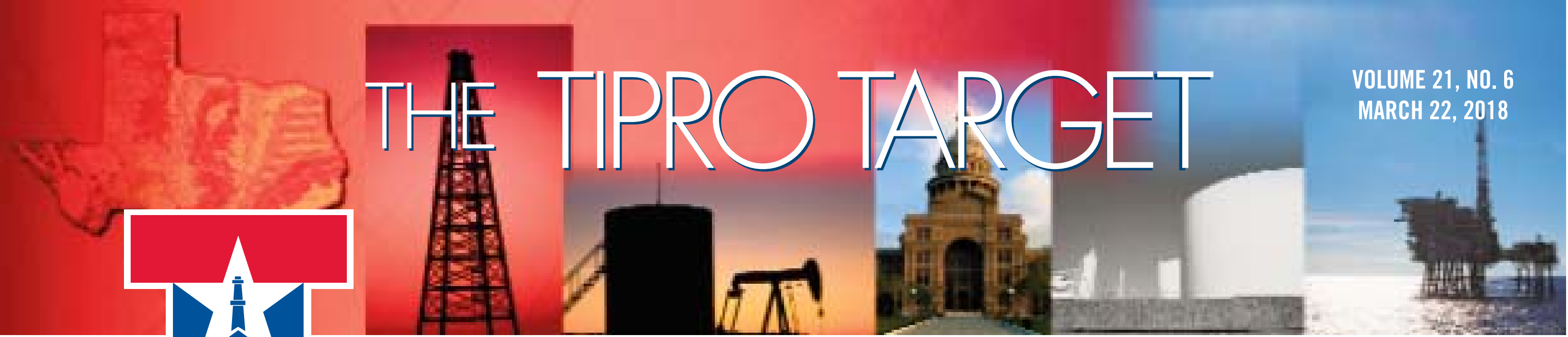

THE TIPRO TARGET

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TIPRO
Texas Independent Producers and Royalty Owners Association

Trump Administration moves forward with tariffs

President Donald Trump's controversial tariffs on steel and aluminum imports are set to take effect on Friday, March 23, 2018. Earlier this month, the president signed a proclamation to impose a 25 percent tariff on imports of steel and a 10 percent tariff on imports of aluminum products, with exemptions for Canada and Mexico, in order to protect national security. In his proclamation establishing the tariffs, the president authorized the U.S. Secretary of Commerce, in consultation with other appropriate federal agency heads, to provide relief from the additional duties for any steel or aluminum articles for qualifying organizations in the United States. On Sunday, March 18th the Commerce Department announced the new procedures for affected parties to submit exclusion requests from the tariffs. "These procedures will allow the administration to further hone these tariffs to ensure they protect our national security while also minimizing undue impact on downstream American industries," said Secretary of Commerce Wilbur Ross. "Domestic industry will be able to apply for exclusions through a fair and transparent process run through Commerce's Bureau of Industry and Security." Only individuals or organizations using steel or aluminum articles identified in Presidential Proclamations 9704 and 9705 and engaged in business activities in the United States will be eligible to submit exclusion requests.

The forms for submitting steel and aluminum exclusion requests, or objections to specific exclusion requests, will be available online at www.regulations.gov. Please note the steel docket number is BIS-2018-0006 and the aluminum docket number is BIS-2018-0002.

In conjunction with the implementation of the new steel and aluminum import tariffs, this week President Trump also unveiled plans to impose $50 billion in annual tariffs against imported Chinese products under Section 301 of the 1974 U.S. Trade Act. The president's tariff package comes as a punishment to China for economic aggression and intellectual property theft, after U.S. investigations showed that American companies had been coerced into sharing valuable technological and trade secrets in order to do business in China. In advance of the president's tariff announcement made on Thursday, March 22, leaders from China already were threatening to retaliate against the U.S. agriculture sector and other U.S. industries, saying the country would "take all necessary measures" to defend its interests if President Donald Trump imposes trade sanctions. Such reaction has prompted concerns that the tariffs coming out of Washington could lead to a global trade war.

Senator Brian Birdwell named new chair of Senate Natural Resources Committee

Texas Lieutenant Governor Dan Patrick has appointed state Senator Brian Birdwell, R-Granbury, as the new chairman of the state's Senate Natural Resources and Economic Development Committee. Senator Birdwell is taking over the seat from Senator Craig Estes, R-Wichita Falls, who will not be returning to the state legislature in 2019.

