

April 14, 2020 Meeting on Oil Market Demand and Possible Responses
By the
Texas Railroad Commission

Via email to RRCconference@rrc.texas.gov

To: Chairman Wayne Christian
Commissioner Christy Craddick
Commissioner Ryan Sitton

From: Kyle McGraw, President of Trinidad Energy
Oil and Gas Operator of 100 wells and 220 bopd
In District 8A

Dear Commissioners,

We are all painfully aware of the current dire condition facing the oil and gas industry caused by the “Doubly Whammy” of the COVID-19 Pandemic and the Saudi and Russian conflict. I applaud the efforts by the Texas Railroad Commission to explore and revisit the concept of Market Demand and the consideration of what the RRC might do to be helpful to this vital Industry.

While most oil and gas producers consider themselves free market proponents and usually resent and resist government intervention, I believe the current world circumstances require a different line of thinking.

There is no free market in the oil commodity market and there hasn't been since the formation of OPEC in the 1970's. In my 37 years in the business I have experienced 5 severe busts. The Saudis and OPEC have always had control of the price of crude oil due to their large production capability.

Many Oil Operators that are in opposition to the RRC taking any action toward “proration”, state that they feel the industry is “self-regulating” and each Company is making their own cuts. This may be true, but done in this adhoc fashion we do not get credit as an industry for cooperating with OPEC+. So, when our President tries to put pressure on the Saudis and the Russians he really has nothing concrete to pass along other than low prices are really hurting our domestic industry. If regulated by the RRC and followed by every other producing State we could agree to a 10% production cut, then the President could communicate something much more tangible.

When OPEC was formed the US was an inconsequential producer on the world scene. Today due our scientific ingenuity and our financial risk we have grown to be the largest producer in the world. How can we now, still expect to be treated like an inconsequential producer. The US should be a part of the world oil price conversation. Yes, we're higher cost producers than many of the other OPEC nations, but we still need to be a part of the conversation. I believe we can be a part of the conversation and not be a member of OPEC.

Creating a North American producers coalition will not solve all of our problems. OPEC has been known to cheat on their assigned production quotas and a worldwide pandemic will always be difficult to navigate but it will be much faster and more efficient than the current "ad hoc" process. I know it will take months to form a coalition among American producers, but I think it is worth doing for the future decades as balancing world production with world consumption will be needed as long as there remains a hydrocarbon industry.

I believe the Texas Railroad Commission is the ideal organization to be the leader in this effort. It will clearly help in the prevention of waist and falls perfectly within the scope of the organizations mandate.

I believe the details of this type of plan will be very, very important and I would hope that this would include all other producing states and possibly Canada and Mexico, eventually. I would also hope there might be exceptions for stripper wells and marginally insignificant sized producers. I believe special focus could be placed on producers that are choosing to flare at this time, and therefore environmental improvements can be obtained at the same time.

I write this as the President of a very small independent producer in Texas that employs 6 individuals and is struggling mightily to produce our wells profitably. I am also the current Chairman of the Permian Basin Petroleum Association representing over 700 member companies. Members of our organization hold differing views on this subject and therefore I am only writing in my capacity as the owner of an independent producing company. Thank you again for your leadership and willingness to investigate the process fully.

May God bless us all and bring physical healing to our country and our world.

Kyle McGraw
President of Trinidad Energy, LLC