

APPENDIX A

This draft order, or an order substantially similar, may be discussed and voted on by the Commission at its May 5th, 2020 Commissioners' Conference. Anyone interested in providing comments on this draft order may do so by emailing rrconference@rrc.texas.gov before Monday, May 4, 2020.

RAILROAD COMMISSION OF TEXAS HEARINGS DIVISION

OIL & GAS DOCKET NO. OG-20-00003167

IN RE: MOTION FOR COMMISSION CALLED HEARING ON THE VERIFIED COMPLAINT OF PIONEER NATURAL RESOURCES U.S.A. INC. AND PARSLEY ENERGY INC. TO DETERMINE REASONABLE MARKET DEMAND FOR OIL IN THE STATE OF TEXAS

Order Establishing the Reasonable Market Demand for Oil Production In Texas

Notice of an open meeting to consider the captioned matter was duly posted pursuant to Texas Gov't Code Chapter 551. In calling this meeting, the Railroad Commission of Texas (the "Commission") took note of the Governor's Order issued March 16, 2020 that suspended various provisions of the Open Meetings Act.

Findings of Fact

1. On March 16, 2020, in accordance with Texas Government Code § 418.016, the Governor of Texas, Greg Abbott, suspended various provisions of the Open Meetings Act that require government officials and members of the public to be physically present at a specified meeting location.
2. On March 30, 2020, Pioneer Natural Resources U.S.A. Inc. and Parsley Energy Inc. filed a verified complaint and motion ("Motion") requesting that the Commission call a hearing to determine reasonable market demand for oil production in the State of Texas, as authorized by Texas Natural Resources Code § 85.049.
3. The Commission issued a notice that the Motion would be taken up for discussion and/or decision by the Commission at an open meeting via virtual conference on April 14, 2020, commencing at 9:30 a.m. Such notice provided that the public would be able to participate in the meeting through an advance registration process that was described in such notice, and that members of the public could

also view the hearing on the Commission's website and on www.adminmonitor.com.

4. The Notice noted in Section 3 above further provided that the Commission would receive comments on the Motion and required that all comments and other testimony be filed by April 8, 2020. The written comments that were received on or prior to the open meeting on April 14, 2020 were posted on the Commission's website. Over 888 individuals provided written comments.
5. Individuals who provided written comments and also expressed interest in appearing before the Commissioners during the open meeting were identified in a list posted on the Commission's website on April 13, 2020. Nearly all of those 55 individuals presented live comments during the open meeting on April 14, 2020.
6. The Commission issued a notice that the Motion would again be taken up for discussion and/or decision by the Commission at an open meeting via virtual conference on April 21, 2020, commencing at 9:30 a.m. Such notice provided that the public would be able to participate in the meeting through an advance registration process that was described in such notice, and that members of the public could also view the hearing on the Commission's website and on www.adminmonitor.com.
7. The Commission issued a notice that the Motion would again be taken up for discussion and/or decision by the Commission at an open meeting via virtual conference on May 5, 2020, commencing at 9:30 a.m. Such notice provided that the public would be able to participate in the meeting through an advance registration process that was described in such notice, and that members of the public could also view the hearing on the Commission's website and on www.adminmonitor.com.
8. The Commission takes official notice (pursuant to 16 Texas Administrative Code §1.62) that since February 2020, a global pandemic of COVID-19 has swept the world. The pandemic has resulted in a collapse in demand for oil production from the State of Texas.
9. The Commission takes official notice that beginning in March, 2020 Saudi Arabia and Russia have substantially increased the supply of oil they are producing and selling in the global marketplace.
10. The Commission takes official notice that the combination of the impacts of COVID-19 on oil demand and the increase in global supply of oil have resulted in a considerable oversupply of oil which far exceeds current demand.
11. The Commission takes official notice that the amount of available global and domestic onshore oil storage capacity (unused) is quickly diminishing and that global onshore oil storage capacity is projected to be filled by mid-May. The Commission takes official notice that once oil storage capacity is filled, the remaining surplus of supply will overwhelm the handling, processing and storage

capacities of the industry's other key logistical nodes (pipelines, vessels, terminals, processing units and storage facilities), which will cause producers to shut in oil production in ways that could damage reservoirs.

12. The Commission finds that waste is taking place or is reasonably imminent because the production of oil in the State of Texas is currently (or very soon will be) in excess of market facilities and reasonable market demand, and the Texas Legislature directs that the Commission shall act in such a situation. Texas Natural Resources Code §§ 85.046(a)(10), 85.051.
13. The Commission finds that the production of oil in the State of Texas is likely to remain in excess of the market facilities and reasonable market demand for some undetermined period of time into the future.
14. The Commission finds that the Order noted below would impose a materially disproportionate administrative burden, and have a materially disproportionate economic impact, on operators with aggregate production of less than 1,000 barrels of oil per day and that the aggregate reduction in Oil production achieved from making those smaller operators subject to the Order is not significant compared to the reduction in Oil production achieved by making larger producers subject to the Order.

