

UPSTREAM

TEXAS

SUMMER 2020

A PUBLICATION OF THE TEXAS
INDEPENDENT PRODUCERS AND
ROYALTY OWNERS ASSOCIATION

www.tipro.org



> SURVIVING THE CRASH

MODIFYING
CAPITAL AND
OPERATIONAL
PLANS

ALSO INSIDE:

Legislative Profile:

Congressman Lance Gooden

Regulatory Profile:

EPA Region 6 Administrator Ken McQueen

Member Profile:

RigUp CEO Xuan Yong



**Partner
Ship**[®]
your shipping connection

Free TIPRO Member Benefit

Exclusive discounts and substantial savings on small package, LTL freight, and truckload shipments.

PartnerShip.com/TIPRO

enter 8173 in the promo code field

TEBNAO/SHUTTERSTOCK.COM

CONTENTS

SUMMER
2020

A PUBLICATION OF THE TEXAS INDEPENDENT
PRODUCERS AND ROYALTY OWNERS ASSOCIATION
www.tipro.org

FEATURES

- 6 Surviving the Crash**
Data analysts from Enverus detail how top industry players have reacted to this year's oil crash, including eliminating over \$21 billion of capital spending in 2020.
- 10 Our Next Energy Crisis**
In the last decade, the American shale revolution has completely transformed the world's energy landscape. Energy expert Anas Alhajji explains how major energy producers, including OPEC nations, have reacted to the growth of America's shale industry.

DEPARTMENTS

- 13 Legislative Profile:**
U.S. Representative Lance Gooden, Texas' 5th Congressional District
- 14 Regulatory Profile:**
Ken McQueen, Regional Administrator for U.S. EPA Region 6 District
- 15 Member Profile:**
RigUp CEO Xuan Yong

IN EVERY ISSUE

- 4 Chairman's Message**
- 5 President's Message**
- 16 New Members**
- 17 Calendar of Events**
- 18 Index to Advertisers**

Welcome to this edition of *Upstream Texas!*

TIPRO is the voice of Texas' upstream sector and represents members by lobbying at the state and federal levels to ensure they can continue to explore for and produce oil and natural gas. As the official bi-annual magazine of the association, *Upstream Texas* features insights into the opportunities and challenges currently facing the Texas oil and gas industry, as well as profiles of key industry players and regulators.

With market volatility hitting all-time highs in the early months of the year, many in the industry wonder what could be in store for their budget sheets and the planned spending of drilling projects in Texas' shale basins. On page 6, experts from oil and gas data analytics company Enverus highlight how Texas producers have reacted thus far to this year's oil crash by modifying capital and operational plans in efforts to quickly conserve cash. Inside this issue of *Upstream Texas*, Enverus analysts also explore implications of the downturn caused by a market collapse from oversupply, demand deconstruction and low commodity prices, as well as share with TIPRO expectations on when producers may be able to see market conditions eventually improve.

Meanwhile, starting on page 10 of this issue of *Upstream Texas*, world-renowned energy markets expert and researcher Dr. Anas Alhajji recounts how the success of the U.S. shale revolution over the last decade stoked plans from other major oil-producing nations, including those which are members of the Organization of Petroleum Exporting Countries (OPEC), to try to reclaim market share in 2020. With ongoing shifts to global energy markets, OPEC this year provoked a massive upheaval that, as Dr. Alhajji explains, could among other dynamics lead to an energy crisis.

Inside this publication, also find profiles of top industry, state and federal leaders, including: Texas Congressman Lance Gooden (page 13); EPA Region 6 Administrator Ken McQueen (page 14); and RigUp CEO and Co-Founder Xuan Yong (page 15).

TIPRO members, this is your magazine and we welcome your feedback. Please contact TIPRO's Director of Communications Kelli Snyder [kksnyder@tipro.org] or Content Strategist and Development Manager Robin Lamerson [robin@naylor.com] with your ideas, recommendations or comments.

UPSTREAM TEXAS IS PUBLISHED FOR THE **TEXAS INDEPENDENT PRODUCERS & ROYALTY OWNERS ASSOCIATION** 919 CONGRESS AVE. SUITE 1000, AUSTIN, TX 78701 **PHONE** 512.477.4452 **WWW.TIPRO.ORG** | **OFFICERS** | **CHAIRMAN** EUGENE GARCIA **PRESIDENT** ED LONGANECKER **PUBLISHED BY** NAYLOR ASSOCIATION SOLUTIONS 5950 NW 1ST PLACE GAINESVILLE, FL 32607 **PHONE** 800.369.6220 **WWW.NAYLOR.COM**
PROJECT TEAM | **GROUP PUBLISHER** TAMARA PERRY-LUNARDO **CONTENT STRATEGIST** ROBIN LAMERSON **SALES MANAGER** MICHELLE HUGHES **BOOK LEADER** CARLOS SANTANA **MARKETING** AUSTIN DUNN **ADVERTISING REPRESENTATIVES** AYRIS ABAD, SHAUN GREYLING, TRACY JONE, DEBBI MCCLANAHAN, NORBERT MUSIAL, DEBBIE PHILLIPS, MATTHEW YATES **PROJECT COORDINATOR** ALYSSA WOODS **LAYOUT & DESIGN** RANJEET SINGH **PUBLISHED** MAY 2020 | TIP-B0120 | 1270 | ©2020 Naylor, LLC. All rights reserved.
COVER IMAGE ZORANORCIK/SHUTTERSTOCK.COM



THE METAL OF TEXAS INDEPENDENTS IS TESTED ONCE AGAIN: RESILIENCE AND SPIRITED DRIVE HELP US PERSEVERE

Eugene Garcia

CHAIRMAN – TEXAS INDEPENDENT PRODUCERS & ROYALTY OWNERS ASSOCIATION

UNPRECEDENTED. I HAVE FOUND myself using that word more times than I can remember this spring. More recently, like I imagine many of you did, I exchanged text messages, phone calls and emails with colleagues as the May oil contract went negative for the first time in history. Moreover, we are mostly left to absorb and manage the current circumstances remotely without the benefit of facing the current reality side-by-side with our coworkers and friends. We have seen how severe demand deconstruction coupled with an overwhelming surplus of global oil supplies have led to plunging commodity prices and brought the Texas oil and gas industry face-to-face with its greatest challenge in a generation. I must admit, it is hardly the direction we expected we would be headed leading into the new decade, but independent producers and royalty owners in Texas are today being forced to deal with the fallout of extreme market volatility and previously unimaginable conditions now threatening the viability of our nation's oil and gas sector, the economy and America's energy independence.

Though the economic and market challenges facing TIPRO members are very real, history reminds us that we've endured other difficult times in the past and ultimately persevered.

Like a wildcatter who has drilled a dry hole, true determination will push those working in our industry to keep at it, try again and work past the current challenges to succeed. My company, like many others in our industry, was founded by a wildcatter who had to persevere through initial failures before finding success. This spirited energy and drive is something I have always admired about those in the oil business. Now more than ever, I feel this passion is what will help our industry rise once again to the occasion, not give up, and even come back stronger.

Of course through it all, TIPRO has remained dedicated to serving our members and helping protect Texas-based operators and mineral owners. Since our initial founding in 1946, in our 74 years of service to the industry, TIPRO has provided unmatched support in both times of booms and busts. We shouldn't forget how TIPRO was there for the members the last time we faced a major oil bust over 30 years ago in the 1980s. Both then and now, the association has proven that it can uplift our industry when it counts the most.

TIPRO today remains the state's largest association representing independent oil and gas producers and mineral owners, and continues

to work closely with elected officials to promote American energy development. And rest assured, now more than ever, TIPRO will keep working diligently to fulfill our mission and advocate to preserve the ability to explore and produce oil and natural gas while promoting the general welfare of our membership.

