



Jack N. Gerard
President and Chief Executive Officer

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Date: October 21, 2016

To: API Executive Committee
From: Jack Gerard
Re: Materials for October 27, 2016 Executive Committee Conference Call

The API Executive Committee will be meeting twice in the coming weeks – by phone on October 27 and in person at our Annual Meeting on November 14. Each of these meetings will focus on purposed discussions to ensure good governance and appropriate attention to the challenges facing our industry, particularly in light of current economic and political realities.

Enclosed please find the agenda and supporting materials for the API Executive Committee Conference Call scheduled for October 27 from 3:00 pm – 4:30 pm EDT. **To participate in the call please dial [REDACTED] conference code [REDACTED]** This call will focus on the following four matters:

- 1) Election of new Board members;
- 2) Candidates for 2017 API Officers, Executive Committee and Board of Directors;
- 3) Proposed 2017 Industry Priority Issues; and
- 4) Proposed 2017 Budget.

During our November 14 meeting on Amelia Island, we will focus our discussion on our evolving communications strategy, the impact of the Keep It in the Ground movement, and continuing to ensure we are leveraging all available resources in light of budget considerations. An agenda for that meeting and the supporting materials to accompany will be provided in the coming weeks following any direction received during our call on October 27.

Please do not hesitate to contact me if you have any questions regarding our meetings. Chairman Lance and I look forward to talking with you next week and seeing you on the 14th.

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AGENDA
AMERICAN PETROLEUM INSTITUTE
EXECUTIVE COMMITTEE CONFERENCE CALL

Thursday, October 27, 2016
3:00 p.m. – 4:30 p.m. ET

Dial In: [REDACTED]
Conference Code [REDACTED]

1. Welcoming Remarks
Ryan Lance, API Chairman and Chief Executive Officer, ConocoPhillips
2. Approval of Executive Committee Meeting Minutes (Attachment A)
June 8, 2016 Meeting
3. Nominations to the API Board of Directors (Attachment B)
Timothy J. Cutt, Chief Executive Officer, Cobalt
José Ignacio Sanz, President and Chief Executive Officer, Total E&P USA
4. Committee on Nomination approval of Candidates for 2017 API Officers, Executive Committee and Board of Directors (Attachment C)
5. Endorse 2017 Industry Priority Issues (Attachment D)
6. Endorse 2017 Budget (Attachment E)
7. Adjourn

**DRAFT MINUTES OF THE EXECUTIVE COMMITTEE MEETING
AMERICAN PETROLEUM INSTITUTE**

**Wednesday, June 8, 2016
1:15 p.m. – 5:00 p.m. (ET)
Newseum
Washington, D.C.**

The Executive Committee of the American Petroleum Institute (API) met at the Newseum in Washington, D.C. with the following members participating:

Ryan Lance, ConocoPhillips (Chairman)
Stephen Chazen, Occidental Petroleum Corporation
Bruce Culpepper, Shell Oil Company
Greg Garland, Phillips 66
Gary Heminger, Marathon Petroleum Corporation
John Hess, Hess Corporation
Paul Howes, Newpark Resources, Inc.
John Mingé, BP America, Inc.
Rex Tillerson, Exxon Mobil Corporation
Al Walker, Anadarko Petroleum Corporation
John Watson, Chevron Corporation
Jack Gerard, API

Others participating during the meeting:
Congressman Kevin Cramer (R-ND, at large)
Louis Finkel, API
Rolf Hanson, API
Rebecca Horton, API
Erik Milito, API
John Robertson, API
Linda Rozett, API
John Wagner, API

1. Welcoming Remarks

Ryan Lance, API Chairman and Chairman and Chief Executive Officer, ConocoPhillips, welcomed the members to the meeting and called the meeting to order.

2. Approval of the March 17, 2016 Meeting Minutes

The Executive Committee approved the minutes of the March 17, 2016 Executive Committee meeting.

3. Governance

- Election of New Members to the API Board of Directors and the API Executive Committee

Chairman Lance reported on several leadership changes among API Executive Committee and Board member companies: Bruce Culpepper succeeded Marvin Odum as President and U.S. Country Chair at Shell Oil Company; Steve Pastor replaced Tim Cutt as President, Petroleum, of BHP Billiton Petroleum; and David Rintoul, President of U.S. Steel Tubular Products, has succeeded Doug Matthews. Chairman Lance requested a motion for the Executive Committee, on behalf of the API Board of Directors, to elect these successors to the API Board of Directors and/or the Executive Committee for the remainder of their terms, effective June 8, 2016.

Action: The Executive Committee elected the successors to fulfill remaining terms, effective June 8, 2016.

- Temporary Delegation of Corporate Secretary Duties

Chairman Lance reported that Stacy Linden, API's Vice President, General Counsel and Corporate Secretary, is on maternity leave until mid-September. He noted that under the API bylaws, the Corporate Secretary may delegate her duties with the approval of the Board of Directors or Executive Committee and that API proposes temporarily delegating Stacy Linden's Corporate Secretary duties to John Robertson, API's CFO, until she returns from leave.

Action: The Executive Committee approved the temporary delegation of the duties of API Corporate Secretary from Stacy Linden to John Robertson, to be effective during Ms. Linden's maternity leave from API.

4. Annual Meeting Preparation

- Committee on Nomination

Chairman Lance explained that under the API Bylaws, the Chairman of the API Board of Directors shall appoint a committee comprised of API Board members to serve as the Committee on Nomination. The committee shall work with the API President and CEO to prepare a slate of candidates to serve as officers, members of the Executive Committee and Board of Directors for the ensuing year, i.e., 2017.

Following past practice, Chairman Lance appointed the API Executive Committee to serve as the Committee on Nomination. Jack Gerard, API President and CEO, will work with the Committee on Nomination this summer to prepare a slate of candidates for 2017 for the Executive Committee to review during its October conference call.

- **2016 API Gold Medal Award for Distinguished Achievement**

Jack Gerard announced that by a majority of the votes, the API Executive Committee has selected Mr. Stephen Chazen as the recipient of the 2016 API Gold Medal for Distinguished Achievement Award. The committee congratulated Mr. Chazen on his distinguished career and service to the industry.

5. API Finance Committee Report

Finance Committee Chairman Greg Garland reported that the 2015 API financial statements have been audited by API's independent accounting firm and have been reviewed by the Finance Committee. Total surplus funds of \$10.8 million, as reported to the Executive Committee in March, have been confirmed. \$5 million of this surplus was applied to reduce 2015 member dues; the remaining \$5.8 million is unallocated.

Mr. Garland reported that staff are continuing to look for savings opportunities and have identified \$4.4 million from the 2016 budget. API staff have prepared a \$16.7 million campaign budget to combat potential ballot initiatives in Colorado, should industry opponents succeed in gathering the required signatures by the August 9 deadline. API proposes funding the potential campaign by reprogramming \$10 million from the advertising and mobilization budgets, using the \$4.4 million 2016 savings and as a last resort, drawing down \$2.3 million of the \$5.8 million unallocated surplus.

Mr. Garland also noted that the Finance Committee reviewed the impact of current market conditions on API membership, with a net loss of 8 members having an estimated \$2 million impact on dues. He also reported that Global Industry Services is on track to meet its budgeted net revenue.

Mr. Garland indicated that the Finance Committee gave preliminary 2017 budget guidance to API staff during its meeting, suggesting that a “lower for longer” scenario may be necessary in light of market conditions. The committee requested that API look at the impact on production declines on membership dues as the budget is prepared. He also reported that although the API pension plan is fully funded under ERISA, the pension plan will pay an additional \$228,000 in variable rate premiums unless a shortfall of \$7.6 million is contributed to the plan by September 15, 2016 to meet the Pension Benefit Guarantee Corporation’s funding measurement. API continues to monitor the pension plan’s funding and has suggested that if the Colorado ballot initiative does not materialize, the committee may consider redirecting funds to make a contribution to the pension plan to reduce or eliminate the funding shortfall.

Action: The Executive Committee accepted the Finance Committee Report.

6. Strategic Considerations Update

- Current Outlook and Beyond

Mr. Gerard provided an overview of the current and future industry outlook and described API’s strategy for engaging on federal legislative activities, the regulatory arena and state and local opposition initiatives. The committee also discussed potential contingencies surrounding the November elections and their impact on API’s advertising strategy, the issues the industry may face and the API budget. With the increasing number of regulations that are pending or currently being implemented, the committee asked if API could share summary material to evaluate those with highest risk to industry.

Action: Per Executive Committee request, API will prepare and circulate a summary of regulations pending or currently being implemented.

- Climate Change

Mr. Gerard then summarized the history of the work of the API Climate Change Steering Committee prior to 2011 to establish an “evergreen” policy document. He indicated that mounting pressure from industry detractors to reduce GHG emissions has increased the likelihood that API will need to respond to broad climate policy proposals and suggests a review of current climate policies and positions is warranted. Mr. Gerard suggested that a task force be assembled to seek member company input on a review of API’s climate-

related policy documents. After discussion, the committee requested that Mr. Gerard circulate a one-page document on the scope of the proposed task force's work and suggested membership criteria. The members agreed to submit the names of nominees to Mr. Gerard and suggested that the task force membership should be broader than only the Executive Committee.

Action: Per Executive Committee request, API will propose a climate change task force, to which the Executive Committee will appoint nominees. API will look to include additional representatives from member companies outside the Executive committee.

- New Messaging

Linda Rozett, API Vice President, Communications, provided an update on the development of a new messaging campaign designed to reach a broader audience, including millennials. She described the results of six focus groups that tested four messaging platforms and noted that the Communications Committee was reviewing the results, with additional testing to follow. Ms. Rozett also indicated that API had also issued a request for proposal to several firms to identify a creative agency. She indicated that the development of the new messaging platform is scheduled to be completed by the fall for the Executive Committee's review and that roll out of the new messaging is anticipated in January of 2017. Ms. Rozett also discussed the recommendation of the Communications Committee to commit \$10 million to the upfront market for television advertising for the new campaign.

After discussion with the members, the committee agreed with API's approach to developing the new messaging platform and agreed with the recommendation for the \$10 million commitment to the upfront market for television advertising.

7. Guest Speaker: Kevin Cramer (R-ND, at large)

Congressman Kevin Cramer of North Dakota joined the Executive Committee for a discussion of the activities of the House Energy and Commerce Committee and the presidential campaign. He thanked the industry for its contribution to our country and noted the art of passing the crude export ban illustrates the workings on the separation of powers and making deals. He reported to the members that he put in motion the OPEC Commission Bill, noting that he wanted to put OPEC on notice that we are watching and want everyone playing by the same set of rules and price transparency. Congressman

Cramer also described his involvement with the Trump campaign and asked the committee members to consider what a Trump presidency would mean for industry in terms of short term executive orders, mid-term regulatory review and longer term legislative initiatives.

8. Other Business

- Upstream Health Effects Study

Mr. Gerard briefed the members regarding the status of the proposed upstream health effects study, reporting that the members of the Upstream Committee voted 10 to 7 against proceeding with the study and the request from several members to seek guidance from the Executive Committee. The Executive Committee members discussed the governance surrounding the issue, the sensitivity to being inclusive of the entire membership, and the concerns raised proceeding with the study. Two members who had originally abstained from voting agreed to reconsider and vote in favor of the study. The committee recommended rebaloting the issue with the Upstream Committee and asked Mr. Gerard to contact member companies as needed to address concerns raised.

- Colorado Ballot Initiative

Mr. Gerard described the potential series of statewide ballot initiatives that are currently being petitioned in Colorado and shared with the members how API is managing the matter through the Colorado Working Group and State Government Relations Committee. After a discussion of the various industry campaigns active in the state, the committee concluded that the campaigns should continue separately but encouraged collaboration where possible to minimize duplicative costs.

9. Adjourn

There being no further business, the meeting adjourned at 5:00 p.m.

Respectfully submitted,

John E. Robertson
Vice President, CFO & Acting
Corporate Secretary

ELECTION OF NEW MEMBERS TO THE API BOARD OF DIRECTORS

Issue: Whether the Executive Committee, on behalf of the API Board of Directors, should elect Mr. Timothy J. Cutt, CEO of Cobalt International Energy, L.P., and Mr. José Ignacio Sanz, President and CEO of Total E&P USA, Inc., to the API Board of Directors for the remainder of 2016, effective October 27, 2016.

Discussion: Mr. Joseph Bryant resigned as Chief Executive Officer of Cobalt International Energy, L.P., on June 1, 2016. Mr. Timothy J. Cutt was appointed Cobalt's new CEO. Given the depth of Cobalt's assets in the United States and its continuous engagement in API, API recommends that Mr. Cutt be elected to the API Board of Directors to serve the balance of Mr. Bryant's unexpired term, effective October 27, 2016.

Mr. Ricardo Darré, former President and Chief Executive Officer of Total E&P USA, Inc., recently left the company and was succeeded by Mr. José Ignacio Sanz. Given the extent of Total E&P USA, Inc.'s operations in the United States and the company's active involvement in API, API recommends that Mr. Sanz be elected to the API Board of Directors to serve the balance of Mr. Darré's unexpired term, effective October 27, 2016.

Action: The Executive Committee, on behalf of the API Board of Directors, elects Mr. Timothy J. Cutt, CEO of Cobalt International Energy, L.P., and Mr. José Ignacio Sanz, President and CEO of Total E&P USA, Inc. to the API Board of Directors for the remainder of 2016, effective October 27, 2016.

NOTICE TO API COMMITTEE ON NOMINATION REGARDING CANDIDATES FOR 2017 API OFFICERS, EXECUTIVE COMMITTEE AND BOARD OF DIRECTORS

Issue: Under the API Bylaws, the Committee on Nomination¹ is responsible for identifying and presenting to the API Executive Committee candidates to serve as API officers, at-large members of the Executive Committee, and members of the API Board of Directors. **Attachment C-1** is a proposed slate of candidates for these positions for 2017.

Background: The following positions must be filled for 2017:

- Officers

Under Article VI of the API Bylaws, four officers must be selected for the Institute for a one year term, beginning January 1, 2017: Chairman of the Board, Chair of the Finance Committee, President and CEO, and Corporate Secretary. The Chairman of the Board serves as the Chairman of the Executive Committee.

- Executive Committee

API's bylaws state that the API Executive Committee may have up to 14, but no less than 12, members of the Board, including the API Chairman of the Board and the Chair of the Finance Committee. The API President and CEO serves as an ex officio voting member.

Representatives of the annual top six dues payers shall always be members of the Executive Committee, with the remaining at-large members chosen from the remaining Board members. One member of the Executive Committee shall represent the API General Membership Committee.

Unless re-elected by the Board of Directors to remain on the Executive Committee, the six at-large members and the General Membership Committee member may be limited to two consecutive terms of one year each.

- API Board Committees

Two of the API Board Committees – the General Membership Committee and the Finance Committee – shall be chaired by a member of the Executive Committee. The Chairs of these committees, as well as the Chairs of the Upstream, Midstream, Downstream and Market Development Committees, must be endorsed by the Executive Committee for approval by the API Board of Directors. The Chair of the Center for Offshore Safety must be approved by the Executive Committee.

- API Board of Directors

The API Board of Directors shall consist of not less than 25 members and no more than 51 members. Only the highest ranking executive from a member company shall be elected to the Board of Directors. Members of the Board shall serve staggered terms of two years each; the two year term of office shall commence on January 1 following the Annual Meeting. The API President and CEO shall be the only ex officio voting member of the Board of Directors.

¹ API Chairman Ryan Lance designated the Executive Committee to be the Committee on Nomination in June 2016.