"Senator Birdwell is a proven and respected conservative leader who will bring his no-nonsense approach to the important work of the Natural Resources and Economic Development Committee. I trust Brian to move our conservative agenda forward and ensure that our state continues to set the standard for the rest of America on these critical issues," stated Lt. Governor Patrick.

A native Texan and decorated military veteran, Birdwell is a survivor the September 11th terrorist attacks, when American Airlines Flight 77 crashed just yards away from his second floor Pentagon office in Washington D.C. Though he was critically wounded and severely burned, he endured a miraculous recovery. He was later awarded the Purple Heart for wounds received that day, and upon retirement as a U.S. Army Officer in July 2004, he was also awarded the Legion of Merit.

Birdwell was first elected to the Texas State Senate representing Senate District 22 in a June 2010 special election, and has since been re-elected by his constituents three times, averaging more than 85 percent of votes cast.

Last Fall, Birdwell was appointed as chairman of the Sunset Advisory Commission. He also has served as chairman of the Senate Committee on Nominations and a member of the Senate Committees on Finance, State Affairs, and Criminal Justice.

Earlier this month, Senator Birdwell announced several personnel changes in his capitol office. Supporting the senator on his policy team are two additional new hires: Policy Analysts Gatlin Moncla and Katrina Smith. Jarred Shaffer has been promoted to senior policy analyst after the departure of Senior Policy Analyst Matt Cope, and Wynn Baker will serve as office manager and scheduler to the senator. All other members of Senator Birdwell's staff remain in their current roles, including Chief of Staff Ben Stratmann, Legislative Director Anna Barnett, and District Managers Suzy DeArmond (Ellis, Hood, Johnson, Somervell and Tarrant Counties) and Shelly Verlander (Bosque, Falls, Hill, McLennan and Navarro Counties).

Chairman's Message

TIPRO members,

A huge man... We lost Rusty Howell a week ago. To me, he always was "Mr. Howell," although he repeatedly insisted I call him Rusty.

No one can fill his shoes.

As I grasp at ways to describe him, the character that first comes to mind is rancher Tom Doniphon, played by John Wayne in John Ford's "The Man Who Shot Liberty Valance." Like Tom Doniphon, Rusty was of the generation of men who "tamed the wilderness," making the world around him a better place through sheer force of will, without calling much attention to himself. Men like Rusty paved the road for the next generation of "Ranse Stoddards"—Jimmy Stewart's younger character who gets the credit.

You see, Rusty was at once one of the wisest, most gracious and dependable friends you could have, while at the same time being one of the toughest and least forgiving opponents you hoped never to meet. We at TIPRO, as independent oilmen and women, are damn lucky to have been in the first category, rather than the second.

Whatever Rusty took on, he DID, and he did it well. He didn't talk much, but when he spoke, you damn well listened. He BUILT, and he built it well. Looking at his life's works, plural, you see the words "founder" and "chairman" in both his philanthropic and business efforts. He brought thousands of jobs and dozens of businesses to East Texas, Harrison County, and Marshall. He made sure the people filling those jobs had the education necessary to excel at them. He had a preternatural understanding of people and of politics. His ability to lead people and do good in the world with strength, passion, and wise advocacy was legendary—nearly a super power—whether in the service of regional economic development, TIPRO's mission in the industry he so loved, working for us as TIPRO's president and board member, or pursuing his goals as an independent oilman, driller, and service company owner. He made it look effortless managing this myriad of coalitions and interests. Most of us cannot manage even one.

Like Tom Doniphon, he was hugely generous with his time and money. His door was always open to anyone from TIPRO, and his advice was always on the mark. He helped his friends when they found themselves on hard times. He built lifelong friendships and personal loyalty to a level you don't see much of today.

I sat down this week with Rex White, former TIPRO president (now called chairman) from 1994 to 1997, to get his perspective on Rusty's passing. "It's fair to say that Rusty Howell was my best friend. We talked at least weekly for the last 35 years. I haven't told many people this story , but when my law firm Hutcheson & Grundy dissolved in 1998, I was wondering what to do. Talking with Rusty on our regular call, I told him that I wasn't sure I could start building a firm all over again. He asked how much it would be. I told him, 'I haven't put a pencil to it, so I couldn't really tell you.' He threw out a big number and asked if that was enough. I was floored... I had not asked for anything. He told me the money was in the bank and the check was in the mail. Rusty had made it possible for me to have a one-year, interest-free loan with a bank. I gratefully paid off that loan within the year. And the thing is, after that first conversation, Rusty never mentioned the bank loan again. Who does that, today? That's just who he was." Rex fell silent for a minute, then looked up and off into the distance before starting again.