Our team continues to directly engage top policymakers to ensure the Texas oil and gas industry will move forward. We are proud to participate in the Railroad Commission's Blue Ribbon Task Force for Oil Economic Recovery and do our part in ensuring operators survive these difficult times. We also are working in coordination with top energy officials on numerous measures to make certain the industry endures in the midst of collapsing commodity prices and the coronavirus pandemic.

We remain thankful for the strong leadership of state and federal officials standing up to aid America's domestic energy producers during this period of crisis and advance solutions extending relief to those in the oil patch. With the support of these leaders, we will find a way to overcome present day challenges.

The circumstances facing our industry today are the result of a unique set of factors, and though we may not see conditions recover tomorrow, we do believe that prosperous times will return again once economic activity resumes and the market is able to stabilize.

As I know my fellow TIPRO members can appreciate, in times like this, industry knowledge and insight are paramount to staying on top of developments as they happen and keeping your company on the leading edge. In addition to TIPRO's regular communication, our publications and outreach, we are pleased to also again partner with oil and gas data analytics firm Enverus, formerly DrillingInfo, to gain additional perspective on how some Texas producers are 'surviving' this year's oil crash. Later inside this issue of *Upstream Texas* magazine, Enverus experts highlight actions pursued by oil and gas companies to modify operational and spending plans to save their bottom line in light of shifting market conditions.

Thank you for your continued support of TIPRO, particularly during these tumultuous times. Together, our resilience and spirited drive will realize better days ahead for the Texas oil and gas industry. ■



Though the economic and market challenges facing TIPRO members are very real, history reminds us that we've endured other difficult times in the past and ultimately persevered.

WE WILL RISE AGAIN

Ed Longanecker

PRESIDENT – TEXAS INDEPENDENT PRODUCERS & ROYALTY OWNERS ASSOCIATION

THOUGH OUR INDUSTRY IS cyclical by nature, and market volatility is inevitable, the downturn we are facing this year is perhaps the worst energy crisis we have experienced in our history. Brought on by an unfortunate combination of disruptive factors, some have referred to the recent oil market crash as “the perfect storm” and a “double black swan event” for our industry. I have to say I agree. As I've heard directly from many of TIPRO's active members who have dedicated their careers to working for the state's oil and gas industry, the survival of hundreds of Texas independent producers is at risk.

So, how did we get here, and when will we recover?

For starters, over the past decade, oil and gas production has surged substantially in the United States, bringing our nation's energy output to historic levels – as high as 13 million barrels of oil pumped a day and 92.2 billion cubic feet per day (Bcf/d) of natural gas. The record growth in domestic production, driven largely from expanding drilling activity in the Permian Basin region, allowed America to achieve newfound energy independence and become the world's top producer of oil and natural gas, overtaking the world's other biggest producers Russia and Saudi Arabia. This achievement has been a global game-changer, and has fed a ballooning oversupply of oil inventory worldwide. It is also a presumed incentive for other energy producing nations to attempt to target the successful U.S. shale industry. More on that in a moment.

In the meantime, a global outbreak of the deadly coronavirus (COVID-19) disease this year has led to a total collapse in demand for fossil fuels, compounding circumstances crippling the American energy industry. As individuals obey lockdown orders in countries around the world, there has been an epic decline to oil demands. In fact, the consumption of petroleum and other energy sources has been completely disrupted by the COVID-19 virus, resulting in the lowest levels of oil consumption recorded in several decades. This has contributed to an oil glut that is leading to rising stockpiles of oil in the United States and elsewhere, and in part causing the imbalance of oil markets.

A dispute meanwhile among Saudi Arabia, allies of the Organization of Petroleum Exporting Countries (OPEC) and Russia in March and April also drastically hurt U.S. oil and gas producers who were already negatively

impacted by market volatility and other economic challenges. The “price war” between Russia and Saudi Arabia was triggered after Saudi producers flooded the market with oil in response to Russia's refusal to limit its oil production to stabilize the oil market, causing oil prices to plummet. This economic war has since been resolved to some degree with an international agreement from OPEC to slash its oil output by nearly 10 million barrels a day in May and June, but it will nevertheless take some time for other fundamentals involved to rebalance.

Through it all, we cannot forget that the work of the Texas oil and gas industry is crucial for our state and country from an economic and national security perspective. As communities recover from COVID-19, the world will need the energy we produce, but it may take many months to reach a supply demand equilibrium. But rest assured, we will rise again, and when we do, our industry will once again thrive and prosper.

Later inside this issue of *Upstream Texas*, world-renowned energy markets expert Dr. Anas Alhajji breaks down for TIPRO the dynamics that led OPEC this year to react as it did to America's shale revolution. Dr. Alhajji highlights the monumental growth of shale development in the United States that rocked global energy markets and details how this shift in global energy production trends contributed to aggressive moves pursued by other major producers hoping to reclaim market share from the United States. As Dr. Alhajji explains, all producers should brace for further impact from ongoing transformations underway for the global energy sector.

Otherwise, as the economy gets moving again and market forces stabilize, we remain confident that conditions will improve for producers and royalty owners. Commodity prices will rally, and independents will come through the other side stronger than before. Solutions adopted by our policymakers will also help us weather the storm. On behalf of our nearly 3,000 members, TIPRO will continue to advocate to save industry jobs and extend strategic regulatory relief for producers at a time when it is needed more than ever before.

On a personal note, as we endure these difficult times, please know that TIPRO is here for you and your company. If our association may ever be of assistance, please do not hesitate to reach out to our team. Thank you, as always, for your support of our organization and mission. ■



Brought on by an unfortunate combination of disruptive factors, some have referred to the recent oil market crash as “the perfect storm” and a “double black swan event” for our industry. I have to say I agree.



