

April 8, 2020

Chairman Wayne Christian
Commissioner Christi Craddick
Commissioner Ryan Sitton
Railroad Commission of Texas
P.O. Box 12967
Austin, Texas 78711-2967

Re: Motion for Commission Called Hearing on the Verified Complaint of Pioneer Natural Resources U.S.A. Inc. and Parsley Energy Inc. to Determine Reasonable Market Demand for Oil in the State of Texas

Dear Chairman Christian, Commissioner Craddick, and Commissioner Sitton:

On behalf of Murchison Oil and Gas, LLC (“Murchison”), thank you for the opportunity to submit a written response to the subject motion in lieu of testifying. Murchison writes this letter to respectfully encourage the Texas Railroad Commission (“RRC”) to exercise its authority to prorate oil production on a short-term, temporary basis to meet reasonable market demand.

We agree that the macro environment created after the breakout of COVID-19 is unsustainable at all levels, and that it will profoundly damage the US economy, particularly the oil and gas industry, for years to come unless we take imminent measures. On top of that, international producers have acted in order to gain market share, triggering a staggering fall in WTI. The solution is not easy, but there is one.

The shock in the demand for hydrocarbons has created a huge surplus of oil. It is our understanding that in the aftermath of the virus, there will be a 20% decline in oil demand. If we do not want to destroy thousands of jobs across the oil patch in Texas and other states, we need to cut production, in order to recover WTI prices that support the industry by creating an environment that yields profitable wells across US oil fields. If we do not react quickly, we will see continued destruction of value in our industry.

We applaud the fact that President Trump and RRC have leaned into the problem and have spearheaded a very helpful and encouraging, dialogue between the key international producers—the ones that move the needle. These negotiations will not end up prosperous if US producers do not participate, cooperate, and cut production, in order to achieve the ultimate goal—to drill wells in a favorable pricing environment.

Murchison cherishes a free market with few restrictions on production, but in this case, we understand that we have to be pragmatic as an industry. So, if the proposal is framed, at a high level, to cut 1mmb/ day of the circa 5mmb/ day that Texas produces (hence, a 20% cut) prorated equally among all the producers until September 2020—Murchison is in favor and seconds the motion.

If these cuts come to fruition, it is our understanding that the cuts should be analyzed on a case by case basis, since each producer has a unique footprint. Net cuts must be implemented ad hoc to each individual producer, and any future changes in legislations in other states must also be taken into consideration on how they affect producers in Texas.

I also want to thank Parsley and Pioneer for being the harbingers of such a helpful exertion, and for the RRC to listen to my humble opinion.

Respectfully,

A handwritten signature in black ink, appearing to read 'J.D. Murchison III', written in a cursive style.

J.D. Murchison III
President