



Market Demand Hearing

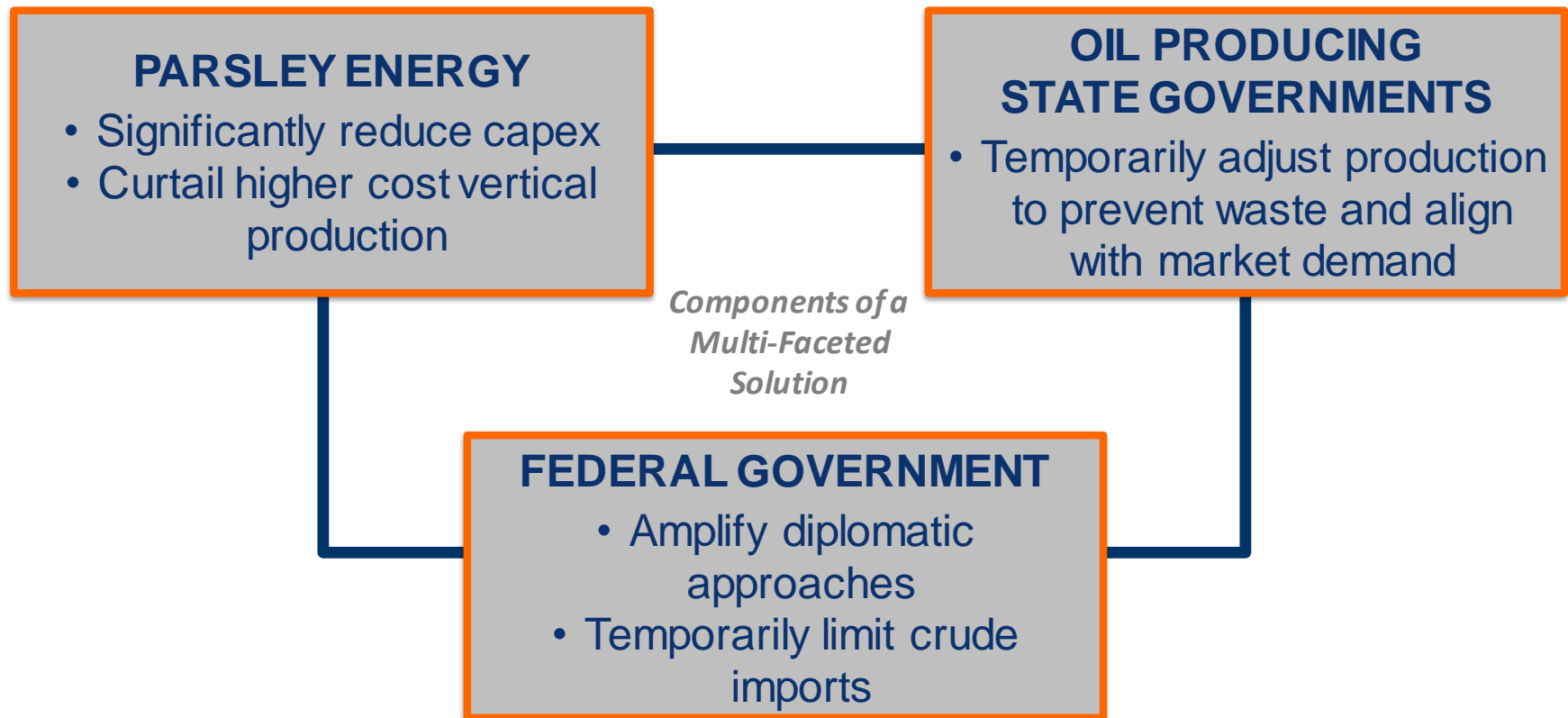
Texas Railroad
Commission

April 14, 2020

PARSLEYENERGY.COM

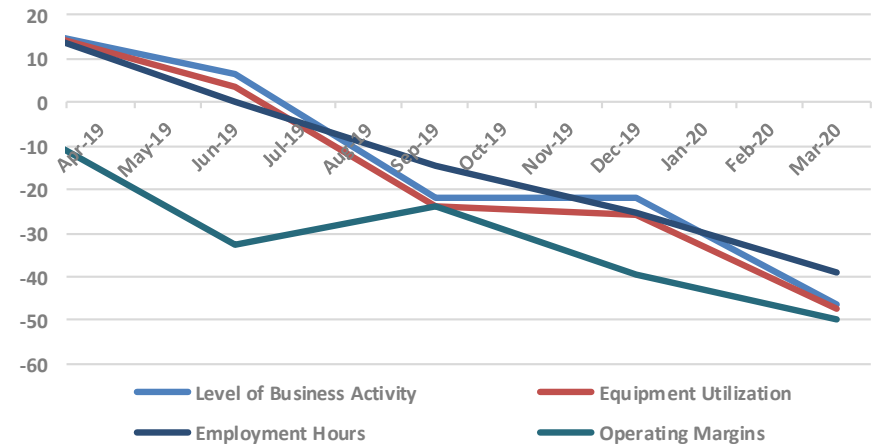


A Texas production cut in line with market demand decline is a critical component of a larger effort; not in a vacuum, but as part of a symphony of solutions