SURVIVING THE CRASH: HOW TOP INDUSTRY PLAYERS ELIMINATED \$21+ BILLION OF CAPITAL SPEND IN 2020

By Tyler Hoge, Senior Financial Analyst, Enverus

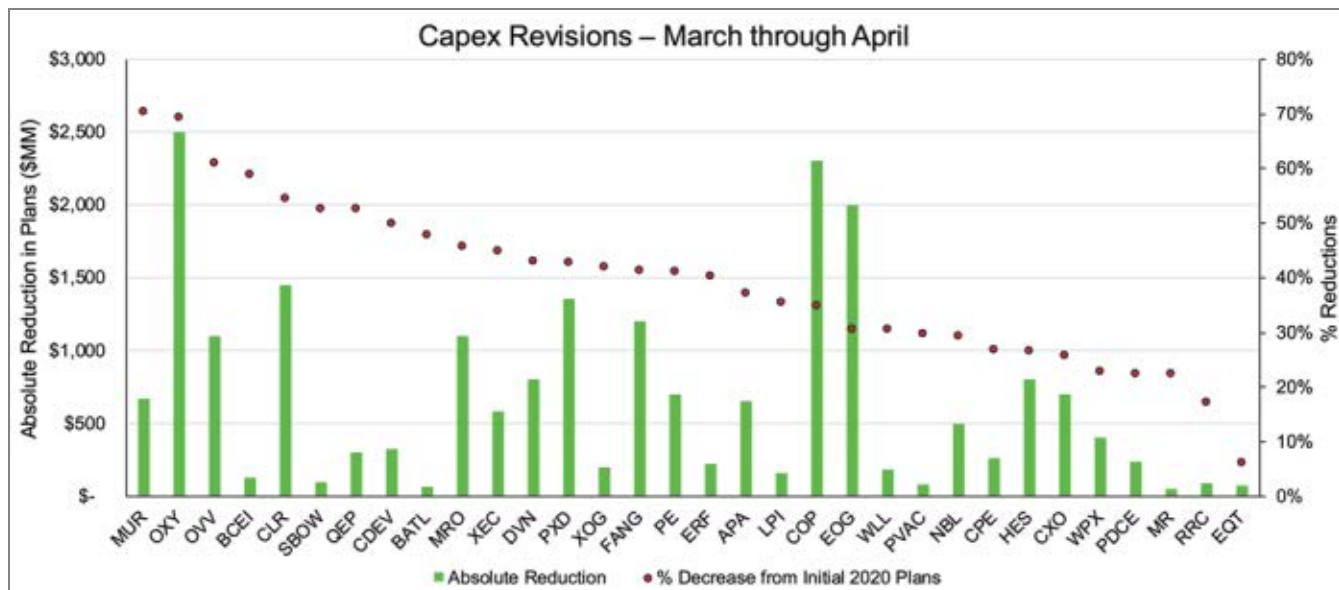
INDUSTRY EARNINGS RELEASED

IN February are often seen as the most important, as companies not only report on the quarter, but the full prior year, while also disclosing guidance and expectations for the year ahead. A pace setter, if you will. Until early March, for many, the year 2020 was shaping up to include insignificant reductions in capex with flat to growing production in the United States. At the time, coronavirus was

a concern, but had yet to influence decisions. Limited geopolitical tensions were present, and natural gas was the commodity to avoid. Sentiment was low, but there was at least *some* clarity on the road ahead.

As earnings season was starting up in Q1, WTI was over \$50 per barrel, which now seems like a luxury compared to today's prices. Analysts were raising an overarching

issue of U.S. shale – high declining production profiles, the skew toward gas later in wells' lives, volatile prices and expensive operations. Small changes like tapping the brakes on capex, reducing cycle times, and modifying completion techniques will go only so far in helping the industry's supply problem and accelerate the path to free cash flow. Much of the negative sentiment was focused on gas.



“Gas prices in the U.S. are below breakeven levels, and gassy basins will likely bear the brunt of activity reductions in 2020,” Halliburton stated in their call. Halliburton continued: “U.S. drilling and completions activity may be biased lower due to the consolidation and restricted access to capital. The U.S. shale industry is facing its biggest test since the 2015 downturn. [Fourth quarter] customer activity declined across all basins in North America land...and completed stages had the largest drop we have seen in recent history.”

Halliburton’s peer, Schlumberger, was also feeling the activity reduction, as they reduced their fleet capacity by 30 percent and were planning to deploy only 50 percent of available fleet capacity (a number likely much lower today).

Fast forward to today, and many plans announced during last earnings season are now out the window. Any roadmap now is full of red lights and U-turns. After oil prices crashed, most of the core U.S. operators have amended previous capital and operational plans by over \$21 billion as of late-April in order to keep the machine running and follow through on promises to maintain a free cash flow positive status. About one-third of the same operators were free cash flow¹ positive in 2019, but with production declines at nearly

the highest levels seen, free cash flow may be out of the question for most, outside of the few that will be saved by hedges.

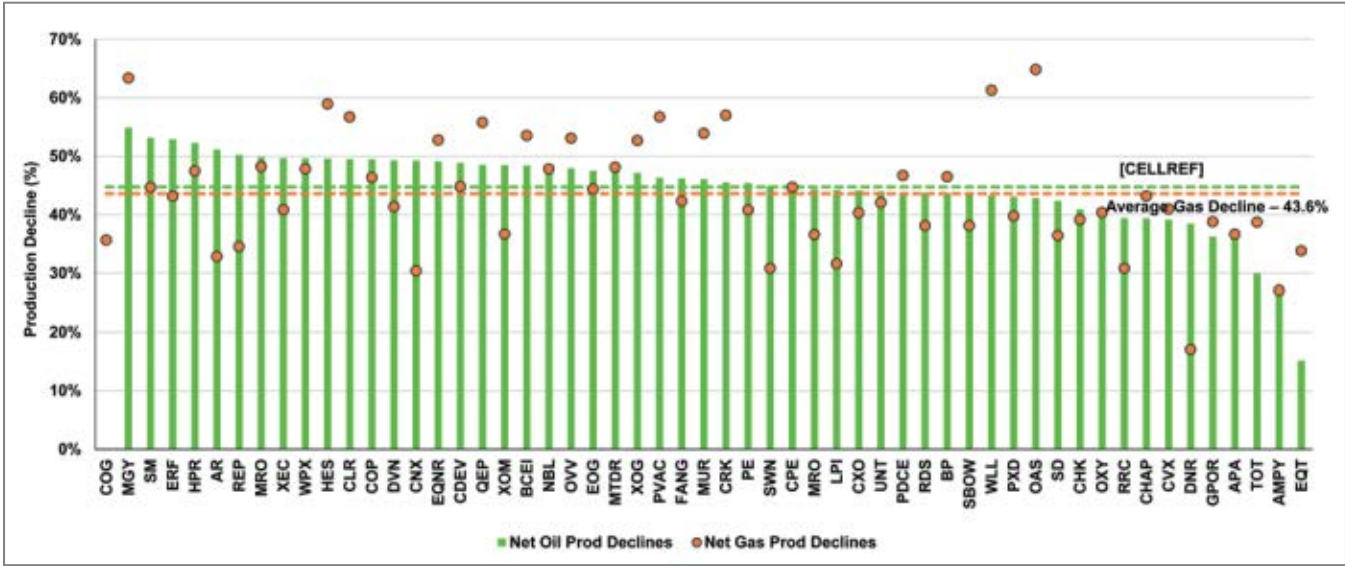
The wave of 2020 activity revisions occurred through March and have been continuing through this quarter’s earnings season as operators report on the first quarter of 2020.

Above is a chart showing absolute capex reductions to, while also showing reductions relative to original plans. These operators collectively average 39 percent less than what they originally planned to spend. U.S. independent E&Ps like EOG, Pioneer, and Diamondback have some of the greatest absolute reductions while smaller operators like Bonanza Creek out of the Denver Julesburg (DJ) basin and CDEV in the Delaware basin have the highest percentage reductions relative to original 2020 capex announced just a quarter ago. Large cuts like this demonstrate both a company’s concern with not just attempts to live within cash flow, but solvency and liquidity to pay future interest payments and debt maturities. Even those with relatively strong balance sheets are conserving cash by cutting back significantly and taking their foot off the gas pedal.

Not helping the cause for operating cash flow are operators’ base declines, defined

as the percentage that current corporate-wide production decreases when no new wells are turned online. The nature of each company’s portfolio decline depends on many factors, but our understanding of each wells’ production trajectory and geology allows us to formulate a production forecast for every well in the Lower 48. The chart on page 8 shows that these operators’ production declines from August ‘19 to August ‘20 will fall an average of ~44 percent.

Enverus has forecasted the impact on the Lower 48 oil and gas production if operators are forced to immediately spend within cash flow because of low oil prices and constrained capital markets. Assuming flat prices of \$30/Bbl WTI and \$2.25/Mcf Henry Hub, oil output from the nine plays could fall 2.4 MMBbl/d, or 31 percent from current levels, and gas volumes could drop 14.4 Bcf/d, or 21 percent, over the next 12 months if activity immediately drops to cash flow neutrality. If the industry were to instead hold production flat, a total outspend (capex less operating cash flow) of \$51 billion is required across the nine plays at the same price deck. This translates to an outspend of about 37 percent, an unlikely scenario given closed capital markets and strained balance sheets. The Bakken and Eagle Ford need \$50 crude to stay flat within cash flow and the Permian and DJ need at least \$55.