Discussion

API's membership has grown exponentially and diversified heavily over the past eight years. As Chairman Lance and Jack Gerard prepared for the October 27 Executive Committee call, they felt now may be the appropriate time to offer to the Committee on Nomination some thoughts for filling available seats on the Board of Directors and the Executive Committee, with the possibility of opening up an additional seat on the Executive Committee.²

Board of Directors: Currently, API's Board of Directors is comprised of 43 members; there are eight available seats. Chairman Lance and Mr. Gerard thought it may be important, given the diversity of the expanded membership, to put together a list of specific individuals for consideration and discussion by the Committee on Nomination during the October 27 call, along with any other individuals the committee may wish to add.

Five of the individuals proposed below represent former America's Natural Gas Alliance (ANGA) members who have joined API as a result of the API / ANGA combination. Offering them a seat on the API Board would send a strong signal of industry unity and encourage those companies to continue as API members once their dues adjust following the expiration of the two-year agreement under the combination transaction.

Three additional individuals whose companies are not API members are also offered for your consideration and discussion. These companies represent major industry players that would bring high value to the API as members. Chairman Lance and Mr. Gerard believe that being able to offer these potential new members a seat on the API Board subject to their joining API will go a long way to help encourage them to join the Institute. Their presence on the Board will help the Board to reflect the diversity of the expanded membership and promote awareness of the increasingly varied issues faced by the industry.

Accordingly, the following individuals have been added to the potential slate of Board nominees for discussion and consideration on October 27, subject to any other individuals the Nominations Committee wishes to propose:

Current Members

- Lee Boothby, Newfield Exploration Company
- John Christmann, Apache Corporation
- Dan Dinges, Cabot Oil & Gas
- Dave Stover, Noble Energy
- Bill Thomas, EOG Resources

Potential New Members*

- Steven Kean, Kinder Morgan
- Scott Sheffield, Pioneer Natural Resources
- Jim Teague, Enterprise Products Partners

Executive Committee: As a reminder, we have kept one vacancy on the Executive Committee so that we would have some flexibility as API's membership base expands. Given the recent creation of a midstream segment and the combination with America's Natural Gas Alliance, the Committee on Nomination may want to consider whether now is the appropriate time to fill that vacancy.

² This would require an amendment to the API Bylaws at the November Annual Meeting.

* Potential new members will be nominated to the Board subject to joining API.

As a result of the API / ANGA combination, an increased number of independent oil and gas companies have joined the Institute. Providing one of these new members with a voice on the Executive Committee may send a unifying signal across the membership. Furthermore, with the expansion and creation of the midstream segment, Chairman Lance and Mr. Gerard thought it may be beneficial, for the sake of industry diversity, for the Nominations Committee to discuss whether an additional Executive Committee seat should be added at this time. Over the past few years, our industry has seen both significant increased industry activity as well as opposition from our detractors in the midstream sector. Recognizing the important role of the midstream companies, API added a midstream segment in late 2014. As this uptick in activity is likely to continue in the foreseeable future, it may be beneficial to add a dominant midstream company to the Executive Committee to represent the interests of that sector. A seat on the Executive Committee may also send an important signal of value to the midstream members whose dues rose significantly after the recent dues reformulation. The committee could also choose to offer an Executive Committee seat to a potential new member – Scott Sheffield of Pioneer – on the condition that Pioneer join API. This would provide a tremendous incentive to a major industry player to become an integral part of the Institute.

Both of these seats, should the Executive Committee agree to fill the current vacancy and add a new seat, could be filled with the intention that members rotate out after completing their two consecutive one-year terms, similar to the seat reserved for the chair of the General Membership Committee. As Chairman Lance and Mr. Gerard discussed potential nominees for consideration, they thought the committee may wish to consider the following former ANGA members, current midstream members, and one potential new (subject to joining API) member for inclusion on the Executive Committee, along with any other nominees the committee sees fit. Accordingly, the following individuals have been added to the potential slate of Executive Committee nominees for discussion and consideration on October 27, subject to any other individuals the Nominations Committee wishes to propose:

Former ANGA Members

- Lee Boothby, Newfield Exploration Company
- Dave Stover, Noble Energy
- Bill Thomas, EOG Resources

Midstream Companies

- Russ Girling, TransCanada
- Al Monaco, Enbridge Energy Partners

Potential New Member**

- Scott Sheffield, Pioneer Natural Resources

If the committee decides to add one or more additional seats to the Executive Committee, the API Bylaws must be amended by the Board of Directors during the November Annual Meeting.

Action: As members of the Committee on Nomination, please review the attached proposed slate of candidates and be prepared to discuss during the October 27 Executive Committee call whether you support the candidates identified above and whether the Executive Committee should be expanded to 15 members. After the Committee on Nomination approves the candidates identified on October 27, Ryan Lance, Chair of the Committee on Nomination, will formally submit the draft slate to the Executive Committee for that committee's formal endorsement in November.

** Pioneer will be nominated to the Executive Committee subject to joining API.

**NOMINEES FOR API OFFICERS,
EXECUTIVE COMMITTEE AND BOARD OF DIRECTORS FOR 2017**

The API Committee on Nomination nominates the following candidates in the capacity indicated, effective January 1, 2017 for a period of one year, unless otherwise indicated.

BOARD OFFICERS

Chairman:	Ryan Lance, ConocoPhillips
Finance Committee Chair:	Greg Garland, Phillips 66

STAFF OFFICERS

President and CEO:	Jack Gerard, API
Corporate Secretary:	Stacy Linden, API

EXECUTIVE COMMITTEE

(Top Six Dues Payers in Alphabetical Order)

Bruce Culpepper	Shell Oil Company
Greg Garland	Phillips 66
Gary Heminger	Marathon Petroleum Corporation
John Mingé	BP America, Inc.
Rex Tillerson	Exxon Mobil Corporation
John Watson	Chevron Corporation

(At-Large Members to be voted in)

Dave Hager	Devon Energy Corporation
John Hess	Hess Corporation
Vicki Hollub	Occidental Petroleum Corporation*
Paul Howes	Newpark Resources, Inc.
Ryan Lance	ConocoPhillips
Al Walker	Anadarko Petroleum Corporation
_____	_____ <i>vacant</i> _____

For discussion/consideration to fill vacant seat, and potentially add one additional seat:

Former ANGA Members

Lee Boothby	Newfield Exploration Company
Dave Stover	Noble Energy
Bill Thomas	EOG Resources

Midstream Companies

Russ Girling	TransCanada
Al Monaco	Enbridge Energy Partners

*New candidates

Potential New API Member

Scott Sheffield Pioneer Natural Resources

BOARD OF DIRECTORS

(To be elected)

For a term of one year, 2017, the Board would elect:

Vicki Hollub Occidental Petroleum Corporation*

For a term of two years, 2017 and 2018, the Board would elect:

Thomas Burke	Rowan Companies, Inc.
Martin Craighead	Baker Hughes, Inc.
Tim Cutt	Cobalt International Energy, L.P.
Russ Girling	TransCanada
David Grzebinski	Kirby Corporation
Gary Heminger	Marathon Petroleum Corporation
John Hess	Hess Corporation
Paul Howes	Newpark Resources, Inc.
W. Herbert Hunt	Petro-Hunt, L.L.C
Paal Kibsgaard	Schlumberger
Tracy Krohn	W&T Offshore, Inc.
John Mingé	BP America, Inc.
Al Monaco	Enbridge, Inc.
Richard Muncrief	WPX Energy, Inc.
Harry Pefanis	Plains All American Pipeline, L.P.
Doug Pferdehirt	FMC Technologies, Inc.*
Gary Rich	Parker Drilling Company
David Rintoul	U.S. Steel Tubular Products, Inc.
José Ignacio Sanz	Total E&P USA
Lorenzo Simonelli	GE Oil & Gas
Lee Tillman	Marathon Oil Corporation
John Watson	Chevron Corporation
Karen Wright	Ariel Corporation

For discussion/consideration to fill vacancies:

Current API Members

Lee Boothby	Newfield Exploration Company
John Christmann	Apache Corporation
Dan Dinges	Cabot Oil & Gas
Dave Stover	Noble Energy
Bill Thomas	EOG Resources

Potential New API Members

Steven Kean	Kinder Morgan
Scott Sheffield	Pioneer Natural Resources
Jim Teague	Enterprise Products Partners

* New candidates

COMMITTEE CHAIRS

Finance Committee Chair:	Greg Garland, Phillips 66
General Membership Chair:	Paul Howes, Newpark Resources, Inc.
Upstream Committee Chair:	Greg Guidry, Shell Oil Company
Midstream Committee Chair:	Colin Parfitt, Chevron Corporation
Downstream Committee Chair:	Don Templin, Marathon Petroleum Corporation
Market Development Committee Chair:	Lee Boothby, Newfield Exploration Company
Center for Offshore Safety Chair:	Brad Smolen, BP America, Inc.

PROPOSED API EXECUTIVE COMMITTEE FOR 2017

(max 14 members)

13

Ryan Lance	ConocoPhillips
Bruce Culpepper	Shell Oil Company
Greg Garland	Phillips 66
Jack Gerard	API
Dave Hager	Devon Energy Corporation
Gary Heminger	Marathon Petroleum Corporation
John Hess	Hess Corporation
Vicki Hollub	Occidental Petroleum Corporation*
Paul Howes	Newpark Resources, Inc.
John Mingé	BP America, Inc.
Rex Tillerson	Exxon Mobil Corporation
Al Walker	Anadarko Petroleum Corporation
John Watson	Chevron Corporation

PROPOSED API BOARD OF DIRECTORS FOR 2017

(max 51 members)

43

Khalid Alnaji	Saudi Refining, Inc.
Thomas Burke	Rowan Companies, Inc.
Martin Craighead	Baker Hughes, Inc.
Bruce Culpepper	Shell Oil Company
Tim Cutt	Colbalt International Energy, L.P.
Greg Ebel	Spectra Energy Corporation
Timothy Felt	Colonial Pipeline Company
Greg Garland	Phillips 66
Jack Gerard	API
Russ Girling	TransCanada
David Grzebinski	Kirby Corporation
Dave Hager	Devon Energy Corporation
Gary Heminger	Marathon Petroleum Corporation
John Hess	Hess Corporation
Vicki Hollub	Occidental Petroleum Corporation*
Paul Howes	Newpark Resources, Inc.

* New candidates

W. Herbert Hunt
Roger Jenkins
Paal Kibsgaard
Tracy Krohn
Ryan Lance
Robert "Doug" Lawler
David Lesar
John Mingé
Al Monaco
Richard Muncrief
Steve Pastor
Harry Pefanis
Doug Pferdehirt
Torgrim Reitan
Gary Rich
David Rintoul
José Ignacio Sanz
David Seaton
Lorenzo Simonelli
Paul Stevens
Douglas Suttles
Rex Tillerson
Lee Tillman
Al Walker
John Watson
David Williams
Karen Wright

Petro-Hunt, L.L.C
Murphy Oil Corporation
Schlumberger
W&T Offshore, Inc.
ConocoPhillips
Chesapeake Energy Corporation
Halliburton
BP America, Inc.
Enbridge, Inc.
WPX Energy, Inc.
BHP Billiton Petroleum
Plains All American Pipeline, L.P.
FMC Technologies, Inc.*
Statoil
Parker Drilling Company
U.S. Steel Tubular Products, Inc.
Total E&P USA
Fluor Corporation
GE Oil & Gas
Foss Maritime Company
Encana Corporation
Exxon Mobil Corporation
Marathon Oil Corporation
Anadarko Petroleum Corporation
Chevron Corporation
Noble Corporation
Ariel Corporation

* New candidates

INDUSTRY PRIORITY ISSUES

Issue: Endorse the proposed list of industry priority issues for the remainder of 2016 and calendar year 2017 and recommend approval by the API Board of Directors.

Discussion: In August, API sent a proposed prioritization of industry issues for the remainder of 2016 and calendar year 2017 to member company CEOs for their review and approval. As was the case last year, although the priority issues as proposed by the API were endorsed by a strong majority of the members, there is considerable support to retain **Air/NAAQS** in the 2017 list of Mission Critical issues.

Attached is the issue priority table (**Attachment D-1**) and complete issue explanations (**Attachment D-2**) which set forth the priority advocacy objectives that will receive appropriate levels of resource and staff attention. As a reminder, issues are not ranked in any particular order within categories. Designation as "Mission Critical" not only indicates a greater degree of urgency/time sensitivity, but also the need for a comprehensive, campaign-style effort to successfully achieve our advocacy objective. Such a campaign generally includes advertising, mobilization efforts, direct lobbying, traditional and social media outreach, litigation and coalition building/management. Should the political and/or economic landscape change during the year, issues can and will be moved into or out of Mission Critical status as directed by the Executive Committee and the Board. Work issues have a high priority, but do not require a comprehensive, campaign-style effort. Work/Monitor issues continue to be worked by API staff, but may require fewer resources than higher priority issues as they are generally worked in broader coalitions with other industries, etc.

Based upon the comments received, there is support among the member CEOs to retain **Air/NAAQS** as Mission Critical. The Environmental Protection Agency is implementing the ozone standards and preparing to review and possibly tighten the SO₂, NO₂ and PM NAAQS. API's efforts in this area will transition to advocating for ozone implementation strategies that have the least negative impact on industry operations and pushing scientific research and regulatory advocacy efforts against the administration further tightening the standards slated for future revision.

We have also moved **Waste & Remediation** from Work/Monitor to Work based on member feedback. API will continue to push back against environmental NGO attacks on produced waste exemptions provided under the Resource Conservation and Recovery Act.

Recommendation: The API Executive Committee endorse the proposed list of industry priority issues for the remainder of 2016 and calendar year 2017 and recommend approval by the API Board of Directors.