Rex continued, "It's hard to believe, but there are no more pages that Rusty can add to the book of his life. One major legacy he left behind was his fearless leadership of holding oil and gas operators responsible for their messes. Boy, I can tell you that wasn't popular among a lot of operators at the time. But he led TIPRO and the industry in advocating for environmental responsibility. Perhaps it was because he lived where he worked. A lot of TIPRO members were like that. In any case, he was instrumental in getting the Oil Field Cleanup Fund enacted, and he served as TIPRO's representative on the oversight committee. When he figured out the commission was spending a good part of that money NOT plugging wells, he raised so much Hell that the rules were changed and the commission fixed its mistake. He had the attitude that this was OUR money and he was damn well going to make sure that OUR public servants were going to spend that money in the way it was intended."

"There are hundreds of these 'Rusty war stories,' and most are unknown; that's how he liked to keep it. One BIG lesson we can take from his example is to look at what we do first through the lens of whether that action generally benefits our state, our industry, and the well-being of our Texas communities and citizens before we consider our own personal gain or benefit."

"Rusty was more than a brother to me. I know first-hand that he never sought the spotlight or credit for the tireless work he did behind the scenes. We can all learn something from his example. If we could each achieve just one-quarter of the good work that Rusty brought to life in this world, we still would only scratch the surface of his profound legacy. If our actions continue to be informed by his straight and steady leadership, we will be in a good position to continue moving his legacy forward into the future. I can't think of a better way to honor Thomas 'Rusty' Howell."

Rex's comments stand completely on their own as a beautiful tribute.

As I have said, my generation of oilman more closely resembles Ranse Stoddard than Tom Doniphon, character of that same movie. We "Stoddards" may have gotten the credit for killing the bad man Liberty Valance, and God knows we have parlayed that into a life of success and respect but the secret we all carry with us is that Tom Doniphon was the guy who REALLY shot Liberty Valance, and that is the truth that we have to acknowledge in the end.

Thank you, Rusty, for everything.

—Allen Gilmer (with huge help from Rex White)

Railroad Commission publishes draft of agency's "Oil and Gas Strategic Plan"

Pursuant to House Bill 1818 passed in 2017 by the 85th Texas Legislature, the Texas Railroad Commission is working to develop an annual plan assessing the effectiveness of the agency's oil and gas monitoring and enforcement program on behalf of the state of Texas. According to the commission, this plan -- required under the Sunset legislation passed last session --will define and communicate the Oil & Gas Division's strategic priorities for its monitoring and enforcement efforts. The plan also serves to confirm many of the division's current priorities—to ensure public safety and protect the environment—as well as establishes direction for data collection efforts, considers the stakeholder participation process at the commission, and outlines new priorities and goals for the Oil & Gas Division.

To view the draft of the agency's 22-page strategic plan, please visit http://bit.ly/2prDSSJ. Public comments on the draft plan will be collected by the commission via an electronic survey through April 20. To submit comments online, go to https://bit.ly/2HT2z1m.

Railroad Commission proposes amendments to state pipeline fees

During the Railroad Commission's open meeting Tuesday, March 20, commissioners approved publishing amendments to Statewide Rule (SWR) 3.70 for public comment, giving stakeholders the opportunity to provide feedback on regulatory changes that include amending pipeline fees in accordance with House Bill 1818, the Railroad Commission's Sunset Bill, as passed by the 85th Legislature in 2017. The legislation amended §81.071 of the Texas Natural Resources Code to authorize the commission to establish pipeline safety and regulatory fees for permits or registrations for pipelines under the agency's jurisdiction. Fee amounts must be sufficient to support the Railroad Commission's pipeline safety and regulatory program costs, including permitting or registration costs, administrative costs, and salary costs.

Last Fall, in advance of this rulemaking, the commission hosted a Pipeline Fee Workshop on November 28th in Austin to receive stakeholder input regarding the creation of a pipeline safety and regulatory fee as well as review possible methods of calculating the fee structure and other topics relating to the new funding mechanism. Now, the commissioners are moving forward with the next step in the regulatory process by collecting public comment on rule amendments to 16 Texas Administrative Code §3.70 in conjunction with the creation of the pipeline safety and regulatory fee. To view the commission's proposed amendments to SWR 3.70, please visit: http://bit.ly/2puLKlH.

To submit comments on this issue, please go to http://bit.ly/2FYjSgL. The deadline to provide comments will be May 7.