On the gassy side, the Haynesville needs \$2.75, Marcellus \$3.00, and Utica \$3.25. While this does not consider the protections hedges provide, it provides an understanding of where production may end up in the first quarter of 2021, and that is nowhere near what was predicted back in February.

Turning to hedges, how operators were exposed before this downturn will, for some, be the difference between crash and burn, or limping across the finish line and surviving for the next race.

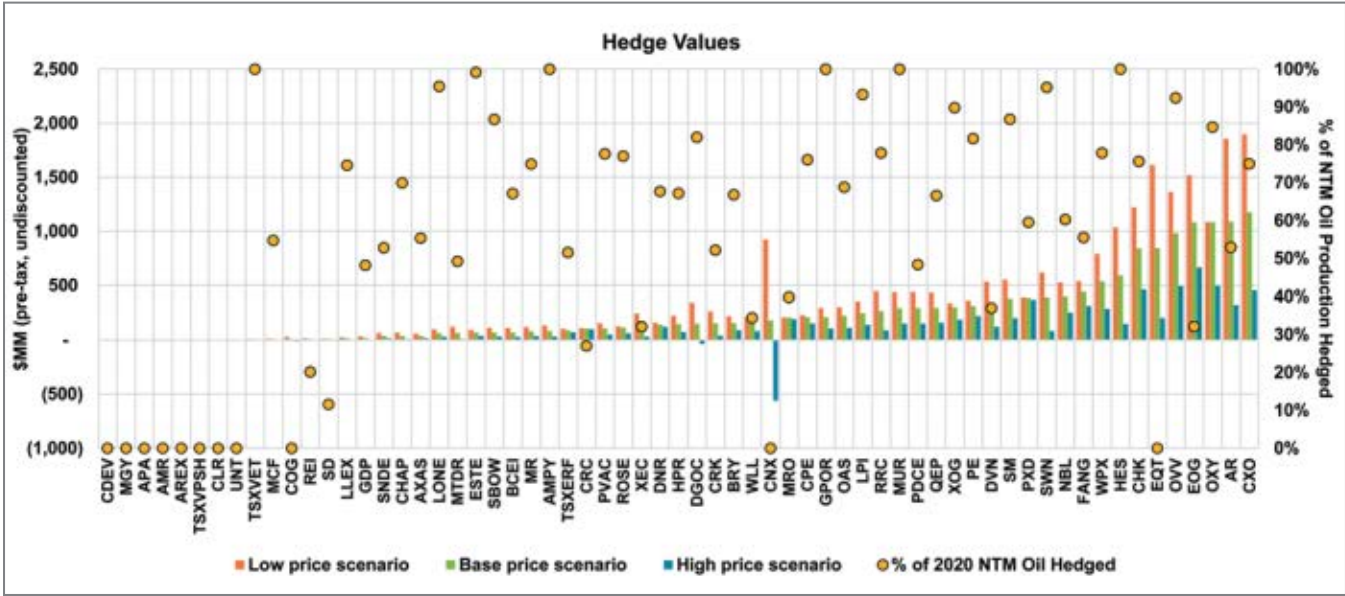
The chart below shows individual operators' benefits of having hedges given certain pricing scenarios². The type of hedge is

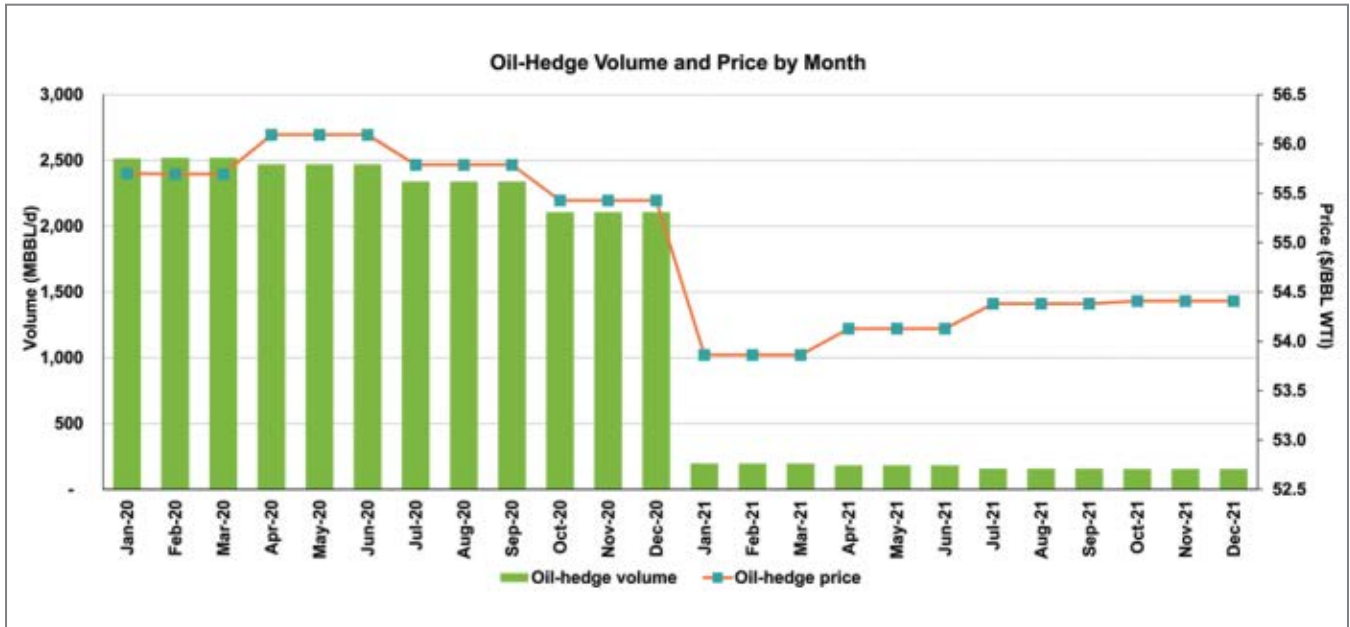
important as protection varies depending on the type of hedge (swap, put option, collar, etc.). Green bars represent the base price scenario (forward curve as of March 11, 2020). Lower prices (orange bars) result in larger gains, while higher prices (blue bars) have the opposite effect (in some cases even requiring outgoing payments). The yellow scatter plot shows the percentage of net *oil* production hedged in the next 12 months (NTM) while the bars show gains and losses from both oil *and* gas hedges. Some operators like Centennial Resource Development (CDEV) did not have any hedges in place as of year-end 2019, but the traditionally hedge-free operator has recently added some insurance to the downside.

Oil hedges only help avoid bumps in the road in the short term, however. Based on aggregated total volume hedged, most of 2021 volumes were left unhedged and will be exposed to prices. If hedge volumes were added the past couple months, it was likely too late, as the company trying to prevent exposure will have to lock in prices near the current low forward strip. Below are the above operators' aggregated monthly volumes hedged.

What does this mean for 2020 and beyond?

After one quarter down on the year, much of the capital has already been spent. Plans were shifted to accommodate lower prices





and to attempt to be cash flow positive or at least keep the headlights on. Unfortunately, this could be the last mile for some operators, with more restructurings to come throughout the year and into 2021. Overall, there is reason to believe the cure for low prices is low prices, and few will emerge stronger when prices rebound. Enverus does not foresee a scenario in which there will be sub-\$30 WTI for longer than two years due to the how the free market will impact the production supply picture. The recent price deterioration poses a larger question being asked even before it all happened – can this industry change direction from its bad reputation of high declining assets, expensive operations, free cash flow struggles, and exposure to volatile prices? At Enverus, we believe they can if operators take steps to lessen risk such as more robust hedging strategies, elimination of all outspend, and do their part to limit oversupply. ■

Author’s Note:

This review of earnings calls and capex was written during the recent collapse in crude prices and market volatility. Its primary goal is to provide perspective on capex and how some companies are responding. Any forward-looking statements should be read in context of current market conditions.