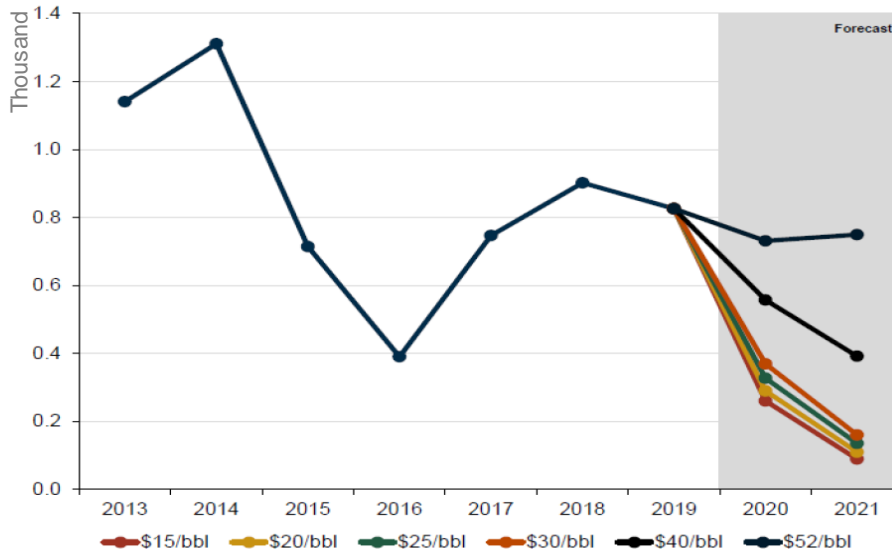


- ▶ As activity cuts continue, services firms will bear the brunt in the near-term of commodity price decline caused by COVID-19 demand destruction
- ▶ Rystad Energy estimates services firms are "set to cut 100,000 jobs tied to oil activity in Texas this year" as a result of oil price crash

Dallas Fed: O&G Support Services Firms Index



US Land: HZ rig count by oil price



O&G Support Services Reporting Decreases Q/Q

Equipment Utilization:

↓ 60.4%

Employment Hours:

↓ 46.3%

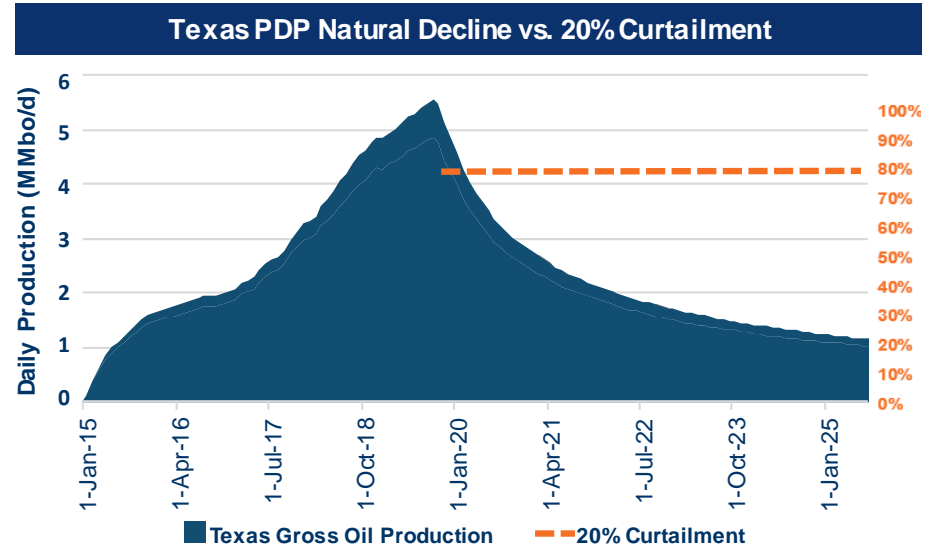
Level of Business Activity:

↓ 61.1%

Operating Margins:

↓ 53.8%

- ▶ COVID-19 has caused 20%+ decrease in oil demand in the near-term
- ▶ Global producers need to collectively reduce production by a similar amount to keep balances from reaching physical limits
- ▶ Texas production “curtailment” is likely to happen regardless, but there are two paths to get there:



Texas Railroad Commission Options

Path 1 – No Action by RRC

- ▶ Requires 5+ months for Texas production to naturally decline 20%
- ▶ US production will exceed maximum storage capacity
- ▶ Sharp decline in oil prices caused by an acute imbalance of local supply & demand
- ▶ 5+ months of completely idled completion activity
 - Bankrupts >50% of service sector
 - Leads to higher cost of capital or zero access to capital to remaining service providers
- ▶ US would be fundamentally less competitive vs. subsidized sovereign producers

