BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICANTS: OKLAHOMA ENERGY PRODUCERS ALLIANCE, KEENER OIL & GAS COMPANY, COLUMBUS OIL COMPANY, BROWN & BORELLI, INC., CIMARRON PRODUCTION CO, INC., CANTRELL INVESTMENTS, LLC, POSTWOOD ENERGY, LLC, GLM ENERGY, INC., TOKLAN OIL & GAS CORPORATION, GUEST PETROLEUM, INC., SINGER OIL COMPANY, AND RKR EXPLORATION, INC.	)	CAUSE CD NO.
RELIEF SOUGHT: DETERMINATION THAT THE WASTE OF OKLAHOMA CRUDE OIL IS OCCURRING, DETERMINATION THAT THERE IS NOT MARKET DEMAND AT A PRICE EQUIVALENT TO THE ACTUAL VALUE OF OKLAHOMA CRUDE OIL BEING TAKEN, AND BY ADJUSTING, MODIFYING, AMENDING, SETTING OR ESTABLISHING ALLOWABLES FOR PRODUCTION OF OKLAHOMA CRUDE OIL OR PROVIDING FOR THE PRORATIONING OF THE PRODUCTION OF OKLAHOMA CRUDE OIL, OR THE GRANTING OF SUCH OTHER RELIEF AS MAY BE APPROPRIATE AND NECESSARY FOR THE PREVENTION OF THE WASTE OF OKLAHOMA CRUDE OIL AND THE TAKING OF OKLAHOMA CRUDE OIL AT LESS THAN ITS ACTUAL VALUE	)	202000984

FILED
MAY 07 2020
COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

COMMENTS IMPACTING OKLAHOMA AND SOUTHWEST REGION OF THE UNITED STATES FILED IN

OIL AND GAS DOCKET NO. OG-20-00003167

MOTION ON VERIFIED COMPLAINT OF PIONEER NATURAL RESOURCES U.S.A., INC. AND PARSLEY ENERGY INC. REGARDING CONSERVATION AND PREVENTION OF WASTE OF CRUDE PETROLEUM AND NATURAL GAS IN THE STATE OF TEXAS	&	BEFORE THE RAILROAD COMMISSION OF TEXAS HEARINGS DIVISION

MOTION REQUESTING A
MARKET DEMAND HEARING
AND
MARKET DEMAND ORDER EFFECTIVE FOR MAY 2020 PRODUCTION

PART 4

VIA EMAIL: RRCconference@rrc.texas.gov
Railroad Commission of Texas
Chairman Wayne Christian
Commissioner Christi Craddick
Commissioner Ryan Sitton
1701 North Congress Avenue
Austin, Texas 78711

RE: 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

This document is intended to accompany oral testimony before the Commission on April 14, 2020.

Prorationing Will Reduce Texas State Revenue

Presented to
Texas Railroad Commission

Prepared by James LeBas
April 8, 2020

About the Presenter

James LeBas is a consultant on Texas fiscal matters. Clients include the Texas Oil & Gas Association and other Texas businesses and associations.

He served six years as the state's chief revenue estimator for Texas Comptroller Carole Keeton Rylander, and preceding that, performed fiscal analysis work for Governors Richards and Bush and for Texas Comptroller Bob Bullock.

LeBas served the state as director of financial analysis for the Texas Tax Reform Commission under Governor Perry, during which time he was also chief financial officer for the Texas Water Development Board. He received Bachelor's and Master's degrees in Data Processing and Analysis and in Finance, respectively, in 1983 and 1985.

Prorationing Will Reduce Texas State Revenue

Summary

The Texas constitution provides for one estimator of state revenue, and that is the Texas Comptroller. This report is not intended nor would it be acceptable as a substitute for the judgment of the Texas Comptroller. The information presented herein represents a plausible revenue scenario of a reduction in oil production if mandated by the state to a level below what the free market would otherwise provide.

A mandatory reduction, or prorationing, of Texas oil that resulted in a 10% cut in production will cause a reduction in state revenue of at least $236 million per year during which it was in place under current conditions. Assuming a linear relationship, a 20% prorationing will cut state revenue by at least $472 million.

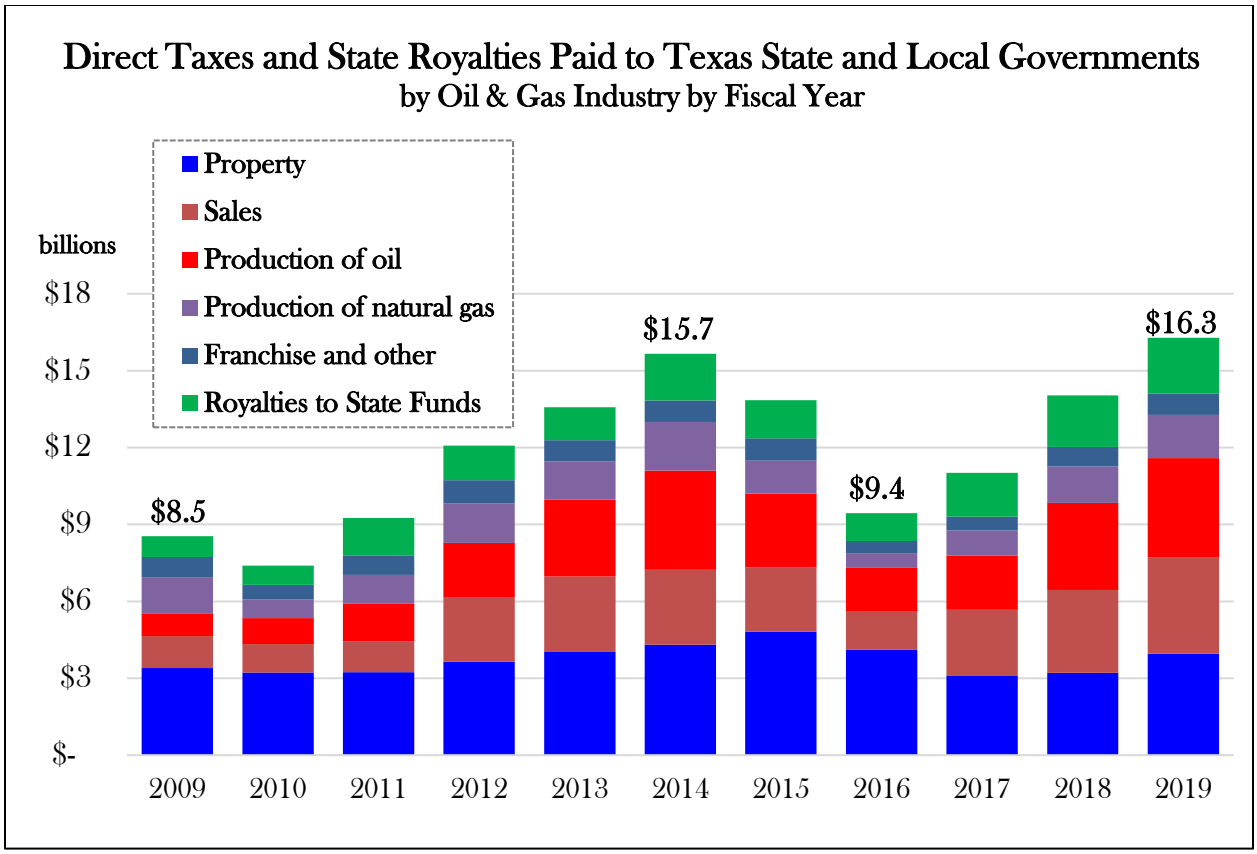
A full measure of the cost to the state would be considerably larger, as it would encompass the losses to school tax bases that the state would be required to pay for through the Foundation School Program, lost income and the resulting loss of taxable purchases by Texas employees and royalty owners, the loss of state sales tax paid on oil well purchases, the loss of revenue from the Oil Well Servicing Gross Receipts Tax, and reductions in the myriad of other taxes and fees paid by the industry.