About the author:

Tyler Hoge is a senior financial analyst with Enverus primarily covering U.S. E&Ps

to help the strategic analytics and operator intelligence groups with consulting, asset evaluation, production forecasting, and other commercial activities. Hoge previously served in finance and commodity analyst roles with Appalachian operator, Montage Resources. He holds a BSc in Finance from Penn State University.

1. Free cash flow defined as cash from operations less capital expenditures (includes property additions).

Cash from operations defined as net income (which includes interest and taxes) plus non-cash expenses such as depreciation and impairments, while also including the effect of changes in working capital accounts, such as changes in receivables or payables.

2. Hedges as of 12/31/2019. Base price scenario assumes forward curve as of March 11, 2020. High and low scenarios give and take \$10 WTI futures prices and \$0.50 from NYMEX Henry Hub. Percentage NTM oil production hedged uses Q3’19 annualized production as denominator.

CELEBRATING 50 YEARS OF ENERGY EXCELLENCE

HENRY RESOURCES LLC | 3525 ANDREWS HWY. | MIDLAND, TX 79703 | 432.694.3000

Find out more about our company and history at HenryResources.com



OUR NEXT ENERGY CRISIS

By Dr. Anas Alhajji, Industry Expert

MARKET IMBALANCES FORCE PARTICIPANTS on all sides to take defensive measures to protect their interests. While such behavior is normal, and is to be expected, it can also cause a crisis.

The U.S. shale revolution, which propelled America's energy industry to new heights in the last decade, at the same time wreaked havoc on other oil markets around the world. As U.S. politicians have boasted of our nation's new "energy independence" and "energy dominance," other foreign producers have been forced to consider how to approach

their own policies to react to the detrimental impact posed from America's shale revolution. Though many in the United States may not support decisions coming from these other oil-producing nations, it does not come as a surprise.

Shale is not only about crude oil, but U.S. politicians failed to see that. It is also about petrochemicals, refining, liquified natural gas (LNG) and natural gas liquids (NGLs). Officials in other countries have had to respond to all of the shifts, hence their efforts to stall further growth of U.S. shale.



CORLAFFRA/SHUTTERSTOCK.COM

The more recent crisis in the oil market will reduce North American oil production by a significant amount, at least for the foreseeable future. On the other hand, other oil producing countries are looking at the long-term impact of shale, and threats like electric vehicles and renewable energy. Hyped or not, these countries are not taking any chances and have adopted long-term policies to maintain oil demand. But if shale and others do not deliver, there will be oil shortages. Between market reactions to the short-term and the long-term events, it is clear that we are heading for a period of deficiencies. Given the interconnection

between oil, natural gas, LNG and electricity, crude shortages might lead to a global energy crisis.

How did the shale revolution affect OPEC and the global oil market?

Revolutions turn everything upside down. For this reason, it is fitting to classify the growth of America's unconventional oil and gas production as the "shale revolution." For those who have any doubts, consider the substantial international impact of this uprising by domestic energy producers. Their success hit every strategic objective of the major oil-producing countries, especially in the Gulf region. Since the mid-1970s, these countries, led by Saudi Arabia, took several strategic decisions that include:

1. Focus on energy-intensive industries, especially petrochemicals, since they have a comparative advantage in energy supplies: cheap and abundant methane and ethane. Most members of the Organization of the Petroleum Exporting Countries (OPEC) built petrochemical plants. Saudi Arabia became among the world's top exporter of petrochemical products. The use of cheap ethane and other NGLs gave the Saudi petrochemical industry a comparative advantage relative to other countries that use the expensive naphtha. Naphtha is a petroleum product and its prices rose as oil prices increased.
2. Focus on refining to benefit from the value-added of exporting petroleum products instead of crude. Saudi Arabia, in particular, adopted this policy.
3. Focus on NGLs since they are not included in the OPEC quota and fetch a high margin in Asian markets.
4. Build a massive LNG industry to benefit from cheap natural gas and export products to the rest of the world. While there are few OPEC members that export LNG such as Algeria and the UAE, Qatar becomes the world's top producer and exporter.
5. Shift crude oil sales to Asia, especially China, where most of the growth is in demand. This applies to all Gulf states.

All these strategic investments paid off handsomely until the shale revolution took place. The first phase of the shale revolution in 2005, led by development of natural gas in U.S. basins, brought online massive amounts of methane, ethane and NGLs. Then prices crashed. After which point came the shale oil revolution in 2010 that brought in additional amounts of associated methane and NGLs as associated byproducts, which includes ethane. The Saudi's ethane advantage evaporated as U.S. ethane sources became abundant and cheap. The global petrochemical industry started coming back to the U.S. in order to take advantage of opportunities for abundant and cheap energy and feedstock. Hence, the shale revolution hit the first strategic objective of OPEC members, especially the Gulf States.

Before lifting the U.S. crude export ban in late 2015, U.S. refiners had a feast on cheap U.S. crude, courtesy of the rising production from the shale revolution and an export ban preventing oil from being sold to foreign nations. The price differentials between U.S. crude and international crudes became too large and reached about \$20 at one point. U.S. refiners strategically purchased domestic crude and

exported all kinds of petroleum products, since those products were not subject to the export ban. As a result, exports of U.S. petroleum products increased substantially. Since the increase in exports was much higher than the increase in global oil demand, it meant that U.S. refinery exports gained market share at the expense of others, including OPEC members, especially the Gulf states. Hence, the U.S. shale revolution hit the second strategic objective of these states.

The shale revolution produced massive amount of NGLs. LPG exports soared. Again, since the increase in LPG exports was way higher than the increase in global demand for liquified petroleum gas (LPG), the increase in U.S. market share came at the expense of others, mainly Saudi Arabia. U.S. producers took market share from Saudi Arabia, especially from buyers in Central and Latin America, and changed the global pricing mechanism of LPG. Here we see how the shale revolution hit the third strategic objective of the Gulf States.

The shale revolution, first natural gas and then oil, also had profound impact on the global LNG industry. It was a strategic decision by Qatar to invest in joint ventures with the oil majors to build the largest LNG capacity in the world. The objective was to take advantage of the growing demand for natural gas in the U.S. where prices were more than \$14 a unit. Qatar also made investment in regasification terminals in the U.S. to ensure a long-lasting market share. By the time these receiving terminals were ready, the shale gas revolution happened and flipped the market upside down. The U.S. is now awash with natural gas and does not need to import as much LNG. Qatar LNG exports to the U.S. plummeted. The receiving terminals are still idle today. To add insult to injury, the U.S. is now among the top global exporters of LNG. It is competing with LNG sourced from OPEC members, especially with Qatar, in Asia and Europe.

The bigger hit was the U.S. pricing of LNG: Unlike the rest of the world where LNG prices are linked to oil prices, U.S. LNG prices are based on Henry Hub, the natural gas price marker. Henry Hub has been declining for years and decreased significantly in recent months. The decline in U.S. natural gas makes U.S. LNG more competitive worldwide. Here we see how the shale revolution hit another strategic objective of the Gulf States.