Confidential**Summary of proposed issues¹ list for 2017**

Mission Critical	Work	Work / Monitor
Taxes	Oil Spill Prevention, Response & Liability	Energy Markets
Fuels	Water	Financial Reform and Transparency Implementation
Hydraulic Fracturing	Endangered Species / Marine Mammal Protection	
Energy Infrastructure ²	Health & Product Stewardship	
Access and Development	Security	
Climate Change	Trade / International ³	
Natural Gas Markets	Waste & Remediation ⁴	
Air / NAAQS ⁵		
Safety and System Integrity		

¹ Issues are not ranked in priority order

² Renamed from "Midstream Energy Infrastructure Development"

³ Merged with Exports and renamed from "International"

⁴ Moved from Work/Monitor per Member comments

⁵ Moved back to Mission Critical per Member comments



2017 Industry Priority Issues

Confidential

Issues	2016 Rank	2017 Rank
<p>Taxes: All attempts to target the oil and natural gas industry for punitive tax increases at the federal level will be vigorously opposed, and we will similarly engage in state and local tax advocacy as directed by the members. Our federal advocacy efforts will be informed by tax principles developed by API's Tax Committee and will focus on ensuring any tax revisions promote economic growth as well as treat all industries, expenses and income fairly in a comprehensive manner. The Congress, especially the House, will likely focus on a completely new approach to taxation which will incorporate the concepts of a cash flow/consumption-type tax. The Senate could either take up efforts to eliminate the corporate tax through integration or, especially if Democrats take over the chamber, address various energy and/or climate policies through the tax code. The current tax plans outlined by the Presidential candidates are unlikely to hold much sway over tax legislation in 2017, but whoever is President will certainly have an impact on the process that will need to be considered. Our state-level tax advocacy will center on opposing state severance tax initiatives. Our coordinated advocacy campaign will focus on the industry as an economic driver to define our instrumental role in the broader U.S. economy as part of any tax policy debate. Campaign tools could include: broad communications efforts that reach influencers, opinion leaders and voters; coalition building with allied organizations; mobilization of industry workers and engaged citizens; and targeted advocacy efforts focused on specific members of Congress and the administration.</p>	Mission Critical	Mission Critical
<p>Fuels: A top API priority is to promote the competitiveness of the domestic refining industry and the use of petroleum-based fuels while ensuring these fuels meet consumer demand and adhere to relevant applicable environmental, performance and availability standards. An essential component of our work in this area is addressing the broken Renewable Fuel Standard (RFS). We are managing a fully-integrated advocacy campaign with the federal legislative goal of repealing or significantly reforming the RFS. At the state level, we will continue to oppose legislative efforts to mandate the sale of higher ethanol blends such as E-15 as well as efforts to provide various forms of liability relief related to the sale of E-15. Other priorities include: opposing moving the point of obligation for RFS compliance; opposing other biofuel and biodiesel mandates; emissions and performance impacts of ethanol and other fuel composition changes and the impacts on retail infrastructure. On the issue of octane use for increased fuel economy, API will continue to advocate for free market, data-based, consumer-driven principles as they relate to fuel specification. Our fuels campaign will continue to be supported by research and will integrate essential assets from each API department.</p>	Mission Critical	Mission Critical

Issues	2016 Rank	2017 Rank
<p>Hydraulic Fracturing (HF): Hydraulic fracturing continues to be a mission critical issue, as opponents – recognizing the successful use of the technology in driving forward U.S. oil and gas production – seek nationwide prohibitions and restrictions on hydraulic fracturing. The campaign addresses various issues raised by opponents under the umbrella of hydraulic fracturing, including air emissions, water impacts, water use, induced seismicity, NORM, disclosure and transparency, waste disposal, and public health among others. API utilizes an integrated advocacy campaign including: on-the-ground outreach and mobilization; aggressive communications and advertising; litigation; research; promotion of responsible industry practices; and a robust federal and state legislative and regulatory engagement. API actively and directly engages with regulatory agencies, legislative bodies and third parties as they review hydraulic fracturing and broader industry operations for research and regulatory purposes. Engagement focuses on various federal agencies, including EPA and BLM, as well as on state legislators and regulators and local governments. API’s advocacy campaign continues to focus on “retail” politics at the state and local levels, as industry opponents have moved their own efforts to block onshore oil and natural gas development and HF through city and municipality bans and ordinances. This issue will be coordinated across activities so that there is alignment with the broader efforts, including offshore access and regulation, water and waste, and air and climate change efforts. Efforts include defending the Safe Drinking Water Act exemption, which is grounded in effective state regulation. With increased attention on offshore well control and stimulation operations, advocacy necessarily includes both onshore and offshore operations such as steam injection, acid treatments, frac-packing, etc. Also, with a significant emphasis on methane emissions related to unconventional development, API will continue to engage in technical, regulatory and education work and outreach on methane emissions, which is managed as part of API’s climate strategy. The campaign will continue to build and closely coordinate with industry allies. API’s standards and certification programs demonstrate industry’s commitment to safe drilling operations, environmental stewardship, strong community outreach and involvement and continuous improvement in operations.</p>	Mission Critical	Mission Critical

Issues	2016 Rank	2017 Rank
<p>Energy Infrastructure: Ensuring that robust, reliable and safe midstream infrastructure is available to support the existing and growing of domestic production and refining opportunities is a critical element to sustaining the success of the industry. Environmental activists and those with the “Keep It in the Ground” agenda have increasingly focused their efforts against energy infrastructure development, expansion and maintenance as a surrogate for opposition to energy development and the use of fossil fuels. Their efforts have, in many instances, demonstrated success as a number of significant projects have been significantly delayed or stopped altogether. Campaign efforts in the near-term will address opposition to key industry activities such as natural gas and liquids pipelines. These resources can be rapidly activated for other issues such as maritime infrastructure, crude oil stabilization, and crude by rail if needed. API’s advocacy will be based on the critical role that midstream operations and infrastructure play in keeping America competitive with the rest of the world; the critical role that they play in the oil and natural gas supply chain; and the need for physical assets (refineries, terminals, processing plants, pipelines, LNG facilities) to be expanded and modified to receive crude and natural gas from all areas of onshore and offshore production. Advocacy will be based on the principle that the oil and natural gas industry views the transportation issue holistically (without picking one mode of transport over another) and relies on all modes of transport to safely, efficiently and effectively deliver its products and services in an environmentally responsible manner. As such, efforts dedicated to this issue will address those state and federal regulations and legislation that impact each individual transportation mode (pipeline, rail, marine and trucking) and the physical infrastructure needed to support it. API will also continue to advocate that any regulations and legislation aimed at improving the safe transportation of oil and natural gas be based on sound science and data. This advocacy is particularly important as certain states and agencies continue to suggest crude oil stabilization as a means to improve safety. To this end, API will continue efforts to support timely permitting, the development of appropriate regulatory jurisdiction for interstate pipeline projects, cost-effective regulation, and continued access for infrastructure development and maintenance, including: pipelines, gathering lines, processing plants and facilities, rail use, ports and waterways, and highway systems as critical links for energy supplies. Ultimately, the issue will complement and support other mission critical issues including safety, unconventional resource development, exports and access by ensuring that as these activities grow, the midstream infrastructure is available to support it.</p>	Mission Critical	Mission Critical

Issues	2016 Rank	2017 Rank
<p>Access and Development: Investment in U.S. oil and natural gas is largely dependent upon a statutory and regulatory regime that ensures continued access to resources and provides certainty and predictability for investment. As opponents continue to advocate for bans and restrictions on the development of domestic oil and gas resources, access to and development of U.S. oil and gas resources remains a Mission Critical issue for API. Our advocacy efforts will include active engagement on legislative and regulatory initiatives related to onshore and offshore resource exploration and production; National Ocean Policy; coastal and marine spatial planning; offshore Atlantic, Gulf, Pacific and Arctic Oceans development; Alaska access and development; the BSEE Well Control Rule; BOEM regulation related to decommissioning, risk management, financial assurance and loss prevention; approval of seismic surveys in the Atlantic and continued seismic work in the Gulf of Mexico and Alaska; BOEM and BLM regulation of air emissions; onshore federal and state oil and gas leasing reforms, including the various BLM Onshore Orders and changes to federal royalty rates and valuation methods by the Office of Natural Resources Revenue; offshore well stimulation; access issues related to federal, private and state lands; government efforts under the Endangered Species Act and Marine Mammal Protection Act; as well as legal and permitting challenges that would hamper development. The governmental efforts listed above have the ability to individually, as well as cumulatively, threaten oil and gas development, and the campaign will continue to defend against overregulation, unwarranted revisions to leasing terms, onerous operational requirements, and punitive royalty regimes. API will continue to advocate for a more streamlined regulatory regime that provides greater certainty and predictability for capital intensive oil and natural gas projects. At the heart of API's Energy Literacy efforts are the important messages on the benefits of access to domestic oil and natural gas resources: economic growth, job creation, revenues to the government and increased energy security. API's 2017 Access and Development campaign will focus on a profoundly different energy future that is now available to the United States. A future that will provide energy for generations of Americans to come, to ensure our nation's role as an energy superpower, and to support our economic growth. API will promote industry standards, certification and safety programs as the foundation for safe and environmentally responsible operations and as an essential component of a balanced approach to access and development.</p>	Mission Critical	Mission Critical

Issues	2016 Rank	2017 Rank
<p>Climate Change: API will engage in a two-pronged effort to address climate issues. First, API will promote the benefits of oil and natural gas and will respond as needed to anti-fossil fuels arguments including “Keep It in the Ground,” divestment and/or other initiatives to eliminate oil and natural gas from our energy mix. API must not allow these initiatives to go unchallenged as these broad, overarching efforts have direct and/or indirect impact on many of API’s priority issues (e.g., infrastructure, access, hydraulic fracturing and others). API will continue to promote the industry’s positive role in addressing the risks of climate change (e.g., natural gas’ role in reducing GHG emissions, industry investments in zero- and low-carbon technologies, cleaner transportation fuels, and industry leadership in emissions measurement methodology). Second, API will advocate on specific inefficient and/or discriminatory regulatory initiatives and legislation designed to control GHG emissions under federal and state environmental laws. We will participate in related litigation, including programs arising from President Obama’s Climate Action Plan. On methane emissions, API will advocate that any regulations and programs to reduce methane emissions should be science-based, reasonable and cost-effective. API research and advocacy efforts will continue on EPA’s proposed Information Collection Request (ICR) for existing oil and gas sources, as a prelude to EPA’s proposed regulation of existing oil and gas sources of methane under Section 111(d) of the Clean Air Act. API will continue efforts to identify emission sources and techniques to correctly measure and estimate emissions, particularly as those are depicted in the annual US GHG Inventory and the Greenhouse Gas Reporting Rule. More broadly, API will also respond to GHG emissions initiatives that have been and may be promoted by the Administration or Congress, including the imposition of GHG emissions limits and controls on refineries and other industry operations and the implementation of the Clean Power Plan on our industry sources such as cogeneration. API will continue to address how greenhouse gases are addressed in the Council on Environmental Quality’s final National Environmental Policy Act (NEPA) guidance and subsequent agency guidance. API will continue to engage on the development of and oppose the Administration’s use of the current social costs of carbon and methane. Potential litigation may include cases where petitioners attempt to enjoin industrial greenhouse gas emissions, impede access, restrict permitting, impose burdensome reporting practices, or create tort liability for greenhouse gas emissions. API will also undertake efforts to improve science-based information on the lifecycle greenhouse gas footprint of natural gas as well as estimate the methane loss rate from the natural gas value chain. Lastly, API will continue periodic efforts to quantify and promote its investments in low-carbon technologies.</p>	Mission Critical	Mission Critical

Issues	2016 Rank	2017 Rank
Natural Gas Markets: Expanding demand for and use of our abundant, domestic natural gas resources will require changes in policy and market dynamics to fully leverage the “new normal” high natural gas supply scenario. Building on the environmental, economic and energy security benefits of domestically produced natural gas, API’s advocacy will focus on targeted market segments that collectively represent significant market growth opportunities, including power generation, industrial/manufacturing, transportation/equipment and export markets. Regulatory, legislative and broad stakeholder outreach will promote natural gas as an affordable, low-emission fuel (e.g., EPA’s Clean Power Plan implementation, state and federal utility commission policies, and CNG/LNG in high horsepower applications), and ensure policy proposals will not disadvantage natural gas relative to competing fuels. API advocacy in this area will be integrated with existing efforts to promote the infrastructure necessary to achieve desired market growth, and to support free trade and other policies necessary to facilitate expanded export of natural gas.	Mission Critical	Mission Critical
Air/NAAQS: The particulate matter (PM) NAAQS science review will be underway in 2017 and EPA is offering evidence of adverse health effects below the current standards, signaling potentially widespread non-attainment with potential revised standards. API will push for no further tightening of the PM standards. In response to deadline litigation, in 2017 EPA is anticipated to work expeditiously on both NO2 and SO2 NAAQS. The hourly and annual NO2 standards are subject to further reduction and a new “shorter than hourly” SO2 standard may be proposed, all of which may adversely impact our industry’s sources at new or existing sites. With respect to ozone, our focus will be to continue to aggressively advocate for ozone implementation strategies that will reduce adverse impacts on industry operations. Shorter term NAAQS have focused attention on modeling and monitoring issues associated with permits and nonattainment; API will continue to work these technical issues. Health research projects will continue to be pursued as a means to bolster our scientific and technical arguments and provide evidence of the negative health effects of over-regulation. API will continue to advocate regulatory developments associated with amendments to the National Emission Standards for Hazardous Air Pollutants and New Source Performance Standards affecting our industry, such as the Refinery Sector Rule. In 2017, API will seek to resolve issues, through both administrative and judicial review processes, associated with the rushed Obama administration rulemakings affecting our operations. API will continue to work all permitting issues (e.g., New Source Review, Title V operating permits), health effects, and ambient air/emissions monitoring issues (including production-related oil and gas studies) related to the above.	Mission Critical	Mission Critical

Issues	2016 Rank	2017 Rank
<p>Safety and System Integrity: API will continue to promote the industry's commitment to safety as a core value to regulators, legislators, policy makers, and the public as a whole. Safety is a mission critical issue for the industry from an operational standpoint, as well as from a regulatory and legislative standpoint. API's Global Industry Services – standards, certifications, safety programs, education and training – form the foundation for safe operations and API will continue to promote these programs to effectively demonstrate the industry's commitment to safe operations. To that end, API will continue to proactively develop and maintain ANSI-certified safety standards, recommended practices, and associated programs that promote, demonstrate, and facilitate best practice sharing of the industry's ability to operate in a safe and environmentally responsible manner. The core of API's work and its standards will continue to be based on proven engineering practices or repeatable functional testing. API's Global Industry Services includes interactions with a wide variety of industry subject matter experts, equipment manufacturers, and outside stakeholders such as communities and their leaders, first responders, organized labor, state and local officials and US federal entities such as CSB, DOT, EPA, OSHA, NIOSH, NTSB, the Coast Guard, Department of the Interior, and Congress. API seeks to ensure governmental alignment with industry's commitment to safe, reliable operations and equipment as well as rapid recovery and restoration when those operations are disrupted. In the event of a major industry incident or natural disaster, API will actively promote the development of public-private partnerships that support effective response, restoration, and recovery. API's efforts include the development and enhancement of safety programs, such as the Center for Offshore Safety, Process Safety Site Assessment Program, API Pipeline Performance Tracking System, and Pipeline Management Systems. API will proactively work to anticipate the safety issues associated with the industry's integration of emerging technologies or practices such as drones, 3D parts, cybersafety, standardization, industry-wide data collection for safety prevention programs, and counterfeiting. Efforts to promote and maintain system integrity include industry's efforts to improve preparedness and response to natural disasters, business continuity planning, and industry resiliency and recovery and its programs will be based on the industry approved prevention-mitigation-response model. API's advocacy efforts with OSHA and NIOSH on critical safety and health issues across all segments will continue.</p>	Mission Critical	Mission Critical

Issues	2016 Rank	2017 Rank
Oil Spill Prevention, Response & Liability: Includes all aspects of oil spill prevention, preparedness, response, liability and restoration for all locations, including the Arctic, and throughout all segments — Upstream, Midstream, and Downstream. API will continue to demonstrate the commitment and effectiveness of the industry's oil spill preparedness and response capabilities for both the offshore and inland environments to ensure that current and future business operations are not hindered. We will continually assess the current spill program to conduct or coordinate any activities necessary to effectively communicate messages on the issue. This also includes those actions/initiatives to increase awareness of industry's commitment to continuous improvement in the realm of oil spill prevention and response. Efforts on this issue will advocate for the continued and timely use of dispersants both at the surface and subsea to ensure that they remain a viable option for oil spill response. API seeks to ensure industry receives credit for its significant investment in emergency response enhancements and programs. API will also continue to address regulatory and legislative proposals related to financial assurance and responsibility.	Work	Work
Water: Includes legislative and regulatory advocacy on multi-segment issues such as “navigable waters” and Clean Water Act jurisdiction and Nationwide Permits (NWP); water quality criteria/standards and watershed requirements; cooling water intake regulations; stormwater regulations; maintaining cost-effective and achievable effluent guidelines for Downstream and Upstream sources; the upstream aquifer exemption; evolving floodplain guidelines and mitigation requirements; water use, sustainability and conservation of water resources; and Spill Prevention Control and Countermeasures (SPCC) regulations. In 2017, API will respond to EPA’s pursuit of detailed effluent limitation guideline (ELG) studies of petroleum refining and oil and gas centralized waste treatment, advocating for ELGs that are economically achievable. API may also continue to challenge the separate ELGs EPA is considering for upstream unconventional resource development. API will continue its litigation on the 2015 final revisions to the federal Clean Water Act (CWA) jurisdiction (“Waters of the United States”), which will result in a higher number of sites subject to dredge-and-fill permits, nationwide permits, etc. API is also pursuing litigation of the final cooling water intake rule. API will also respond to new SPCC regulations for hazardous materials, as well as revisions to human health and selenium water quality criteria. API will pursue, where appropriate, legal challenges to overbroad agency interpretations of the Clean Water Act and consider defending against legal actions by environmental groups that seek to restrict oil and natural gas development under the Clean Water Act. API will also continue to strategically and proactively address upstream water issues, including water use, management, storage, transportation, disposal, and issues related to the Safe Drinking Water Act. With water use and management taking on an ever larger role, API will continue to promote the efficiency and effectiveness of industry and continue research efforts related to the energy-water nexus.	Work	Work