Railroad Commission seeks feedback through customer service survey

The Texas Railroad Commission is soliciting input from the public on customer service provided by agency staff, inviting all stakeholders to take a brief survey online to tell the commission how they're doing and advise areas where improvement may be implemented. The survey is available on the commission website year-round, though feedback received by the commission before April 15, 2018, will be included in the commission's "2018 Report on Customer Service." To participate in the commission's survey, visit: http://bit.ly/2u3o6SI.

Senate Finance Committee reviews Texas Rainy Day Fund during interim hearing

Members of the Texas Senate Finance Committee met Tuesday, March 20th in Austin to review several interim legislative charges. Among items discussed at the hearing, lawmakers examined options to possibly increase investment earnings of the Economic Stabilization Fund (ESF), known also as the state's Rainy Day Fund. The largest revenue source for ESF comes from severance taxes collected on oil and natural gas production in Texas.

During testimony offered Tuesday to the committee, Comptroller Glenn Hegar advised the legislature to seriously consider potential new revenue streams to support the ESF, as the state will face mounting expenditures in the next legislative session. Today, the ESF holds $11 billion. After Hurricane Harvey, the legislature will likely have to withdraw funds from the ESF to support ongoing recovery efforts. In fact, as suggested during Tuesday's hearing, the upcoming biennium could see the state's largest withdrawal from Rainy Day Fund with several billion dollars being needed for Harvey relief. Additionally, budget writers will also need to address a state employee pension shortfall and rising needs from the state's public schools, health care and transportation systems. To help meet the state's financial obligations, the comptroller has suggested the state invest a larger portion of the ESF to yield greater returns on money kept in the fund.

TIPRO Calendar of Events

MARCH 26-27, 2018	APRIL 11, 2018	MAY 9, 2018	JUNE 13, 2018
HOUSTON — TIPRO's 72nd Annual Convention, Westin Memorial City Hotel. For info, call: (512) 477-4452.	HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (202) 857-4733.	HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (202) 857-4733.	HOUSTON — IPAA/TIPRO Leaders in Industry Luncheon, 11:30 a.m. Houston Petroleum Club. For info, call: (202) 857-4733.

Dallas Fed establishes Energy Advisory Council

The Federal Reserve Bank of Dallas announced in mid-March the establishment of a new Energy Advisory Council that will provide guidance to the Bank on emerging trends and issues affecting various sectors of the energy industry, a critical segment of the regional and national economy. Council members also will share insight on anticipated impact of energy prices and advise on potential implications from inflation, employment and capital expenditures to the U.S. economy. According to the Dallas Fed, the council will consist of up to 10 members who are to be appointed by the president of the Bank. The group will involve senior energy executives who work within the Eleventh Federal Reserve District, which includes the state of Texas, southern New Mexico and northern Louisiana. Members are appointed to serve a two-year term; members may be reappointed and serve a maximum of four years.

"The Dallas Fed plays a unique role in conducting economic research and provides key insights into the impact of the energy sector on the U.S. and world economies," said Dallas Fed President Rob Kaplan. "The concentration of superb energy-related companies in the Eleventh District provides us with a unique perspective which helps inform our research as well as our views on the global economic impact of the energy sector."

Executives from Pioneer Natural Resources, Concho Resources, EnCap Investments, Baker Hughes - a GE Company and Plains All American Pipeline -- all member companies of TIPRO -- are among those invited to serve on the Dallas Fed's Energy Advisory Council.

U.S. officials blame Russia for cyberattacks against U.S. energy companies

Authorities from the U.S. Department of Homeland Security and the Federal Bureau of Investigations (FBI) are blaming the Russian government for a two-year surge in cyberattacks against energy companies and infrastructure in the United States. Though limited details were made available to the public, government officials disclosed in an alert sent Thursday, March 15, 2018, that hackers backed by Moscow have been targeting small commercial facilities to stage multiple attacks on U.S. energy networks since 2016, sending companies malware-laced emails in an effort to penetrate vital control systems that run energy facilities. It is believed energy companies based out of Houston likely were targets of such cyberattacks.

The release of the U.S. government's findings last week coincided with an announcement by the Treasury Department, also provided on March 15, that the U.S. is imposing targeted sanctions against 19 Russians and five groups for malicious cyberattacks and attempted interference in U.S. elections. "The administration is confronting and countering malign Russian cyber activity, including their attempted interference in U.S. elections, destructive cyberattacks, and intrusions targeting critical infrastructure," said Treasury Secretary Steven Mnuchin. "These targeted sanctions are a part of a broader effort to address the ongoing nefarious attacks emanating from Russia."