The start of the shale oil revolution did not pose any “direct” threat to the oil producers in the Gulf region. Under the U.S. export ban, America’s shale oil production replaced crude imports of the same quality: light sweet from Algeria and Nigeria. The only way for those two countries to sell their oil in other regions is to compete directly with other OPEC members. Yes, the shale revolution created OPEC-on-OPEC competition, which might explain what happened in late 2014 and in 2015 when OPEC members could not agree on an OPEC production cut and commodity prices declined. But the situation became worse when the Obama Administration lifted the ban on U.S. crude exports. What happened after that changed the global oil market and international trade direction in oil. As U.S. crude exports increased drastically, U.S. crude started competing directly with oil from Gulf States in Asia, although the sanctions on Iran lowered the impact. But even before lifting the export ban, the Gulf States were struggling to maintain their market share in Asian markets: U.S. sanctions on Russia after the annexation of Crimea forced Russia to look for other markets. Once Russia had the taste of Asia, it wanted more and more, at the expense of mostly Gulf states.

The main conclusion from this discussion is that the Saudi reactions in 2014 and in 2020 are not only about crude oil, but rather collectively address combined growth in energy supplies of all types. In this regard, it is worth focusing on what do Saudis want from the U.S. shale industry now. Do they want to kill shale growth? The answer is NO. Saudis benefit greatly from the existence of shale as it lowers the pressure on Saudi oil reserves and saves the Saudis billions of dollars in investment to increase capacity to 15 million barrels a day as envisioned by the Bush Administration in 2007. It also lowers the political pressure when oil prices are high. So, then what do Saudis hope to happen? They want shale to rise in a way that commensurate with growth in global oil demand without taking market share from others.

How are oil producers reacting to the hype of shale, electric vehicles and renewable energy?

When U.S. policymakers brag about “energy independence” and “energy dominance,” oil-producing countries take notice. When Democrats want to ban the use of oil by tying it to climate change, and when Republicans want to ban oil imports by tying it to terrorism or any other reasons, oil-producing countries take notice. When experts predict a massive growth in electric vehicles that will kill the demand for oil in the transportation sector, oil-producing countries take notice.

Thinking that oil-producing countries will stay idle and do nothing in the face of these challenges is naive, at best. We have already seen the reaction of some oil producers in recent months. Even without COVID-19, lower oil prices would have reduced oil production and stalled the growth of electric vehicles and renewable energy, but the bigger story is not being told yet.

Since oil producers, especially in the Middle East, are constantly warned that the world does not need its oil and oil demand will peak soon, they have been developing plans to convert oil to energy intensive products with a push for oil-to-materials. In other words, they are saying: if you want to subsidize electric vehicles in order to switch to them completely, I will make sure that all the materials used in the car comes from oil. Go ahead and develop wind turbines and solar panels. I will make sure that most of the materials used comes from oil. Build the most energy efficient homes, I will make sure that most materials used in the building comes from oil. How real is this? Well, check the oil-to-material program that the Saudis are looking at to maintain oil demand.

Does it matter?

If you are convinced that shale will not deliver expected growth in the coming years and that the impact of electric vehicles on oil demand is exaggerated, then you know we are heading for an energy crisis. If the leaders of various countries in OECD do not deliver on their promises, then we need more oil in the future, but oil will not be available. It is being converted to highly valuable energy intensive products and materials. The only way the oil-producing countries will sell the crude is if the price is high enough to compensate for the profit generated from converting crude to energy intensive products and other materials.

In conclusion: brace for impact! ■



LANCE GOODEN

U.S. Representative, Texas' 5th Congressional District

OFFERING HIS THOUGHTS IN mid-April amid a surreal scenario that, in the space of about a month, included a worldwide pandemic, Russian-Saudi crude oil price war, freeze on much of the economy, unprecedented tumble in global oil demand and the largest stimulus bills in U.S. history, Congressman Lance Gooden wants people to know that all this, too, shall pass. The country's resilience will endure.

"It's important to remember during these difficult times we have that capability, and we will recover to be bigger and better than ever," says the U.S. representative from Texas' fifth district, which stretches from Dallas County to Cherokee, Henderson, Kaufman, Anderson, Van Zandt and Wood counties. "The federal lending programs established by our stimulus packages will help companies get through this rough patch. In the meantime, President Trump is using his power as leader of the free world, applying pressure on Saudi Arabia and Russia to end their harmful and unfair business practices stifling our oil and gas industry."

Of course, it is not only the Saudis and Russians whose actions require U.S. intervention, Congressman Gooden assesses. Considering the inconsistent and sometimes disturbing evidence regarding the Chinese government's mishandling of the coronavirus (COVID-19) pandemic, that problem demands closer scrutiny too, he maintains.

"Once we get through the worst of this pandemic, there are going to be a lot of questions we need to answer," Congressman Gooden poses. "How will we get to the bottom of where the virus came from? If there are individuals responsible for allowing it to spread, how will we hold them accountable? I'm working with my colleagues in Congress to formulate answers to those questions and to create actionable plans for where we go after that. We're all focused on getting through this right now, but my sights are focused on holding the Chinese Communist Party accountable for its role in allowing coronavirus to spread."

Gooden first arrived in Congress in 2018 after three terms in the Texas House of Representatives. During the decade before that, he worked in insurance, accepting a job out of college brokering casualty insurance risks for major producers in Houston. The experience gave him an up-close

and personal look at the many Texans contributing to the energy supply chain.

"The oil and gas industry employs hundreds of thousands of Texans," he observes. "These are stable, good-paying jobs that lead to lifelong careers in energy production. Our state's proud history of fueling America is a part of who we are. I'm proud to be a strong supporter of Texas oil and gas producers, especially as left-wing radicals in Congress hope to reverse the oil and gas progress made in recent years."

The radicalism that explicitly seeks to end oil and gas production and use may seem relatively new, but Congressman Gooden detects some continuity that stretches further back in time. Unfortunately, he acknowledges, the voices claiming hydrocarbons should be left in the ground persuaded most Democratic presidential candidates to embrace hydraulic fracturing bans.

"These proposals are based on the left's decade-long smear campaign against hydraulic fracturing," he says. "In fact, hydraulic fracturing is safe, secure and highly productive. It has played a massive part in revitalizing our domestic energy production, and it will continue to be at the core of how we produce energy here in the United States."

President Trump's recognition of this fact makes Congressman Gooden a strong advocate of the administration's energy agenda, he indicates. U.S. Energy Information Administration confirms that the United States exported more energy in 2019 than it imported, a stark contrast from the situation that endured for decades.

"Turning the United States into a net exporter of energy was a historic achievement," Congressman Gooden affirms. "I am proud to have played a part in that, and I will be especially proud when we bring our energy industry back to that level after this pandemic is over."

That sort of optimism, he says, underlies the very reason he pursued public service. It flows naturally from the Texas spirit.

"While I talk a lot from a federal standpoint, it's important to note how encouraging the future looks at the state level," he adds. "Governor Abbott has assembled a stellar team to help get our economy up and running again and the energy industry will be one of the first to benefit from their expertise and enthusiasm. I'm confident our brightest days are ahead of us." ■



KEN MCQUEEN

Regional Administrator for the U.S. EPA Region 6 District

KEN MCQUEEN KEEPS TRYING, but retirement won't stick. He first stepped away from professional work in 2016 after 35 years in oil and gas, with positions including vice president at WPX Energy, engineering posts at Vintage Petroleum and Amerada Hess, and more than a decade as an adjunct petroleum engineering professor at the University of Tulsa.

But later that year, he accepted an appointment to become cabinet secretary for New Mexico's Energy, Minerals and Natural Resources Department, a position he held until Governor Susana Martinez's term concluded in January 2019.

McQueen's effort to resume retirement ended several months later, when President Donald Trump tapped him to serve as U.S. Environmental Protection Agency (EPA) administrator for Region 6, covering Texas, New Mexico, Oklahoma, Louisiana and Arkansas.