Issues	2016 Rank	2017 Rank
Endangered Species/Marine Mammal Protection: Includes advocacy on Endangered Species Act (ESA), Marine Mammal Protection Act (MMPA), and other legislation, regulations and legal challenges that impose unreasonable requirements that could stop or delay oil and natural gas development. Opposition groups continue to utilize the ESA and the MMPA in efforts to pursue restrictions on land use to restrict or to stop oil and natural gas operations, and to obstruct marine seismic activity. API continues to oppose use of the ESA to force a climate change policy agenda, to limit “sue and settle” manipulation of ESA decision processes, and to support and facilitate voluntary conservation efforts. API will continue to implement an ESA strategy that includes identifying the species proposed for listing with the greatest potential to impact operations and developing the scientific and legal arguments against the proposed listing. API also seeks to ensure transparent and objective processes in gathering scientific data and procedures to assure that credible science is used in ESA/MMPA decisions and in federal agency actions. From a tactical standpoint, API will consider the potential for “delisting” efforts. API will continue to partner with regional and state oil and natural gas associations to strategically counteract unreasonable and unnecessary efforts to hinder oil and gas operations under the ESA and MMPA. Through its participation in the National Endangered Species Act Reform Coalition, API also seeks opportunities for collaboration on shared ESA concerns with stakeholders from other industries.	Work	Work
Health & Product Stewardship: Includes U.S. chemical legislative and regulatory initiatives such as Toxics Substances Control Act (TSCA) implementation and reform of the Integrated Risk Information System (IRIS); implementation of the Endocrine Disruptor Screening Program; science and advocacy addressing compounds of interest to the industry (e.g., benzene, hydrogen sulfide, MTBE, naphthalene, polycyclic aromatic compounds (PAHs), hydrofluoric acid); worker and community exposure and health issues; regulation of petroleum substances including global harmonization of chemical management initiatives; environmental reporting under the Emergency Planning and Community Right-to-Know Act (EPCRA) (i.e., Toxics Release Inventory (TRI)); and biomonitoring, risk assessment, and other emerging health and science policy issues that may impact production, manufacturing and use of petroleum products. Environmental and health advocacy groups are turning to these provisions more frequently to force regulatory actions against our industry, and it is imperative that we have the science and advocacy tools necessary to protect the industry’s interests. API advocacy will be needed in 2017 and 2018 in order to preserve current exemptions and work towards a new chemical management program suitable for our industry’s operations and products as EPA implements the revised TSCA statute. IRIS reform efforts will increase in 2017 as more chemicals enter the “new” process. Of concern to refineries, naphthalene and ethylbenzene are scheduled to begin their reviews in late 2016, continuing into 2017. API will advocate regarding these compounds throughout the IRIS process.	Work	Work

Issues	2016 Rank	2017 Rank
Security: Includes lobbying and communications efforts directed at federal and state physical and cyber security legislation and regulations. In general, API seeks to ensure federal and state government alignment with industry's significant investment in physical and cyber security. To this end and with regard to physical security, API continues to encourage reasonable legislation and regulation that limit undue burden on industry, lead to legitimate enhancements to security, and avoid overly prescriptive measures, such as Inherently Safer Technology. API will continue to proactively create recommended practices and guidance to solidify and communicate the best practices used by the industry to prevent, mitigate and prepare for potential incidents and threats. Federal policy making on cybersecurity has increased in recent years with the development of the NIST Cybersecurity Framework, several Executive Orders in 2015 and 2016 and the Cybersecurity Act of 2015. API expects continued activity in 2017 as policy makers address perceived cybersecurity gaps, especially regarding critical infrastructure, so API will continue to communicate industry's effective management of cybersecurity risks with the goal to achieve measured and coordinated policy making among executive agencies and Congress consistent with policies adopted by the companies. API continues to work closely with the Oil and Natural Gas Information Sharing and Analysis Center (ONG-ISAC), now run independently, but with significant overlapping membership with API. Ultimately, activities regarding both physical and cyber security strive to ensure that industry efforts and commitments in these areas are preserved, and any efforts by federal or state government programs or initiatives augment these industry programs.	Work	Work
Trade / International: Includes numerous domestic policy issues which impact the international operations of U.S. based oil and natural gas companies, such as potential trade treaties, U.S. trade sanctions legislation, rare earth minerals, passage of the Law of the Sea Treaty, and alien tort statute litigation. In addition, API will ensure that API's publications, standards, meetings, training and certification programs comply fully with all applicable U.S. laws, yet maintain growing international interest and adoption. API will maintain engagement with various international oil and natural gas associations to monitor developments that could impact U.S. policy. Absent legislative action in 2016, and consistent with our fundamental support for free markets, API will continue its efforts to expedite approvals of LNG export facility permits. These efforts will include potential legislative options as well as engagement with the White House and Department of Energy on the importance of moving faster on LNG permits. Importantly, API's advocacy will also seek to protect refiners' continued access to open markets for the export of refined products and the import of crude oil.	Work	Work

Issues	2016 Rank	2017 Rank
Waste & Remediation: Includes Resource Conservation and Recovery Act (RCRA) regulatory and legislative issues regulating treatment, storage and disposal of hazardous and non-hazardous wastes, and advocacy related to a financial assurance rulemaking targeting the petroleum industry under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) Section 108(b). API will engage on behalf of all industry segments in collaborative technical advocacy directly with state and federal regulators on site clean-up issues. On the upstream side, API will continue to seek to protect RCRA exemptions. Other efforts will be focused on priority issues including vapor intrusion, residual fuels recovery and management at large spill sites, and use of Total Petroleum Hydrocarbon (TPH) metrics during corrective action. API will continue to advocate for improving the tools and decision processes for groundwater remediation of hydrocarbons and oxygenated fuels (ethanol, MTBE, TBA). API will continue its engagement in collaborative technical activities with the regulatory community to facilitate effective advocacy with key groups.	Work / Monitor	Work
Energy Markets: API will continue public outreach to ensure sound policies regarding energy markets at both the federal and state levels by describing market fundamentals and the factors impacting the cost of crude oil, natural gas, and refined products. Our priorities include opposition to federal and state efforts to enact over-broad and unreasonable controls and other restrictions on fuel marketing practices (e.g., biofuel blending legislation, anti-price gouging, PMPA modifications, open supply); addressing federal efforts to examine pricing practices of crude oil, petroleum and other fuels and coordinating with industry marketing trade associations (PMAA, SIGMA, NACS, NATSO) on issues of common interest. API will continue outreach and educational efforts to prevent detrimental policy proposals on both the federal and state levels by explaining market conditions that lead to increased earnings as well as higher commodity and product prices. These efforts include accurately portraying conditions impacting energy markets (e.g., potential market disruptions often resulting in act of God events/conditions including natural disasters) as well as clarifying misinformation regarding global market conditions.	Work / Monitor	Work / Monitor
Financial Reform and Transparency Implementation: API will engage with members on the implications resulting from the finalization of the Securities & Exchange Commission section 1504 rules requiring reporting of government payments. API will continue to participate in the multi-stakeholder group to shape the scope of future U.S. Extractive Industries Transparency Initiative reports. API will monitor legislation for situations where, like 1504 or conflict minerals reporting, Congress would dictate the SEC collect non-financial information to address various non-material interests. API would address these situations directly with lawmakers or through broader coalitions.	Work / Monitor	Work / Monitor

**AMERICAN PETROLEUM INSTITUTE
2017 BUDGET SUMMARY**

API's advocacy efforts to fulfill its mission – to influence public policy in support of a strong, viable U.S. oil and natural gas industry – are significantly different today than they were just a few years ago. The public policy arena is changing rapidly due to the same forces playing out in our country: a time of tremendous demographic change, with younger, nonwhite Americans becoming a potent voting bloc; and great technological changes that are enabling connections and communications among dispersed audiences. All are combining to empower more voters to form communities of interest and to engage in public policy debates. API has moved quickly to adjust its advocacy model to adapt to new technologies and new audiences. We have continued our focus on nontraditional allies who have a particularly strong share of voice within the Democratic Party. To continue to be successful, we must continue to evolve. We are faced with unprecedented public policy challenges, but we are also mindful of the current industry market conditions and the need to prioritize and scrutinize every line in the budget. The 2017 budget was developed in this context.

In the final year of his administration, President Obama has sought to establish a legacy through aggressive regulatory initiatives, adding to the unprecedented 100 pending or recently finalized regulations covering our industry, which include everything from corporate tax changes to environmental controls. While Congress is largely hamstrung by partisan politics, our opponents are exploiting the political stalemate and commodity market downturn by increasingly pushing state and local initiatives and challenging our operations with a focus on thwarting individual infrastructure projects. They have wrapped their initiatives in the mantle of combating climate change, and this now influences all aspects of fossil fuel considerations.

At the conclusion of the presidential election, our industry will face an uncertain political landscape regardless of who wins the White House. Secretary Clinton was pulled to the left in her nomination fight with Sen. Bernie Sanders and has been either unwilling or unable to pivot to a more centrist position for the general election. Most believe that if she wins the White House she must govern from the left to hold off potential challengers: Sen. Elizabeth Warren and others who might mount a credible challenge to her policies or even her reelection. While the more aggressive “keep it in the ground” initiatives were kept out of the DNC platform by our allies in the labor community, progressive Democrats have kept their party’s platform firmly to the left. Should Donald Trump defy expectations and win the White House, he represents a new type of Republican with a unique brand of populism. His positions are largely unknown and few details on approach or direction have been made clear beyond general support for fossil fuels and promises to reduce regulatory red tape. Nevertheless, his campaign has deviated from rank-and-file Republican orthodoxy on a number of fronts from trade to energy. In addition, while we anticipate the U.S. House will remain in Republican control, U.S. Senate control is less certain, but the likely result is continued divided government. Regardless of the election’s outcome, the next administration, Congress, and state and local officials will be confronted with a growing “keep it in the ground” movement,^{1,2} which will have enormous consequences for our industry.

¹ “Fossil fuels are the problem in global warming – and fossil fuels don’t come in good and bad flavors. Coal and oil and natural gas have to be left in the ground. All of them.” Activist Bill McKibben, March 23, 2016, *The Nation*.

² “Activists acting in solidarity with protesters seeking to stop construction of an oil pipeline in North Dakota temporarily shut five pipelines able to carry more than 2 million barrels a day of Canadian crude into the U.S.” *Bloomberg*, October 12, 2016.

Given the financial challenges associated with the prolonged downturn in commodity prices, API has carefully scrutinized the budget and proposed only what we anticipate is necessary. The overall budget proposal reflects the need to address the growing intensity of mission critical issues, the related campaign activities needed to win against an organized and well-funded industry opposition on the ground in key states,³ and the introduction of new messages for audiences that have not heard from us before. As demonstrated in the past, API has and will continue to scrutinize every line item to ensure all spending is necessary to achieve industry objectives on critical public policy priorities.

2017 Budget Development Process

The 2017 budget proposal was developed in concert with the results of the priority issues survey (see **Attachment E-1**) and the Executive Committee's direction to evolve API's energy literacy platform in several important ways: create new messages that appeal to a broader, and younger, audience; develop and exploit online tools that can counter the "keep it in the ground" voices and establish an effective counter narrative; shift the tone of our messaging from the educational to the emotionally compelling, establishing a stronger connection between a new (and expanded) audience and our industry. This connection to the expanded audience will effectively allow us to change the narrative and will give us an offensive posture to address the mission critical issues. We continue to sustain nine mission critical issues identified by the CEO's; and these priority issue campaigns are crucial to our industry's success in these areas.

With input from our segments (Upstream, Midstream, Downstream and Market Development) and their related committees, API held extensive internal meetings to evaluate various spending by line item, API has developed two budget proposals: a flat budget and a recommended budget. The flat budget does make some adjustment within departments and across departments – but with a thoughtful approach to holding the line on spending. However, our recommended approach is based on a careful consideration of all API spending against member company objectives, the growing challenge to our industry from an energized and emboldened opposition, the likely political and policy scenario for each Mission Critical issue in 2017, as well as the most effective and efficient use of the campaign tools industry has developed. The discussion that follows describes API's assumptions in preparing a flat budget, as well as the additional considerations in developing the recommended budget.

Finance Committee Review

The API Finance Committee reviewed the budget proposals (flat and recommended) during its conference call on October 3, 2016. Given the sustained market conditions, the Finance Committee requested that API present to the Executive Committee a flat budget scenario and then contrast it with the recommended budget by identifying the differences between what would or would not be done.⁴

³ A recent study by Keyframe Policy estimates that anti-industry activists are spending between \$46 million and \$50 million on efforts that challenge the oil and gas industry's ability to do business.

⁴ In addition, the Finance Committee requested that API consider a policy requiring notification of the Finance Committee Chair and/or approval of the Finance Committee prior to transferring substantial budget funds from one line to another. API has traditionally sought guidance and approval from the Finance and/or Executive Committees prior to movement of budget funds between approved lines. A recent example is the request to fund the API Retirement Income Plan from advertising and surplus funds following the failure of the Colorado ballot initiatives. Notionally, the Finance Committee discussed a threshold of approximately \$2 million for approval of the Finance Committee Chair and \$5 million for approval of the Finance Committee.

2017 Dues Budget Summary

Below is a summary of the 2017 flat and recommended dues budget scenarios with a comparison to the 2015 and 2016 approved budgets by the Campaign Toolkit, Priority Issues and Program Support. These categories represent the API dues budget in its entirety. This table reflects on the member-funded activities of API – the full budget, including GIS, is included in the table on the last page of this document with further information regarding GIS in **Attachments E-6 and E-7**. The table below was prepared at a high level to aid in the Executive Committee's discussion of the dues budget. **Attachment E-2** presents the detailed functional budget by priority issue.

	\$ millions			
	2015 Approved Budget	2016 Approved Budget	2017 Flat Budget	2017 Recommended Budget
<u>Dues Program:</u>				
Campaign Toolkit	\$ 106.2	90.3	\$86.5	107.9
Priority Issues:				
Mission Critical	10.1	9.3	9.7	12.0
Work	3.6	1.5	1.6	1.8
Work/Monitor	1.2	0.2	-	-
Program Support (Personnel/Operating)	52.4	54.2	57.7	60.5 ⁵
Total Dues Program	\$ 173.5	155.5	155.5	182.2

Comparison of the 2017 Flat and Recommended Budgets

As we stress tested the budget proposal, we considered what programmatic activities and operational impacts would be lost in a flat (or “lower for longer”) budget scenario. The tables throughout present our summarized budget – flat and recommended, compared to the 2015 and 2016 approved budgets. API's current 2016 budget was designed to cut or defer spending wherever possible to manage through the 2016 election cycle only, resulting in an 18% reduction over 2015. The key differences between the 2017 flat and recommended budgets are presented below to facilitate a discussion of the two budget scenarios: The most significant differences are within the Campaign Toolkit.

