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February 8, 2024

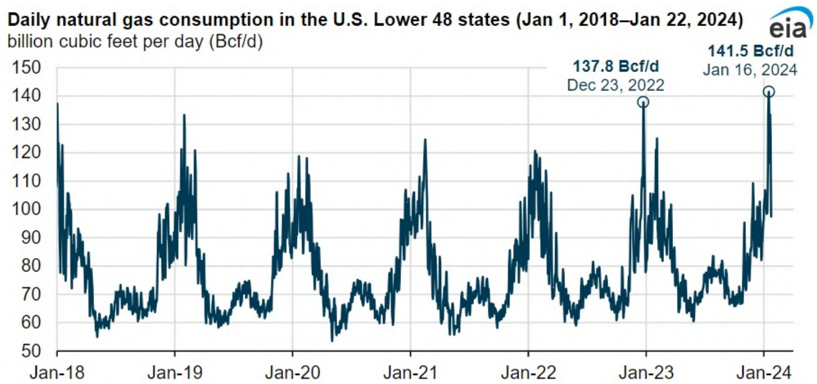
TIPRO

Texas Independent Producers and Royalty Owners Association

January 2024 saw a new daily record for U.S. natural gas consumption

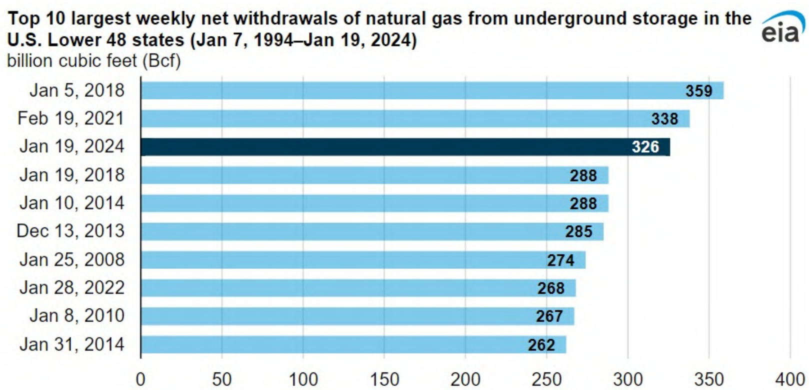
In an article published by EIA on February 6, 2024 according to estimates by S&P Global Commodity Insights, a new record of 141.5 billion cubic feet (Bcf) of natural gas was consumed in the Lower 48 states (L48) of the U.S. on January 16, 2024, surpassing the previous record set on December 23, 2022. This was due to below-normal temperatures caused by a widespread arctic air mass that covered most of the continental United States, resulting in an increased demand for natural gas for residential and commercial space heating and electricity generation. As a result, both natural gas consumption and withdrawals from underground storage reached record levels.

From January 14 to January 21, 2024, the L48 region experienced an average daily consumption of over 130.0 billion cubic feet of natural gas. This can be attributed to the influx of arctic air into the United States, leading to a decrease in temperature. The extreme weather conditions, such as strong winds, freezing rain, and snow, were felt across the country, from the Pacific Northwest to Texas, and extending to the Northeast and mid-Atlantic regions. During this period, residential and commercial natural gas consumption accounted for almost 49% of the total L48 consumption, a significant increase from the 42% recorded at the beginning of January. This rise can be attributed to the higher usage of natural gas for heating purposes in homes and commercial buildings. Additionally, the demand for electricity also saw a surge during this time, resulting in an increase in natural gas-fired and coal-fired electricity generation, as seen in the data provided by the Energy Information Administration (EIA).



Data source: S&P Global Commodity Insights

In order to satisfy the surge in demand for heating and electricity during the cold spell, a significant amount of natural gas was extracted from below-ground storage, reaching near-record levels. According to our data, the L48 region experienced a weekly net withdrawal of 326 Bcf between Saturday, January 13 and Friday, January 19, making it the third-highest amount for any week on record.



Data source: U.S. Energy Information Administration,

Note: The weekly net withdrawals of natural gas from storage are calculated over a period of seven days. The dates provided above indicate the last day of each seven day period.

