



Statement By

Continental Resources

In The Matter Of Establishing A Statewide Proration Formula For Unallocated Wells

Oklahoma Corporation Commission

OAC 165:10-17-11 Oil & Gas Conservation -- Cause CD No. 202002102

January 15, 2021 – Technical Conference

Continental Resources appreciates the efforts of the Oklahoma Corporation Commission and its Staff in regards to assigning maximum permitted rates of production for unallocated wells. Thank you for the opportunity to provide the following comments.

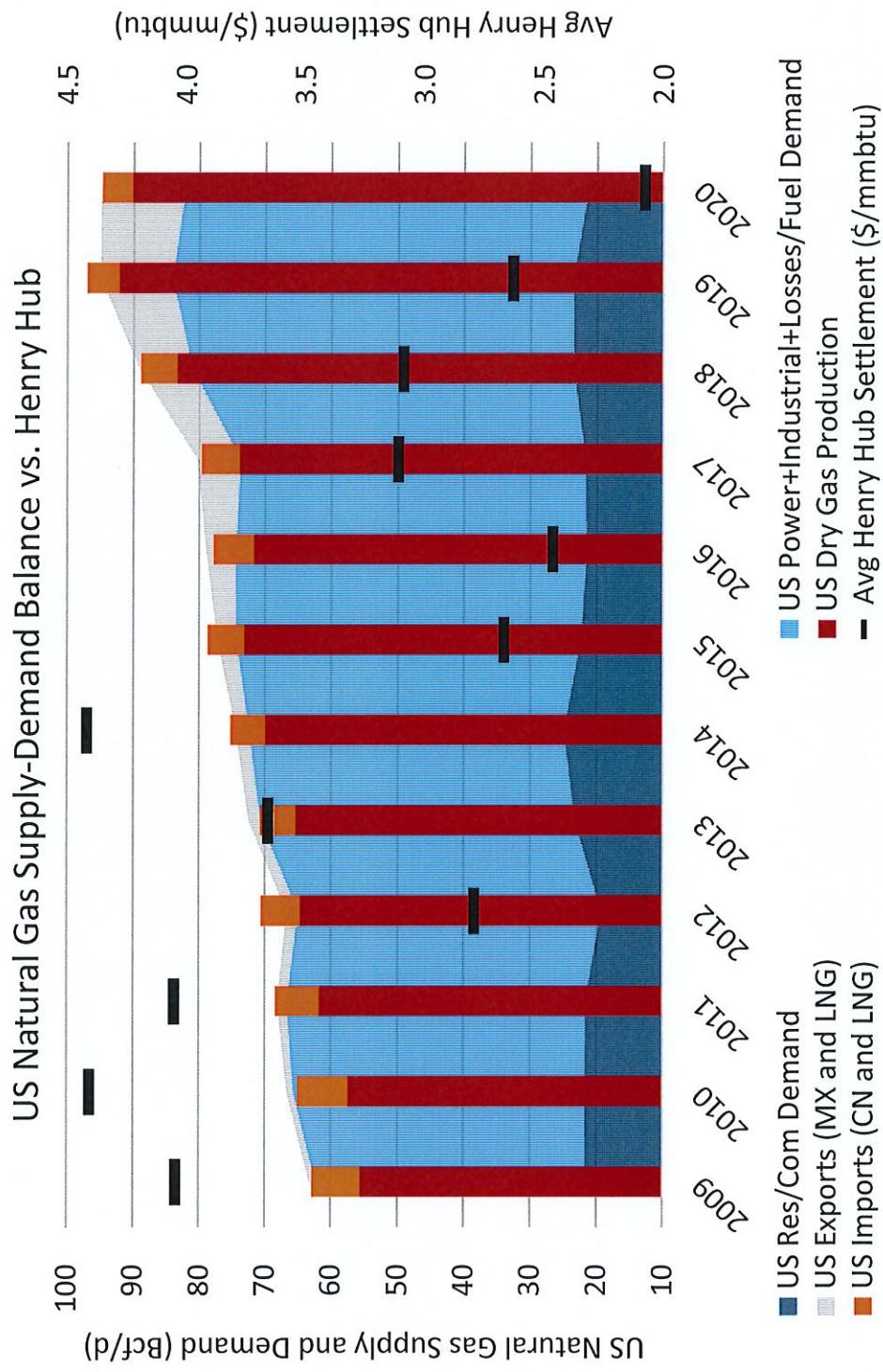
The Commission is charged with determining and administering a proration formula for calculating allowable production under 52 O.S. Section 29 and OAC 165:10-17-11. In fulfilling this requirement, the Commission must consider current and foreseeable conditions to ensure that the supply of natural gas from the State's mineral resources is maximized, while mitigating un-necessary waste or production in excess of what would be expected to be reasonable market demand. Although gas production has fallen in recent months, with rig counts down and completion activity slowed, it has not been enough yet to rebalance the domestic market. Inventories remain consistently higher than historical norms due to the effects of another warm winter and COVID-19 related global demand destruction. Although we have seen improvement in LNG shipping due to improved global market demand, the US natural gas market remains overly reliant on exports to clear excess production. Additionally, there remains tremendous uncertainty as to how fast and what extent the domestic and global economy will recover post-Covid. While we are beginning to see limited signs of market improvement, now is not the time to reverse course from disciplined gas production.