Conclusions of Law

1. The above-described open meetings occurred as noticed and were conducted in accordance with applicable law.
2. The Commission has jurisdiction over this matter pursuant to Texas Natural Resources Code § 85.049, et seq.
3. The Commission has determined that waste is taking place or is reasonably imminent, and that the Texas Legislature requires the Commission to act in such a situation. The Commission, therefore, determined that an order must be adopted to correct, prevent, or lessen the waste and optimize the production of oil.
4. The Commission having considered the motion filed by Pioneer Natural Resources U.S.A. Inc. and Parsley Energy Inc. on March 30, 2020 and the governing law, has determined that the motion is **GRANTED** and the Commission hereby makes the Order set forth below.

Order

Therefore, it is ORDERED by the Commission as follows (the "**Order**"):

1. Commencing with the Initial Proration Month and ending on the last day of the Last Proration Month, each Applicable Operator shall restrict the aggregate volume of Oil produced by such Applicable Operator from Oil Wells during each Proration Month so

that the aggregate total volume of Oil produced from all Oil Wells Operated by such Applicable Operator during each Proration Month, in the aggregate, does not exceed the Proration Volume applicable to such Applicable Operator for the applicable Proration Month (such restriction requirements referred to in this paragraph shall be referred to as the “**Prorationing Requirements**”).

2. This Order shall temporarily supersede all Oil allowable formulas set forth by Special Field Rules or Statewide Rules and shall have precedence and control over all prior orders and rules of the Commission in conflict herewith, if any, only to the extent of such conflict.
3. A penalty for non-compliance with this Order by any Applicable Operator shall be that such Applicable Operator will be fined in the amount equal to \$1,000.00 for each barrel of Oil produced during a given Proration Month by the Applicable Operator from Oil Wells Operated by such Applicable Operator which is in excess of such Applicable Operator’s Proration Volume for such Proration Month. The Commission may reduce or eliminate this penalty upon a showing of a “good faith” effort to operate within the limits of this Order.
4. Any Operator may request a hearing with the Commission to determine if this Order shall not apply to individual wells or leases.
5. This Order shall be effective immediately and shall last until the last day of the Last Proration Month. Further, the Commission shall determine, at a hearing to be held in each calendar month during which this Order is in effect, whether it is necessary to keep this Order in effect and, if so, whether the Market Demand Factor should be adjusted or other adjustments to this Order are necessary.
6. For purposes of this Order, the following terms will have the meanings ascribed below:

“**Active Oil Well**” means an Oil Well that is in Active Operation.

“**Active Operation**” shall have the meaning ascribed to such term pursuant to 16 TEX. ADMIN. CODE §3.15(a)(1).

“**Applicable Operator**” means each Operator other than an Excluded Operator.

“**Benchmark Oil Production Period**” means the period commencing at 7:00 am, Central Time, on October 1, 2019, through 7:00 am, Central Time on January 1, 2020.

“**Benchmark Oil Production Volume**” means, with respect to each Applicable Operator, the greater of (i) such Applicable Operator’s October 2019 Oil Production Volume,

(ii) such Applicable Operator's November 2019 Oil Production Volume or (iii) such Applicable Operator's December 2019 Oil Production Volume.

"Complementary Proration Measures" means the responsible Governmental Authorities of any state or combination of states of the United States (other than Texas), foreign provinces or countries have enacted Laws (conditional or otherwise) on or after the Enactment Date that collectively, based on estimates of the applicable Governmental Authorities, will reduce or continually reduce oil production in the jurisdictions of the participating Governmental Authorities by an aggregate amount of oil production equal to at least 4 million barrels of oil per day from the average barrel per day oil production levels in the jurisdictions of the participating Governmental Authorities during the Benchmark Oil Production Period (in addition to the 9.7 million barrels of oil per day reduction previously announced by the OPEC+ Countries prior to the Enactment Date).

"December 2019 Oil Production Volume" means with respect to each Applicable Operator, the aggregate volume (calculated in barrels) of Oil produced from Active Oil Wells (other than Exempt Wells) that are Operated by such Applicable Operator during the period commencing at 7:00 am, Central Time, on December 1, 2019, through 7:00 am, Central Time on January 1, 2020, as reported by such Applicable Operator to the Railroad Commission, divided by 31 (the number of calendar days during such period).

"Enactment Date" means the date this Order was made, being May 5, 2020.

"Excluded Operator" means, each Operator (a) that during the calendar month of January, 2020 Operated one or more Active Oil Wells and (b) that had an average daily total volume (calculated in barrels) of Oil produced by all Active Oil Wells Operated by such Operator, in the aggregate, during the calendar month of January, 2020, as reported by such Operator to the Commission, that was less than one thousand (1,000) barrels per day.

"Exempt Wells" means any well exempted from the Commission's prorationing authority under 16 TEX. ADMIN. CODE Chapter 3 (including, without limitation, 16 TEX. ADMIN. CODE §3.42) or the Texas Natural Resources Code (including, without limitation, Texas Natural Resources Code §§ 85.048, 85.124).