Principle contributors: Max Ober and Andrew Iraola

The United States' Lower 48 states have seen some of the largest weekly withdrawals of natural gas from underground storage, with the top 10 being the most significant.

The decrease in U.S. natural gas production was counterbalanced by a significant withdrawal from the large natural gas storage. The drop in production can be attributed to factors such as freeze-offs, where the freezing of water and other liquids in the raw natural gas stream occurs at the wellhead or in gathering lines, as well as other problems caused by the cold weather. S&P Global Commodity Insights estimates that U.S. dry natural gas production, which had been averaging around 104.0 Bcf/d at the beginning of January, decreased by approximately 10.0 Bcf/d and closed at 94.0 Bcf/d during the week of January 13.

Chairman's message

Jud Walker

Upstream deals soared to an all-time high of $196 billion last year as we witnessed the majors and large caps go on a scarcity-induced buying binge. Much of that activity was focused on the Permian where operators looked to shore up high-quality inventory capable of generating a return at $50/bbl WTI or less. The metrics on deals changed significantly as the average deal size ballooned to ~$900 MM per transaction, up over 70% from 2022. Deals shifted dramatically to oil-focused (88% of deal volume) as the natural gas market struggled. Looking to 2024 with oil prices seemingly range-bound, despite major geopolitical threats, and gas prices floundering post-Biden LNG announcements we are likely going to witness continued mergers and consolidation. All of that is great if you are sitting on oily, high-return acreage but to the majority of independent producers, the A&D market continues to be difficult to access and participate in.

The talk of dwindling inventory and mass consolidation has overshadowed much of the innovative geoscience and engineering work that has been ongoing outside of the core areas of the major producing basins. Private equity-backed groups and self-funded operators have been methodically sinking capital into second and third-tier targets, utilizing optimized completions and longer laterals in an attempt to pull inventory forward and re-draft economic outlines. As many of these portfolio team funds grow long in tooth and fundraising continues to be a challenging endeavor, independents are taking calculated risks to keep teams busy and shore up future inventory. With the secondary market doubling in the last year, the hope is that if commodity prices don't cooperate for timely exits, capital could be matched to extend funds and projects. To prepare for that scenario though, operators must have a strong thesis for extension. This trend is small compared to the headline M&A news, but it's quite important. I'm not suggesting that independents will uncover previously undiscovered unconventional plays, but given the time (we've had plenty) and cash flow (it's been lumpy, but we have had some decent runs) we have an opportunity to bring the market to us and secure many decades of additional oil and natural gas resources.

Let me give you one such example. We have operated approximately 6,000 wells in the Sonora gas field for the last ten years. Located in the southern Midland Basin, the Sonora gas field was largely developed several decades ago with vertical wellbores producing from the tight, conventional sandstones of the Canyon Formation. It's been a great field to operate, but it falls well outside of the coveted area where the Wolfcamp is economic. Nonetheless, the original in-place resource is between 14 and 16 TCF and we have produced less than 20% of that. It was easy for years to allocate capital to more exciting areas and view Sonora as a steady PDP asset that didn't have much going for it other than its predictability and low-cost production. As we have struggled to raise funds in this challenging environment, we started to spend increasing amounts of time figuring out how to access the remaining 80% of the gas in the Canyon.

We are excited to direct some capital this year to a few tests aimed at accessing the Canyon gas more effectively. If successful, we could breathe life into a "tired old field" that appeared to have seen its best years many decades ago. As I have discussed this project with other independent operators, I am excited and encouraged to hear about similar projects in various stages of planning or execution across Texas. The macro themes are out of our control, but I love the ingenuity and determination displayed by our industry during challenging times.

I hope you can join us next month, March 6-7 at the Crescent Hotel in Fort Worth for our 78th Annual Convention. We have a diverse and interesting group of speakers and topics as well as multiple networking opportunities. Thank you to our generous sponsors with whom we could not make these events happen. Read on to find out more about the event, how to register and reserve your room.