	\$ millions		
	2017 Flat Budget	2017 Recommended Budget	Difference
Campaign Toolkit:			
Advertising	\$ 50.0	64.0	14.0
External Mobilization	17.9	22.2	4.3
Litigation	1.5	2.5	1.0
Remaining Campaign Toolkit	17.1	19.2	2.1
Campaign Toolkit	86.5	107.9	21.4
Priority Issue Research	11.3	13.8	2.5
General Program Support	57.7	60.5	2.8
Totals	\$ 155.5	182.2	26.7

⁵ Program support includes the \$4 million pension contribution for 2017, \$2.4 million of which is allocated to dues budget FTE's and \$1.6 million of which is allocated to the GIS FTE's.

Campaign Toolkit

The Campaign Toolkit – the advocacy assets and communications capabilities that are available to prosecute industry’s Mission Critical priorities (as identified through the annual survey of the membership) remain a robust part and the largest budget component of our advocacy campaigns. In addition to the new messaging campaign being developed, the nine Mission Critical issues supported by the Campaign Toolkit continue to intensify.

The activities included in the overall campaign toolkit and the detailed budget scenarios are described in **Attachment E-3**. Since the Campaign Toolkit is the largest component of the budget, additional detail has been provided in this document and in **Attachments E-4** and **E-5**. In developing the flat and recommended budgets, we considered the nature of each Mission Critical issue and the manner in which the Campaign Toolkit could best be deployed in response, noting that some issues may require an integrated approach with multiple tools from the Campaign Toolkit (such as advertising, mobilization, litigation, research, etc.), while others may require only a single tool (such as mobilization).

Advertising

The advertising budget contains the costs of production, placement and associated fees for both the energy literacy and issue-specific advertising. The 2017 flat and recommended budgets include \$30 million for energy literacy and \$20 million (flat budget) or \$34 million (recommended budget) for issue-specific advertising. **Attachment E-4** presents a summary of API’s historic advertising spend by issue, as well as our recommendations under the flat and recommended budget scenarios.

- **Energy Literacy**

API’s comprehensive communications program was established in 2007 to improve public policy outcomes by increasing energy literacy among a target audience of influentials nationwide. The program addressed industry’s economic contributions, job creation potential, technology and environmental leadership, energy security, shareholder benefits and other key components. The campaign’s messages are the foundation to support all of industry’s priority issues – and serve as a means to acquire and educate mobilization participants.

Faced with the rising opposition by anti-fossil fuel activists and the need to prevent increased receptivity to their “keep it in the ground” messaging, last year the Executive Committee directed API to establish a new base literacy platform that would expand our reach beyond our traditional audience -- the policy community, influencers and the informed and “active” public -- to include millennials and voters. Working with the Communications Committee, API and our new advertising agency (GSD&M) will present new messaging options to the Executive Committee during the November Annual meeting.

The flat and recommended budgets include \$30 million for the new comprehensive messaging and communications advertising campaign. In evaluating the level of spend appropriate for API’s campaign, the Communications Committee concluded that a minimum of \$30 million was necessary to successfully launch the new campaign. Furthermore, the Group segments (Upstream, Midstream, Downstream, Natural Gas Markets) agree that the need to establish an effective counter narrative to the “keep it in the ground” activists is of primary importance to our industry’s success in every area. While we’re sensitive to the constrained environment in which industry is operating at this time, in our judgment, a budget of less than \$30 million for the first year deployment would not drive the success that we experienced in our prior literacy campaign directed at influentials. Our new advertising agency has indicated that while this is a minimum, we can run a successful campaign at this level of spend.

Following the Executive Committee's direction, our objective is to penetrate and establish industry's new messaging among a broader audience that hasn't heard from us before. Research shows that to be effective with a new messaging platform, the goal should be to reach 75% of the audience at least 3 times during the first year (the literacy advertising component of the Educational Advocacy program was established in 2007 with a \$70 million spend, against a more narrowly defined target audience). While new digital channels provide a more cost effective means of reaching some audience segments than straight broadcast television advertising, ads that run on "appointment" television (programs watched live, rather than through DVR or streaming) remains an important way to connect with audiences in a deeply personal and compelling manner.

- Issue Advertising

To hold overall spending flat, the advertising budget would be limited to \$50 million, a difference of \$14 million from the recommended budget. With \$30 million dedicated to establishing the new messaging campaign, under a flat budget the remaining \$20 million would limit the number of campaigns that we could support with issue-specific advertising. The flat budget scenario assumes: We would suspend the energy from shale campaign to preserve advertising funds to fight specific state-level fracking bans or severance taxes; pursue fewer targets for RFS advertising; reserve funds for a smaller, inside-the-Beltway campaign for one priority issue (infrastructure, taxes or access); and would have limited resources beyond social/search promotion for other issues that may arise. This approach reduces the spend on the established and ongoing HF and RFS campaigns. The advertising for specific issues would largely be dictated by the calendar, with the issue that came up earlier in the year potentially eroding funding available for issues arising later in the year. The recommended budget adds funding for emerging challenges such as infrastructure and restores a portion of the energy from shale campaign. See **Attachment E-4** for a specific breakout of issue advertising proposed under the flat and recommended budgets.

External Mobilization

There are two components of the external mobilization programs: 1) base program and acquisition; and 2) issue-based activations. The base program and acquisition component builds capacity and community alliances in support of our industry. The issue-based activations can be in support of our agenda to address mission critical issues, and also gives us a defensive capability to respond to specific challenges by our critics. The 2017 flat budget includes \$8.5 million for base program and acquisition costs and \$9.4 million for issue-based activations. The recommended budget includes \$9.9 million for base program and acquisition costs and \$12.3 million for issue-based activations. A summary of API's historic mobilization spend by issue, as well as our recommendations under the flat and recommended budget scenarios is presented in **Attachment E-5**.

- Base Program and Acquisition

External Mobilization's base program costs include the routine maintenance for each of the programs, including refreshing the 10-15% "churn" in participants. In addition, acquisition costs reflect the activities to acquire and groom new participants in the microtarget and Energy Citizens programs. This is accomplished in two ways: acquisition (or purchase) of database contacts or through non-traditional outreach, rallies and events. The 2017 flat budget assumes acquisition of additional microtargets in Maryland and in either Louisiana or New York. These states were prioritized in consultation with the State Relations committee and the segments regarding potential or ongoing HF bans (Maryland and New York) or for near-term access campaigns (Louisiana). The recommended budget for microtarget acquisition would allow API to acquire microtargets in both Louisiana and New York, as well as Maryland, and additionally would fund acquiring contacts in Wisconsin for HF and other campaigns.

The non-traditional outreach, rallies and events are conducted to foster relationships with the African American, Latino, Asian and Native American communities, as well as with women, millennials and religious groups. Through a series of information sessions, rallies and events, API promotes building relationships with these constituencies, encouraging them to become part of other base programs, such as Energy Citizens, for future issue-based activations. The flat budget assumes a base level of effort to develop each of these constituencies. The recommended budget places additional emphasis on making inroads with the Native American communities, which requires initial research and investment as we take initial steps to develop these relationships to address emerging issues such as infrastructure. These investments in external mobilization will allow for the continued growth of the program to draw in more minorities and women – important groups for our continued success, as they are considered to be base supporters of the Democratic Party.

- Issue-based Mobilization Activations

The costs for issue-based activations vary depending on the number of targets and manner (robocall vs email), duration of the activation, and the target of the activation (federal, state or local). The 2017 flat budget scenario assumes that infrastructure activations would be limited to challenges in Pennsylvania, New York and the New England states; that select severance tax-related HF activations (Pennsylvania, Ohio) would be possible and we would have fewer Senate and House targets for the RFS. The recommended budget provides for additional infrastructure activations outside of the northeast, allows for HF activations on local control, and for additional Senate and House targets for the RFS.

Litigation

As anticipated, 2016 was an extremely active year for rulemaking by the Obama administration in an attempt to secure its legacy. These final rules include the RFS, major new refinery rules, regulation of methane by both the EPA and the BLM, and dramatic new rules affecting offshore and onshore development. The flat budget for litigation would be held at \$1.5 million, which is \$1 million below the recommendation. In our efforts to minimize cash held by API, we currently only fund current year litigation expenses, even when the litigation may take several years. Given the rush of major regulations being finalized in final months of the administration, such as EPA's and BLM's methane rules, Interior's civil penalty and oil and gas valuation rules, and the SEC's section 1504 regulation, a flat litigation budget will restrict API to maintaining only the current docket of open cases, which is already higher than what was projected for 2016 when we prepared the budget in 2015.

The flat budget will preclude API from initiating potentially significant new litigation next year, even on Mission Critical and Work issues such as the Interior's rules on oil and gas measurement and site security rules, new restrictions on seismic activity in the GOM, several new rules on the RFS program, potential RCRA restrictions on exploration and production waste, and new TSCA rules implementing the Lautenberg Chemical Safety Act. Further, it will limit API's ability to respond to lawsuits brought by the "keep it in the ground" movement like the recent complaint brought against the BLM to cancel nearly 400 leases for failure to account for "indirect GHG emissions" and the constant attacks on the development of new infrastructure projects. Given our current expectation that API would seek to initiate at least 24 significant pieces of litigation in the final months of 2016 and into 2017, a flat litigation budget would limit a significant tool from our arsenal against regulatory onslaught.

To allow API to initiate new legal challenges to these increased regulatory burdens and maintain our current litigation priorities, the recommended budget for litigation was increased by \$1 million in 2017 to \$2.5 million. While we assess the aggregate potential cost of litigation, we also take into account coalition building, smoothing of costs over multiple years to accommodate the expected life cycle of a lawsuit, and also discount back the total to prevent over-budgeting, recognizing that all issues are not likely to materialize.

Remaining Campaign Toolkit

The remaining campaign toolkit lines include direct advocacy, public outreach (including social media) and support, and economic research (see the table at **Attachment E-3** for the specific line item budgets). Because operational costs include some mandatory increases, the flat budget assumption holds costs flat in 2017 by reducing the budget for mission critical issues. In particular, public outreach and support would focus primarily on establishing the new energy literacy campaign and engage on a limited basis on supporting specific issues. Economic research would be limited to studies to provide basic content for campaign messaging. The recommended budget includes \$400 thousand in additional direct advocacy to support the transition to a new (and likely continued Democratic) administration; \$400 thousand to expand economic research; \$600 thousand in public outreach for expanded op-ed and social media outreach; and \$700k in public relations to further the mission critical campaigns.

Generally, the activities represented by these budget items reduce proportionately to the advertising and external mobilization budgets that they support.

Priority Issue Research

The flat budget would hold external research across all Mission Critical and Work issues at approximately \$11 million. Some research might be done in-house, but some would need to be deferred. See **Attachment E-2** for a detailed comparison of priority issue research by each individual issue.

Within the priority issues, we budgeted only for crucial spending to support issues consistent with member priorities. This incremental research is used not only to analyze the impact of new regulations for comments but also to develop the intellectual basis for use through Campaign Toolkit distribution channels (advertising, mobilization, public outreach, etc.) and as a foundational basis for litigation. In addition to the continuing regulatory efforts targeting fuels and refinery emissions, the Obama administration has expanded regulations on new issues that were previously not singled out and will require ongoing research and analysis in 2017.⁶ The recommended budget includes an increase of \$725 thousand for midstream segment issues, to support greater economic and policy research needed to support infrastructure campaign issues (particularly pipelines) and an increase of \$400 thousand related to pipeline and other transportation safety. An additional \$600 thousand has been proposed to support Air/NAAQS for research related to the ozone implementation rulemaking and the upcoming rulemaking for a new particulate matter NAAQS.

General Program Support

The general program support budget proposal contains overhead fixed costs, as well as personnel and benefit costs, which cannot be easily adjusted to different budget scenarios. We continue to seek opportunities for operating savings and carefully monitor discretionary spend, such as travel and entertainment. We negotiate vendor agreements or seek bids as contracts expire, to ensure our costs are competitive and provide the highest levels of service.

In a flat budget scenario for operations, API would defer the proposed contribution of \$4 million to the API RIP (\$2.4 million of which is attributable to staff paid for by the dues budget). While we anticipate the API RIP would be fully funded under ERISA, it may be subject to variable rate premiums under the different measurement used by the Pension Benefit Guaranty Corporation. After a review of personnel and skillsets, API would prioritize maintaining personnel, as the cuts to consultants, outside

⁶ Over all areas, the Obama administration is averaging 80 major final rules per year, vs. 62 during the Bush administration (29% increase). Expanded areas of focus include methane, GHG/social cost of carbon, waters of the U.S. enhanced pipeline and rail regulations and offshore operations and safety.

research and external support will mean more program support would be provided in-house. API staff possess unique skill sets and relationships with influencers that facilitate public policy advocacy, with limited inherent redundancy. In addition, the trade-off between the severance costs associated with a short term reduction in force do not result in a one-to-one savings over reductions.

The flat and recommended budgets include an average 3% salary increase, consistent with the average market movement among the Washington, D.C. association community, in which API competes for talent, and a 5% increase in health insurance costs (we continue managing the overall structure of our health insurance benefits to achieve this result, yet remain competitive).

The 2017 recommended budget contains an increase of \$2.4 million over 2016 to allow for a contribution to the API Retirement Income Plan. Although we had not budgeted for contributions in 2015 or 2016, we ultimately made a contribution of \$8 million in September of 2016 to avoid incurring \$230,000 in variable rate premiums under the Pension Benefit Guaranty Corporation's measure of funded status. We anticipate that a \$4 million contribution to the Plan will maintain its fully funded status and avoid incurring additional costs for variable rate premiums.

2016 Budget Projection

Based on results to date, API is projecting total remaining surplus of \$13.8 million. The remaining surplus includes the 2016 surplus of approximately \$8 million, including \$6 million from the dues budget, an increase of \$1.6 million from our April projection. The dues budget surplus includes operating savings of approximately \$1.1 million – consisting primarily of salary savings from unfilled vacancies, employee benefits and rent savings. It also includes approximately \$3.5 million of uncommitted campaign toolkit funding (such as issue advertising), the release of the \$1 million that was designated for implementing a health effects study (that will now be conducted outside of API), and \$400 thousand in underspend from political convention activities. In addition, \$2 million⁷ is estimated to be available for transfer from GIS net revenues. Additional information regarding GIS programs and the proposed 2017 budget is contained in **Attachments E-6 and E-7**.

In addition to the surplus described above, \$5.8 million in 2015 surplus remains unallocated and available for disposition. API recommends applying all accumulated and projected surplus funds (\$13.8 million) towards the 2017 funding budget.

	\$ millions		
	Accumulated Surplus	Contributed To API RIP	Remaining Surplus
Campaign Toolkit:			
Reprogrammed but unspent in			
Colorado Campaign	\$ 8.2	-	-
Less: Funds restored to programs	(1.5)	-	-
Sub-total	6.7	(6.7)	-
Communications	3.5	-	3.5
Operating Savings	2.4	(1.3)	1.1
Release of Carryovers:			
Health Effects Study	1.0	-	1.0
Savings from Convention Activities	0.4	-	0.4
GIS 2016 Additional Net Revenue	2.0	-	2.0
2015 Unallocated Surplus	5.8	-	5.8
Totals	\$ 21.8	(8.0)	13.8

⁷ This GIS surplus is in addition to the \$28 million already committed as general funds to reduce funding needs of the 2016 budget.

2017 Funding Budget

The funding budget represents anticipated funding needed to be collected from the volume-based dues payers in membership after subtracting all other sources of funding – application of prior year surplus, committed funding from GIS and general membership dues. For 2016 and 2017, it also includes the ANGA committed funding of \$17.5 million (for 2017, this includes \$12.8 million in member dues billings with the remainder funded from the cash contributed by ANGA under the asset contribution agreement). These sources represent 34% of the funding required for API's proposed 2017 budget.