EPA's Scott Pruitt seeks end to agency's use of "secret science" to promulgate rules

Scott Pruitt, head of the U.S. Environmental Protection Agency (EPA), says he intends to put a stop to so-called use of "secret science" at the agency to develop regulations and government rules. In an interview Monday, March 19th with *The Daily Caller News Foundation (DCNF),* Pruitt stated, "We need to make sure their data and methodology are published as part of the record. Otherwise, it's not transparent. It's not objectively measured, and that's important." As such, Pruitt advised he soon will be reversing long-standing EPA policies that allow regulators to rely on non-public scientific data in crafting rules. Under Pruitt's new policy, EPA regulators would only be allowed to consider scientific studies that make their data available for public scrutiny. Further, EPA-funded studies would have to make all their data public. "If we use a third party to engage in scientific review or inquiry, and that's the basis of rulemaking, you and every American citizen across the country deserve to know what's the data, what's the methodology that was used to reach that conclusion that was the underpinning of what — rules that were adopted by this agency," Pruitt explained in his interview this week with DCNF.

Congress members press EPA to disclose reorganization plans

As the Trump Administration looks to reorganize a number of key federal agencies, several congressmen have called on leadership at the U.S. Environmental Protection Agency (EPA) to disclose details regarding the EPA's internal plans for reorganization. On Tuesday, March 20, 2018, U.S. Energy and Commerce Committee Chairman Greg Walden (R-OR), Environment Subcommittee Chairman John Shimkus (R-IL), and Oversight and Investigations Subcommittee Chairman Gregg Harper (R-MS), wrote to EPA Administrator Scott Pruitt seeking more information.

"The EPA has struggled for decades to determine whether the workforce at the agency has the appropriate skills and competencies to accomplish its mission. In fact, EPA has not conducted a workforce analysis in over 20 years, and the EPA Office of Inspector General (OIG) has cited the need to improve workload analysis as management challenges since 2012. These recommendations come in light of EPA developing plans to reorganize and restructure the agency," observed the congressmen. "Workforce analysis will undoubtedly inform EPA's proposed reorganization as the agency attempts to more efficiently deploy its workforce... To assist us in understanding more about EPA's plans to reorganize the agency and how workforce analysis will factor into those plans, we request that Henry Darwin, EPA's chief of operations, and other relevant personnel involved in this project provide a briefing to committee staff on these matters." The congressmen have requested arrangements for a briefing on this matter be arranged no later than March 27, 2018.

BLM renews charters for essential regulatory advisory councils

The U.S. Bureau of Land Management (BLM) recently renewed the charters for 21 Resource Advisory Councils (RAC), the federal agency announced in mid-March. The BLM currently maintains 37 total chartered, citizen-based committees across the American West that serve as important sounding boards for BLM initiatives, regulatory proposals and policy changes. Members of these councils lend guidance on the development of committee recommendations that address public land management issues.

"Secretary of the Interior Ryan Zinke is committed to restoring trust in the Department's decision-making and that begins with institutionalizing state and local input and ongoing collaboration—especially in communities surrounding public lands," commented BLM Deputy Director Brian Steed. "The BLM's 37 advisory councils are essential to the Secretary's collaborative approach to public land management at the local level."

Last May, Secretary Zinke initiated a review of all advisory councils and boards to the department, including all 37 of the BLM's RACs. During the review, all council activities and meetings were temporarily suspended, though officials report the 21 renewed BLM RACs will resume scheduling and holding meetings in the coming months following the continuation of the committees.

The BLM notes that each of the 37 RACs does at this time have vacant positions for members with an interest or expertise in energy and mineral development, ranching, outdoor recreation, conservation, state and local government, tribal and cultural resources or academia. The BLM will be seeking nominations for these open positions in the near future.

Trump Administration agrees to reconsider critical habitat regulations

The federal government has agreed to reconsider Obama-era regulations finalized in 2016 that had broadly expanded the definition of critical habitats for endangered and threatened species under the Endangered Species Act (ESA). The decision settles a lawsuit filed by Alabama and 19 other states, including the state of Texas, in November 2016, which argued that the stringent rules gave the government free rein to designate areas of land as occupied critical habitat, even if those areas were unoccupied or unfit for survival of an endangered species. Ultimately, this policy was restricting property owners' use of land, reasoned the state attorneys general, and was considered an unlawful overreach by the federal government.