Jud Walker

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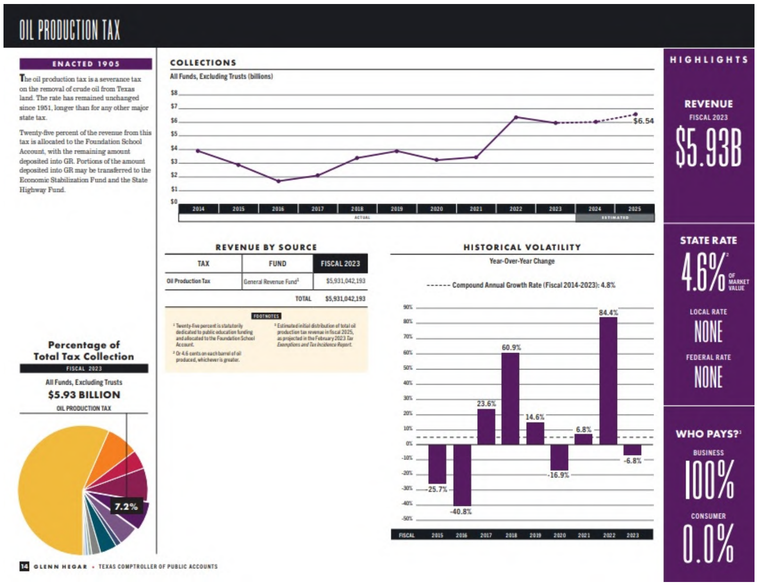
Texas Comptroller Updates Taxes of Texas: A Field Guide

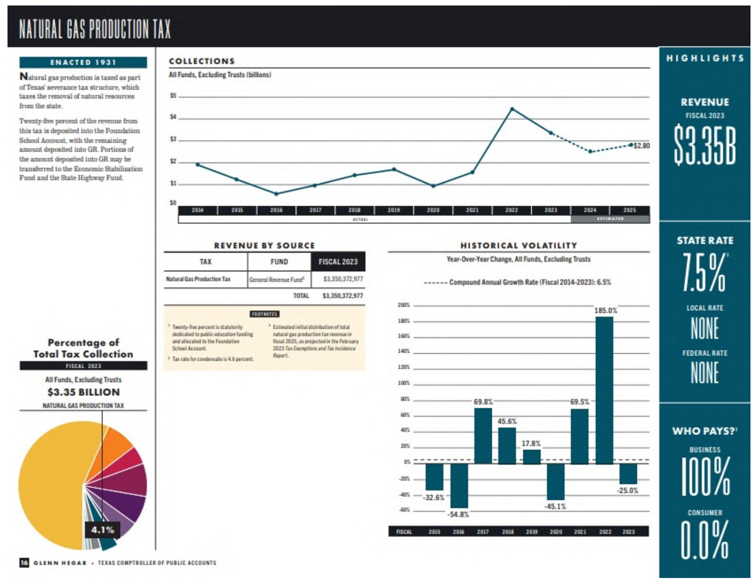
To help Texans better understand Texas tax revenue, the Comptroller's office has updated Taxes of Texas: A Field Guide (PDF). The report provides a graphic-rich overview of major state and local taxes, including historical collections and estimates of future revenue growth. The guide, which features a tablet-friendly design and links to in-depth state financial publications, offers an overview of the budget process and outlines the basics of local taxes.

This helpful resource covers the major Texas state taxes and enables readers to:

- Learn how major taxes have contributed to state revenue during the past 10 years;
- See revenue collections, estimates and allocations on one page; and
- Connect to other, in-depth resources about state taxes and finances.

Every year, the state of Texas collects billions of dollars in state taxes and fees, federal receipts and other sources of revenue. These funds are used to pay for all of the responsibilities of the state government, including the education of public school students and the provision of health insurance for low-income Texans.





One of the key takeaways from the Texas Tax Field Guide for 2023 is the substantial tax revenue generated by the oil and natural gas industry. The guide highlights that the industry contributed $5.93B from Oil Production and $3.35B of dollars in taxes this past year, all of which directly benefits the state and its residents. These tax dollars are crucial for funding public schools, public safety agencies, transportation projects, and various other government programs. The ESF, also known as the Rainy Day Fund, receives one-half of 75 percent of oil production and natural gas production tax revenues in any fiscal year that exceeds fiscal 1987 collections, and one-half of any unencumbered GR surplus remaining at the end of each biennium. In early fiscal 2024, based on the fiscal 2023 ending GR balance and severance tax collections, there was a $2.4 billion transfer of the unencumbered GR balance into the ESF, in addition to a $3.1 billion transfer of severance taxes.

