# April 14th meeting on Oil Market Demand by the Texas Railroad Commission

Emailed to RRCconference@rrc.texas.gov

To the Honorable Wayne Christian– Chairman

To the Honorable Christy Craddick

To the Honorable Ryan Sitton

In order to reduce the flaring of newly drilled wells in the Permian Basin and other areas of Texas and to address the large surplus of crude oil production created by the combination of Saudi Arabia's deliberate dumping of oil in Texas and demand destruction by the Covid 19 virus, I submit that the Railroad Commissioners of Texas immediately study the implementation of allowables in areas where there is no gas plant capacity to take a newly drilled well's natural gas and furthermore, look to balance the overall refining requirements of the refining industry on market demand for both our domestically produced oil and natural gas in the State of Texas.

<u>In regard to market demand for Natural Gas in regard to wells that are flaring</u>:

In a situation where an operator is not drilling the first well in a new field that has a gas plant that is currently taking gas from the operators gathering system, I would propose that an operator that permits a well after May 1, 2020 that has no market because of plant capacity for its natural gas be placed in an allowable situation whereby the Texas Railroad Commission ("Commission") has the authority to limit the calendar days an operator can produce its new well along with any other wells that operator has going into the gas plant until the plant has room for all of the operators well's natural gas that are connected to the plant.

In a situation where a new well is drilled, we request the commission only allow the maximum number of days for that operator to flare its natural gas production to 90 days (or the current allowed time frame) and the operator must then shut in the well until an adequate market is found for the well to produce into.

The reenactment of allowables in these unique cases where there is no plant capacity, will immediately stop the current waste of our precious natural gas commodity and at the same time increase the safety in our oil and gas fields. This will also allow for the eventual recovery of the natural gas price in certain areas and thereby boost state taxes for counties, schools and the State of Texas overall.

<u>In regard to market demand for oil production for the State of Texas:</u>

Let me start out with a simple analogy. You have a water hose hooked up to your house. We will call your house the Permian Basin. The other end is your garden. We will call that end the Gulf

Coast refining complex. As we all know, the water flows very well from the hose until the worst thing possible can happen—it gets plugged off. Spoiler alert: We are now within one month of that hose being completely plugged off.

How and why is this happening? First, we all are experiencing oil dumping that is killing demand by the Saudis and Russians vis a vis with the economic impact of the coronavirus. Demand is being devastated everywhere and refiners are seeing their gasoline and jet fuel sales devastated! They are forced to slow down their refineries to minimum levels just to keep them running. Refiners are clearly not needing as much oil as they needed a month ago and won't until the virus passes by our country and we are all getting back to something like normal.

One of my friends who operates in the Permian Basin told me today that their oil marketing consultants warned him that the storage situation is becoming dire. Take my hose analogy. Well, along that so-called hose are large storage tanks. These are there for many reasons, but in times of pipeline or demand problems, the pipeline companies can use storage to help add or hold more barrels as the situation requires. My friend was told that the differential for oil in West Texas (called West Texas Intermediate or WTI) is trending from a positive $1 per barrel currently to a negative $10 per barrel in May. This equates to a price per barrel of $20 WTI being effectively reduced to $10 per barrel in May. Some producers might actually be unable to sell their oil at any price due to unavailable storage in Midland, Cushing Oklahoma or the Gulf coast.

A second and maybe the more important reason for our pricing woes, are the Saudis and Russians getting together and taking advantage of the Covid virus outbreak to flood the world oil markets with excess oil. They may call it a price war, but it is clear and simple a direct attack to once and for all devastate the American Energy producer and to us here in the Permian Basin they are doing a very good job of it. Now, back to our hose going to the Gulf Coast, refiners are seeing other hoses materialize, foreign hoses. Those foreign hoses are flowing with crude oil at massive discounts to entice the refiners to buy their oil instead of our "Good Ol' Made in the USA Oil". Why should we support any foreign country that is doing this to us? If now our American refineries are buying foreign crude instead of American crude just for the sake of profit in these dire Covid virus times, we should at least know who they are. It is simply Un-American, in my opinion, and we can all address this problem at the gas pump and the stock market. Reuters is reporting this last week that Saudi leased out a record number of 40 supertankers which hold 80 Million barrels of oil to strategically flood that oil into our US markets at their will and then also not allow US exporters to utilize them. This caused tanker rates to go from $40,000 per day to $200,000 per day overnight. Is that not premeditated? This is a threat to our own domestic industry!

