their efforts to stop all oil production, legal battles have grown into a larger part of CIPA's overall mission to protect the best interest of our member companies.

These groups use frivolous litigation as a way to fundraise from their base even though their legal costs are minimized by using in-house and pro bono attorneys. CIPA members do not have that same luxury.

However, CIPA members recognized that these lawsuits cannot go unanswered, as that would give activists legal precedent to stop production in other jurisdictions. During an industry slump, CIPA members voted to raise a separate assessment on themselves to account for mounting legal costs. While this sacrifice was not easy, it has already paid off with numerous legal victories.

The courts have dismissed two lawsuits in the last 12 months, giving CIPA attorneys victories in Alameda County and in federal court. This is in addition to two other lawsuits where the courts sided with industry and forced the Center for Biological Diversity to pay some industry legal fees.

CIPA obtained a major legal victory last fall when the courts dismissed a lawsuit filed by the Center for Biological Diversity challenging the state's emergency regulations governing California's Underground Injection Control program and related issues for well stimulation oversight under Senate Bill 4 (Pavley, 2014). The courts sided with science and the facts by denying every single claim in the lawsuit and determining that state regulators acted in accordance with the law.

Earlier this year, the courts dismissed one of activists' most egregious examples of litigation abuse. A federal lawsuit filed by the "Committee to Protect Our Agricultural Water," accused industry, the Governor of California, state regulators and Kern County officials of conspiring to poison the State's drinking water supplies by allowing hydraulic fracturing practices to continue in California. This lawsuit sought hundreds of millions of dollars in damages and attorney's fees for violating the plaintiffs civil rights and for violation of RICO (Racketeer Influenced and Corrupt Organizations), a federal law originally designed to stop organized crime activity.

CIPA also continues to make positive strides in ongoing litigation against the city of Los Angeles (City) and anti-oil activists. Despite the court ordering the City and activists to work with CIPA to settle the lawsuit, the plaintiffs met behind closed doors to settle lawsuit last fall. At the same time the lawsuit was settled behind closed doors, the City announced onerous new regulations, which were developed in private without stakeholder input, that only apply to oil and gas operations.

After the new regulations were released, CIPA filed a cross-complaint to block the rules from taking effect. The plaintiffs tried to throw out the cross-complaint by using first amendment legal protections aimed at stopping retaliatory lawsuits. The courts sided with CIPA and threw out the plaintiff's meritless legal maneuver. The legal publication, the *Los Angeles Daily Journal*, wrote that Los Angeles Superior Court Judge Terry Green "voiced his displeasure throughout (the) hearing with the way the settlement agreement was executed. He questioned much of what the city and environmental attorneys said regarding applications. At one point he said, 'I think CIPA might have a shot here.'"



INVESTING IN OUR FUTURE WORKFORCE

CIPA and its member companies have been investing in programs to prepare students for careers in energy through the CIPA Energy Academy. The successful program began in the summer of 2016 and continues this summer.

CIPA, in collaboration with energy companies and school districts, implemented a first-of-its-kind program that placed students in a paid position to gain work experience and learn science, technology, engineering, and math (S.T.E.M.) skills.

CIPA visited high schools to expose students to the possibility of careers in the energy field. Students then participated in field trips to production facilities in the Los Angeles basin. The candidates from this pool were chosen to apply for the internship program.

The interns, who had recently graduated from high schools in San Diego and Santa Barbara Counties, were housed in dormitories so that they also experienced living in a college-like setting.

The rigorous selection process includes submitting essays and letters of recommendations as well as a panel interview conducted by CIPA and member company representatives.

Students rotate through a number of tasks such as changing out mechanicals in pumpjacks and running tests on crude at the cut shack before it goes to market.



NOVEMBER 11, 2017

CELEBRATING ENERGY'S HERITAGE

The 2nd Kern Energy Festival will be held this fall to celebrate our industry and educate the public on the positive impacts energy has on Kern County's local economy.