The constitutional ESF cap is expected to be reached for the first time in its existence in fiscal 2026. A portion of the severance tax transfer (an estimated $460 million), as well as interest earnings from the fund, will be retained in GR and available for general-purpose spending.

Economic Stabilization Fund (ESF)

	FISCAL 2022	FISCAL 2023	FISCAL 2024	FISCAL 2025
	ACTUAL	ACTUAL	ESTIMATED	ESTIMATED
Ending Cash Balance	$3,567,923,027	$1,516,200,614	$1,629,551,282	$1,991,603,408
Ending Invested Balance	$7,239,993,274	$12,657,756,953	$18,342,063,132	$21,659,121,470
Total Ending Balance	$10,807,916,301	$14,173,957,566	$19,971,614,414	$23,650,724,878
ESF Cap	$20,260,891,219	$20,260,891,219	$26,429,846,923	$26,429,846,923

World's Largest Cruise Ship Sets Sail Thanks to LNG - Texans for Natural Gas

Despite recent decisions by the Biden Administration to restrict the exportation of liquified natural gas (LNG) for use around the world, industries are still leaning into the fuel as a means to innovate and reduce the environmental impact of operations. The largest cruise ship in the world—a 250,800-ton vessel with 20-decks and a passenger capacity of nearly 8,000 people—embarked on its maiden voyage on January 27, 2024. Better yet, it was powered by LNG.

Texans FOR NATURAL GAS A TIPRO CAMPAIGN

As the first cruise liner to run on LNG, Royal Caribbean's Icon of the Seas is 24% more energy efficient than required by the International Maritime Organization and houses "cutting -edge features" like the largest water park at sea, the ability to run on shore power electricity while at port, a "first-of-its-kind" waste management system, and advanced water purification.

Cruise Lines International Association (CILA), the world's largest cruise industry trade association, discussed the environmental benefits of using LNG as fuel in its 2023 Environmental Technologies and Practices Report. According to the report, and findings from a recent Sea-LNG analysis, "L.N.G. is currently the fossil fuel available at a scale that has the best performance in reducing atmospheric emissions."

Icon of the Seas is the latest example of LNG and natural gas' ability to reduce emissions now, rather than waiting for other technologies to become scalable or deployable. In the United States, the power sector reduced its CO2 emissions by nearly 8%, thanks in large part to the switch from coal to natural gas. The marine industry is looking to natural gas and LNG to meet its emission goals too.

According to SEA-LNG, LNG reduces greenhouse gas emissions by up to 28% on a tank-to-wake basis when compared to conventional marine fuels. The infrastructure needed to support LNG refueling is also widely available, with bunkering possible at most key ports and major oil bunkering hubs around the world. LNG is also operationally proven for use in the marine environment, with standards, guidelines and operating protocols being long established, with an "unblemished 50-year safety record."

Thanks to the Lone Star State, the U.S. has helped meet growing LNG demand globally. With global demand for LNG expected to grow 57% by 2035, it is critical now more than ever that our policymakers continue to support the industry. "Texas' natural gas industry is a cornerstone of American energy and national security, and our state's operators are responsible for meeting growing demand across the globe," said Ed Longanecker, President at the Texas Independent Producers and Royalty Owners Association. "As we continue to invest in energy infrastructure to meet this challenge, it is essential that policies and regulations support this growth."

LNG is proving to be the most effective tool for reducing emissions across industries. Icon of the Seas is the latest example of how this critical fuel is spurring innovations and making modern maritime travel sustainable. This progress can only continue if the permitting landscape is navigable and supports the industry's efforts to innovate and grow.

For more articles like this visit the Texans for Natural Gas blog.

RRC Hosts Webinar on Form CI-D/Form CI-X Online Filing System Updates for Operators

This week the Railroad Commission of Texas (RRC) launched updates to the RRC Online System used to file the Form CI-D, Acknowledgement of Critical Customer/Critical Gas Supplier Designation, and Form CI-X, Critical Designation Exception Application.