Losses would also accrue to Texas' local governments who receive sales and property taxes from industry activity.

Taxes Paid by the Texas Oil and Natural Gas Industry

The major forms of tax revenue imposed by Texas state and local governments tend to fall heavily on the oil and natural gas industry, owing largely to the age of the Texas tax structure. For example, the oil production ("severance") tax was first imposed in 1905, the business franchise tax in 1907, the gas utility pipeline tax in 1920, the natural gas production tax in 1936, the oil well servicing tax in 1941, and the sales tax in 1961. Property tax has been imposed in Texas even before statehood. Each new tax has been layered on top of the last, making for a thick tax sandwich through which the industry must bite to comply with law.

Because of the stacking effect of the tax sandwich and because of the successful growth of the industry in Texas over the past 120 years, state and local government in Texas have become dependent on the oil and natural gas industry to provide a substantial amount of revenue. The cyclical nature of the industry causes large fluctuations in the amount of that revenue, but in no year is it insubstantial. In state fiscal year 2019, ended August 31, 2019, the industry paid, *directly*, an all-time high in state and local taxes and state royalties of $16.3 billion. This was 72% higher than just three years prior (2016), which in turn was 40% lower than two years before that (2014).



The oil and natural gas industry, for the purposes of this analysis, is made up of 14 NAICS sectors that comprise upstream, midstream, and downstream activities. The industry employed, directly, over 428,000 Texans during state fiscal year 2019. There are also an estimated 600,000 individual Texas royalty owners.[1] Of the 14 business sectors, upstream activities provided the most jobs and paid the most in taxes and state royalties. Upstream activities – mainly oil and natural gas production itself – are subject to peculiar charges that are not generally imposed on Texas businesses. The taxes on the mere production of hydrocarbons are the best example, being without counterpart across the entire Texas tax structure. Upstream oil and gas activities are also the sole source of fresh capital – in the form of royalties – to the state's Permanent University Fund and Permanent School Fund.

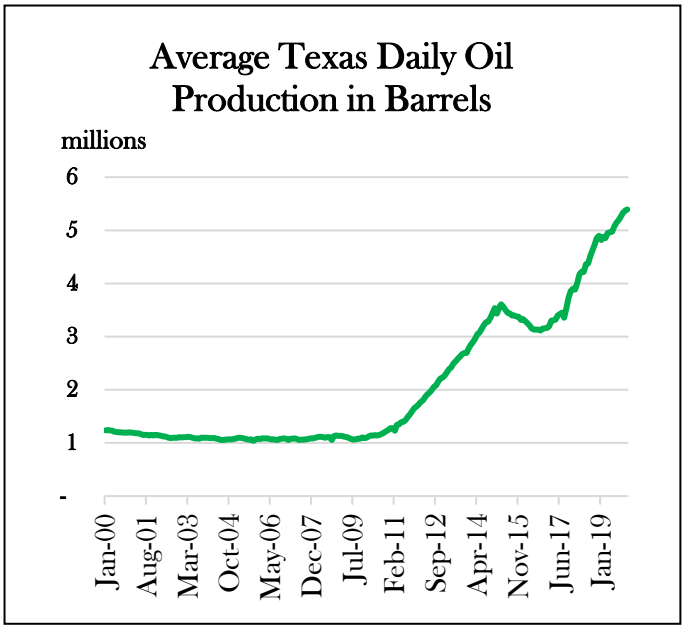
Of the numerous state revenue sources borne by the industry, severance taxes and the royalties paid on state minerals are the most directly and immediately responsive to changes in production. Other taxes, especially local property taxes imposed on producing mineral properties and sales taxes paid on purchases made for drilling and completing wells, are roughly comparable in size to the sum of severance taxes and royalties, but their response may lag, or even precede, changes in production. For that reason, this analysis focuses only on severance taxes and royalties to state funds.

[1] SOURCE: Texas Royalty Council.

Texas Oil-Sourced Revenues

The ingenuity and success of Texas oil producers is now legend. Through advanced technology developed largely in Texas, producers quintupled production from 1 million barrels per day as recently as 2009 to 5 million a decade later.

However, it has not been an entirely smooth trajectory. In response to the price declines beginning June 2014, Texas oil production fell almost as steadily as it had risen. The average WTI spot price from April 2011 through June 2014 had been $97. From March 2015 through August 2017, it was $47. **The resulting decline in production was 14%.** Price had fallen in half, similar to what has happened in 2020. For this analysis, a 14% reduction in Texas production – and for the taxes and state royalties based thereon – is therefore assumed for this analysis to occur for the reduction in price.



Assuming this market-driven reduction in production will occur, naturally occurring reductions in state revenue will follow, based both on production and the lower price that caused it.

Market-Driven Reductions in Selected State Oil Revenues*

	$ millions
Base Fiscal Year: 2019 Actual	
Oil Production Tax	$ 3,887
Oil Royalties to State Funds	$ 1,599
Total, Fiscal 2019	$ 5,486
Annual revenue (loss) if price falls 50%:	$ (2,743)
Additional annual (loss) if production falls 14%:	$ (384)
Total Annual Market-Driven Revenue (Loss)	$ (3,127)
Remaining Annual Oil Revenues:	**$ 2,359**

* This is an example only. It is not an official estimate of state revenue.

Taxes and royalties based on oil production are large and important in Texas but are comparatively volatile. The table above depicts a falloff scenario of $3.2 billion driven by market forces alone. Under that circumstance, using fiscal year 2019 collections as a baseline, the state will still be receiving an estimated $2.3 billion annually in oil revenues. It is from that level that a policy-generated reduction from prorationing would be taken. If prorationing reduced oil production by 10%, the loss of revenue will be 10% of $2.3 billion, or $236 million per year. At 20% prorationing, the loss will be $472 million per year.

Prorationing-Driven Reductions in Selected State Oil Revenues*

	$ millions
Annual Oil Revenues After Market-Driven Reductions	
Oil Production Tax	$ 1,671
Oil Royalties to State Funds	$ 688
Total	$ 2,359
Annual revenue (loss) due if prorationing reduces production 10%:	**$ 236**
Annual revenue (loss) due if prorationing reduces production 20%:	**$ 472**

* This is an example only. It is not an official estimate of state revenue.

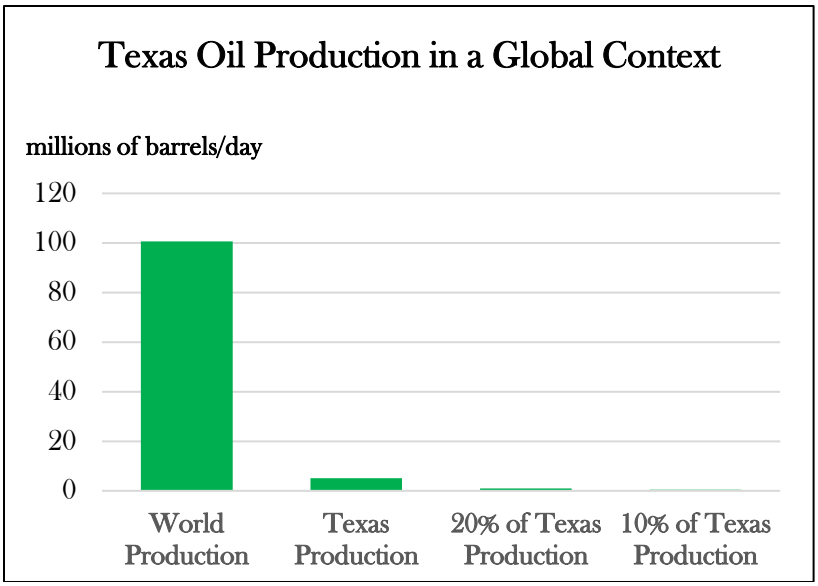
Texas in a World Oil Market

The calculations above are based on assumptions of Texas not necessarily as we like to think of it, but as it probably is. The calculations are simple and so is the logic.