"Congress purposefully set a stricter standard for when unoccupied land could be classified as critical habitat, and that is only if the currently inhabited land is not adequate to the species' survival and the unoccupied land is essential to preserve the species. Furthermore, the ESA recognizes the rights of states to be involved in such regulations. The rules imposed by the Obama Administration violated the intent of Congress and defy common sense," explained Alabama Attorney General Steve Marshall.

Marshall continued, "These rules even allowed the federal government to prevent activities it decided could adversely affect habitat features that do not actually exist. For example, as the States noted in their complaint, the federal government 'could declare desert as critical habitat for fish and then prevent the construction of a highway through desert lands, under the theory that it would prevent the future formation of a stream that might one day support the species.'"

Texas Attorney General Ken Paxton also commented, "The Obama administration bypassed Congress to implement rules designed to perpetrate land grabs, kill energy projects and block economic development. I'm pleased the Trump administration will reconsider the rules and I am confident they will ultimately be rescinded."

Under the terms of the settlement for this case, *Alabama v. National Marine Fisheries Service*, the federal agencies are required to submit revised rules for public review within 60 days and the states' will retain the ability to file another lawsuit should the new rules perpetuate the alleged overreach.

Federal court upholds EPA air regulations

In a ruling issued Tuesday, March 20th by the D.C. Circuit Court, three federal judges unanimously agreed to uphold plans by the U.S. Environmental Protection Agency (EPA) incorporate its Cross-State Air Pollution Rule (CSAPR) into regional haze regulations, denying a petition from The National Parks Conservation Association and the Sierra Club who had challenged the regulatory move. The court said they found no merit in the petitioners' arguments as presented.

U.S. oil and natural gas exports surge upwards

The United States nearly doubled its volume of crude oil exports in 2017, with the U.S. exporting an average of 1.1 million barrels of crude oil per day last year, according to new statistics released in March from the U.S. Energy Information Administration (EIA). The EIA says that U.S.-produced crude oil also reached more counties than before, after being sent to 37 destinations in 2017 compared with 27 destinations in 2016. The EIA cites increasing U.S. production and expanding infrastructure as factors helping facilitate greater thresholds of U.S. crude oil exports abroad.

Further, EIA analysts also recently reported that for the first time since 1957, the United States has become a net natural gas exporter as the nation now is exporting more natural gas than it is importing. The EIA is projecting that the United States will continue to be a net exporter of natural gas in each month remaining in 2018 and through 2019 as pipeline exports from the U.S. to Mexico continue to grow along with increased LNG export capacity.

"Monthly oil price road map: The Saudis are determined"

Guest outlook from Paul Kuklinski, Boston Energy Research

It is focused on surplus oil inventories.

WTI crude is $61/B, with a $4/B discount to Brent. WTI increased 36% from $49/B in 4Q16 when OPEC announced its agreement with Russia and other non OPEC producers to cut production to the late January peak near $67/B. It averaged $51/B in 2017 and $43/B in 2016. The Brent premium blew out to over $7/B in December and has contracted since. Brent averaged $3.10/B higher than WTI in 2017 and $2.45/B higher in 2016.

How we got here

The run-up in crude to the January peak mirrored the decline in surplus OECD inventories targeted by the OPEC cut. The OECD surplus to the 5 year average declined 84% from 318 million barrels (MMB) in early 2017 when the cut was implemented to 50 MMB in January by OPEC's estimate. The IEA calculates a surplus of 53 MMB, down from 264 MMB a year ago. The OECD accounts for 48% of total world oil demand.

Total US crude oil inventories are down 20% from a record 535.5 MMB in March 2017 to 431 MMB in the latest week, roughly 8% above the 5 year average.

OPEC is pleased with its performance and the result. Compliance over the period has been high. February production was 32.10 million barrels per day (MMBD) compared to an average of 32.34 MMBD in 2017. It is 1.3 MMBD less than 33.40 MMBD produced in 4Q16 when the cut was announced.

While Libya and Nigeria, who were exempted because of domestic upheaval, produced 840 MBD more in February than their 4Q16 production of 1.86 MMBD, Venezuela's production is down 572 MBD from 2.12 MMBD. Each would like to produce more but may produce less in coming months.

Crude production in Nigeria recently reached 1.71 MMBD; its capacity is about 1.8 MMBD. Libya recently produced just over 1.0 MMBD. Iraq produced 4.36 MMBD in February after consistently exceeding its quota of 4.35 MMBD from the beginning. Its field capacity is approaching 5 MMBD. It says it must focus on rebuilding 1/3 of its territory devastated by ISIS.