"Despite a plethora of hobbies, I'm not yet ready to choose a comfortable rocking chair," McQueen says. "I have found it important to be always open to new opportunities, wherever they reside. After a long career in the private sector, public service is a great opportunity for me to contribute and bring a helpful perspective. I find that long-term industrial institutional knowledge is especially appreciated in government service."

That includes recognizing the strategic importance of U.S. energy self-sufficiency and its concomitant consumer benefits, he says, as well as a firsthand grasp of how regulations influence investment.

"I understand and appreciate the importance of providing stable and predictable regulations to the regulated community," he says. "Regulatory certainty gives companies the needed assurances to make strategic business decisions that will result in greater energy self-sufficiency."

According to McQueen, that mindset underlays the Trump administration's efforts to review, revise or rescind regulations that unnecessarily burden domestic energy development, examples of which include EPA's air quality New Source Performance Standards (NSPS) and a revised definition of Waters of the United States (WOTUS) for Clean Water Act (CWA) oversight. The administration's NSPS adjustments aim to improve an Obama-era proposal by recognizing the industry's economic incentive to minimize emissions, which is reflected in the fact that U.S. natural gas production has doubled since 1990 while the industry's methane emissions have dropped

14 percent. The proposal, which EPA estimates will save the oil and natural gas industry \$17 million-\$19 million a year, has been winding its way through the rule-making process, including an all-day public hearing in Dallas last autumn and has reached the stage in which EPA weighs and responds to public input.

"Our regulations should not stifle innovation and progress," McQueen emphasizes. "The proposed amendments would remove inappropriate regulation for oil and gas transmission and storage under the 2016 NSPS rule because EPA did not make a finding of endangerment of public health or welfare regarding emissions from these sources at the time. The proposal would also eliminate duplicative regulation on methane for sources in the production and processing segments because controls to reduce volatile organic compounds (VOCs) also reduce methane."

He goes on to explain that the revisions will continue requiring operators to control emissions from new and modified sources while seeking to remove midstream requirements for VOCs and greenhouse gases (GHGs).

"The existing NSPS regulates GHGs through limitations on emissions of methane," McQueen explains. "The amendments also would rescind the methane requirements in the 2016 NSPS that apply to sources in the production and processing segments of the industry. EPA has also proposed an alternative amendment that would rescind the methane emissions limitation across the industry without removing from regulation any sources from the transmission and storage segment of the industry."

As for topics particular to Texas oil and gas companies, the matters to which he points include the authority the Texas Commission on Environmental Quality (TCEQ) seeks to oversee the CWA's National Pollutant Discharge and Elimination System (NPDES) program for oil and gas wastewater. A joint EPA-TCEQ work group has been preparing TCEQ's formal request in line with the deadline Texas lawmakers set in 2019. "Texas currently has an almost complete reliance on subsurface injection for oil and gas wastewater disposal," McQueen says. "Legitimate concerns are being raised about finite reservoirs, induced seismicity and water import from New Mexico. Technological advancements in oil and gas wastewater have progressed and should be fully explored as an alternative to subsurface disposal. The NPDES delegation for oil and gas produced water will be integral to alternative disposal explorations." ■



XUAN YONG

CEO of RigUp

XUAN YONG, A HOUSTON native, understood from an early age the impact the energy industry – upstream oil and gas, in particular – has on the Texas economy and Texans themselves.

After graduating from Texas A&M University with a Bachelor of Business Administration in Finance, Yong spent eight years on Wall Street at Goldman Sachs, DE Shaw and Citadel, where he invested across the energy sector.

“While I worked as an investor, I saw an inefficiency in many oil and gas operations – a mismatch of supply and demand in the labor market that was being solved by technology in other industries,” Yong says.

Technology in oil and gas is a bit of a paradox. While the industry is often stereotyped as *change averse* or *traditional*, it would be misleading not to acknowledge how much has changed in recent years. New seismic mapping technologies, horizontal drilling, fracking, robotics and even solar technologies have vastly altered the landscape of the energy industry, but advances in engineering operations have rapidly outpaced internal administrative systems and processes. HR systems, specifically, are outdated and the hiring process is broken.

When founding RigUp, Yong teamed up with Mike Witte, now the company’s chief operating officer, who had previously worked at Encana Corporation as a petroleum engineer. “Mike and I saw the same issues facing the oil and gas industry from different, but complementary views. The RigUp platform provides oil and gas companies with a better, lower-cost way to manage much of the contingent labor that fluctuates dramatically as oil prices and demand change,” he explains.

Four years ago, the oil and gas labor market was fragmented, getting crews together was expensive and time-consuming, and variable labor costs were increasingly showing up as a top-10 category spend. Traditionally, upstream and services companies hired consulting firms and boutique agencies to manage contingent labor, e.g., contractors. These consulting firms call around, search for available contractors and track down contractors’ compliance status. Dispatching services that way is slow, tedious and expensive.

“Those pain points became especially clear when shale took off,” Yong explains. “Frac jobs are often planned and started within a matter of two weeks. Efficient labor sourcing and placement is a requirement.” He also notes that, “from the contractor perspective, the RigUp platform offers a simple way to find work, get paid faster, manage certifications and more.”

Last year, Yong led RigUp through a \$300 million round of Series D investment funding that made the company Texas’ first unicorn – a tech company valued at more than \$1 billion.

“We’ve seen tremendous success on the platform with upstream oil and gas and services companies,” Yong says. “We’re expanding our product and opening the RigUp platform across all verticals of the energy industry: midstream, offshore and renewables.”

The long-term trajectory of the energy industry is still positive. In fact, the EIA recently forecasted that world energy usage would increase nearly 50 percent by 2050, but that expected growth coincides with the first structural workforce shortage globally since 1973. In the U.S., the UN forecasts that between the years 2018 and 2050, the shortage could total 5-6 percent of the workforce – or 11 million people. It’s only expected to grow as the next generation overwhelmingly choose to go to college and take white collar jobs.

“Given the energy crisis of the ‘80s, the labor shortage issue is even more pronounced in the oil patch long-term,” Yong says, “but the demand for energy will continue to increase – upwards of 50 percent, according to the EIA. As the fuel mix shifts to natural gas, the United States will supply much of that growth in demand.”

Yong emphasizes that RigUp is positioned to solve this labor supply problem better than anyone else. “Our platform matches the most qualified workers to jobs where they’re needed, faster than traditional methods. We provide the best way for operators to vet and manage project-based contractors and their tasks with a suite of tools, and provide resources to contractors to ensure their training and certifications are up to date. The data we capture from ratings and reviews removes the guesswork from validating contractor performance.” ■



TIPRO WELCOMES NEW MEMBERS

Lydia Abbott

Goldston Oil Corp.

Jamie Alford

Questor Solutions & Technology Inc.

Mark Brandon

Tanos Exploration II, LLC

Robert Cantin

Little Oil & Gas/Greco Operating

Chelsea Cantrelle

EP Energy E&P Company, L.P.

Jason Chan

Waste Management

Charles Cusack

Recoil Resources

D. Briggs & Susannah P. Donaldson

Briggsannah Energy, LP

Stephen DuBois

Dallas Production, Inc.

Michol Ecklund

Callon Petroleum Co.

D. Kirk Edwards

Latigo Petroleum, LLC

John Filla**W. Tracy Fotiades**

Revelant Holdings LLC

David French

Rosehill Operating Co., LLC

James Gould

GGG Oil Co., Ltd.

Kyle Haley

Petty Family Interest

Rhodes Hamilton

Hamilton & Squibb, LLP

Jess Heck

RigUp Inc.

William Hornberger

Jackson Walker

Laura Hurt

Dallas Production, Inc.