Texas As We Like to Think of It

Texas is a large oil producer, but not so large that it commands monopoly pricing power. A monopoly provider of any highly demanded product for which there were no ready and competitive substitute, be it petroleum or platinum, would be in a strong position to name its price to the world. Perhaps not even a monopoly would be required – controlling 40% of world supply might be enough to influence the price. That is roughly the share of production provided by OPEC members. And yet even at that percentage of "control," the price of oil has descended to very low levels. Agreements to limit production regularly fail to deliver, and the beneficiaries have been those producers who remained outside of the agreements.

Texas' share of world production is not 40%, but 5%. In the graphic below, Texas' oil production is shown in its comparative scale to the global market in which it competes. Prorationing at 20% would remove 1% of oil from world production. Prorationing at 10% would remove 0.5% of oil from world production.



Prorationing at 10% would be so small it does not even show up on the graphic. Such small changes in production cannot cause a detectable upward movement in price, especially when it could easily be replaced by non-Texas production. And at the same time, the loss in state revenue that is driven by oil production is unavoidable. The market will respond to price, as it always has, without government intervention. And a decision to intervene where there is already a market mechanism may be a decision that proves very hard to un-make.

The loss of state revenue in the hundreds of millions of dollars per year for a venture on prorationing does not appear to be a wise trade for Texas' fiscal condition.

Publicassist

From: James Mccown <jmac@suddenlinkmail.com>
Sent: Saturday, March 21, 2020 7:14 PM
To: Publicassist
Subject: Re: Notice to Oil and Gas Operators: Notice from Chairman on Federal Solicitation to Purchase American-Made Crude Oil

Follow Up Flag: Follow up
Flag Status: Flagged

Why sell at these prices except to stay alive need 60-70 oil

James McCown
Jmac@suddenlinkmail.com
James@energininc.com

On Mar 20, 2020, at 11:47 AM, Railroad Commission of Texas <communications@rrc.texas.gov> wrote:

Notice to Oil and Gas Operators: Notice from Chairman on Federal Solicitation to Purchase American-Made Crude Oil

Railroad Commission of Texas Chairman Wayne Christian is issuing this Notice to Operators to make Texas oil and gas operators aware of an important opportunity to help maintain production and employment levels in Texas.

The U.S. Department of Energy (DOE) has issued a solicitation to purchase an initial 30 million barrels of American-made crude oil to fill the Strategic Petroleum Reserve. The solicitation can be found on the DOE website at https://www.spr.doe.gov/doeec/OilPurchase.htm.

The DOE's focus on the initial purchase is small to midsize producers, and the Chairman strongly encourages Texas producers to consider this opportunity.

To view the full notice, visit the RRC website at https://rrc.texas.gov/covid19/notices-of-state-of-disaster-in-texas-waiver-requests/.

To view oil and gas-related information, visit the the Railroad Commission of Texas website.

Visit our Website

Railroad Commission of Texas | Oil and Gas Division | 512-463-6838 | www.rrc.texas.gov

STAY CONNECTED

From:	Haley Cochran
To:	Travis McCormick; Jeremy Hagen; Bill Black; Jason Modglin; Jared Craighead; Bryan Preston; Wei Wang; Alex Schoch; Danny Sorrells
Cc:	Kellie Martinec
Subject:	FW: Limit oil production and manage the transition to a clean economy
Date:	Wednesday, April 8, 2020 2:51:05 PM

From: Jessica Eskew <Jessica.Eskew.300360080@p2a.co>
Sent: Wednesday, April 8, 2020 10:37 AM
To: RRC Conference <RRCConference@rrc.texas.gov>
Subject: Limit oil production and manage the transition to a clean economy

Dear Comments Clerk Texas Railroad Commission,

Firstly, I would like to introduce myself as an engineer for a big oil company. The larger companies are stepping up where possible to reduce flaring and reinject gas, but smaller companies that want to have larger profits are not prioritizing the pressure of oil wells by reinjecting gas. Ultimately, this decreases overall oil production from the well, and also is a waste of fuel that can be used later (natural gas) once the market returns. Natural gas is a great source of clean burning energy that is unfortunately currently uneconomic to produce, but should be increased in value by our society in the future and therefore not wasted now.

In the wake of the collapse of oil prices, I support prioritizing production cuts for oil companies with the worst records of excessive flaring at drilling sites. This is a waste of resources and harmful to our climate.

I want to see a plan to downsize the production of oil and gas throughout the next decade and manage the just transition to a cleaner economy for Texas.

Regards,
Jessica Eskew
1407 Nagle St
Houston, TX 77003

Publicassist

From: Jim Bryant <JBryant@producersmidstreamlp.com>
Sent: Thursday, April 9, 2020 2:56 PM
To: Publicassist
Subject: Proration of Texas Oil

As a Texas Midstream operator for more than 60 years I would like to voice support for a prorated réduction in Texas oil production in cooperation with OPEC Plus in order to restore economic pricing for producers and other supportive industry individuals and companies in Texas and the US. Thanks.
Jim Bryant
214-502-7010
Jbryant@producersmidstreamlp.com

From: RRC Conference
To: Kellie Martinec
Subject: FW: Pro-rationing
Date: Friday, April 10, 2020 1:22:09 PM

From: john@jcbcompanies.com <john@jcbcompanies.com>
Sent: Thursday, April 9, 2020 1:57 PM
To: RRC Conference <RRCConference@rrc.texas.gov>
Subject: Pro-rationing

RE Docket No OG-20=0003167

As a long-time oil and gas producer, I request the opportunity to submit this statement for your consideration and withhold a request to testify at this time

Commissioners, I am sending this message to respond the letter sent to you by the Texas Royalty Council in which they speak against the re-starting of statewide pro-rationing by the RRC.

First, no industry person with an understanding the historical actions of the RRC in response to changing industry conditions would seriously consider some flat percentage with an exemption for various companies due to their individual size. Such an idea has no basis in history and is obviously unworkable and contrary to the mandate of the RRC to promote fair trade and justice.

Obviously, the required solution is the re-start of the statewide allowable-pro-rationing system that served all the citizens of Texas (and the nation) so well for so long.

Each well in Texas ALREADY HAS AN ALLOWABLE. The RRC has never stopped collecting periodic production capability tests. Using the allowables ALREADY IN PLACE, the RRC can, and must, simply set the monthly percentage of each individual well's allowable that that particular well can produce. Thus, each INDIVIDUAL WELL contributes it's own fair share to the reduction required, regardless of who owns the well.

The Royalty Council mentions the "livelihoods" of 600,00 royalty owners in the state while failing to state that the vast majority of these mineral owners use their royalty payments for only a small part of their livelihood. In fact, under the allowable system, only the largest producing wells will see any effect at all. In the case of a new well producing at very high levels, the reduction of royalty

payments, while proportionate and substantial, will still allow for large royalty payments each and every month. I attended college with funds my grandparents received from pro-rated wells. Those royalties were a substantial addition to my grandparents income.

The Council mentions “modern leases” as though recent lease were written in a different language that the leases of the past. The primary difference in modern leases from those of the past is that the leases now usually contain much higher acreage bonus provisions, much higher royalty percentages, and restrictions that are much more favorable to the royalty owner that in the past. None of those provisions would suddenly cease to exist with prorationing. Further, the Council mentions “continuous drilling provisions”. These same provisions have been a part of leases for decades. One large lease that comes to mind that contained the continuous drilling provision was done for the King Ranch many decades ago.

Finally, I ask that the RRC remember their mandate, which is to prevent waste of the natural resources of this state for the benefit of ALL citizens, be they royalty owners, producers, or housewives in a suburb. The RRC has allowed physical waste in the form of unrestricted flaring and economic waste by allowing overproduction. Both of these problems have already contributed to pollution, loss of reserves in place, and wild swings in the economic activity in the state that has been proven to work a detriment to all the citizens.