The updates to the online filing system provide a more efficient process and improved user experience when submitting the required forms.

- Operators have the option to save their work and return to the application later using the "Select" tab.
- Additional facility types have been added to the drop-down menu in the "Select" tab as well as to the list on the "Acknowledgement" tab for facility types that can request an exception.
- The RRC review process for Form CI-X has been revised. All applications will be reviewed by an initial and then final reviewer. Under no circumstances will exception applications be approved without attachments demonstrating justification and evidence.

Please be reminded that oil and gas operators and pipeline operators **must file** the Form CI-D or Form CI-X **online** by March 1, 2024, using the RRC Online System here.

Form CI-D would be submitted by an operator of a facility designated as critical acknowledging the facility's critical status based on 16 Texas Administrative Code (TAC) §3.65 and 16 TAC §25.52.

Form CI-X would be submitted by an operator certifying a facility seeks an exception to critical designation based on 16 TAC §3.65 and Texas Natural Resource Code §91.143.

For more information or to view the RRC's recent presentations visit https://rrc.texas.gov/critical-infrastructure/ci-training/ under 'critical designation forms'.

US Contracting Activity to Slow Amid DOE Permit Pause

Market participants signed new long-term LNG contracts at a frenetic pace in 2023, a signal natural gas will be part of the global energy mix for decades to come, despite forecasts that hydrocarbons are headed for extinction.

Poten & Partners has confirmed that 67 supply and purchase agreements (SPAs) covering more than 62 MMt were signed in 2023. Another 21 heads of agreements (HOA) or other similar intermediate-stage deals were also signed covering another 21 MMt.

The overall volume of 62.3 MMt signed in 2023 in new SPAs fell short of 2022's record volume of nearly 72 MMt. However, the 67 deals in 2023 eclipsed the number of transactions penned in 2022, when 57 SPAs were signed. The drop in volume and increase in the number of deals year-on-year means that the average deal size in 2023 was about 930,000 t, compared to just over 1.25 MMt per transaction in 2022.

The rapid pace of dealmaking allowed three US projects – Rio Grande LNG Phase 1, Plaquemines LNG Phase 2 and Port Arthur LNG Phase 1 – to reach final investment decisions (FID) in 2023. Deals signed by several other projects allowed them to advance within striking distance of reaching FID this year.

Government intervention threatens progress

However, US LNG contract talks are set to slow after Joe Biden's administration announced on Jan. 26 that the Department of Energy (DOE) would temporarily pause issuing non-free trade agreement (FTA) export permits, which set a deadline by when a project needs to send out its first cargo.

As a result, a handful of US LNG developers that were originally hoping to take final investment decisions (FID) this year could see their projects stall because they still need to obtain their non-FTA permits or need an extension of the non-FTA in-service deadline. They include Venture Global's CP2 LNG Phase 1, Sempra's Port Arthur LNG Phase 2, Energy Transfer's Lake Charles LNG and Commonwealth LNG.

The DOE typically issues free trade agreement (FTA) export permits to LNG projects in as few as three months, authorizing cargoes to destinations such as Canada, Mexico, Singapore and South Korea. However, it is a much longer wait for non-FTA permits. The years - long process for non-FTA permits includes public comment periods and lengthy environmental reviews, with some US LNG projects such as Commonwealth having waited more than five years for a decision. The DOE now plans to enact stricter guidelines that would take greenhouse gas (GHG) emissions, social justice issues and the impact on domestic natural gas prices into consideration to determine if an LNG export project is "in the public interest."

Over the past year, the US became the world's largest LNG exporter, but the regulatory uncertainty created by the Biden administration has roiled developers who have spent more than a decade and hundreds of millions of dollars advancing their projects.

The uncertainty over US permits has made some buyers rethink their positions as it raises concerns about the country's reliability as a leading LNG supplier, particularly among trading partners Japan and Europe, who viewed the US as a reliable supplier and counterweight to Russia following the Feb. 2022 invasion of Ukraine. For LNG buyers it raises country risks for the US which weren't there before the permit issuing pause. Europe has soaked up substantial volumes of US LNG over the last two years after the Ukraine-Russian war disrupted Russian pipeline gas supply, while Japan is reeling from the recent imposition of US sanctions on Russia's Arctic 2 LNG project, which is expecting to start exporting small volumes in February.