With the above in mind, Continental respectfully recommends that the Oklahoma Corporation Commission continue with the current proration formula for unallocated gas wells of Fifty Percent (50%) of Calculated Absolute Open Flow (CAOF) potential or 2,000 MCF/D, whichever is greater, for the period April 1, 2021 through March 31, 2022. We additionally recommend that the Commission continue to proactively monitor the COVID-19 impacted global and domestic market conditions during this period for further action, as may be warranted.

Thank you again for the opportunity to provide comments on this proposed proration determination.

Natural Gas Market Overview – Supply/Demand Balance

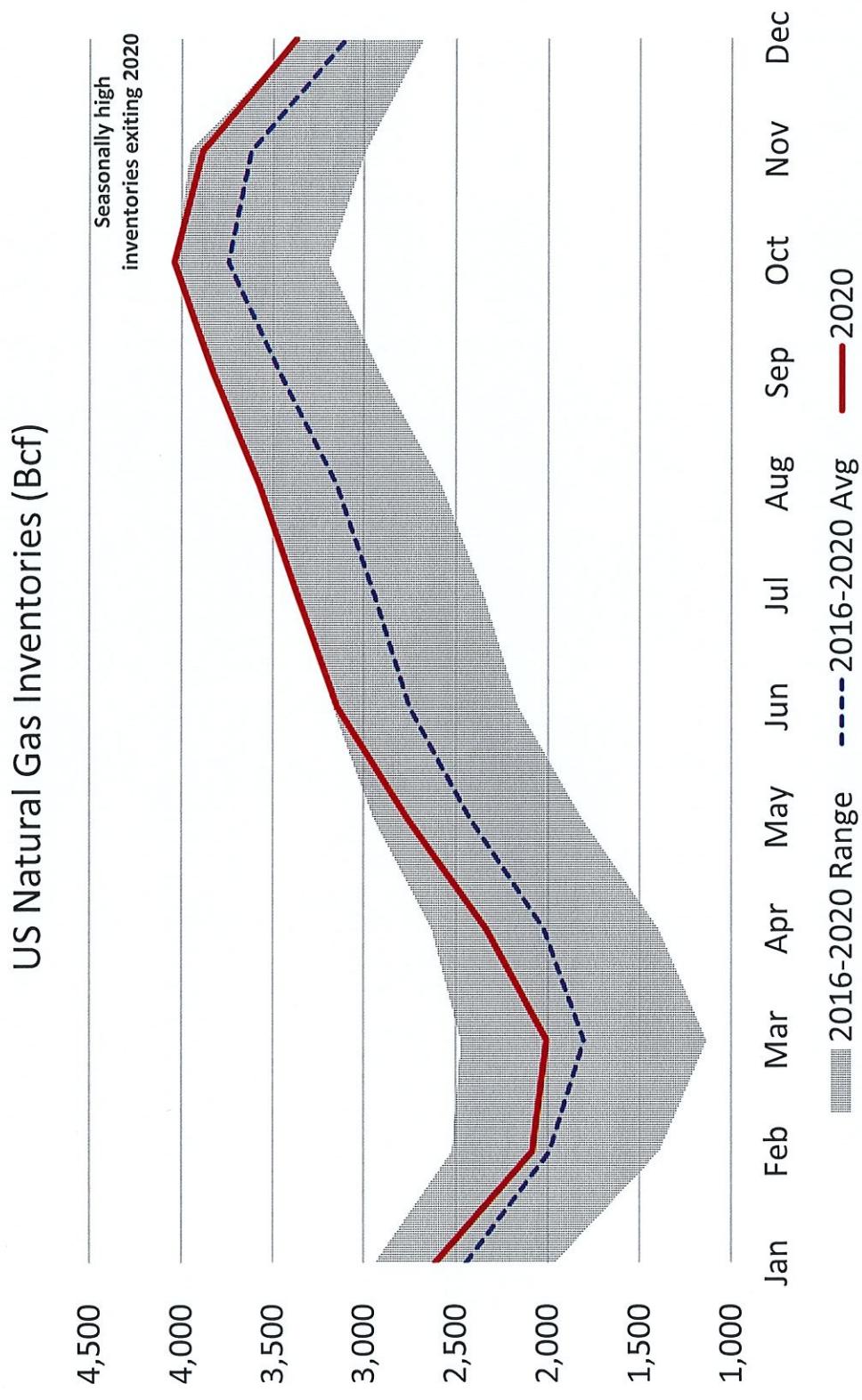
- Domestic production now vastly exceeds domestic consumption leaving the market oversupplied
- The US natural gas market has become overly reliant on exports to clear excess production
- Warmer than average winters have hurt domestic demand, exacerbating oversupply