The table below presents a reconciliation between the expense budget and funding budget for 2015, 2016, and 2017 (flat and recommended).

	2015 Approved <u>Budget</u>	2016 Approved <u>Budget</u>	2017 Flat <u>Budget</u>	2017 Recommended <u>Budget</u>
Upstream	\$ 8.7	6.7	7.0	7.8
Midstream	3.1	3.5	4.3	4.9
Downstream	12.6	10.0	9.7	10.8
Market Development	-	3.6	3.8	4.0
General Membership	0.7	0.6	0.8	0.9
State Petroleum Councils	7.2	7.2	7.3	7.7
Industry-wide:				
Campaign Toolkit	106.2	90.3	86.5	107.9
State Petroleum Councils	7.2	7.2	7.3	7.7
General Program Support	27.8	26.4	28.8	30.5
Dues Budget Expense	\$ 173.5	155.5	155.5	182.2
Funding reductions from Industry-wide:				
Application of Prior Year Surplus	(30.4)	-	(13.8)	(13.8)
Current Year Budget Not Billed	(5.0)	-	-	-
Cash Reduction Return	(3.0)	(15.0)	-	-
Current Year Committed GIS Funding	(28.0)	(28.0)	(29.0) ⁸	(28.0)
ANGA Committed Funding ⁹	-	(17.5)	(17.5)	(17.5)
Other Sources ¹⁰	(5.9)	(3.5)	(3.5)	(3.5)
Funding Budget excluding Tiered Dues	\$ 101.2	91.5	91.7	119.4

⁸ In a flat budget scenario, API would defer the \$4 million contribution to the API Retirement Income Plan, of which \$1.6 million is attributed to GIS FTE's. Removal of this expense would increase the net revenues of GIS and potentially make additional funding available to reduce the funding needs of the 2017 budget.

⁹ 2017 is the second and final year of transition dues for former ANGA members. These members will pay a portion of their final 2015 ANGA dues with the remainder drawn from a transition reserve of cash received from ANGA for a total financial commitment of \$17.5 million. Beginning in 2018, these members will be assessed under API's dues formula.

¹⁰ Other sources include funding from the segment dues (general membership, marine and pipeline in 2015; and general membership in 2016 and 2017) as well as interest income earned on cash and investment balances.

Combined API Expense Budget

The overall API proposed 2017 dues budget request is summarized in **Attachment E-2**. The self-supporting programs' budget is summarized in **Attachments E-6 and E-7**.

	\$ millions			
	2015 Approved <u>Budget</u>	2016 Approved <u>Budget</u>	2017 Flat <u>Budget</u>	2017 Recommended <u>Budget</u>
<u>Dues Program:</u>				
Campaign Toolkit	\$ 106.2	90.3	\$86.5	107.9
Priority Issues:				
Mission Critical	10.1	9.3	9.7	12.0
Work	3.6	1.5	1.6	1.8
Work/Monitor	1.2	0.2	-	-
Program Support				
(Personnel/Operating)	52.4	54.2	57.7	60.5 ¹¹
Total Dues Program	\$ 173.5	155.5	155.5	182.2
<u>Self-Supporting Programs:</u>				
Global Industry Services ¹²	\$ 76.2	83.8	80.9	82.5 ⁶
Special Solicitations	0.1	0.1	0.1	0.1
Total Self-Supporting Programs	\$ 76.3	83.9	81.0	82.6
Combined API Expense Budget	\$ 249.8	239.4	236.5	264.8

Actions

- Discussion and endorsement of an expense budget for final approval by the API Board of Directors at the API Board meeting on November 14, 2016.
- Endorse the use of \$13.8 million in accumulated and projected surplus toward the 2017 funding budget.

¹¹ Program support includes the \$4 million pension contribution for 2017, \$2.4 million of which is allocated to dues budget FTE's and \$1.6 million of which is allocated to the GIS FTE's.

¹² Net revenue per FTE is budgeted at approximately \$230,000, consistent with 2016 budget.

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Summary of proposed issues¹ list for 2017

Mission Critical	Work	Work / Monitor
Taxes	Oil Spill Prevention, Response & Liability	Energy Markets
Fuels	Water	Financial Reform and Transparency Implementation
Hydraulic Fracturing	Endangered Species / Marine Mammal Protection	
Energy Infrastructure ²	Health & Product Stewardship	
Access and Development	Security	
Climate Change	Trade / International ³	
Natural Gas Markets	Waste & Remediation ⁴	
Air / NAAQS ⁵		
Safety and System Integrity		

¹ Issues are not ranked in priority order

² Renamed from "Midstream Energy Infrastructure Development"

³ Merged with Exports and renamed from "International"

⁴ Moved from Work/Monitor per Member comments

⁵ Moved back to Mission Critical per Member comments

American Petroleum Institute
2017 Proposed Budget
Functional Program Summary

Attachment E-2
API Executive Committee
October 27, 2016

Program	2016 Approved Budget				2017 Flat Budget				2017 Recommended Budget			
	FTE	Operating \$	Issue Advocacy, Studies, Research	Total Amount	FTE	Operating \$	Issue Advocacy, Studies, Research	Total Amount	FTE	Operating \$	Issue Advocacy, Studies, Research	Total Amount
Taxes	-	-	300,000	300,000	-	-	290,000	290,000	-	-	290,000	290,000
Fuels	-	-	2,212,000	2,212,000	-	-	1,935,000	1,935,000	-	-	2,270,000	2,270,000
Hydraulic Fracturing	-	-	676,500	676,500	-	-	865,000	865,000	-	-	1,065,000	1,065,000
Energy Infrastructure	-	-	675,500	675,500	-	-	1,220,000	1,220,000	-	-	1,400,000	1,400,000
Access & Development	-	-	929,500	929,500	-	-	980,000	980,000	-	-	1,145,000	1,145,000
Air/NAAQs	-	-	2,284,500	2,284,500	-	-	2,227,000	2,227,000	-	-	2,930,000	2,930,000
Exports	-	-	35,000	35,000	merged with International. Renamed "Trade/International" and moved to Work in 2017				merged with International. Renamed "Trade/International" and moved to Work in 2017			
Climate Change	-	-	221,500	221,500	-	-	240,000	240,000	-	-	340,000	340,000
Natural Gas Markets	-	-	1,240,000	1,240,000	-	-	1,229,500	1,229,500	-	-	1,357,500	1,357,500
Safety and System Integrity	-	-	650,000	650,000	-	-	716,000	716,000	-	-	1,170,000	1,170,000
Campaign Toolkit	-	-	90,333,000	90,333,000	-	-	86,544,000	86,544,000	-	-	107,940,000	107,940,000
Mission Critical	-	-	99,557,500	99,557,500	-	-	96,246,500	96,246,500	-	-	119,907,500	119,907,500
Oil Spill Prevention, Response & Liability	-	-	250,000	250,000	-	-	250,000	250,000	-	-	250,000	250,000
Water	-	-	359,500	359,500	-	-	345,000	345,000	-	-	395,000	395,000
Endangered Species Act/Marine Mammal Protection	-	-	349,000	349,000	-	-	260,000	260,000	-	-	310,000	310,000
Health & Product Stewardship	-	-	431,000	431,000	-	-	490,000	490,000	-	-	535,000	535,000
Security	-	-	105,000	105,000	-	-	107,000	107,000	-	-	105,000	105,000
Trade/International	-	-	7,500	7,500	-	-	15,000	15,000	-	-	15,000	15,000
Waste & Remediation	-	-	1,502,000	1,502,000	-	-	1,582,000	1,582,000	-	-	1,795,000	1,795,000
Energy Markets	-	-	91,000	91,000	-	-	25,000	25,000	-	-	25,000	25,000
Financial Reform & Transparency Implementation	-	-	-	-	-	-	-	-	-	-	-	-
Waste & Remediation	-	-	147,500	147,500	moved to Work in 2017				moved to Work in 2017			
Oil Sands	-	-	7,500	7,500	eliminated from priority issue listing in 2017				eliminated from priority issue listing in 2017			
Work/Monitor	-	-	246,000	246,000	-	-	25,000	25,000	-	-	25,000	25,000
Total Research	-	-	101,305,500	101,305,500	-	-	97,853,500	97,853,500	-	-	121,727,500	121,727,500
Upstream	8.00	2,729,500	-	2,729,500	8.00	2,813,500	-	2,813,500	8.00	2,916,000	-	2,916,000
Midstream	8.00	2,397,500	-	2,397,500	8.00	2,604,500	-	2,604,500	8.00	2,706,500	-	2,706,500
Downstream	8.00	3,138,000	-	3,138,000	8.00	2,859,000	100,000	2,959,000	8.00	2,961,500	100,000	3,061,500
Market Development	6.00	2,535,000	-	2,535,000	6.00	2,658,000	-	2,658,000	6.00	2,740,000	-	2,740,000
Federal Relations	11.00	3,570,000	-	3,570,000	11.00	3,696,000	-	3,696,000	11.00	3,877,500	-	3,877,500
External Mobilization	7.50	2,071,500	-	2,071,500	7.50	2,085,000	-	2,085,000	7.50	2,231,500	-	2,231,500
States	47.50	13,183,500	929,000	14,112,500	48.50	13,639,500	969,500	14,609,000	48.50	14,416,500	1,025,000	15,441,500
Communications	23.00	6,050,500	222,000	6,272,500	23.00	6,156,500	234,000	6,390,500	23.00	6,460,000	234,000	6,694,000
Policy Analysis/Tax & Acctg	13.00	4,168,000	40,000	4,208,000	15.00	4,805,000	42,000	4,847,000	15.00	4,999,000	44,000	5,043,000
RASA	12.00	3,693,500	-	3,693,500	12.00	3,813,000	-	3,813,000	12.00	3,998,000	-	3,998,000
General Membership	2.25	576,500	40,000	616,500	3.00	783,500	47,000	830,500	3.00	829,000	70,000	899,000
President	2.00	3,371,500	-	3,371,500	2.00	3,508,500	-	3,508,500	2.00	3,544,000	-	3,544,000
Legal	9.50	3,425,000	277,500	3,702,500	10.00	3,778,000	277,500	4,055,500	10.00	3,906,000	277,000	4,183,000
Human Resources	4.00	819,000	-	819,000	4.00	947,000	-	947,000	4.00	998,000	-	998,000
Info. Technology	7.00	2,212,500	975,000	3,187,500	7.00	4,401,500	1,005,000	5,406,500	7.00	4,498,000	1,005,000	5,503,000
Financial Operations	10.50	3,288,500	585,000	3,873,500	10.00	3,919,000	585,000	4,504,000	10.00	4,049,000	585,000	4,634,000
Recovered Cost	2.30	(6,105,000)	-	(6,105,000)	4.65	(8,064,500)	-	(8,064,500)	4.65	(8,005,000)	-	(8,005,000)
Total Other Program	181.55	51,125,000	3,068,500	54,193,500	187.65	54,403,000	3,260,000	57,663,000	187.65	57,125,500	3,340,000	60,465,500
Total Program Budget	181.55	51,125,000	104,374,000	155,499,000	187.65	54,403,000	101,113,500	155,516,500	187.65	57,125,500	125,067,500	182,193,000
Dues Program	181.55				187.65				187.65			
Global Industry Services	134.45				140.35				140.35			
Total FTEs	316.00				328.00				328.00			

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2017 CAMPAIGN TOOLKIT OVERVIEW

Success in full-scale advocacy campaigns demands the application of a comprehensive approach, which we collectively call the Campaign Toolkit (described below) that shapes influential public and policymaker views and decisions on the issues at hand. The trend is an increasing shift of these issues to the local level requiring development and deployment of the campaign tools in a more localized manner. Timing and intensity of the use of these tools shifts with the changing status of the issues. Lawmakers and regulators will not maintain a constant level of focus on all issues all the time. What is sure, over the course of any mission-critical issue's maturation, is that achieving success will require a strategic use of the modern tools in the toolkit at various times. While one can predict confidently that policymakers will address all of the mission-critical issues during the course of a year, one cannot predict with precision which issue will demand the application of particular tools at particular times or at particular levels of intensity.

In constructing the campaign budget for the mission-critical issues, API has taken the approach of determining the budget requirements on an aggregate basis. This umbrella approach also helps to ensure that resources are expended only as necessary, without an artificial assignment of funding requirements to particular issues and preventing over budgeting. Based on the political assumptions made when analyzing the budget level for the Campaign Toolkit and recognizing that not all priority issues are likely to require full-scale campaign response, we have strived to retain flexibility within the Campaign Toolkit to respond to specific issues or unforeseen issues should circumstances warrant. However, should significant unforeseen events materialize requiring substantial response beyond available resources, API may need to seek additional guidance and potential funding from the membership.

The table below presents a summary of the Campaign Toolkit budget scenarios.

	\$ millions			
	2015	2016	2017	2017
	Approved	Approved	Flat	Recommended
	<u>Budget</u>	<u>Budget</u>	<u>Budget</u>	<u>Budget</u>
Advocacy:				
Direct Advocacy	\$ 2.8	2.1	2.1	2.4
Grassroots & Third Party Outreach	25.5	21.2	21.5	25.9
Subtotal	\$ 28.3	23.3	23.6	28.3
Advocacy Support:				
Policy Research and Analysis	\$ 2.2	1.4	1.4	1.8
Public Outreach	3.9	4.9	4.7	5.3
Public Relations	4.1	3.4	3.0	3.7
Advertising	62.0	53.5	50.0	64.0
Opinion Research	3.2	2.3	2.3	2.3
Litigation	2.5	1.5	1.5	2.5
Subtotal	\$ 77.9	67.0	62.9	79.6
TOTAL CAMPAIGN TOOLKIT	\$ 106.2	90.3	86.5	107.9

The Campaign Toolkit Categories

The tools in the campaign toolkit fall into two general categories: advocacy and advocacy support. Below is a detailed description of the categories:

Advocacy

- **Direct Advocacy**
 - **Contract lobbyists (political support)** — Third-party advocates with widespread political networks who carry industry positions directly to policymakers.
 - **Policymaker outreach** — API supports and interacts with organizations directly involved with policymakers (e.g., Congressional Black Caucus Institute, Hispanic Caucus Institute, etc.).
- **Grassroots & Third Party Outreach**
 - **Mobilization** — API's mobilization program brings together grassroots non-industry organizations (state-based Energy Forums) with a network of individual voters (Energy Citizens) and industry employees (Energy Nation), combined with a vast database of likely voters (Microtargets). Currently, API's 36 million strong advocacy network can mobilize in all 50 states and 435 congressional districts (from a minimum of 1,700 voters to more than 350,000 in one district) to call lawmakers, submit comments and letters on policy proposals and regulatory matters, attend events, hold press conferences and stand up for policies of importance to oil and natural gas when called upon.
 - **Labor Management Committee** — Coalition of API, member companies and trade unions that collaborate in advocacy on issues of common concern.
 - **Nontraditional Allies** — API has continued to build relationships with societal demographics that are underrepresented or not familiar with our industry: women, Latinos, African-Americans, Asian-Americans, Native Americans, and veterans.
 - **Coalition for American Jobs** — Coalition of API and other associations in support of promoting job preservation through sensible regulation.
 - **Grassroots activists (3rd party)** — Individuals and groups closely aligned with industry who message directly with policymakers on industry positions.

Advocacy Support

- **Policy Research and Analysis**
 - **Economic Impacts** — Econometric studies are conducted to explain the impact that issue outcomes can have on jobs, costs, and other key indicators.
 - **Opposition Research** — Monitor activities by issue opponents to determine direction and content of their advocacy activities.