While it is generally expected OPEC production will remain near current levels until the expiration of its agreement at the end of the year, OPEC supply could vary significantly in the interim.

OPEC's June meeting will be a checkpoint

Saudi Arabia recently said it "hopes OPEC and its allies (primarily Russia) will be able to relax production cuts next year and create a permanent framework to stabilize oil markets after the current agreement on supply cuts ends." It said it hopes to announce a `new target' at OPEC's next full meeting June 22nd in Vienna. OPEC and Russia account for 45% of world crude supply. The OPEC meeting will provide a very important checkpoint for US producers and the market in general, underline very. Oil traders may choose to be cautious until the meeting.

The Saudis plan to cut March and April production by 100 MBD from 9.98 MMBD in February and keep exports below 7 MMBD as it "remains focused on working down excess oil inventories." It may continue to cut in May.

US imports of Saudi crude oil in February were 637 MBD, or 6.4% of Saudi February production. This compares with larger US imports of Saudi crude of 698 MBD in 2H17 and a much larger 1.18 MMBD in 1H17 which was 11.9 % of its production then.

Higher oil prices would benefit its historic initial public offering of Saudi Aramco shares expected sometime in 2019. It requires $70/B Brent to balance its state budget in 2018.

Where the road is pointing

In the run-up to the OPEC meeting, oil prices are likely to remain relatively stable the next few months because the seasonal increase in inventories will be quite small. Latest data indicates global demand will decline seasonally in 1Q18 by 400 MBD from 4Q17. Non OPEC supply is expected to increase 190 MBD even as US liquids production grows 380 MBD. Declines are occurring in Mexico and China and global biofuels decline seasonally by 370 MBD.

For OPEC, the outlook for 2H18 is both promising and challenging

Demand growth is very strong. It is projected to increase in the 2nd half of this year by 1.4 MMBD from 99.0 MMBD in 2Q18 to 100.4 MMBD in 4Q18. Non OPEC production growth is also very strong. US liquids production is projected to increase 935 MBD over the same period. Other non OPEC supply adds 700 MBD, primarily from Brazil, Canada, and Kazakhstan, where the super giant Kashagan Field is expected to reach 370 MBD from 250 MBD at the end of 2017.

Inventories are likely to remain relatively balanced the rest of the year stabilizing oil prices near current levels. Downside oil price risk may emerge in 4Q18 however from a potential acceleration in the growth of Permian production.

For the year, the IEA estimates world oil demand will average 99.3 MMBD, up 1.5 MMBD from 2017, following an increase of 1.57 MMBD in 2017 and 1.22 MMBD in 2016. China, India, and Africa lead demand growth. Global economic growth is strong. Since 2015, global oil demand has grown about 5 MMBD, twice as fast as the previous 3 years.

For the year, US oil and liquids production will average 15.01 MMBD, up 1.96 MMBD Y/Y, following an increase of 702 MBD in 2017 and a decline of 348 MBD in 2016. In 4Q18, it may reach 15.78 MMBD, a level which may put downward pressure on oil prices.

Permian oil production is likely to increase well over 30% this year, about 930 MBD, to average 3.35 MMBD, with a December exit rate of 3.85 MMBD based on an anticipated flattening of the Permian rig count around 450 in May or June.

Outlook continued on Page 7...

Energy outlook... continued from Page 6

The current Permian rig count is 436, up from 398 in December. The production estimate is supported by guidance provided by the 10 largest producers in the basin. They accounted for 35% of Permian oil production in 2017. All other US oil production will increase about 490 MBD in 2018 while gas liquids increase 540 MBD. Higher oil prices this year are stimulating increased drilling activity. The Permian Basin is the main growth driver in 2H18. The cost per well continued to decline in 2017. New wells are producing double or more the initial rate that for years was the standard for a `good' unconventional well, significantly improving return on investment for producers and reducing the oil price needed to breakeven after offsetting the cost of oilfield services inflation. The new US tax law will reduce breakevens in US resource plays by $2/B and $4/B on average in the Gulf of Mexico. Permian oil production will account for 31% of US oil production it 2018. It was 2.42 MMBD in 2017, up 20% or 317 MBD over 2016, while other US oil production increased 123 MBD, and gas liquids increased 262 MBD.

In 2018, other non OPEC production will average 45.22 MMBD, up 227 MBD from 2017, following a 32 MBD decline in 2017 and a 433 MBD decline in 2016.