Kim Innocent

Revelant Holding LLC

Dennis Johnson

Summit Petroleum LLC

Maddy Kenyon

Endeavor Energy Resources L.P.

Koby Killion

Teal Exploration

Roy Lamoreaux

Plains All American Pipeline, LP

Corbin Light

Mason Oak Energy, LLC

Vance Long

Teal Exploration

Katharine McAden

Parsley Energy, Inc.

Nancy McCaskell

Pitts Oil Co., LLC

Debbie McCormack

Goldston Oil Corp.

Stephen Mizer

Jack L. Phillips Co.

Walker Murray Randle

7R Ranch

J. Charles Nixon

Primexx Energy Partners, Ltd.

John Northington

Plains All American Pipeline, LP

Randall Osterberg

Opportune LLP

Michael Perkes

Pitts Oil Co., LLC

Nick Piatek

Hilcorp Energy Co.

Larry Prichard

Larry Prichard Land Services LLC

Alan Pyle

WaterFleet

Trevor Rees-Jones

Chief Oil & Gas LLC

Lees Rodionov

Schlumberger Oilfield Services

Doug Rogers

CIG Logistics

Charlie Ross

Chevron USA

Pamela Roth

EOG Resources, Inc.

Trebes Sasser

Sasser Royalties

Clayton Smith

Texland Petroleum, LP

Robert St. John

Apache Corp.

Michael Tennison

Dallas Production, Inc.

Dirk Todd

Oak Tree Minerals, LLC

Rachel Walker

CrownQuest Operating, LLC

Mark Webster

Endeavor Energy Resources L.P.

Mary Ellen Weylandt

Marathon Oil Co.

Ron Whitmire

EOG Resources, Inc.

Derek Wolf

Apache Corp.

Maziar Zarea

University of Houston



Calendar of Events

July 8, 2020

IPAA/TIPRO "Leaders in Industry" Luncheon
Houston Petroleum Club
Houston, Texas
For more information, call (202) 857-4733.

November 11, 2020

IPAA/TIPRO "Leaders in Industry" Luncheon
Houston Petroleum Club
Houston, Texas
For more information, call (202) 857-4733.

December 9, 2020

IPAA/TIPRO "Leaders in Industry" Luncheon
Houston Petroleum Club
Houston, Texas
For more information, call (202) 857-4733.

August 12, 2020

IPAA/TIPRO "Leaders in Industry" Luncheon
Houston Petroleum Club
Houston, Texas
For more information, call (202) 857-4733.

August 12-13, 2020

NAPE Summit
George R. Brown Convention Center
Houston, Texas
For more information, call (817) 847-7700.

August 19-20, 2020

TIPRO Summer Conference
Hyatt Hill Country Resort & Spa
San Antonio, Texas
For more information, call (512) 477-4452.

September 8-10, 2020

DUG Eagle Ford Conference & Expo
Henry B. Gonzalez Convention Center
San Antonio, Texas
For more information, call (713) 260-1072.

September 9, 2020

IPAA/TIPRO "Leaders in Industry" Luncheon
Houston Petroleum Club
Houston, Texas
For more information, call (202) 857-4733.

October 14, 2020

IPAA/TIPRO "Leaders in Industry" Luncheon
Houston Petroleum Club
Houston, Texas
For more information, call (202) 857-4733.

TRACKER SERVICES LLC.
OIL AND GAS LAND SERVICES

OUR LEVEL OF COMMITMENT, INTEGRITY AND INTELLIGENT EFFORT TO PRODUCE QUALITY WORK MAKES YOUR SUCCESS TRACKER'S DESTINATION.

AT TRACKER WE OFFER A WIDE VARIETY OF LAND SERVICES WHICH ALLOWS US TO CATER TO THE SPECIFIC NEEDS OF ANY CLIENT. OUR AREAS OF EXPERTISE INCLUDE:

- DUE DILIGENCE
- TITLE EXAMINATION
- GIS MAPPING

*FOR A FULL LIST OF SERVICES THAT TRACKER PROVIDES, PLEASE VISIT OUR WEBSITE AT

WWW.TRACKERSERVICESLLC.COM
Ft. Worth Office: 817-496-2322 / Greg Stovall - C: 940-882-5188

Index to Advertisers

ACCOUNTING SERVICES

Andersen 18
www.andersen.com

ECONOMIC SOFTWARE

TRC Consultants 18
www.phdwin.com

EXPLORATION & PRODUCTION

Henry Resources LLC 9
www.henryresources.com

LAND SERVICES

Tracker Services, LLC 17
www.trackerservicesllc.com

ANDERSEN®

A name from the past
A firm for the future



Independence



Best-in-Class



Transparency



Seamless



Stewardship



Thank You

to the advertisers who helped make
this publication possible.

PHD | win

Introducing the next generation of PHDwin

PHDwin Version 3 is the world's most advanced software for petroleum reserves estimation and economic analysis.



Learn more at
www.phdwin.com/preview

In the most difficult of times, . . .

TIPRO IS HERE FOR YOU

As the Texas oil and gas industry navigates the current economic climate and works to overcome present-day challenges, members can always turn to the Texas Independent Producers & Royalty Owners Association for help. With ongoing shifts in the market, TIPRO remains committed to supporting our participating companies and finding solutions that will assist independent producers and royalty owners during this difficult time.

Please consider the following suggestions to engage with TIPRO:

- ✓ **Become involved in TIPRO committees.** TIPRO's committees focus on state and legislative issues, evolving industry regulations, legal matters and other pertinent areas for the oil and gas industry. Join one of these TIPRO groups to increase the efforts of the association and help all of us in the fight for success for the industry.
- ✓ **Sign up to receive TIPRO publications.** Stay informed of the latest regulatory and legislative news for the oil and gas industry by reading the association's *TIPRO Target* newsletter, *Upstream Texas* magazine, and other TIPRO communications.
- ✓ **Connect with TIPRO staff and executive leaders.** Express your concerns and ideas by contacting TIPRO -- we want to hear from you!
- ✓ **And don't forget to also follow TIPRO on social media channels like Twitter, Facebook and LinkedIn** to also receive timely updates on relevant industry and association news.



OUR MISSION

TIPRO exists to preserve the ability to explore and produce oil and natural gas and to promote the general welfare of its members.

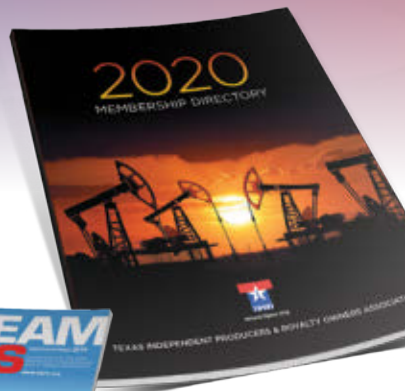
(512) 477-4452 | www.tipro.org | info@tipro.org

WE'VE GOT YOU COVERED.

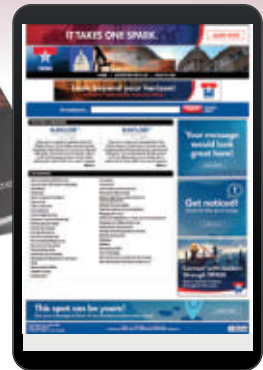
TIPRO's resources keep you up to date on critical information in the Texas oil and natural gas industry.



Upstream Texas
print & digital magazine



Annual Membership Directory



TIPRO Online Buyers' Guide

For information on advertising opportunities, contact:

Carlos Santana

Project Leader | Naylor Association Solutions
(352) 333-3348 | csantana@naylor.com



NAYLOR 
ASSOCIATION SOLUTIONS