We have a solution. Until two weeks ago, I was 100% against the use of proration in Texas to remedy these kinds of problems. As all of you know this rule was set up in the 1920's when the East Texas Field came online, and Texas production far outpaced what could be used in those days. This is the same scenario we have today due to the feeble demand from the Covid virus outbreak. Proration is what the commission has done for many such events over the last 100 years. Why was I against oil proration back then? Simply put: If our American producers backed off their production, the foreign oil guys would have seen the opening and over supply the market with their cheap crude oil.

This is where the Trump administration and Department of Energy needs to step in and help Texas and other oil producing states energy industries. They should immediately place a tariff on imported oil coming into this country and expose any US owned refinery that is taking imported oil into its refinery at the expense of American oil. We know via the Department of Energy web site what each refinery was importing say in the last quarter of 2019 and from whom. We can also see now if the refineries are importing more foreign crude than domestic crude because of the low prices place on those oils by the Saudis when they recently started dumping into the market and selling their oil at an incredibly discounted rate.

In essence my remedy would be for the Texas RRC to enact a strategy in conjunction with the Trump administration as follows:

The world and the United States are over-supplied by some 16 million barrels of oil per day (or roughly 20%). We initiate a balanced approach to what our United States refining complex needs as far as oil input goes, and then everyone involved in the supply of that oil participates by reducing their inputs by, say, 20% across the board. Everyone shares equally. So, the United States produces some 13 MM BOPD and we import roughly 6 MM BOPD. The US would cut back 20% = 2.6 MM BOPD and our import partners do the same. The top 5 exporters to the US rank as follows per EIA DOE data from the 4th quarter of 2019 when things were running normally:

Canada 4.2 MM BOPD

Mexico 0.65 MM BOPD

Saudi 0.53 MM BOPD

Columbia 0.37 MM BOPD

Ecuador 0.3 MM BOPD

Each of these and any others that were exporting into the US would cut their volumes back by 20% also. But here is the stick: if any of them produce more than their 80% of their allocated exports to the US, there would be a $40 per barrel tariff placed on that excess amount as a penalty for cheating. The DOE can then monitor the refining complex needs as our economy comes back to life. If the refiners need more oil, then the allocation goes from say 80% to 85% and everyone, the US and imported oil each come up another 5%. The refiners have the exact same percentage of sweet and sour crude coming in and there is no argument that they can't run on a certain type of oil. Nothing changes for them except the refinery utilization rate.

Hopefully after the economy recovers this will all be a moot point and can be done away with—but for now, we need a plan where US producers and foreign exporters share in the US pain to cut back their production until the US and the world are back up to speed.

By working in conjunction with the Trump administration and the Texas Railroad Commission implementing a sensible proration strategy until this Covid virus passes, it will save our American domestic energy industry. The industry would not want this nor should it be permanent, free enterprise should and will take over again, but as President Trump has stated emphatically this week, *we are at war*. We need our President and our elected Texas Railroad Commissioners to step up to the plate and save Texas and the American energy industry right now, before it is too late. We need to send a message to Saudi Arabia and Russia that America will not stand for their deliberate dumping of oil here any longer! We need to send a message to our Gulf Coast refiners to buy American oil first and support American workers until the demand destruction is remedied. Our country is in economic crisis—our own proverbial water hose can help quench the thirst of our great nation. Please send a message to fellow Texans and the Trump Administration that we need to act now.

Sincerely

D. Kirk Edwards

D. Kirk Edwards

Latigo Petroleum, LLC

432-550-2320

**RRC Hearing**

The Railroad Commission of Texas (RRC) has scheduled an open meeting on April 14, 2020 to discuss a petition submitted by Pioneer Natural Resources and Parsley Energy on oil market demand in Texas. Because of the obvious limitations in gathering during this time, the meeting will be held online via webcast. Written comments are due at 5pm on April 8, 2020, and must be emailed to RRCconference@rrc.texas.gov. The posting for this open meeting may be accessed here, and the agenda for the meeting may be accessed here. The public may view the meeting live on the Railroad Commission's website at https://rrc.texas.gov/general-counsel/open-meetings/ by clicking on the " Webcast " link or by going directly to http://www.adminmonitor.com/tx/rrc/open_meeting/. If you would like to view the meeting but are not able to access the Commission's website, please call the following number for instructions on how to listen to the meeting by telephone: 512-463-7865. To ensure you receive instructions in time, please call before 8:30 a.m. on April 14, 2020.