OFFICIAL COMMENTS

TO: Chair Todd Hiett, Oklahoma Corporation Commission
    Vice Chair Bob Anthony, Oklahoma Corporation Commission
    Commissioner Dana Murphy, Oklahoma Corporation Commission

CC: Robyn Strickland, Director of Oil & Gas Conservation Division; Susan Conrad,
    Deputy General Counsel

FROM: David D. Le Norman, Chairman, The Petroleum Alliance of Oklahoma

DATE: May 8, 2020

SUBJECT: Cause RM No. 202000984

Comments on OEPA Application for Determination that Waste of Oklahoma Crude Oil is Occurring

The Petroleum Alliance of Oklahoma (“The Alliance”) represents thousands of individuals from 1,300 companies of every size, including oil and natural gas producers, operators, purchasers, pipelines, transporters, processors, refineries and service companies. Created by the merger of the Oklahoma Independent Petroleum Association (OIPA) and the Oklahoma Oil & Gas Association (OKOGA), The Alliance represents all sectors of Oklahoma's oil and natural gas industry and is dedicated to the advancement and improvement of the industry within the State of Oklahoma and the United States. The Alliance advocates for the development of an environment that enables the oil and natural gas industry and related businesses to grow and prosper through the responsible development of Oklahoma's natural resources. Our members are responsible for 84 percent of all crude oil and 75 percent of all natural gas produced in Oklahoma.

While we acknowledge the statutory authority granted to the Commission to promulgate proration rules and establish levels of production, The Alliance is adamantly opposed to the request of the Oklahoma Energy Producers Alliance (“OEPA”) in its letter of April 1, 2020, which goes well beyond the mission of the Commission. The request abandons the traditional determination of allowables and asks the Commission to selectively choose which wells may produce, instead of establishing an equitable framework in which all wells are allowed to produce. In addition, the OEPA makes the unprecedented request that the Commission retroactively prohibit new wells and permits based upon their subsequent actual result. This is a blatant attempt to pick winners and losers and to penalize those utilizing modern technology to develop the resources of the State of Oklahoma.
Furthermore, the unintended consequences of approving such an order would have far-reaching negative implications in Oklahoma and beyond. Approval of this order would impinge upon private contracts, circumvent the pre-existing prudent operator standard while attempting to alter market conditions and demand. Poor public policy decisions, whether fiscal or regulatory, increase the risk of investment in Oklahoma and unnecessarily burden the state in its competition for capital investment vis a vis other oil and gas states.

Meanwhile, economic realities are already addressing U.S. crude oil oversupply more quickly and efficiently than can any government entity through mandate. Free-market forces have driven dramatic cuts in workforce and capital investment in Oklahoma. Currently, we are running only fifteen rigs in our state, down ~ 90% from recent highs. The results are dramatic decreases in our State’s production, all without regulatory influence. Oklahoma’s policy makers must now take care to not further burden the companies and people of Oklahoma’s Oil and Natural gas business through the adoption of decisions that may have long-lasting, negative consequences. We all should aspire to take a “Do No Harm” stance when it comes to our State’s most important industry.

In response to unprecedented demand destruction and subsequent storage limitations a significant portion of Oklahoma’s crude oil production has already been shut in. Approval of this prorationing application would have no impact on global crude oversupply whatsoever.

The Energy Information Agency (EIA) now forecasts that the United States will return to being a net importer of crude oil in the third quarter of 2020 and remain as such for the majority of months evaluated through the end of the forecast period. In addition to the structural parameters of EIA’s model on reduced rig activity and production when WTI price per barrel falls below $45, EIA now assumes a further 15 percent reduction in Lower 48 production for the second quarter of 2020 and a 12 percent reduction in the third quarter.

We recognize there are things the Commission can do to help operators and royalty owners, but we believe granting the request of OEPA is not the proper course. We ask the Commission reject the OEPA application and deny its request for relief in its entirety. The Alliance appreciates the Commission’s consideration.