Beyond 2018

OPEC will likely have to remain proactive after the expiration of its agreement the end of this year considering some of the trends which will impact future prices.

Permian producers will continue to be OPEC's biggest challenge. An official of the Texas Railroad Commission, which regulates Texas production, believes Permian oil production could more than double within 5 years and rise as high as 7 MMBD in 2023, `there's that much oil.' Its expectation anticipates an undersupplied market in coming years with a $70-$80/B oil price and annual Permian increases over 700 MBD. It anticipates the Permian will maintain its competitive advantage `over every other play in the world.' Midstream providers have announced 2.7 MMBD of new pipeline takeaway capacity from the Permian since late 2017.

At higher oil prices, numerous non core areas in hot plays become very economic. A lot of e&p companies with positions are sitting on the sidelines waiting for this event. At $60/B, most large companies are cash flow positive and more credit worthy.

Current, let alone higher, oil prices will also stimulate significant growth in the Bakken, Eagle Ford, and DJ Niobrara shale plays and other US and non OPEC production, which could require further OPEC constraint. Bakken production is 1.2 MMBD and the well regarded North Dakota Department of Mineral Resources expects it to exceed 2 MMBD `within a decade'. Eagle Ford output of 1.29 MMBD currently is expected to reach 1.60 MMBD in 2020.

Non OPEC production growth next year will depend on 2019 capital spending budgets. Capital budgets will partly depend on OPEC's stance in late 2018, which highlights the importance of OPEC's June meeting and its continued cohesion in the aftermath.

At the same time, a decline in global conventional oil production looms. Conventional production of 82 MMBD accounts for over 80% of world oil supply. The annual decline in these mature fields is 3 MMBD which needs to be replaced before supply can meet demand growth.

In 2017, conventional oil discoveries hit a record low of 4 bn B in response to reduced spending. Reserve replacement was only 12%. Global upstream capex peaked in 2014 around $700 bn and fell to a low of $360 mil in 2016, with only a mild increase in 2017. In its 4Q17 earnings call, Schlumberger said it anticipates a 1 MMBD decline in 2019 production in Latin America, Africa, and Asia, which will accelerate thereafter.

Conventional production offshore represents 30% of global production, around 28 MMBD. Average annual depletion rates are a steep 11% for deepwater fields, 4% for fields in shallow water. It typically takes over 4 years to start production from a deepwater field after the final investment decision is made, and over 1 ½ years for a shallow water field. Most sizable discoveries today are in deepwater. A recovery in offshore drilling is only now emerging. Any increase in offshore production is some years away.

World oil demand growth will remain supportive. After this year, global oil demand is set to expand by 6.9 MMBD over the following 5 years to reach 104.7 MMBD in 2023, or 1.38 MMBD annually. One fourth of the increase will come from demand for petrochemical feedstocks: naptha derived from light crude oil and condensates, and ethane from natural gas liquids. The IEA forecasts demand for naptha will rise by 495 MBD over the period, ethane demand will rise by 885 MBD.

Over the next 20 years, the growth in demand for petrochemical feedstocks will be larger than the loss of oil demand from the growth of electric vehicles.

Canada's market access is currently restricted. Production in Canada is 5.03 MMBD, up from 4.80 MMBD in 2017, but limited in 1H18 by pipeline capacity constraints. Its 4 MMBD pipeline network is full while producers complete a meaningful 350 MBD of new capacity in 2018 sanctioned in previous years. Oil sands capacity will increase to 4.2 MMBD. Suncor's Fort Hills 194 MBD facility started in late January. Western Canadian Select (WCS) crude in 1Q18 is selling around $36/B, a discount over $26/B to WTI, out from a $14/B discount in November. It costs $8/B to ship crude by pipeline to the US Gulf Coast while the cost by rail is $13/B. Leading producers have reduced oil sands breakeven costs to $40/B from $70/B 4-5 years ago. If takeaway capacity was adequate, WCS would be selling around $50/B. Big difference.

More crude movement by rail is expected from the middle of the year. The earliest a new pipeline will be built is late 2019 when Enbridge adds 380 MBD new capacity to Line 3 from Alberta to Wisconsin.

About Boston Energy Research: An updated road map and forecast of future oil prices is published monthly by Paul Kuklinski. It reviews the recent events which moved oil prices to where they are today, what just happened and why. It then indicates where they are likely to go based on current analysis. It also identifies important checkpoints and risks which could cause oil prices to travel a different path, what should we look out for.

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