"Governmental Authority" or **"Governmental Authorities"** means any national, state, county or municipal government and/or government of any political subdivision, and departments, courts, commissions, boards, bureaus, ministries, agencies, or other instrumentalities of any of them that has jurisdiction over the volume of production of crude oil within the area over which it has such jurisdiction.

"Initial Proration Month" means (a) if the Complementary Proration Measures are enacted before the 7th day of a given calendar month, then the calendar month following the calendar month in which the Complementary Proration Measures are enacted and (b) if the Complementary Proration Measures are enacted on or after the 7th day of a given calendar

month, then the second calendar month following the calendar month in which the Complementary Proration Measures are enacted.

“Last Proration Month” means the earlier of (i) the first calendar month following the Initial Proration Month during which the Complementary Proration Measures are no longer in effect and (ii) the calendar month during which the Commission finds that global demand for crude oil exceeds 85 million barrels of oil per day.

“Law” or **“Laws”** each mean any applicable statute, law, rule, regulation, ordinance, order, code, ruling, writ, injunction, decree or other official act of or by any Governmental Authority, whether individually or in combination with one another.

“Market Demand Factor” means, for any Proration Month, the percentage of anticipated production of Oil in the State during such Proration Month, as determined by the Commission from time to time, necessary to prevent waste of Oil within the State during such Proration Month. The Market Demand Factor for the Proration Months covered by this Order shall be eighty percent (80%) until further determination by the Commission.

“November 2019 Oil Production Volume” means with respect to each Applicable Operator, the aggregate volume (calculated in barrels) of Oil produced from Active Oil Wells (other than Exempt Wells) that are Operated by such Applicable Operator during the period commencing at 7:00 am, Central Time, on November 1, 2019, through 7:00 am, Central Time on December 1, 2019, as reported by such Applicable Operator to the Railroad Commission, divided by 30 (the number of calendar days during such period).

“October 2019 Oil Production Volume” means with respect to each Applicable Operator, the aggregate volume (calculated in barrels) of Oil produced from Active Oil Wells (other than Exempt Wells) that are Operated by such Applicable Operator during the period commencing at 7:00 am, Central Time, on October 1, 2019, through 7:00 am, Central Time on November 1, 2019, as reported by such Applicable Operator to the Railroad Commission, divided by 31 (the number of calendar days during such period).

“Oil” shall have the meaning ascribed to such term pursuant to TEX. NAT. RES. CODE § 85.001(b) as further modified such that the term “Oil” shall not be construed to mean any liquid hydrocarbon mixture or portion thereof which is not in the liquid phase in the reservoir, removed from the reservoir in such liquid phase, and obtained at the surface as such.

“Oil Well” means, with respect to the applicable time period stated in this Order, any well that is classified as an oil well on Form W-2 (Oil Well Potential Test, Completion, or Recompletion Report, and Log) at any time during such period.

“OPEC+ Countries” means the following: Algeria, Angola, Azerbaijan, Bahrain, Brunei, Congo, Equatorial Guinea, Gabon, Iran, Iraq, Kazakhstan, Kuwait, Libya, Malaysia, Mexico, Nigeria, Oman, Russia, Saudi Arabia, South Sudan, Sudan, United Arab Emirates, and Venezuela.

“Operate” means performing operations with respect to an Oil Well that are within the jurisdiction of the Commission as contemplated in 16 TEX. ADMIN. CODE §3.1(a)(1) (and the derivatives of such term, including the terms **“Operates”**, **“Operating”** and **“Operated”**, shall have the correlative meaning).

“Operator” means each person or entity subject to 16 TEX. ADMIN. CODE §3.1(a)(1) Operating one or more Active Oil Wells, excluding Exempt Wells, during the applicable calendar month in question.

“Proration Month” means each calendar month, commencing with the Initial Proration Month and ending with the Last Proration Month.

“Proration Volume” means, with respect to each Applicable Operator for each Proration Month, the product of (a) the Benchmark Oil Production Volume for such Applicable Operator multiplied by (b) the number of calendar days in such Proration Month multiplied by (c) the Market Demand Factor for such Proration Month.

“State” means the State of Texas.

“waste” shall have the meaning ascribed to such term pursuant to TEX. NAT. RES. CODE § 85.046.

7. This Order shall be effective immediately and shall last until the last day of the Last Proration Month. Further, the Commission shall determine, at a hearing to be held in each calendar month during which this Order is in effect, whether it is necessary to keep this Order in effect and, if so, whether the Market Demand Factor should be adjusted or other adjustments to this Order are necessary.

Signed on May 5, 2020.

RAILROAD COMMISSION OF TEXAS

CHAIRMAN WAYNE CHRISTIAN

COMMISSIONER CHRISTI CRADDICK

COMMISSIONER RYAN SITTON

ATTEST:

SECRETARY