Seizing upon the success of the 2015 inaugural event, this year's festival will be held November 11, 2017, at the Kern County Museum in Bakersfield.

CIPA continues its role as a premier sponsor of the event with many CIPA members financially contributing as sponsors to help support this worthwhile event.

The festival is organized by CIPA Board Member Chad Hathaway and the Kern Energy Foundation Board and Committee.

More than 2500 people attended the 2015 Kern Energy Festival. The interactive and fun event was born from a desire to educate the community on local energy production in a celebration with food and drinks, fun activities, attractions, and exhibits for all ages.

More event details may be found at www.KernEnergyFestival.com.

PRESERVING CAREERS IN ENERGY

All net proceeds from the Kern Energy Festival go to educational charities to preserve learning for future generations.

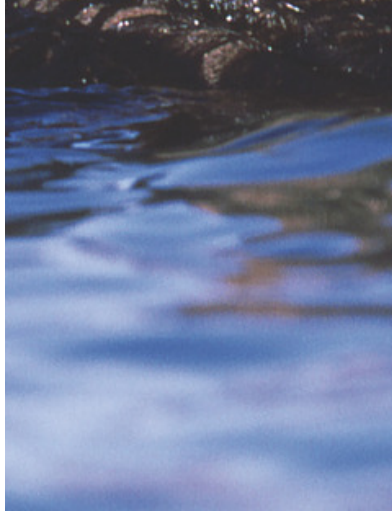
In 2016, thirteen graduating seniors at Bakersfield's Independence High School Energy Academy received scholarships totaling \$5,000 and instructors also used some proceeds to purchase science kits which high school students use when they visit local elementary schools to educate younger students about the importance of energy.



The Kern County Hispanic Chamber of Commerce was another beneficiary of the Kern Energy Festival and was awarded \$10,000 for their Energy Academy which provides scholarships for local college students interested in pursuing careers in energy.

During the four week course, students learn about all facets of careers in energy. The scholarship contribution helped the Kern County Hispanic Chamber of Commerce double the number of participants that they had in the previous year's successful program.

CIPA ANNUAL MEETINGS



NETWORKING & BREATHTAKING VIEWS

Offering one of our industry's best networking opportunities on the west coast, CIPA's annual meetings are held in some of the most scenic locations in the Golden State.

While the meeting's general session provides informative and engaging speakers, the four-day event also includes ample time to socialize with your colleagues in group activities.

The trade show will allow you to gain insight on industry trends and connect with new vendors.

The 2017 Annual Meeting is in Monterey. The year prior, the annual meeting was held in Napa. Usually scheduled for the second weekend in June, we hope that you will join us in 2018 in San Diego and in 2019 in Lake Tahoe.



**THE 2018 CIPA ANNUAL MEETING WILL BE HELD IN SAN DIEGO
THURSDAY, JUNE 7 - SUNDAY, JUNE 10, 2018.**

CIPA EVENTS CALENDAR

Visit www.CIPA.org and click on "Event Calendar" to see the current schedule detailing CIPA activities. The following list outlines the general time that regularly scheduled CIPA events are held:

- Early June: 1st Quarter Board of Directors Meeting/Annual Meeting
- Late August: 2nd Quarter Board of Directors Meeting
- Mid November: 3rd Quarter Board of Directors Meeting and CIPA Golf Tournament
- Early December: State Oil Symposium
- Late February: 4th Quarter Board of Directors Meeting/State Call Up
- Early May: Federal Call Up

Mark your calendars now for the set dates for upcoming CIPA events:

- August 24-25, 2017: CIPAC Event/4th Quarter Board of Directors Meeting, Pelican Hill Resort, Newport Beach
- November 11, 2017: Kern Energy Festival, Kern County Museum, Bakersfield
- November 16, 2018: CIPA Annual Golf Tournament, Bakersfield Country Club
- November 17, 2018: 1st Quarter Board of Directors Meeting, The Petroleum Club of Bakersfield
- December 7-8, 2018 (Tentative): State Oil Symposium, Pelican Hill Resort, Newport Beach
- June 7-10, 2018: 3rd Quarter Board of Directors Meeting/Annual Meeting, Marriott Coronado, San Diego
- June 6-9, 2019: 3rd Quarter Board of Directors Meeting/Annual Meeting, Resort at Squaw Creek, Lake Tahoe

