

September 1, 2006

The Honorable Elizabeth Ames Jones, Chairman  
The Honorable Victor Carrillo, Commissioner  
The Honorable Michael Williams, Commissioner  
Railroad Commission of Texas  
PO Box 12967  
Austin, TX 78711-2967

Dear Commissioners:

As you know, Texas Oil & Gas Association (TxOGA) is a statewide association with over 2000 members representing all facets of the oil and gas industry - from small independents to major producers and including over 92 percent of Texas' oil and gas production – from small gas gatherers to major gas transmission and oil trunkline operators and including a vast majority of the Texas' pipeline mileage and gas processing capacity – and over 95 percent of the state's refining capacity.

TxOGA's diversity of membership, which encompasses virtually all perspectives on exploration, production, and gas gathering, gives our association a unique objectivity with regard to the issues raised during the Commission's Study on Competition in the Texas Natural Gas Pipeline Industry.

TxOGA commends the Commission for its Competition Study which included workshops across the state along with the Advisory Committee report.

The workshops were helpful in obtaining direct feedback from affected parties of our industry. The workshops primarily showed the strong divergent opinions on the issues and a real lack of "facts" on possible abuses or retaliation in the Texas natural gas market.

The Advisory Committee established as part of the Commission's Study was able to take the feedback from the workshops and the other information provided them, along with the skills and backgrounds of each member, and apply an objectivity that has been lacking in many of the contentious areas of this debate. TxOGA believes that the Advisory Committee was able to develop a common understanding of the issues in their report because of communication – whereas the workshops highlighted a lack of communication (with some of the dialogue in Houston between a producer and pipeline providing the most powerful example).

The Advisory Committee's effort distilled the divergent views on these difficult issues into reasonable steps for the Commission to take that can deliver significant improvements in their processes. These steps will relieve many problems - both real and perceived - with regard to equity and competition in gas gathering, while not creating collateral damage to Texas' efficient "market-based" natural gas market.

TxOGA believes strongly that government regulations cannot be a substitute for proper business relationships that are founded on communication.

TxOGA supports the revisions proposed by the Advisory Committee and hope they will help give the parties more confidence to work out their issues before bringing them to the Commission for resolution.

The Advisory Committee report and recommendations aligns with TxOGA's recommended Key Principles for the Study that were:

- 1) regulate the process not the answer;
- 2) regulation or legislation must be based on facts not rumor;
- 3) parties should first attempt to resolve their problems before pursuing government assistance;
- 4) contract confidentiality as agreed to by the parties must be honored;
- 5) gathering and transportation is expected to be an economically viable activity, and
- 6) profitable wells and operators should not be required to subsidize uneconomic wells owned by others.

TxOGA supports the use of the Commission's Informal Complaint Process (ICP) as the most cost effective way for parties to work with the Commission and get to the real facts of a dispute and possible resolution. TxOGA has been supportive of ICP enhancements that:

- 1) make participation mandatory;
- 2) provide effective discovery for the staff;
- 3) require reasonable deadlines to complete the process;
- 4) where reasonable, require continued gathering services during ICP process, and
- 5) provide for meetings in the district offices for producer convenience.

TxOGA supports the Advisory Committee Report and recommendations which are very effectively crafted proposals that accomplish these enhancements.

TxOGA commends the Advisory Committee on its proposal to provide that prospective contracts and deals allow for the parties to agree on confidentiality. This is a wise and reasonable approach that honors existing contracts and allows "like minded" parties to continue to do so prospectively. This approach also provides those producers who feel strongly about this issue to exercise up front their choice to avoid this type of provision in their new contracts.

The Advisory Committee's make-up and focused effort allowed them the opportunity to peel back the complexity of the gas gathering business that was hinted at in the workshops in the differences of opinion on the topics. The Committee appears to have developed a set of recommended changes that will enhance the Commission processes while not damaging the unique operational components and flexibilities of services that have developed in the midstream industry, and which maintain some of the risk/reward structure that has aligned producer and gatherer interests.

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Again we thank you for this opportunity to present our views on these important gas gathering issues to the Commission. We also want to thank the members of the Advisory Committee for their commitment of time and effort on behalf of industry, and congratulate them on their report and recommendations which TxOGA supports without change. TXOGA encourages the Commission to adopt the Advisory Committee recommendations as its final proposal to the legislature in your November 1, 2006 report.

We look forward to working with you and others in industry as we move toward the development of regulations to implement the Commission report. Please contact me if you have any questions or require any additional information.

Sincerely,

Ben Sebree