As a royalty owner, Oil & Gas Producer, and, most importantly, a citizen I request that you accept your responsibility and re-impose pro-rationing immediately

John Bozeman Perryton Texas

Publicassist

From: rrcwebcontact@gmail.com
Sent: Monday, April 6, 2020 10:47 AM
To: webmaster
Cc: Michelle Banks
Subject: General Comment/Question

Follow Up Flag: Follow up
Flag Status: Completed

CAUTION: This email originated from outside of the Railroad Commission of Texas. Do NOT click links or open attachments from unknown sources without first confirming the message is legitimate. If you believe this to be a malicious and/or phishing email, please contact the ITS Help Desk at 512-463-7229. Do not respond to or forward the email, click on any links or open any attachments without guidance from the Help Desk

From: John Brecht
Email: johnbrecht@earthlink.net
Phone: 521 791-9179
Hi all, To begin, the Saudis & Russians caused this oil crisis to gain them market share and cripple our oil industry, next, the CV 19 caused a WW demand drop. These 2 forces converged resulting a perfect storm which is crippling our oil industry and a large part of our industrial sector and economy that depends on equipment, material and service sales to supply the oil industry. The Saudis & Russians should live with the problem they created. Keep us out of their problem! The U.S. should Tariff the 6.5mb/d of imports to a $50/b price point TO SAVE THE U.S. OIL INDUSTRY & ENERGY INDEPENDENCE AND HELP STABILIZE THAT PART OF THE ECONOMY THAT DEPENDS ON THE OIL INDUSTRY! Exported petroleum products made from imported oil would be exempt from tariffs by refunding at export! Our economy is already accustomed to production prices based on $50/b oil. As we learned when oil dropped from $114/b, the savings on energy and lower priced products, including the gasoline fill at the pump, were not enough to offset the considerable damage done to the economy by the severely curtailed activity of the oil industry! We need a healthy oil industry as we transition to cleaner energy and a fleet of EV. A transition that orderly will take at least a decade or two. Rest assured, WW oil production probably peaked recently with this pumping surge by the Saudis and Russians. Our 13mb/d of domestic production should meet our needs just fine. Shipping regs should be adjusted to enable better distribution. Already $3b is authorized for crude purchases into the SPR and could be used to stabilize any current U.S. storage problems. The SPR's considerable current inventory of about 635mb of crude would be available for any domestic supply short fall. I just saw a Bloomberg TV interview with a Saudi oil official. He was asked directly, twice, what he thought of a U.S. oil import Tariff! BOTH TIMES HE EVADED THE QUESTION WITH HOW WE ALL NEEDED TO WORK TOGETHER TO CURTAIL OIL PRODUCTION! Evidently the Saudis are very concerned about a Tariff on their oil we import. I'm sure the Russians are equally concerned, because if the Saudis don't sell to the US, the Russians would see that oil competing with the Russian sales! I didn't sense the same concern for our feelings when they decided to open there oil spigots. They need us far more than we need them!

Filed via e-mail to: RRCconference@rrc.texas.gov

Chairman Wayne Christian
Commissioner Christi Craddick
Commissioner Ryan Sitton
Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78711

April 7, 2020

Dear Chairman Christian, Commissioner Craddick and Commissioner Sitton,

We are writing to submit comments to the Texas Railroad Commission for the upcoming virtual conference on Tuesday, April 14, 2020, related to the recently filed Verified Complaint of Pioneer Natural Resources and Parsley Energy. We want to state that we are also available to answer questions and provide analysis on the data attached hereto if requested by the commission at the April 14 meeting.

As our remarks below will demonstrate in more detail, we recommend that the Commission issue a proration order to help remedy the wasteful overproduction of oil and to add certainty as to how a curtailment of production should occur. Without leadership from the Commission, waste will occur, and the inevitable shut-down in the oil fields of Texas will likely be chaotic. This could result in losing the next generation of petroleum professionals as well as university research and technology development, both of which are so necessary to our energy independence.

As requested, our identifying information is:

1. Jon E. Olson, Department Chair, Hildebrand Department of Petroleum and Geosystems Engineering, Cockrell School of Engineering, The University of Texas at Austin
2. 200 E. Dean Keeton, Mailcode C0200, Austin, TX 78712
3. 512-587-3168 (cell, preferred)
4. I represent myself.

1. Jeff Spath, Stephen A. Holditch Department Head Chair, Harold Vance Department of Petroleum Engineering, Texas A&M University
2. 3116 TAMU, College Station, TX 77843
3. 281-467-9276 (cell, preferred)
4. I represent myself.

As the leaders of the #1 and #2 ranked undergraduate and graduate petroleum engineering programs in the United States, both residing in the great state of Texas, we want to share our perspectives on the impact of the current COVID-19 pandemic on the future oil and gas industry workforce and petroleum technology research. As UT's Hildebrand Department chair for the

past 5 years, Dr. Jon Olson has 25 years of academic experience at UT-Austin preceded by 6 years of industry experience at Mobil Oil Corporation's Dallas Research Lab. He is a Distinguished Member of the Society of Petroleum Engineers. Before becoming A&M's Vance Department head in 2017, Dr. Jeff Spath spent 35 years in industry - thirty three years with Schlumberger, retiring as Executive Vice President, and two years as CEO of the Texas Oil and Gas Institute, a former department of the UT System. He is an Honorary Member of the Society of Petroleum Engineers, but more importantly, served as president of the society in 2014. He is an active member of US Secretary of Energy Brouillete's National Petroleum Council. We hope this brief recounting of our biographies demonstrates that we are engaged, accomplished and dedicated members of the oil and gas community, and we freely offer our services for the betterment of Texas through our energy-related expertise.

Universities have the responsibility of training engineers for careers of technical service to society. In the oil business, many engineering disciplines contribute to the workforce, but petroleum engineering plays a central and leading role in grooming young people for the technical demands encountered in assuring the safe, reliable, sustainable and affordable production of oil to satisfy society's energy needs. Universities are also focal points of technology development, often in collaboration with industry, looking for new and better ways to reduce costs, increase recovery factors, and minimize and mitigate environmental impact. A healthy industry requires a robust and thriving higher education community to provide ideas and maintain the workforce pipeline for the future.

The current public health crisis is unprecedented in its impact on the personal welfare of each and every citizen of not just the great state of Texas but also of every American and people throughout the world. The question for the Railroad Commission, however, is how to prevent undue harm to the energy infrastructure of Texas caused by the drastic reduction in demand caused by government imposed stay at home orders intended to protect public health. This decline in demand, which could last for a prolonged period, has resulted in excess oil production in Texas and throughout the world, constituting the wasteful production of our valuable petroleum reserves. This wasteful production threatens the viability of numerous companies in the industry, through not only historically low prices, but also the uncertainty of how current production can be curtailed in an organized, efficient process. This negative impact on industry threatens university petroleum engineering programs by discouraging students, faculty and researchers from considering careers in a field that is too volatile for long term occupation. Without a robust influx of new, well-trained engineers, and innovative technological ideas, the longevity of the very petroleum industry is threatened.

Action now by the Railroad Commission to prevent wasteful production would demonstrate to the world the leadership that is needed to encourage acts to preserve our energy infrastructure. In response to this unprecedented public health calamity, collective action coordinated by governmental agencies is a necessity to protect the future of all aspects of our society. Young people watching events unfold in the coming days are being inspired to study medicine and epidemiology, seeing how these fields are saving lives and protecting the public good, with collaborations between industry and government. They should also be inspired to

pursue engineering in energy-related fields as they watch the petroleum business deliver an affordable and reliable flow of energy supply for the economic recovery that will certainly follow this current crisis. The success of that recovery lies partly in effective action and planning that can best be administered through government-led stewardship to protect our energy infrastructure.

Thank you for your time and consideration of these remarks. Attached please find statistics, facts and figures that demonstrate how prolonged unsustainable oil prices can harm our university programs and the future or petroleum engineering in Texas.