Sources: PointLogic, EIA, Bloomberg

Natural Gas Market Overview - Storage

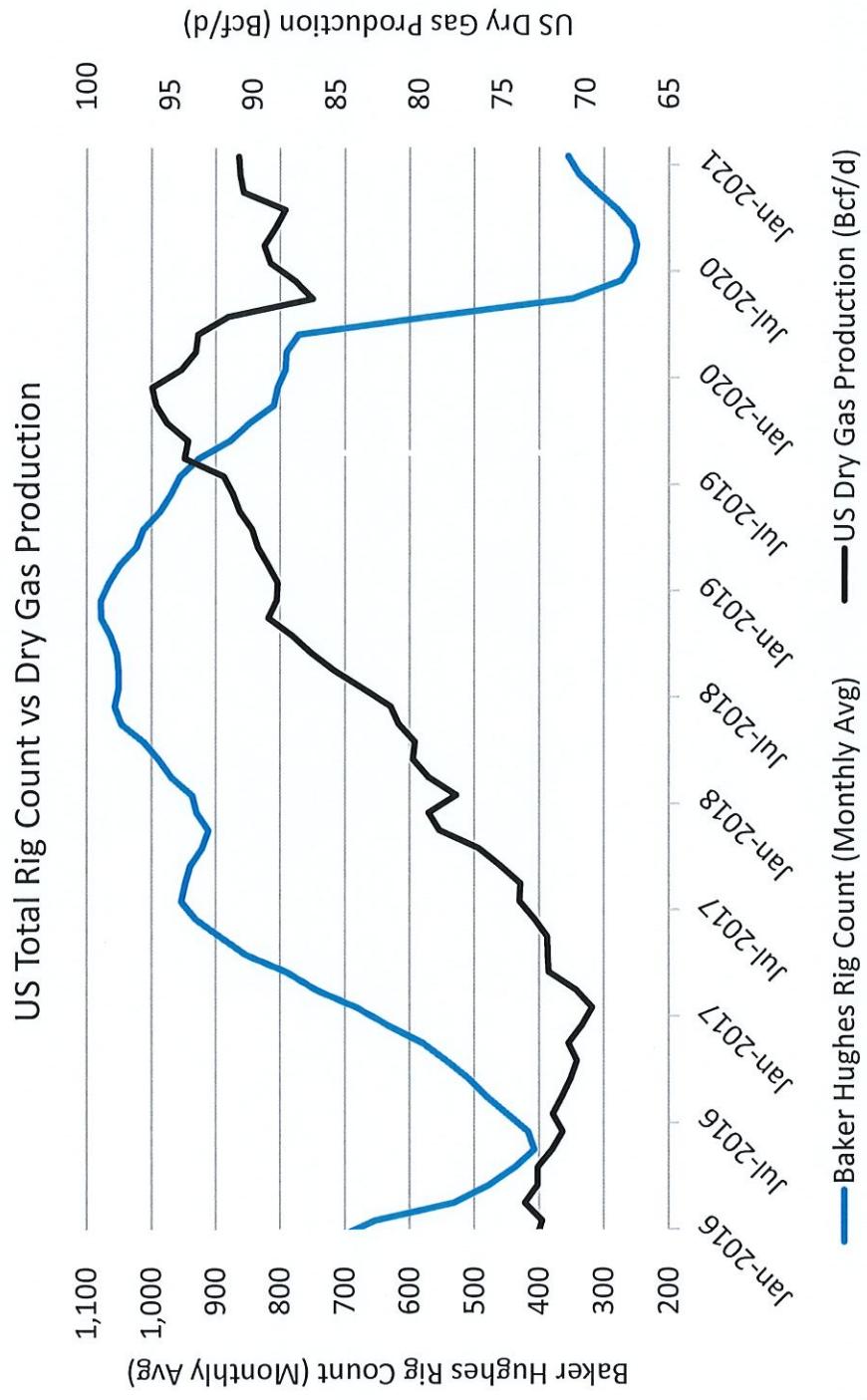
- Inventories have consistently been higher than historical norms as the gas market remains oversupplied due to the effects of another warm winter and Covid-related global demand destruction



