



April 21, 2016

Honorable Van Taylor
Vice Chair
Sunset Advisory Commission
1501 N. Congress Avenue
6th Floor, Robert E. Johnson Building
Austin, Texas 78701

Re: Denbury Resources Inc. Public Comments
Sunset Commission Review of the Railroad Commission of Texas

Dear Senator Taylor:

Thank you for the opportunity to make comments during the Sunset Advisory Commission's review of the Railroad Commission of Texas ("Commission"). Denbury's comments are submitted for your consideration in accordance with the Sunset Advisory Commission's publication materials, to assist in "identifying areas of weakness in an agency's operations and recommending specific solutions for improvement through changes in the law."

As you are aware, the Commission is mandated under the Texas Natural Resources Code to make and enforce rules and orders for the conservation of oil and gas and prevention of waste of oil and gas. Yet, due to the existence of a 1931 Texas State law expressly prohibiting the Commission from requiring fieldwide unitization, the Commission is without authority to implement a procedure that would protect and prevent the waste of Texas' legacy oilfields, particularly those aging Gulf Coast oilfields containing billions of barrels of stranded, but recoverable oil reserves.

Because of the 1931 statute expressly prohibiting the Commission from requiring the implementation of full fieldwide unitization, ironically contained in the same bill requiring the Commission to prevent the waste of our natural resources, approval by 100% of the owners in the field in the formation of a fieldwide unit must be done on a completely voluntary basis – a goal virtually impossible to attain. Unfortunately, the failure to attain 100% approval, results in the abandonment of many of these projects and the inevitable waste of these valuable oil resources. No other top producing state allows or tolerates this physical waste of its natural resources.

Denbury's tertiary recovery operations whereby carbon dioxide enhanced oil recovery (CO₂ EOR) techniques are utilized, must be implemented on a fieldwide basis and require an extraordinary upfront financial investment. However, because of the inevitable "holes" or "gaps" in the proposed fieldwide

unit resulting from the lack of 100% of all necessary parties approving the proposed fieldwide unit, not only will Denbury's ultimate production recovery from the field be reduced but also such consequences will require Denbury or any other operator to expend tens of millions of dollars to employ technical separation of participating and non-participating tracts. These consequences destroy the field's economic viability and have unfortunately led to tertiary project abandonment.

We would respectfully ask that the Sunset Commission, when it turns its attention to matters impacting the Texas Railroad Commission, take into consideration Sec. 85.201 which mandates that the Commission "shall make and enforce rules and order for the conservation of oil and gas and prevention of waste of oil and gas" and the inherent conflict with Texas Natural Resources Code, Title 3, Subtitle B, Chapter 85, Subchapter A, Sec. 85.046 (a) (7), which expressly prohibits the Commission from requiring fieldwide unitization, a method proven to be one of the most effective means to protect against waste, maximize the efficient production of the natural resources and protect the rights of each owner in a field.

The Commission in its 2015 Self Evaluation Report states that its key functions include the obligations to protect the correlative rights of mineral interest owners and prevent waste of Texas' natural resources. The time has come to provide the Commission with the necessary statutory authority to require fieldwide unitization so that it can meet its key objective by addressing this serious flaw in Texas law. Both mineral property owners and the state of Texas are being deprived of the opportunity to preserve and protect the viability of these old fields which will surely vanish before our eyes if nothing is done to rectify this outdated statutory flaw.

Sincerely,

A handwritten signature in blue ink that reads "Phil Rykhoek". The signature is fluid and cursive, with a long horizontal stroke at the end.

Phil Rykhoek
President and CEO

Cc: Members of the Commission

Ken Levine, Executive Director