Sincerely,

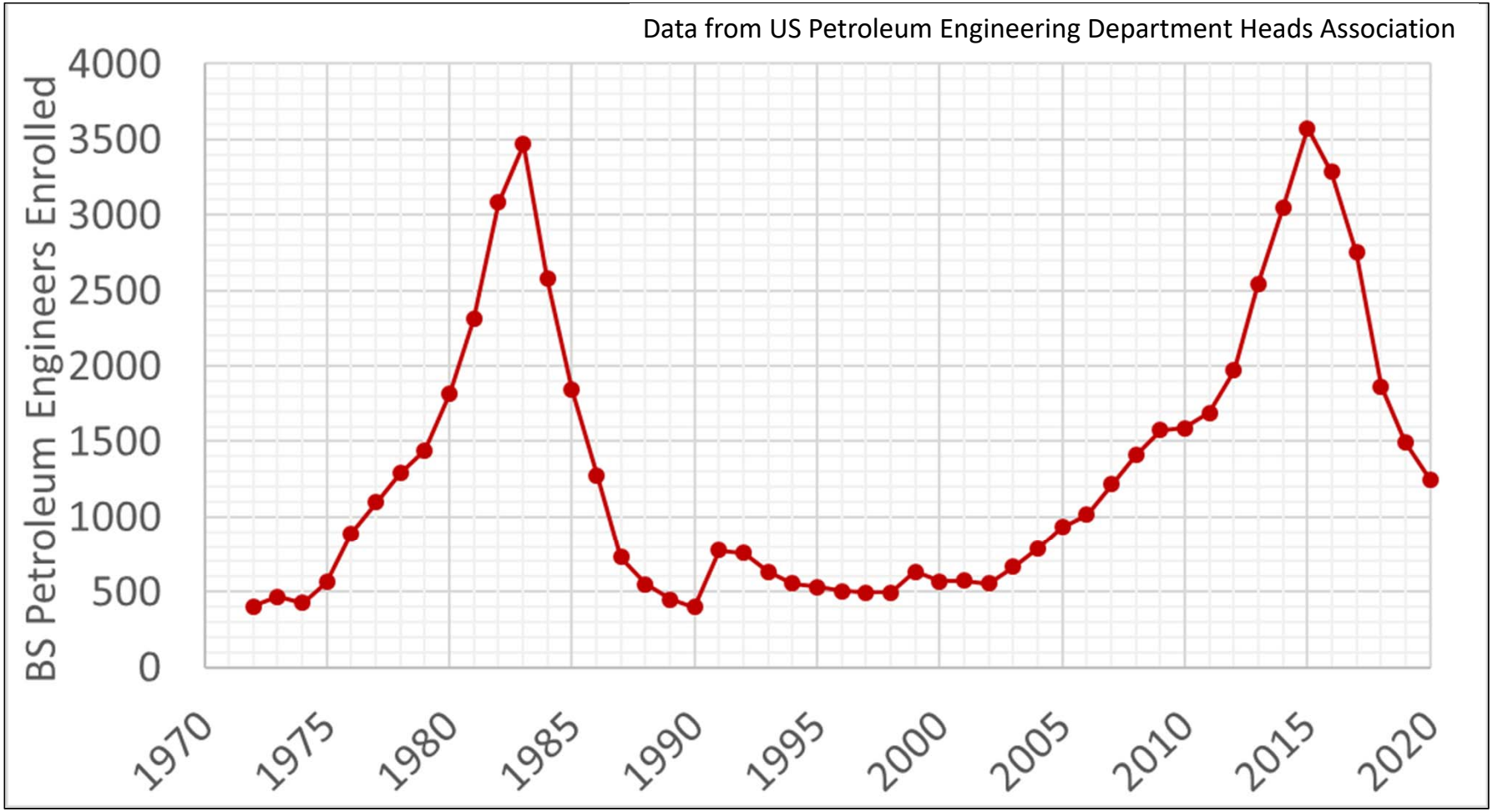
Jon E. Olson, Department Chair
Lois K. and Richard D. Folger Leadership Chair
Frank W. Jessen Professor
Hildebrand Department of Petroleum and Geosystems Engineering
The University of Texas at Austin
jolson@austin.utexas.edu
Cell: (512) 587-3168

Dr. Jeffrey B. Spath, Department Head
Professor and Holder of the Stephen A. Holditch Department Head Chair
Harold Vance Petroleum Engineering Department
Texas A&M University
College Station, TX
spath@tamu.edu
Cell: (281) 467-9276

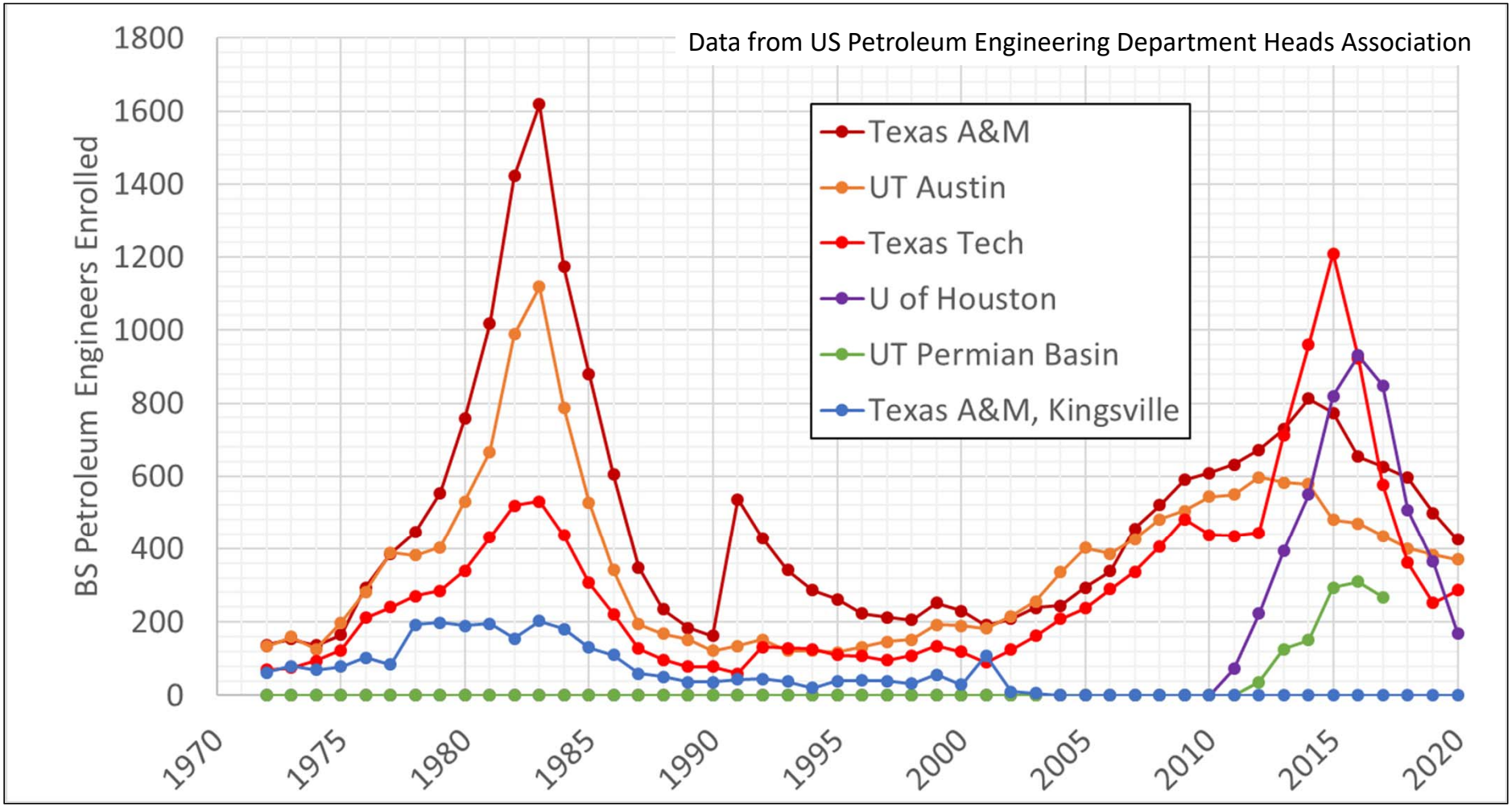
Addendum Slides
for Jon E. Olson and Jeffrey B. Spath

1. Overall BS petroleum engineering enrollment in Texas.
2. BS petroleum engineering enrollment in Texas by school.
3. Overall BS petroleum engineer degrees granted in Texas.
4. BS petroleum engineer degrees granted in Texas by school.
5. Recent petroleum engineering research funding at UT-Austin and Texas A&M, showing increasing dependence on industry funding.
6. List of companies, including majors, independents and service companies, who hire petroleum engineers and support research are petroleum engineering departments.