The re-evaluation of permitting is not the only headwind for US projects. Higher engineering, procurement and construction (EPC) costs are putting upwards pressure on US liquefaction fees. Meanwhile, Asian customers are reassessing US deals because Brent-linked long-term offers from other suppliers are coming down in price, figures from Poten's LNG Contract Intelligence Service database show. However, LNG exporters offering Brent-linked supply could see price support if US projects that were originally expected to take FID face extended delays, particularly if the pause in non-FTA permits extends beyond the elections. If there is change in the executive and legislative branches, it could slow operations while new political appointees are installed to head up the DOE and Federal Energy Regulatory Commission.

As a result, Asian buyers are expected to take longer to assess their buying appetite for US pre-FID projects and new sanctioned capacity out of the US this year will be thin. Some portfolio players and a handful of small Chinese buyers remain keen on flexible US FOB supply. However, the latter are seeking prices that are likely too low for US project developers.

The Biden permit pause could potentially benefit a small group of LNG export projects in the US, Mexico and Canada that have already been flooded with queries since the administration's announcement. Two proposed US projects that hold FERC and DOE non-FTA permits that expire in 2027 or after are seen as advantaged with enough time to sign contracts, secure financing, start construction and send out cargoes before the deadline. LNG export projects in Mexico that use US natural gas as a feedstock require non-FTA export permits. Two proposed projects south of the border hold non-FTA permits that expire after December 2027. Two proposed projects along the West Coast of Canada do not US natural gas and do not need non-FTA export permits.

To continue this story, and see more in-depth LNG contract, project and financial analysis, download the LNG in World Markets Contracts Special Issue sampler here or email bi-info@poten.com

2024 ANNUAL CONVENTION!

Schedule of Events

Wednesday, March 6th

1:30 PM Audit Committee Meeting
3:00 PM Board of Directors Meeting
5:30-7:30 PM TIPRO Welcome to Fort Worth Reception
Special guest Mattie Parker, Mayor of Fort Worth

Thursday, March 7th

7:30 am Networking Breakfast

8:30 am General Session
Welcome & Sponsor Recognition
- Ed Longanecker, President, TIPRO

Opening Remarks
- Jud Walker, TIPRO Chairman, President, Chief Executive Officer, EnerVest Ltd.

8:50 am Texas Legislature and U.S. Congress
- Texas House Representative Craig Goldman, Chairman, House Energy Resources Committee, Republican Candidate for Congress-TX12
- Moderator: Ed Longanecker, President, TIPRO

9:20 am Minerals A&D Panel: Ground Game, Lower Secondary Market Deal-Flow and Larger Marketed Packages
- Chris Conoscenti, Chief Executive Officer, Sitio Royalties
- Jim Mutrie, Managing Partner, Saxum Energy Partners
- Chris Atherton, Chief Executive Officer, EnergyNet, Inc.
- K.C. Stallings, President, Desert Royalty Company
- Moderator – Tim Pawul, President, Minerals & Royalties Authority LLC

10:15 am Break

10:25 am Challenges and Opportunities Facing the Texas Oil and Natural Gas Industry
- Rhett Bennett, Founder & Chief Executive Officer, Black Mountain
- Jim Wilkes, President & Co-Owner, Texland Petroleum L.P.
- Frank Bracken, Chief Executive Officer, Bandera Energy Partners, LLC
- Moderator – Jud Walker, TIPRO Chairman, President and Chief Executive Officer, EnerVest Ltd.

