

Response to Scott Sheffield

Scott; You are wishing upon a star if you think President Trump will take any action or have any conversations with Saudi Arabia to get them to reduce oil production and thereby raise crude oil prices. I have been an independent oil operator here in Midland for 40 years now. I have been through every downturn starting with the one in 1986. I was here when it was Parker and Parsley and have watched you grow the company into the Pioneer Natural Resources of today. But that growth is part of the problem. You can blame the Saudis all you want, but then you have to look in the mirror. The explosive growth of oil production through horizontal wells is the reason the Saudis took action to abandon their OPEC+ quotas. Oil production in the Texas Permian Basin went from 710,480 bbl per day in 2008 up to 1,406,859 bbl per day in 2015. It doubled in 8 years. Then it doubled again in only 4 years rising to 2,733,079 bbl per day in 2019

And while we were doubling production, leading our country to Energy Independence, and exporting crude oil, the Saudis were reducing production to maintain oil prices. We sold more and more oil at a good price. They sold less and less oil at that same price. They may say whatever they want about fighting with Russia for market share, but it is us in the Permian Basin they want to shut down. As you stated, U S production is up 4 million bbl per day in the last four years. The IEA had projected that production worldwide would increase by 5.9 million bbl per day from 2020 through 2025. Included in their projection was an increase of 4.5 million bbl per day from non-OPEC sources, us, the Permian Basin. We still have 382 rigs actively drilling in the Basin according to Baker-Hughes. Pioneer has filed 21 new horizontal drilling permits in just the last 2 weeks. That's your plan? Keep on drilling and drilling with no responsibility at all to limit production? Pioneer produced an average of 211,000 bbl per day in 2019 and had projected, in the March Investor Presentation, to reach 245,000 bbl per day in 2020 for a 16% increase. And that's just Pioneer. Consider adding in the increases from all the other companies completing horizontal wells. The Permian Basin needs to stop drilling, and reduce production from existing wells. Or, reduce drilling and really, really reduce production. That will be tough on the service sector of our business, but it will be resolved quicker than having WTI below \$20 a bbl till the end of the year.

In either case, we must limit production. The only way for the price to go up, is for production to go down. The Saudis have announced plans to sell oil from their storage reserves to maintain the current sales volume through the end of the year. Pioneer wisely has 54% of your oil production hedged at a \$62 Brent price. My production volume is too small to hedge so I, like so many other small independents, am getting WTI posted which is below \$20 a barrel. The Texas Railroad Commission was tasked early on with "conserving oil and gas and preventing waste". They did it with the help of the Texas Rangers in the East Texas Field when oil prices fell from a dollar a barrel to ten cents. Prorated allowables were in place until 1974, just before you and I started working Scott. The Railroad commission can, and should establish prorated allowables to reduce the excess production Texas has generated. Why are these new horizontal wells allowed to produce 1,000 2,000 or even 3,000 bbl of oil a day while flaring tens of thousands of MCFs of gas. I am glad to know that Pioneer flares less than 1% of their gas. But, that's not the case in the Delaware Basin. The night sky from Kermit to Orla is brightly lit with flares all over. Flaring is wasting, and the Railroad Commission is charged with preventing waste. Even with the new pipelines installed at Waha there is still excess gas being flared. Gas is being wasted so oil can be produced.

You mentioned that 13 Senators have contacted the Saudi Ambassador and Secretary of State Mike Pompeo has spoken to the Crown Prince of Saudi Arabia. Don't expect any reduction to come from those contacts. President Trump has stated on national television that "the move by the Saudis was a great thing. Cheaper gasoline for Americans is like a tax break. It will leave money in their pockets to spend into our economy". Don't expect any help from President Trump. He wants to keep gasoline cheap for the consumer until election time. And that's a long way off for us at \$20 oil. I have contacted

my 2 Senators, my Congressman, my State Representative, the Chairman of the Railroad Commission, our Governor, and the President of the PBPA. I have not received a single response, but I encourage others to make similar contacts. Either pro or con, let your opinions be known. One of the Railroad Commissioners expressed concern that under prorated allowables in Texas, other states could still produce all out and benefit from higher prices while we curbed production. Duh, We were producing all out while the Saudis curbed production. Allowables, set by the Texas Railroad Commission will be the cure for low oil prices. But the State of Texas will have to act alone. We did so in the past. One of the Railroad Commissioners has supposedly been invited to attend the OPEC+ meeting in June. This would be a great opportunity to tell them of the plans Texas has for reducing production (if we have any). There have been suggestions that if Russia will cut production by 10%, and the Saudis cut by 10%, we would cut our production by 10% also.

Any such Agreement would be a violation of Federal Law. The Sherman Anti-Trust Act of 1890 is a Federal Law prohibiting any contract, trust, or conspiracy associated with cartels or oppressive monopolies in restraint of interstate or foreign trade. One of the Acts' main provisions "outlaws all agreements that restrain trade between States or with Foreign Nations to fix prices, limit industrial output, share markets, or exclude competition". So, if we agree with a Foreign Nation to collectively reduce oil production to increase prices, every other state in the US could sue the State of Texas for the resulting increase in the price of gasoline. And the Sherman Anti-Trust Act provides for treble damages. Any action taken by the Texas Railroad Commission will have to be independent of any other Nation or State. But action must be taken. Prices are going to go even lower in the near term if nothing is done. The reduction in commerce nationwide as a result of the COVID-19 virus has reduced consumption of refined products, mainly gasoline. Employees are not going to work. Customers are not going shopping. Metropolitan areas are on complete lockdown. The gas stations will sell less gas. The refineries will reduce output, and their storage will fill up. The pipelines won't have any capacity to transport crude. Storage at Cushing and elsewhere will fill up, and we won't be able to sell crude oil at any price. Pioneer has a contract for firm takeaways, where a pipeline has guaranteed to take delivery of a certain volume of crude oil daily from them. But that contract will fall under Force Majeure and you will not be able to deliver that volume of crude. None of us will be able to move any crude oil at some point until the virus abates and commerce returns to normal.

I agree, the Railroad Commission should have someone attend the OPEC+ meetings, if invited. Not with an intent to construct deals or production quotas, but to keep abreast of each Countries plans, problems, and successes. If we are going to be the world's largest producer, we need to be meeting with the other large producers. The quickest cure for low oil prices isn't going to be cuts by Saudi Arabia. It will have to be prorated allowables set by the Texas Railroad Commission. And Texas will have to go it alone. We've done it before, we can do it again

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