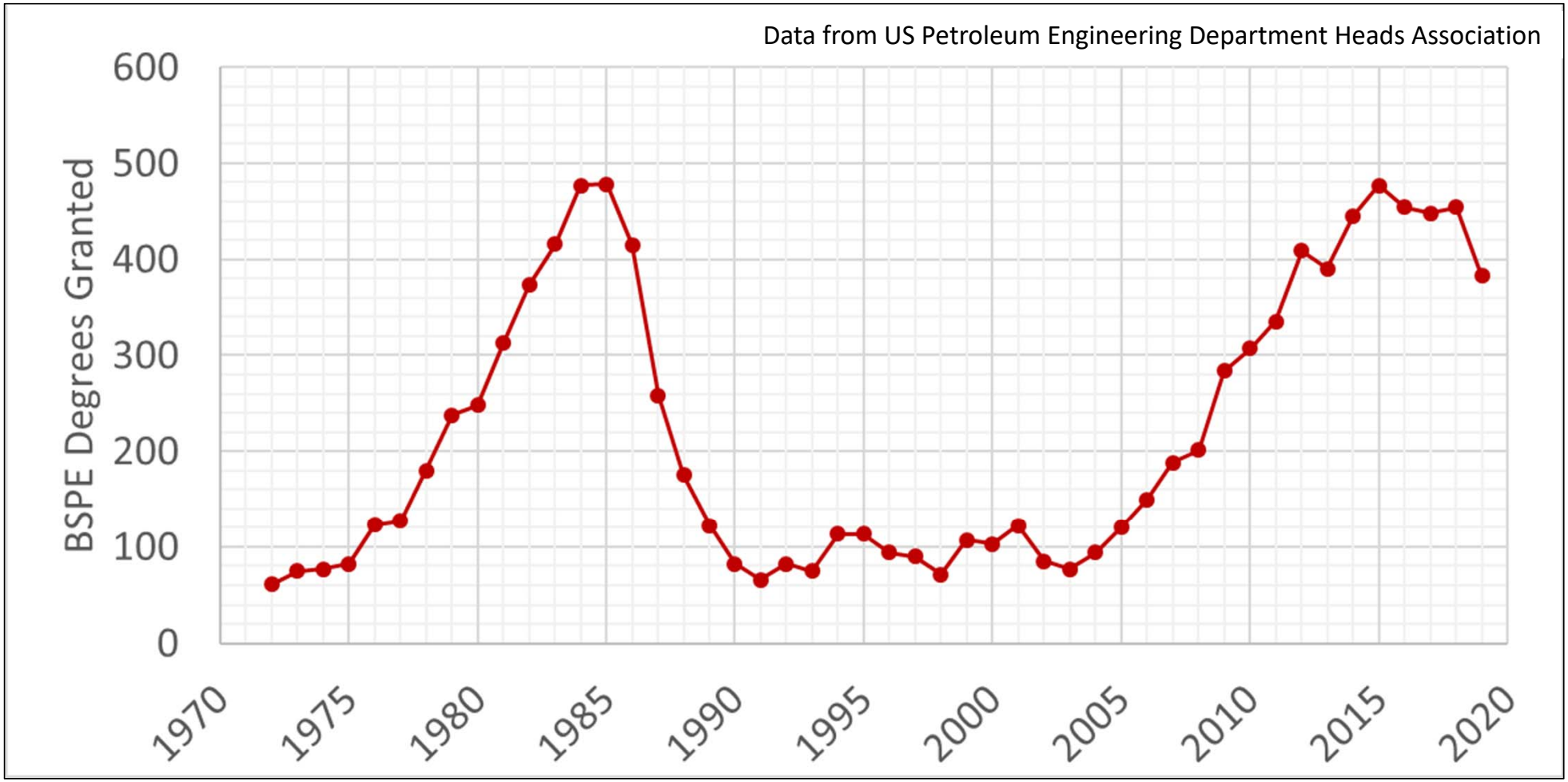
BS Petroleum Engineering Enrollment in Texas



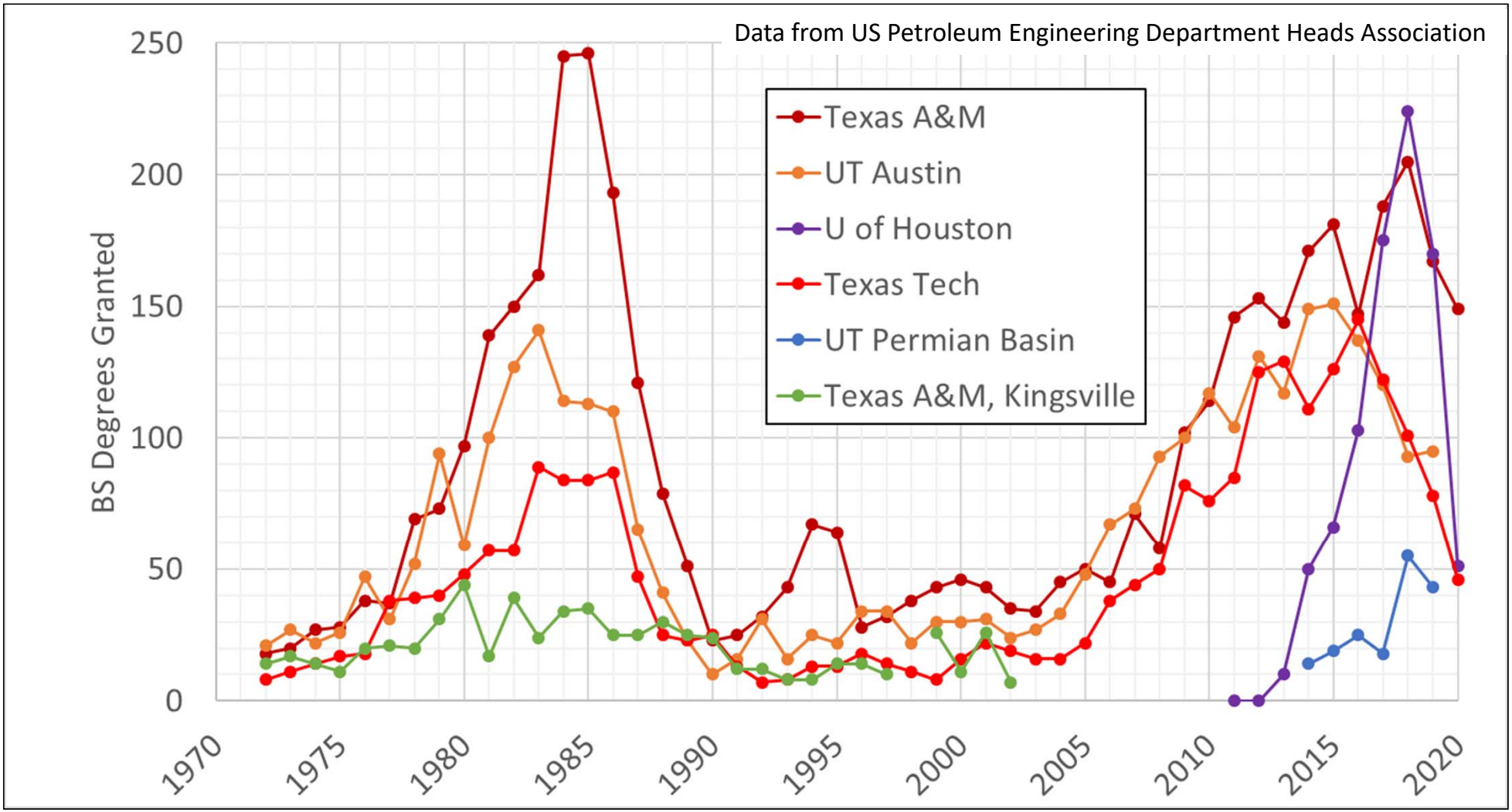
Texas BS Petroleum Engineering Enrollment by School