11:20 am Texas Oil and Natural Gas Regulatory Outlook
- Christi Craddick, Chairman, Railroad Commission of Texas

11:50 am Networking Lunch

1:15 pm Innovation in the Oilpatch- Artificial Intelligence, Cybersecurity, Carbon Capture & Storage, Produced Water
- Amanda Brock, Chief Executive Officer, Aris Water Solutions
- Ben Miller, Vice President of Professional Services, Dragos, Inc.
- Misty Rowe, CCUS Global Account Management, Low Carbon Ventures, Halliburton
- Moderator: Ed Longanecker, President, TIPRO

2:10 pm Break

2:20 pm The Roller Coaster Continues for Energy
- James Wicklund, Managing Director, PPHB

3:05 pm Oil and Natural Gas Industry Keynote

3:50 pm Closing Remarks

4:00 pm Afternoon Break

5:30 pm Reception

6:30 Chairman's Dinner

TIPRO CALENDAR OF EVENTS

FEBRUARY 20, 2024
HOUSTON — TIPRO/IPAA/HPF
"Leaders in Industry" Luncheon.
For information, email
info@houstonproducersforum.org.

MARCH 6-7, 2024
FORT WORTH - TIPRO CONVENTION
78th Annual Convention
For information, email
info@tipro.org

MARCH 19, 2024
HOUSTON — TIPRO/IPAA/HPF
"Leaders in Industry" Luncheon.
For information, email
info@houstonproducersforum.org.

78TH ANNUAL CONVENTION

MARCH 6-7, 2024

THE CRESCENT HOTEL
FORT WORTH, TEXAS

MORE DETAILS AVAILABLE AT WWW.TIPRO.ORG!

TIPRO's 78th Annual Convention will provide an update on regulatory, policy and market trends of significance to the Texas oil and natural gas industry. Make plans today to attend this important industry conference!

MEMBER REGISTRATION FEES:

	ON/BEFORE FEBRUARY 1ST	AFTER FEBRUARY 1ST
❒ TIPRO MEMBER	$525 closed	$595
❒ SPOUSE	$350	$350

**Registration pass includes all conference sessions and meals.*

NON-MEMBER REGISTRATION FEES:

	ON/BEFORE FEBRUARY 1ST	AFTER FEBRUARY 1ST
❒ NON-MEMBER (REGISTRATION INCLUDES 1 YEAR REGULAR TIPRO MEMBERSHIP)	$695 closed	$795
❒ SPOUSE	$395	$395

**Registration pass includes all conference sessions and meals.*

Have special dietary needs or other considerations? Please contact TIPRO staff by emailing info@tipro.org or calling (512) 477-4452 and let us know if you require any special accomodations.

CANCELLATION POLICY:

In order to receive a full refund for the TIPRO convention, the association must be notified of your cancellation no later than Wednesday, February 28, 2024.

Questions about the 2024 TIPRO convention in Fort Worth? Please contact the association at (512) 477-4452 or email info@tipro.org!

SIGN UP TODAY!

- ❒ **ONLINE:** VISIT TIPRO'S MEMBER PORTAL AT MEMBERSHIP.TIPRO.ORG
- ❒ **BY EMAIL:** SEND YOUR COMPLETED FORM TO TIPRO BY EMAILING INFO@TIPRO.ORG
- ❒ **BY MAIL:** RETURN YOUR COMPLETED REGISTRATION FORM, WITH PAYMENT, TO: TIPRO, 919 CONGRESS AVENUE, SUITE 1000, AUSTIN, TEXAS 78701

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Signature: ______________________

* My Name is RICHARD BEYEA, CHAIRMAN of Panhandle Producers and Royalty Owner Association and PRESIDENT of REMNANT ENERGY, in Perryton Texas. **I am running for Texas House District 87.**

* For all of us who have stood against much of the ONSLAUGHT AGAINST OUR INDUSTRY, JOBS, SCHOOLS, AND COMMUNITIES, whether weatherization, cementing operational control, pit regulations, or emission standards, we know the importance of having a voice in times such as these.

* While my campaign is multifaceted, **ANOTHER ENERGY VOICE IN THE TEXAS LEGISLATURE IS CRITICAL.** I would be grateful for your support. Please take a look at:

RICHARDBEYEA.COM

Paid for by Richard Beyea Campaign

TIPRO

Texas Independent Producers & Royalty Owners Association

With nearly 3,000 members, TIPRO is the nation's largest statewide association representing both independent producers and royalty owners. Our members include small family-owned companies, the largest publicly traded independents and large and small mineral estates and trusts.

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