AUDITED COMBINED STATEMENT OF FINANCIAL POSITION

Year ending July 31, 2016

Assets

Current Assets:	\$ 398,541
Cash and equivalents	\$ 225,558
Accounts receivable, net	\$ <u>10,844</u>
Prepaid expenses	\$ 634,943
Total current assets	
Fixed assets (office building), net	\$ <u>1,696,154</u>
Total assets	\$ <u><u>2,331,097</u></u>

Liabilities and Net Assets

Current Liabilities:	
Accounts payable	\$ 206,833
Accrued expenses	\$ 54,981
Deferred revenue	\$ 483,061
Current portion of long-term debt	\$ <u>51,902</u>
Total current liabilities	\$ 796,777
Long term debt (note on office building)	\$ <u>895,765</u>
Total liabilities	\$ 1,692,542
Net assets - unrestricted	\$ <u>638,555</u>
Total liabilities and net assets	\$ <u><u>2,331,097</u></u>



In 2013, CIPA purchased a 5,000 square foot office suite conveniently located one block from the State Capitol. The building is also a few blocks from the newly-built Golden 1 Center where the Sacramento Kings play. This downtown corridor is one of the most sought after locations. The area is currently under a major revitalization, which will only lead to growing property value for CIPA.



The asset has already proved to be a cost effective investment. 55 percent of the space is rented to tenants, which covers the interest cost of the building note and maintenance costs. The space is currently 100 percent occupied.

AUDITED COMBINED STATEMENT OF ACTIVITIES

Year ending July 31, 2016

Revenue:

Membership dues	\$ 1,524,986
Annual meeting	\$ 372,630
Voluntary assessments	\$ 269,882
Other revenue	\$ <u>88,174</u>
Total revenue	\$ <u>2,255,672</u>

Operating expenses:

Salaries and wages	\$ 803,466
Employee benefits	\$ 193,230
Payroll taxes	\$ 56,554
AB 32 issue	\$ 79,635
Accounting fees	\$ 19,999
Administrative services	\$ 38,861
Annual conference expense	\$ 175,120
Bad debt expense	\$ 29,441
Board of directors expense	\$ 25,767
Depreciation	\$ 19,621
Equipment lease and service	\$ 8,524
Insurance	\$ 5,264
Interest expense	\$ 16,409
Lobbying and legal fees	\$ 438,878
Meetings and meals	\$ 30,474
Membership communications	\$ 76,062
Office costs	\$ 18,790
Property tax	\$ 8,548
State and federal affairs, call-ups, environmental	\$ 177,343
Telephone	\$ 16,553
Travel	\$ <u>76,178</u>
Total operating expenses	\$ <u>2,314,717</u>

Income from operations \$ (59,045)

Other income and expense:

Rental income	\$ 64,480
LA city lawsuit income	\$ 264,135
Rental expense	\$ (81,183)
LA city lawsuit expense	\$ <u>(289,135)</u>

Change in net assets \$ (100,748)

Net assets, beginning of year \$ 739,303

Net assets, end of year \$ 638,555

CIPA Auditor: Fritzsche Associates, Inc., Sacramento, CA

CIPA CONSULTANT TEAM

Independent producers face unique challenges, so CIPA has retained experts to handle complex litigation, help navigate regulatory challenges - particularly with water and air - and advocate for members at the state and federal levels.

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In addition to CIPA's advocacy efforts during the past year, association staff has updated the employee handbook to reflect current changes in labor law, created an electronic welcome packet for new board of directors members and made progress in updating the association's by laws.

Using the directory below, please let us know how we can better serve you.

CIPA staff welcomes the opportunity to assist our members.

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