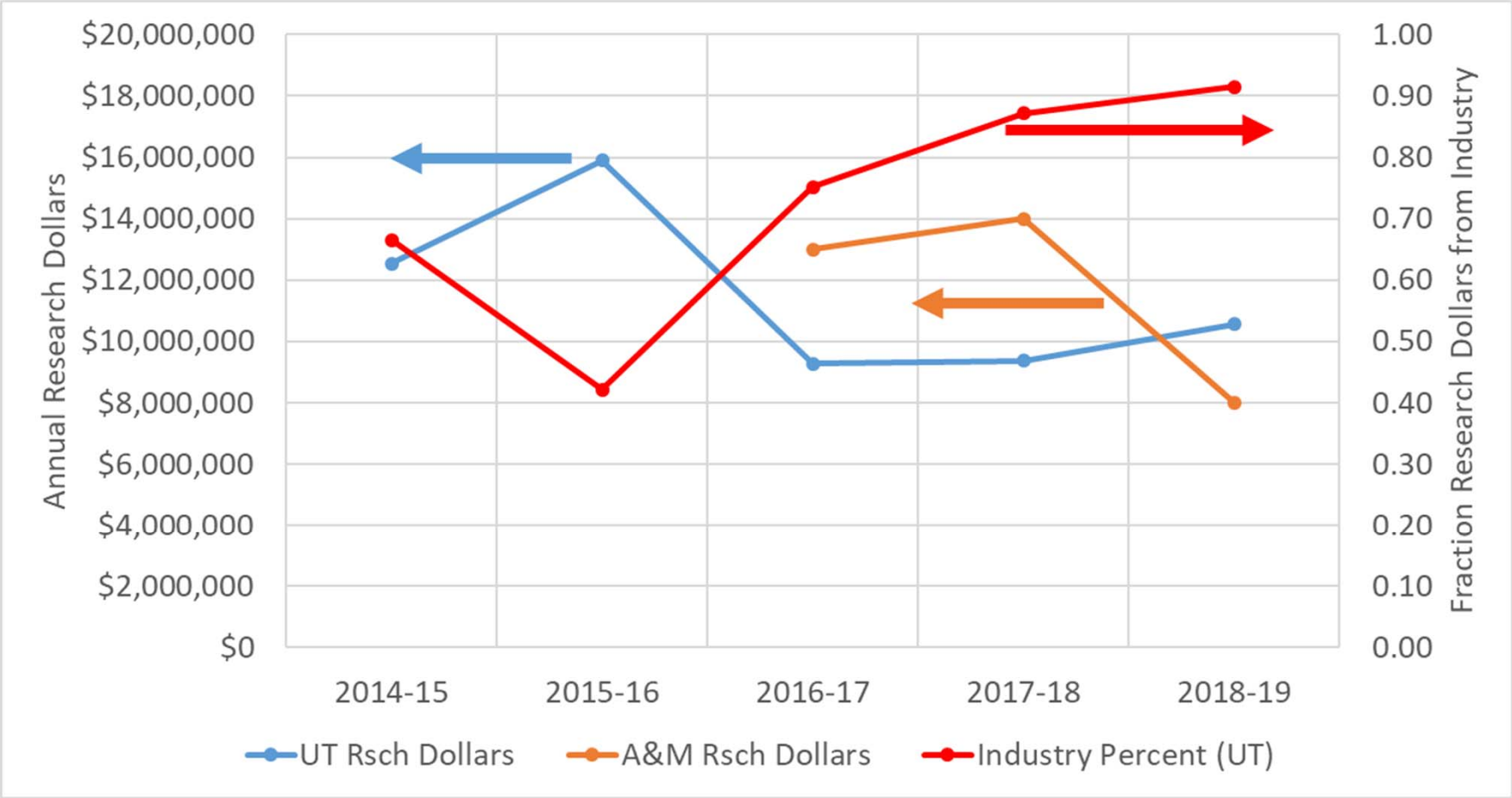
BS Petroleum Engineer Degrees Granted in Texas



Texas BS Petroleum Engineer Degrees Granted by School



University Research Funding and Increasing Dependence on Industry



A list of companies that recently supported our research and/or hired our students, most of whom operate in Texas

Baker Hughes	Intera	PDO
BASF	JACOS	Petrobras
BP	Japan Oil, Gas and Metals	Petrochina
Cargill	JOGMEC	Pluspetrol
Chevron	JOGMEC (Japan Oil consortia type)	Repsol
CNOOC	JXNippon (US division in Houstin)	Sasol
ConocoPhillips	KAO industries	Saudi Aramco
DeGolyer & McNaughton	Kinder Morgan	Schlumberger
Devon Energy	Kuwait Oil	Shell
ENI	Messer (formerly Linde)	Sinopec
Equinor	MOL	SNF
ExxonMobil	NCS Multistage (Canadian)	Southwestern Energy
Hilcorp	Nippon Oil & Gas	Total
IHS Markit	OMV	Vedanta Limited
Inpex Corporation	Oxy	YPF

From:	Haley Cochran
To:	Travis McCormick; Jeremy Hagen; Bill Black; Jason Modglin; Jared Craighead; Bryan Preston; Wei Wang; Alex Schoch; Danny Sorrells
Cc:	Kellie Martinec
Subject:	FW: Proration Hearing
Date:	Wednesday, April 8, 2020 6:09:17 AM

From: Jonathan Wente <jwente23@hotmail.com>
Sent: Tuesday, April 7, 2020 10:04 PM
To: RRC Conference <RRCConference@rrc.texas.gov>
Subject: Proration Hearing

Good Afternoon,

I have been working in the Texas oil patch the last 7 years and typically travel to Texas every three weeks for oil field work. I do not support the Railroad Commission implementing prorations. Texas has always been a free market state, which makes it such a great place to work and do business. Market fundamentals will correct the market without Railroad Commission involvement. Please don't punish the most efficient operators and mandate what is and is not economic. Operators should be left to manage their business and ensure the right wells are shut in for the right reasons. I do not wish to testify.

Sincerely,

Jonathan Wente
2620 S Gaylord St.
Denver, CO

JAMES A. BAKER III
INSTITUTE FOR
PUBLIC POLICY
RICE UNIVERSITY

The Best and Worst of Times Each Require Competitive Resolve for the Oil and Gas Industry

8 April 2020

Written testimony submitted for the Railroad Commission of Texas Virtual Meeting
14 April 2020

Prepared by

Kenneth B Medlock III, PhD
James A Baker III and Susan G Baker Fellow in Energy and Resource Economics, and
Senior Director, Center for Energy Studies, Baker Institute for Public Policy
Director, Master of Energy Economics, Economics Department
Rice University

and

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Representing the Center for Energy Studies, Baker Institute for Public Policy, Rice University

Backdrop

Since January, the daily price of WTI has peaked at $63.27/barrel and troughed at $14.10/barrel. In fact, WTI was at $46.78 on March 2, finishing the month at $20.51 on March 31, representing a decline of just over 56% in a month. The precipitous decline was triggered by a combination of factors; namely, the dramatic economic collapse induced by the COVID 19 pandemic and the Saudi-Russia price war.