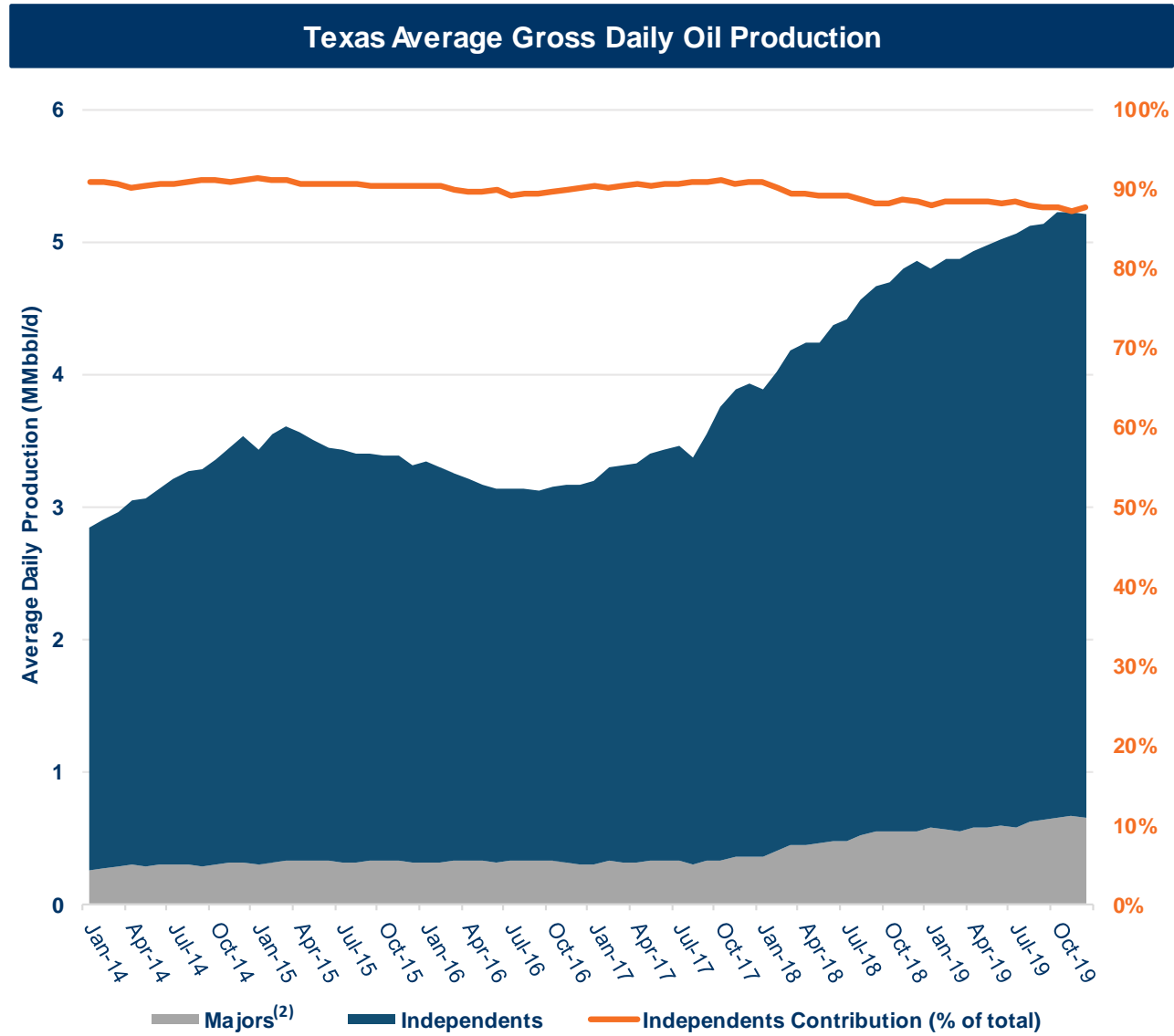
Path 2 – RRC Approved Proration

- ▶ Combination of curtailments and natural declines are employed to accelerate 20% decline
- ▶ Mitigates likelihood of breaching local physical storage limits
- ▶ Stabilizes near-term oil prices
- ▶ If oil stabilizes, likely that some level of service activity is utilized over next 5 months and will accelerate the timeframe to base levels of activity
 - “Flattens the Curve” smoothing impact to service providers allowing greater chance to weather the storm
- ▶ Stable oil price yields stable financial markets

Texas Independents Can Help Texas Lead the Way



- ▶ Texas RRC is responsible for more than 40% of US production
- ▶ Texas is dominated by independents, developing and operating more than 85% of Texas production
- ▶ Independents have led the way in the Shale Revolution and will be bearing more of the cut on an absolute volume basis
 - Shouldering the brunt earlier will help stabilize activity longer term.
 - Proration is the only effective way to coordinate 2,848⁽¹⁾ Texas producers
- ▶ Prorating now ensures everyone plays a part given the massive demand overhang due to COVID-19
- ▶ As the largest oil producing state, Texas--and the Commission--have a unique opportunity to lead a multi-state effort and help preserve the Texas Miracle



(1) Number of producers that reported production volumes to the RRC in January of 2020; (2) Majors include XOM, CVX, RDS, BP, and COP