April 3, 2020

Comments for Texas Railroad Commission Hearing on April 14, 2020 concerning reasonable market demand for oil in the State of Texas

Jim Wilkes

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Texland Petroleum, LP is a privately held independent oil producer in the Permian Basin with oil production of about 7000 barrel per day. We have been in business since 1973 with headquarters in Fort Worth and a field office in Lubbock. We employ 73 people and operate 1211 wells in 40 waterflood projects.

In all previous oil price downturns, we have always managed to sell our oil production and maintain operations at close to a breakeven level. This COVID-19 crisis has presented us with issues that we have never faced before.

Curtailment of production is already occurring in the field because purchasers are canceling our crude oil contracts with 30-day notice provisions. Our largest purchaser has asked us to reduce oil production by 15 %. One purchaser cancelled our contracts effective May 1 with no renegotiation for 2000 barrels per day. One purchaser has cancelled our contracts effective May 1 subject to renegotiation for 800 barrels per day. One purchaser has cancelled a contract effective May 1 for a new horizontal well making over 100 barrels per day.

We are following the NYMEX oil price and differentials to NYMEX in the Midland market, which are currently being priced for the month of May. It looks like we may net single digit oil price for the barrels that are still under contract to sell in May.

We concluded that we could not continue to produce oil and come close to breakeven between revenue and expenses. We are currently planning to shut down all our fields on May 1 and try to maintain our wells and equipment in the best condition possible to allow us to resume production when the crisis is over.

We certainly have concerns on how our wells will produce following a long shut-in period, because we have no previous experience with this. Some wells may take time to recover to their previous production rate and some may never recover their previous rate.

I am sure that many producers are having their crude oil contracts cancelled by their purchasers. We have experienced different treatment based on the type of purchaser. Refiners and true midstream companies have curtailed purchases while large producing companies with gathering and purchasing arms have outright cancelled our contracts entirely. This forced curtailment may be affecting smaller companies differently from more integrated producers with their own pipeline capacity.

If the Texas Railroad Commission were to prorate production, we believe that curtailment of production would be more fairly distributed between small producers and larger, integrated producers.