



QUANTUM ENERGY PARTNERS

April 8, 2020

Via Email

Docket Services

Hearings Division

Railroad Commission of Texas

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Re: **Oil & Gas Docket No. OG-20-00003167**; To Consider the Motion for Commission Called Hearing on the Verified Complaint of Pioneer Natural Resources U.S.A. Inc. (665748) and Parsley Energy Inc. (642652) to Determine Reasonable Market Demand for Oil in the State of Texas

Dear Chairman Christian, Commissioner Craddick, and Commissioner Sitton:

I write this letter to respectfully urge the Railroad Commission of Texas to exercise its authority to temporarily prorate oil production to meet reasonable market demand.

You are all keenly aware of the one-two punch that Texas oil and gas producers have received from demand destruction associated with the COVID-19 pandemic and the supply surge instigated by Saudi Arabia and Russia to harm the U.S. shale industry. As a result, WTI prices have dropped into the low-to-mid \$20's, which means that most producers are receiving anywhere from about \$8/bbl to \$20/bbl at the wellhead after basis differentials and transportation costs are applied. There is not one producer in Texas that can make money at those levels.

Quantum has five private upstream companies, two private mineral and royalty companies and two private service companies operating in the Permian Basin. Over the past several years our companies have averaged between 10 and 12 rigs running at any given time on our operated assets and about 35 to 40 rigs running at any given time on our mineral and royalty assets, making us one of the largest players in the Permian. And that is before considering that we built the largest private midstream company in the Permian, which we sold in 2019. Additionally, we are one of the largest gas drillers and producers in the state, owning two large companies in the Haynesville Shale play in East Texas. Across the energy business in the state of Texas, we employ more than 1,500 people directly and indirectly. Needless to say, we have

our finger on the heartbeat of the oil and gas business in our state, and I can unequivocally tell you that the vast majority of oil and gas producers are teetering on insolvency, and many of them will be filing for bankruptcy if these conditions persist for long.

Fortunately, you can do something to change these conditions. By temporarily prorationing oil production in Texas, and using your leadership to coordinate with other states to enact similar prorationing targets, you can lead the U.S. in doing its part to reduce global supply to levels that provide a more sustainable oil price so that we don't bankrupt the oil and gas industry. Otherwise, Texas will soon be reliving the devastation that occurred to our great state in the 1980's.

The Railroad Commission has been entrusted by the people of Texas to conserve the state's natural resources through the prevention of waste. The Texas Natural Resources Code specifically includes production above reasonable market demand as waste and instructs the Railroad Commission to issue an order or rule to eliminate this waste. It is clear that with the global surge in production and the collapse in demand, production now exceeds reasonable market demand. It is precisely at this time of global crisis that the Railroad Commission must take leadership to show its commitment to the prevention of waste and to fulfill its duties to the people of Texas.

I respectfully urge the Railroad Commission to issue a temporary proration order reducing production throughout Texas by up to 20%. I believe this limited action will provide the regulatory response that Texas oil producers need now. A temporary proration order from the Railroad Commission is a necessary step to combat current global conditions, which do not reflect a rational, free market. In order to protect the economic strength and security of Texas and the United States, the Railroad Commission must utilize its statutory authority to provide needed stability to the oil industry, related industries, and their employees.

Thank you for your leadership in our industry and in our great State of Texas.

Respectfully yours,

A handwritten signature in blue ink that reads "S. Wil VanLoh, Jr." with a period at the end.

S. Wil VanLoh, Jr.
Founder & CEO