



April 8, 2020

Via E-Filing

Chairman Wayne Christian
Commissioner Christi Craddick
Commissioner Ryan Sitton
Railroad Commission of Texas
1701 N. Congress Avenue
Austin, Texas 78701
RRCconference@rrc.texas.gov

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

Dear Chairman Christian and Commissioners Craddick and Sitton,

I am the President and Co-Founder of BĀSA Resources, Inc. ("BĀSA"), a position in which I have served since the company's inception in 1989. BĀSA is a private Texas oil and gas production company and ranks among the top 50 private oil producers in the United States. Over the last 31 years, BĀSA has grown from relative obscurity to a company that is now highly regarded in the industry as one of the elite operators of oil and gas properties, currently owning and operating more than 6,300 wells in this great State of Texas.

I am respectfully submitting comments in support of Pioneer and Parsley's verified complaint pursuant to Texas Natural Resources Code ("TNRC") §85.049 requesting that the Railroad Commission of Texas ("Commission") conduct a hearing to determine whether the waste of oil and gas is taking place in Texas or is reasonably imminent and, if so, then to furthermore adopt any rule or order to correct, prevent, or lessen the waste pursuant to TNRC §§85.042(b) and 85.051.

As you are aware, the Commission's powers in general are extremely broad; however, its statutory authority to prevent waste is almost unlimited and such authority has been vested for nearly a century. In fact, the statutory framework for oil conservation in Chapter 85 of the TNRC was promulgated in as early as 1929. TNRC §85.045 declares that "[t]he production, storage, or transportation of oil or gas in a manner, in an amount, or under conditions that constitute waste is unlawful and is prohibited." Moreover, TNRC §85.046(a)(10) states that the term "waste" specifically includes "production of oil in excess of transportation or market facilities or reasonable market demand, and the commission may determine when excess production exists or is imminent and ascertain the reasonable market demand."

As the largest producer of oil in the historic East Texas Oil Field ("ETOF"), BĀSA understands the rationale behind proration. We also note the Commission's previous implementation and effective use of proration as a vital mechanism to prevent waste and preserve the ETOF. Importantly, this industry has a long-established regulatory history of these rules and their effective application in Texas. These rules were created to protect this great industry, the jobs and benefits it creates and the natural resources we all produce during critical and unprecedented times. Undoubtedly, we are in the midst of both critical and unprecedented times. It is our belief, however, that what this industry is currently experiencing, is an even more critical time than ever before.

The combination of the battle for market share between Russia and Saudi Arabia and the COVID-19 pandemic has tremendously crippled the global oil market in a matter of weeks by flooding oil supplies and erasing demand simultaneously – and almost instantly. Will the markets eventually correct themselves? History tells us yes, but it could be years. And, at what cost along the way? Our industry is being decimated with each day that passes.

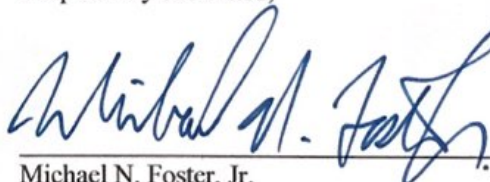
Specifically, regarding Texas, in 2019, the oil and gas industry supported approximately 430,000 direct jobs and paid more than \$16 billion in state and local taxes and state royalties – the highest total in Texas history – funding our state’s schools, roads and first responders. Furthermore, oil and gas jobs sustain one of the highest multipliers of indirect jobs compared to any other industry. All of this, and much more, are at risk in this great State of Texas.

Without intervention to curtail supply, in an environment where demand sits at levels not seen in decades, inventories are rising and all available storage will soon be full. Oil purchasers are already cancelling contracts and having a hard time locating markets and takeaway capacity. Even if the COVID-19 pandemic comes to an end quickly, as we all pray is the case, and OPEC+ decides to cut production, it is not likely that supply and demand will balance and oil prices will return to reasonable levels in the near term. At this rate, we will likely be over a billion barrels in excess global inventory by the end of April. Should oil prices stay depressed, as they’re likely to with unprecedented excess inventory, US production will fall significantly over the next twelve months as producers shut in uneconomic wells and greatly reduce drilling activity. With swift action, production could be curtailed to match demand immediately, positively impacting oil prices and allowing producers to remain solvent, retain workforce, pay higher severance taxes and minimize waste of our precious natural resource. We cannot speak for all of our peers, but it only seems logical that producers would rather produce 80% of what they sold last year at \$50/bbl than 100% of what they sold at \$25/bbl. Without relief, a year from now, we could all be producing 80% of what we’re producing today while having suffered irreparable loss along the way.

Finally, we’d like to offer one example of the impact specific to BĀSA that even just temporarily depressed prices can cause. In 2016, the average price of oil was ~\$43. In January 2016, oil fell to a 13-year low to ~\$26 and remained under ~\$30 for approximately 30-40 days. The required cost cutting necessary due to those prices for that short period of time resulted in a 15% decrease in BĀSA’s total production for the year compared to a typical decline rate of less than 4%. The overall impact and the rate at which damage to our industry can occur is astonishing.

We agree with the belief that Texas cannot accomplish market stability alone – production cuts must be coordinated with other states, the Federal government, and other oil-producing countries. But, as we Texans have done many times before, perhaps it’s time for us to, once again, lead by example. We appreciate your leadership to provide a forum to take into consideration the testimony of stakeholders and economists and bringing national and international attention to this issue.

Respectfully submitted,



Michael N. Foster, Jr.
BĀSA Resources, Inc.
President