- **Public Outreach**
 - **Spokespersons** — API staff and third-parties directly and indirectly interact with the media and target audiences through editorial board visits, interviews and public appearances to present industry's positions on the issues.
 - **Op-ed writing and placement** — Issue-specific essays by API and third parties appear in a variety of media outlets.
 - **Conventional Media** — In addition to spokespersons' outreach, API staff and third parties interact with conventional media to provide information and develop print/broadcast materials that reporters/editors can use as they carry stories forward to their audiences.
 - **Social Media** — Active engagement with new media outlets, including close contact with targeted blogs; and use of advocacy-relevant communications channels such as Twitter.
 - **Media Monitoring** — Monitor and provide analysis of conventional and new media coverage of the industry and issues, and leverage information to target future outreach and shape stories.
- **Public Relations**
 - **Outreach Support** — Use of outside firms to develop messages, content and activities that assist in generating and directing target audiences' policy discussion and shaping the public policy environment in which the industry operates.
- **Advertising**
 - **Production** — Print, radio, television and new media advertisements are created by API and advertising firm(s), under the direction of API staff and review by the Communications Committee and the Committee on Federal Relations.
 - **Placement** — Advertisements are run as necessary in the appropriate media venues, inside the Beltway, nationally and in targeted states.
- **Opinion Research**
 - **Measurement and Testing** — Quantitative and qualitative target audience research to assess opinion and test/develop messages for communications and advocacy activities.
- **Litigation**
 - **Litigation** — Funding to litigate adverse rulemakings on the grounds of inadequate administrative process or statutory violation, file amicus briefs in litigation initiated by other parties, or defend agency actions against challenges by industry detractors. While there are many issues on the horizon that API may litigate, we recognize that not all of them may result in a court challenge. Therefore, while we assess the aggregate potential cost of litigation issues, we also take into account coalition building, smoothing of costs over multiple years to accommodate the expected life cycle of a lawsuit, and then we discount that back to prevent over-budgeting.

The Mission Critical Campaigns

- Taxes

Regardless of the outcome of the presidential election, it is almost certain that federal tax reform will move beyond rhetoric and be pursued in 2017. The entire industry will certainly have a significant stake in the outcome of any corporate tax reform initiative. Early intelligence indicates that Ways and Means Chairman Kevin Brady will introduce legislation in the 2nd or 3rd quarter of 2017. In addition to supplementing our internal staff expertise and resources dedicated to tax policy issues, API is prepared to respond with a campaign that includes issue-specific, inside-the-beltway advertising and mobilization activation, if needed.

- Fuels

In 2016, working through the Downstream Committee, API established industry's position on the RFS as seeking repeal or significant reform of the program and to build momentum for legislative action. In 2017, we expect to increase advocacy efforts on the RFS, building on the momentum we created in 2016, and expanding current support in the House, which includes 112 co-sponsors of reform legislation. Additionally, we will focus our advocacy on gaining similar momentum in the Senate, which will require new targets and likely outreach in additional states. With the start of a new administration and new Congress, we will realign our targets of education while expanding our advocacy for a full-scale legislative push on the RFS, which includes advertising in targeted districts and states where we could increase our Congressional support.

There is also the potential for state and local fights on issues like fuel mandates and E-15 mandated use/sale provisions, and we are prepared to engage API's grassroots/grasstops assets to mobilize third-party messengers to advocate on these issues.

- Hydraulic Fracturing

The assault on hydraulic fracturing continues on a state and local level through proposed bans, restrictions and misinformation about safety. Based on the priority states identified with input from the Upstream and State Relations committees (Colorado, Pennsylvania, Ohio and Michigan), API will continue the educational campaign on hydraulic fracturing designed to address concerns about HF safety and impacts through a comprehensive advocacy campaign in those key states utilizing a full complement of communications tools including TV, radio, and digital/social promotion, as well as strategic communications and engagement of API's millions of mobilization advocates and assets across the country. In addition to the advertising campaign, Mobilization assets such as Energy Nation, Energy Citizens, Energy Forums and the Microtargets will be engaged on these issues as strategically necessary.

The broader hydraulic fracturing campaign is based on member company assets or, in some instances, the risk of an unfavorable precedent being set. We anticipate that there may be a need to suspend the broader advertising campaign in some states in order to defend against specific state legislation or regulation that bans fracking (Florida, Maryland and North Carolina) or imposes/increases severance taxes (Pennsylvania and Ohio). As we have done in the past, we reprioritize the spending on the broader HF campaign and redeploy those resources to defend against bans and tax proposals. This prevents over-budgeting that would otherwise have resulted if we had budgeted specifically for each potential local campaign.

- Energy Infrastructure and Natural Gas Markets

Our industry's ability to build and fulfill natural gas market demand is contingent on the existence of a strong infrastructure to support product delivery. As a result, the campaigns for energy infrastructure and natural gas markets complement each other as API responds to increasing local challenges to all energy infrastructure projects.

API anticipates broad engagement on oil and natural gas pipelines as well as other infrastructure issues will be necessary. However, for budgeting and planning purposes priority states have been identified. The proposed campaign includes strong localized advertising using digital and social media with the potential for radio and print advertising, as well as mobilization outreach, education and activation to counter challenges for infrastructure projects. Natural gas pipeline challenges exist throughout New England, Pennsylvania, Ohio, West Virginia, Virginia and North Carolina. Oil pipeline challenges exist in Wisconsin and Michigan. While this list represents currently anticipated opposition, opposition to projects not previously contemplated, such as the Dakota Access Pipeline can arise quickly and require immediate response. To directly support expanded natural gas markets in power generation, the campaign will utilize mobilization, digital and social media in targeted states to educate consumers about the environmental, economic and reliability benefits of natural gas in the power grid. API will also continue its legal interventions on behalf of LNG export facilities.

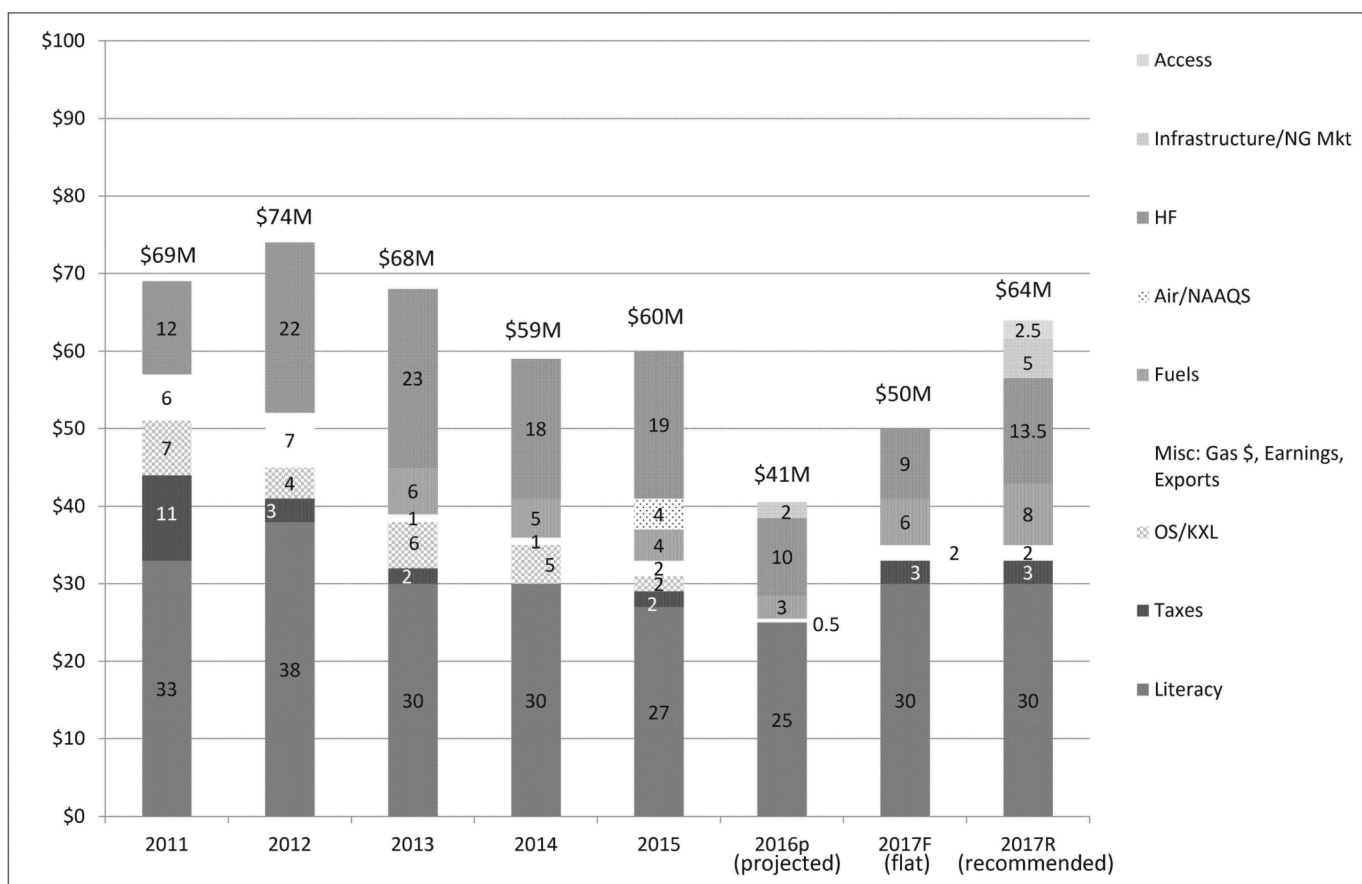
- Access and Development

As opponents continue to advocate for bans and restrictions on access and development of domestic oil and gas resources, this remains a mission critical issue for API. Current threats have intensified in the Gulf States and Alaska to prevent access and along the Atlantic coast against seismic surveys. The campaign is designed to provide messaging to support continued and expanded development and to build out mobilization resources in Florida in preparation for the expiration of the moratorium in the Eastern Gulf of Mexico in 2022.

- Air/NAAQS

Although we do not anticipate that Air/NAAQS will require a full campaign-style response in 2017, we recognize the significance of implementation and proposed rulemaking and have included additional research funding to conduct studies in 2017.

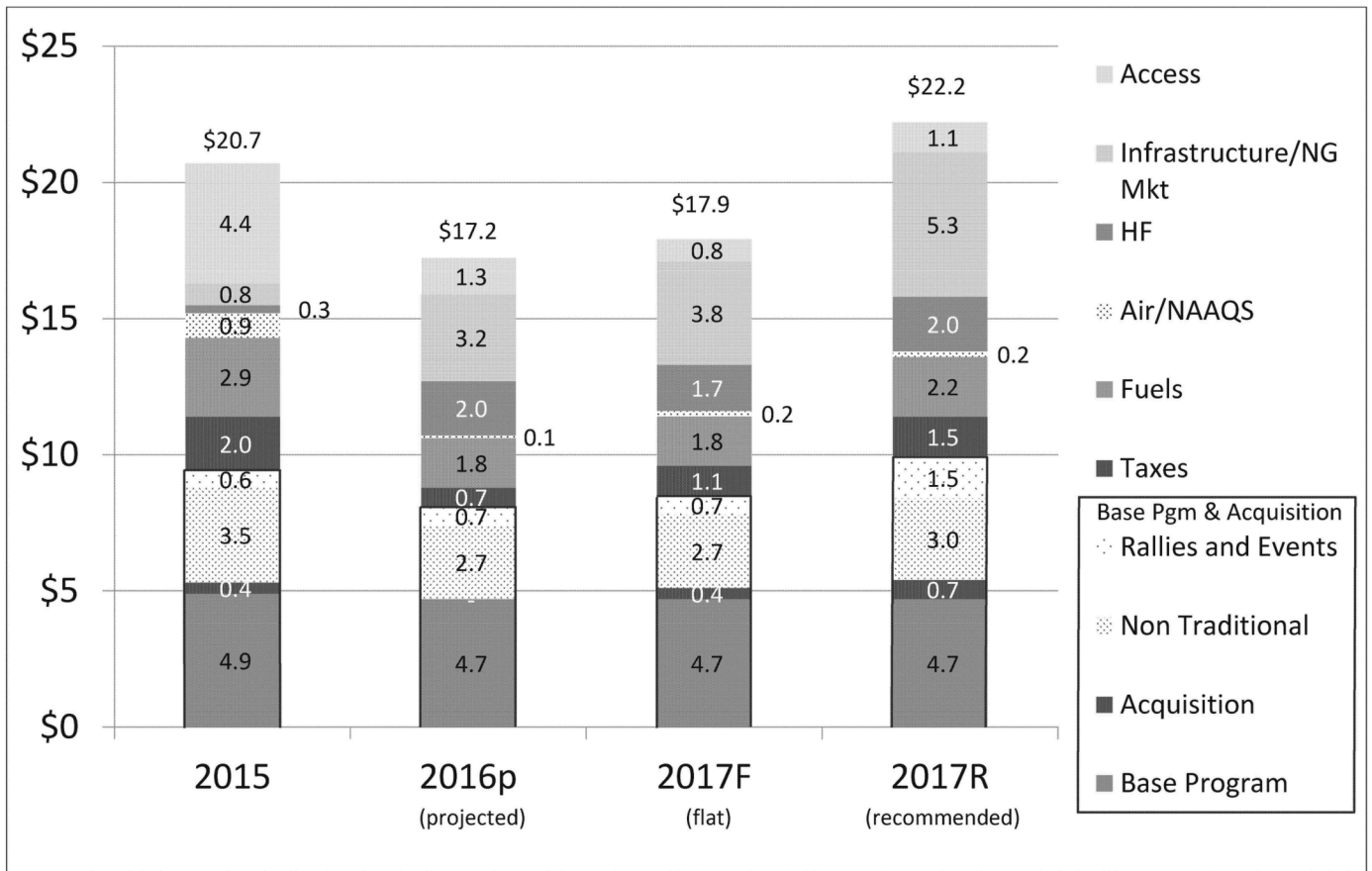
Breakdown of Annual Advertising Spend (\$ millions)



Note: "2017F" represents the flat budget scenario. It is actually a reduction from the budgeted spend for 2016 (\$53.5 million on which spending was curtailed in preparation for a potential Colorado campaign) with further reductions to advertising made to achieve an organization-wide flat budget.

Breakdown of Annual Mobilization Spend (\$millions) (by issue)

Attachment E-5
API Executive Committee
October 27, 1016



2017 SELF-SUPPORTING PROGRAMS BUDGET REQUEST

API's self-supporting programs are divided into two categories—Global Industry Services (GIS) and special solicitations. Global Industry Services' programs provide goods or services to the oil and gas industry and are purchased as needed by the customers. In general terms, the expectation for each GIS activity is that it must be of value to the member companies; when appropriate, provide revenues in excess of costs; be managed on a business-like basis; and, not be readily available from other providers. Also, for any new program, API staff must make a business case for undertaking it. Although the GIS programs are operated collectively and revenues are used to support the overall programs, each individual activity must be reviewed separately and meet its own financial test.

Special solicitations are distinct activities that obtain funding to carry out specified research or consulting activity. The same principles above apply to special solicitation programs, but special solicitation programs generally have a projected duration. Funds are collected in advance of spending requirements and any amounts remaining at the end of a special solicitation program are disbursed as directed by those companies who participated in the program.

The table below summarizes the self-supporting program's anticipated performance for 2016 and the 2017 budget request (in \$ thousands).