Sources: PointLogic, EIA, Bloomberg

Natural Gas Market Overview - Production

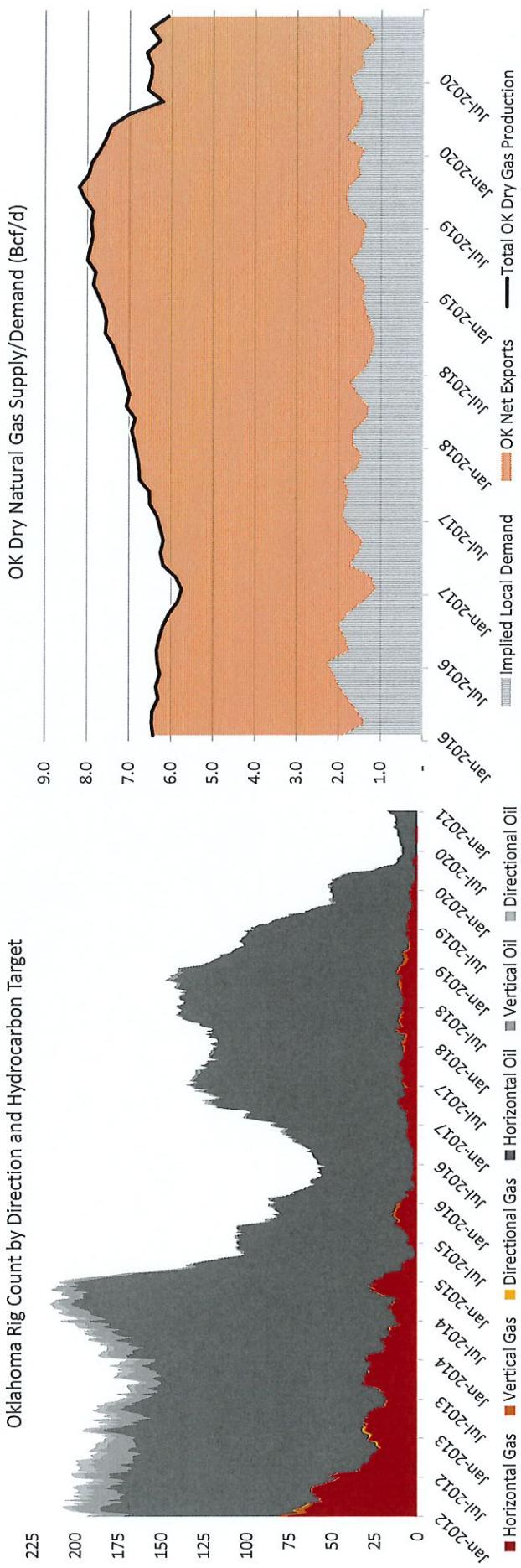
- US gas production has fallen from recent highs due to reduced rig/completion activity
- Despite production declines and lower rig count, there is still too much production to balance the domestic market



Sources: PointLogic, Baker Hughes

Oklahoma Rig Count and Natural Gas Supply/Demand

- Oklahoma rig counts remain near all time lows
- Oklahoma produces about 6.5 Bcf/d of dry residue gas today, of that:
 - Local OK demand is approximately 1.5-2.0 Bcf/d that varies seasonally
 - The remainder of Oklahoma gas production is exported out of the state via pipeline, primarily to AR, KS and TX
- In order for gas to move out of the state on pipeline:
 - Marginal shipping economics must be met or exceeded
 - There must be available capacity and interconnectivity



Sources: Baker Hughes, PointLogic

Global LNG Prices Have Improved On Colder Weather Overseas

- A mild winter compounded global oversupply of gas/LNG during mid 2020
- LNG shipping economics have since improved drastically, but there is not enough export capacity to fully balance the oversupplied US gas market
- If fundamentals falter overseas, could lead to another LNG backup causing US gas market to struggle similar to most of 2020