	2016 Projection¹			2017 Proposed Budget		
	Global Industry Services	Special Solicitations	Total	Global Industry Services	Special Solicitations	Total
Revenue	\$ 107,637	\$ 500 ²	\$ 108,137	\$ 114,572	\$ 100	\$ 114,672
Expense	<u>74,000</u>	<u>100</u>	<u>74,100</u>	<u>82,452</u>	<u>100</u>	<u>82,552</u>
Net Revenue	<u>\$ 33,637</u>	<u>\$ 400</u>	<u>\$ 34,037</u>	<u>\$ 32,120</u>	<u>\$ -</u>	<u>\$ 32,120</u>

¹ The 2016 projected net revenue (and 2017 budgeted net revenue) includes \$28 million that is committed to support the API dues budget as defrayment of costs. In addition, we are recommending \$2 million of the additional 2016 projected net revenue be available for transfer to the dues budget as surplus.

² The only current Special Solicitation is the Section 211B research program. The program is expected to be completed by the end of 2016. Under the 211B research program agreement, new entrants may continue to join the research group and the agreement will terminate no sooner than five years after the last final report for a study required under the Test Rule is submitted to EPA. A final accounting for the program will be performed at that time. The final two reports have been accepted by EPA and the laboratory that conducted the research is in the process of preparing the final versions.

Global Industry Services

Global Industry Services is comprised of the following programs:

- Standards and Publishing
- Certification Programs:
 - Monogram
 - API Quality Registrar (APIQR)
 - Individual Certification Programs (ICP)
 - Engine Oil Licensing and Certification System (EOLCS), Diesel Exhaust Fluid Certification Program (DEF), and Motor Oil Matters (MOM)
- Training Programs:
 - WorkSafe
 - API-U
 - eMaintenance
- Statistics
- Events
- Safety Programs:
 - Center for Offshore Safety (COS)
 - Downstream Safety Program

GIS's year to date financial results remain strong, despite market conditions. With new leadership, 2016 has been a year of "shoring up the foundation." GIS followed disciplined cost control measures throughout the year. As the division completes a thorough evaluation of operations through year end, it is confident that efficiencies can be identified and vendor management protocols implemented that will not only improve financial performance, but will also enhance accountability and customer experience. Projected net revenue for GIS is \$33.6 million, which has improved from the projection reported in June of \$30.9 million in net revenue and represents a consistent return with 2015 net revenue.

GIS continues monitoring the impact of market conditions on the programs. While preparing the 2016 projected results and 2017 proposed budget, staff evaluated the impact of a softer market for new and renewal business and growth and new opportunities that can offset downturns in other areas.

Specific program budget highlights are as follows:

Standards and Publishing

The program includes the costs of producing and distributing API's global standards, offset by royalties generated by their sale through third-party distributors. The 2017 budget includes additional personnel and costs associated with continued implementation of the Global Standards Strategy – a critical initiative to foster the development of a single set of industry standards for use around the world. The budget also includes the addition of 3 standards associates to research and lead the development of standards in emerging technologies for industry, such as drones and cyber.

Monogram/APIQR

API's flagship facility certification, Monogram, and its companion ISO program, APIQR have experienced higher cancellation and non-renewal rates in the current environment. With approximately 40% of the customer base in China, the overall industry conditions coupled with a weakening Chinese economy, has affected the program. Program staff note that customers are not wholesale abandoning the program, but continue re-evaluating the number of licenses held by any

one facility. During 2016, the programs deferred some spend on technology and operating enhancements pending a deeper review of operations to identify further efficiencies that would maximize this investment. The programs will take the lead on implementing these enhancements in 2017, and these enhancements are intended to be replicated across all programs with little incremental costs.

ICP

ICP is expected to grow at a measured pace, certifying inspectors through its various professional examinations conducted worldwide. The program has experienced growth in this environment as individuals affected by industry layoffs retool and rebuild their professional qualifications.

EOLCS, DEF and MOM

The EOLCS program has completed its periodic testing of the categories certified under the program during 2016, which improves its financial margin in 2017. On a three to five year cycle, in cooperation with the automotive industry, the categories certified under the EOLCS program are tested.

Training Programs

API's training program strategy evolved from a model of licensing training providers' courses and content to one in which API's acquires or develops its own content that, in turn, it licenses to qualified training providers in exchange for a royalty. This strategy has been successful for the program and results in consistent worldwide delivery of courses based on API's most important standards. While overall growth is slower than anticipated, GIS will apply additional promotional efforts to continue growing the program.

Statistics

API's statistics program is continuing the implementation of a new subscriber model for the flagship Weekly Statistical Bulletin (WSB), intended to capture the value of this important publication. The revenue growth anticipated by transforming the publication from a low-priced fixed fee distribution arrangement to a per-user access has been slower than expected. However, much of the effort lies in working with (and educating) distributors on the WSB's acceptable use policy and limiting distribution of the product to paying customers. The expense budget includes the technology costs of improving data analysis tools and mirroring the format with changes announced by the EIA, an important partner in API's data collection. The timing of this work has shifted into 2017 as API adapts the information collection to complement EIA's forms. The Pipeline Public Awareness Survey (a bi-annual project) will be conducted in 2017, generating approximately \$800 thousand in additional revenue and expense, which is not included in the 2016 budget.

Events

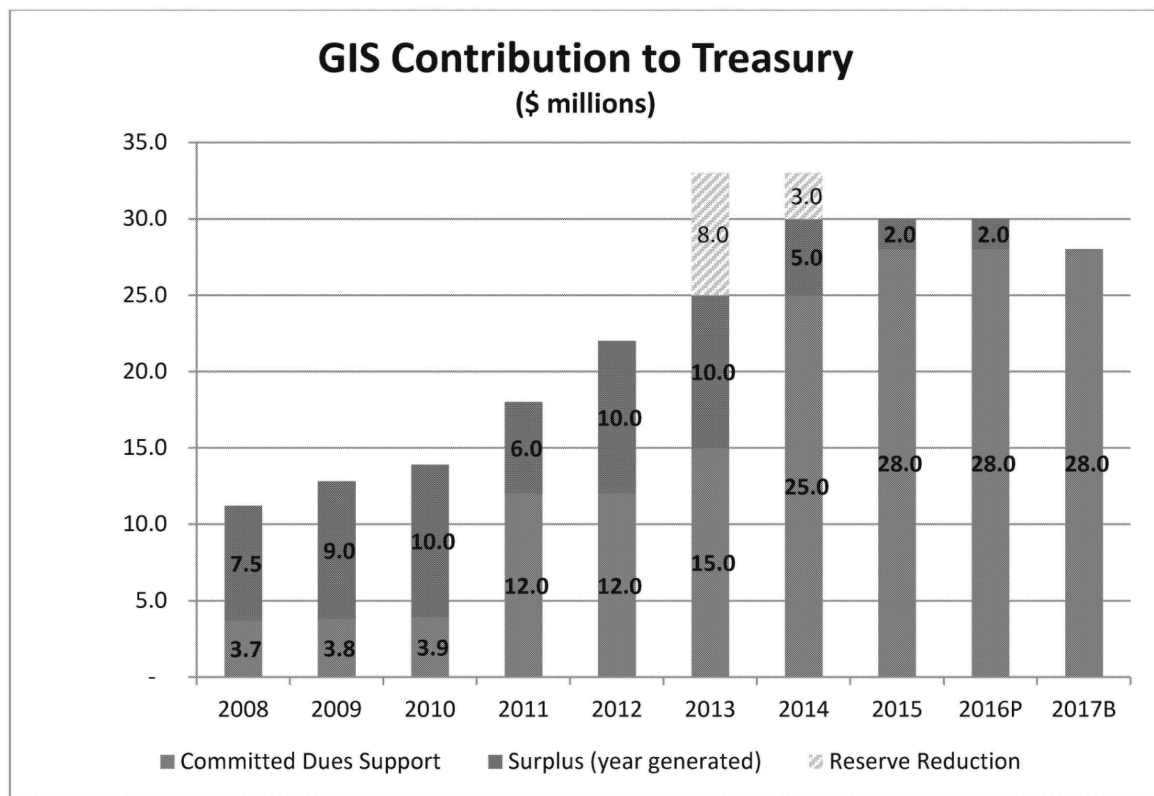
API's meetings and conference services programs host regular annual meetings (such as standards and segment conferences) as well as large cyclical events (including the Inspection Summit, held every two years in 2013 and 2015; and the International Oil Spill Conference held every three years in 2014 and 2017). Although attendance at API meetings has remained fairly strong during 2016, a few meetings have experienced declines. In 2017, API will host the triennial International Oil Spill Conference (IOSC), which will boost net revenues for the department. In

general, hotel and conference space providers are seeking increased service fees, which the program staff are combating to the best of their ability to minimize program costs.

Center for Offshore Safety/Downstream Safety Program

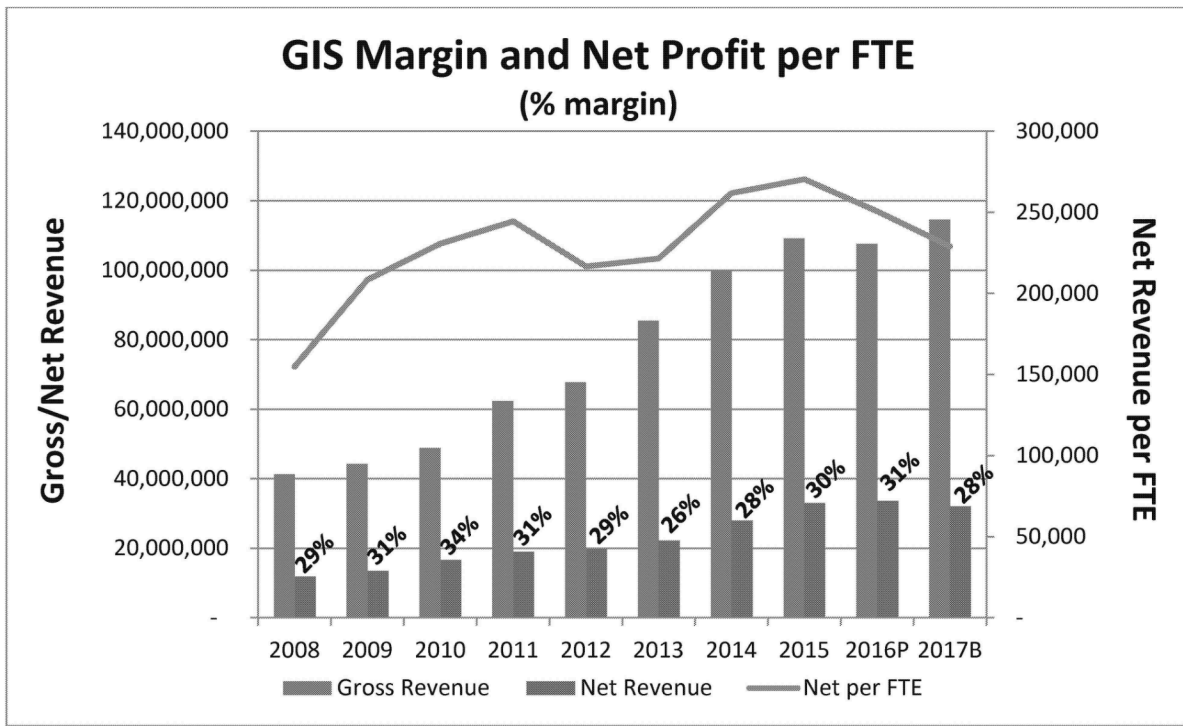
As the Center for Offshore Safety and the Process Safety Site Assessment Program enter their 6th year of operations, GIS will revisit the original business plans to adjust existing or identify new revenue streams and minimize losses through cost containment.

In evaluating the overall programs' fund balance position and budget for 2017, we project an additional \$2 million in 2016 surplus attributable to the net revenues from GIS (which is included in the accumulated surplus of \$21.8 million as described in **Attachment E**). This is in addition to the \$28 million in committed support used to reduce the funding needs from the membership. Reserves associated GIS programs are anticipated to be approximately 8% of anticipated program expenses. Given the budgeted net revenues for 2017, the committed support from GIS programs remains consistent with 2016 at \$28 million.



A historical analysis of GIS' program growth and net revenue per FTE is shown in the table below. The historical margin experienced by the collective GIS programs remains strong - it has averaged approximately 29% over the 10 year period. Net revenue per FTE varies as the programs grow

through headcount additions but ultimately are anticipated to rise as that investment in personnel matures. The historical average net revenue per FTE is approximately \$228,000, consistent with the 2017 budget.



Special Solicitations

As indicated above, API's special solicitations are distinct research or consulting activities with a projected duration. The funds collected from participants and related expenditures are maintained separately and the programs are monitored to ensure their commitments do not exceed available funds. The vast majority of the special solicitation activity is carried out by API's Regulatory and Scientific Affairs department, with the Section 211B Research Program currently the only active program. Under the 211B research program agreement, new entrants may continue to join the research group and the agreement will terminate no sooner than five years after the last final report for a study required under the Test Rule is submitted to EPA (currently the final two reports have been accepted by EPA and the laboratory that conducted the research is in the process of finalizing those reports). A final accounting (and distribution of any remaining program fund balances) will be performed at that time.

American Petroleum Institute
2017 Proposed Budget
Self-Supporting Programs Summary Table - Budget Verses Projected 2016
(Thousands)

		2016			2016			2016			2017		
		Budgeted	Budgeted	Budgeted	Projected	Projected	Projected	Budgeted	Budgeted	Budgeted	Budgeted	Budgeted	Budgeted
	<u>Staffing</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Net</u>	<u>Revenue</u>	<u>Expense</u>	<u>Net</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Net</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Net</u>
Global Industry Services													
Standards & Publishing	26.00	\$ 12,460	\$ 8,797	\$ 3,663	\$ 12,460	\$ 7,736	\$ 4,724	\$ 13,065	\$ 9,556	\$ 3,509			
Monogram	27.00	36,108	19,546	16,562	36,490	18,651	17,839	36,762	20,902	15,860			
APIQR	-	21,502	18,178	3,324	18,451	16,352	2,099	18,836	16,571	2,265			
Individual Certification	10.00	14,240	8,982	5,258	13,800	7,511	6,289	15,194	8,238	6,956			
Engine Oil Licensing & Certification	6.00	10,563	8,278	2,285	11,730	8,715	3,015	11,885	8,476	3,409			
Training Programs	3.00	3,917	3,009	908	2,335	1,925	410	2,827	2,357	470			
Statistics	3.35	1,160	2,909	(1,749)	1,127	1,770	(643)	1,825	2,713	(888)			
Events	8.00	6,791	6,642	149	5,677	5,543	134	7,844	7,289	555			
Center for Offshore Safety	5.00	5,310	4,564	746	3,256	3,197	59	3,460	3,129	331			
Downstream Safety Program	2.00	2,650	2,920	(270)	2,311	2,600	(289)	2,874	3,221	(347)			
GIS Support & International Offices	33.00	-	-	-	-	-	-	-	-	-			
Allocated Staff ⁽¹⁾	17.00	-	-	-	-	-	-	-	-	-			
Sub-total	140.35	\$ 114,701	\$ 83,825	\$ 30,876	\$ 107,637	\$ 74,000	\$ 33,637	\$ 114,572	\$ 82,452	\$ 32,120			
Special Solicitation													
Regulatory Analysis and Scientific Affairs	-	100	83	17	500	100	400	100	100	-			
Sub-total	-	\$ 100	\$ 83	\$ 17	\$ 500	\$ 100	\$ 400	\$ 100	\$ 100	\$ -			
Total	140.35	\$ 114,801	\$ 83,908	\$ 30,893	\$ 108,137	\$ 74,100	\$ 34,037	\$ 114,672	\$ 82,552	\$ 32,120			

⁽¹⁾ Allocated staff includes 2 legal positions, 10 IT positions and 5 accounting positions which have been fully allocated to the programs supported.