The COVID19 pandemic has had a devastating effect on oil consumption. The International Energy Agency and other observers have estimated that an unprecedented 20 million b/d or more of global consumption could be temporarily lost, due to dramatic reductions of transportation and other sources of oil use. To be clear, the impact of COVID19 on consumption began to manifest prior to March, as could be seen as price declined from $63.27 on January 6 to $44.28 by February 28, representing just over a 29% decline in the first two months of 2020. Much of this was evident in the demand drop in China, with a large fraction of the decline in price occurring after the lockdown in Wuhan on January 23.

Matters were exacerbated significantly heading into March. To begin, COVID19 spread outside of China, and began to take a significant toll on demand in Europe, the US and elsewhere as economies moved into a self-induced coma in effort to slow the spread of the disease. Compounding the issue, at the OPEC+ meeting in early March, where it was largely believed that a production cut would be agreed, Saudi Arabia and Russia failed to reach an agreement on production restraint, which resulted in a price war. The rationale for the decision has been the subject of intense analysis and debate, but the end result has been a sizeable contribution of additional output (roughly 3 million b/d) to an already massively oversupplied market.

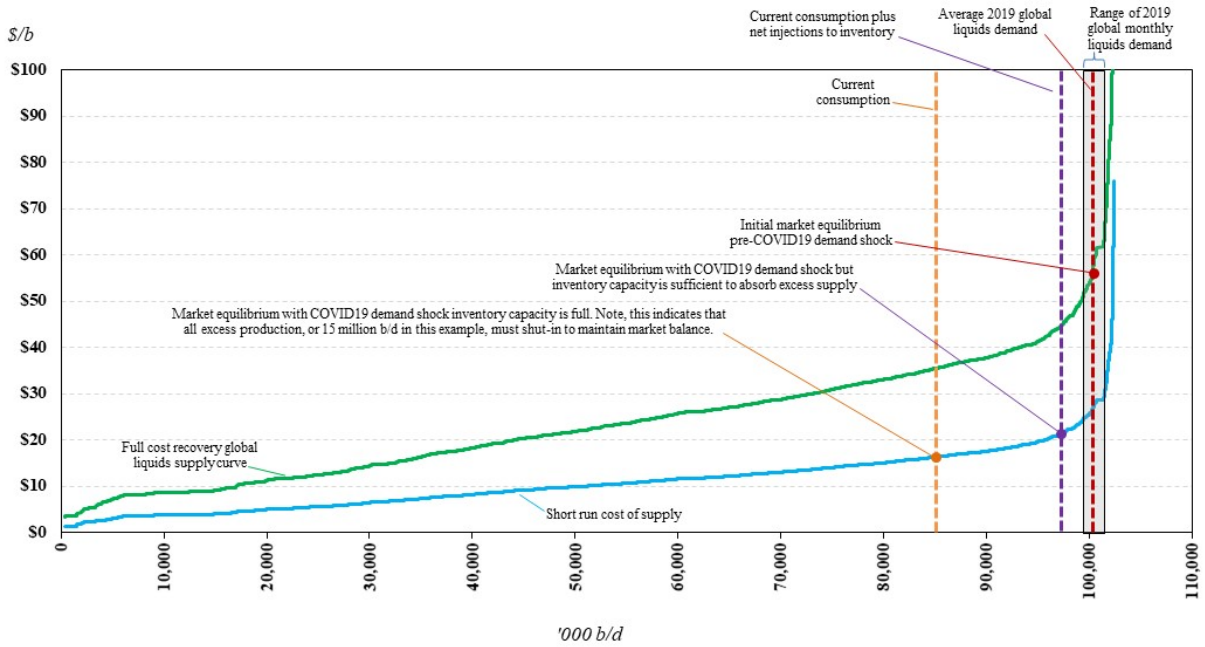
It is useful to disentangle the drivers of the collapse in price to understand how the market, and price, will adjust. Without doubt, the massive oversupply to the market is threatening the ability of storage capacity to absorb the excess production.[1] If global storage capacity is exhausted, there will be continued downward pressure on price, and economic pressures will ultimately drive the shut-in of higher cost production. Of course, there are regional constraints that will exert pressures on local prices and production as well. These constraints will emerge on a case-by-case basis, affecting local pricing and hence the commercial viability of continued production. Regardless, markets reveal this through pricing signals, which must remain unimpeded if efficient short run operating and long run investment decisions are desired.

The global liquids supply curve depicted in Figure 1 illustrates the depth and severity of the COVID19 demand shock. Before the COVID19 virus struck, the global liquids supply curve indicated full cost recovery market equilibrium in the range of $50-$65/b, depending on the level of consumption, which fluctuated monthly around the annual average (as indicated) throughout the year. If Saudi Arabia and Russia boost output as promised (an additional 3 to 3.5 million b/d, that supply would reflect levels in line with a competitive, inframarginal producer. From Figure 1, we can infer that – if sustained – such an increase in supply from low cost producers would drive a new long run market equilibrium in the $40-$45/b window,

[1] See, for example, https://www.reuters.com/article/us-oil-prices-kemp-column/column-global-oil-storage-to-fill-rapidly-as-consumption-plunges-kemp-idUSKBN21E2BR

although prices would almost certainly dip lower in the short term as higher cost supply is chased out.

Figure 1. Global liquids market equilibrium in the presence of an extreme demand shock



Sources: Rystad, IEA, JODI, BLS and author calculations

But that's not the whole story. The dramatic, unexpected collapse in oil consumption has placed the market in a very different short run situation. The extreme oversupply to the market is, in fact, largely a demand story. As the chart shows, this will drive price down to a point that still indicates market clearing, but under very different circumstances. Specifically, the demand level at which the market clears reflects consumption *plus* net injections to inventories. In a "normal" year, net injections roughly balance to meet seasonal demand fluctuations. Today, however, with so much surplus oil being produced, it's going into inventories. If storage fills, prices will fall even more to shut in higher cost production.

Of course, there are regional constraints that will exert pressures on local prices and production, but Figure 1 is meant to reference the global benchmark equilibrium rather than regional prices. But, even in the case of regional market clearing, equilibrium will reflect short-run production costs and the ability of local storage and take-away capacity to soak up excess supply. Lack of ability to move crude oil either into regional storage or to the broader market will drive local prices down until production is shut-in so that the market balances.
The overall magnitude of production that shuts in will depend on how far consumption falls relative to contemporaneous production and how rapidly storage fills. Regardless, the combined effects of these simultaneous stresses—COVID19 demand destruction and increased output from Saudi Arabia and Russia—places immense pressure on storage capacity and the global oil market.

What is the remedy?

American oil and gas companies and their employees have been hit hard. The federal government and oil-producing state governments are struggling to find a policy response. The pain to companies, workers, and families is significant and very real. However, it is important for the long run health of the industry and the country that first principles not be abandoned. The system of free enterprise that is a hallmark of the United States is based on open markets and honest competition. The system is what drove the shale revolution[2] and made the US the envy of the world. It is what put the US in the position of being the world's largest oil and gas producer. It wasn't a national champion that did that; it was independent companies, working determinedly for a competitive advantage. It would be profoundly short-sighted and ultimately counterproductive to abandon that system by colluding with OPEC or propping up the US oil sector with tariff intervention or other government interdiction. Similarly, pro-rationing would run counter to competitive market economics by impacting efficient operators along with less competitive players.

To be clear, there are times in which policy intervention will raise market efficiency, but those periods typically coincide with the realization of a market failure, or when there is a non-priced externality associated with the activities of market participants. An oversupply condition is not such a case. Rather, the condition results in market signals that culminate in a price collapse; hence the market actually provides the signal that begets a reallocation of resources toward an efficient outcome. In other words, lower prices will disadvantage higher cost producers and drive a reduction in output, even without any policy intervention. So, while especially painful in the short run for producers at the margin, market forces will drive an outcome that is most efficient, leaving the participants in a position to respond rapidly when the market turns.

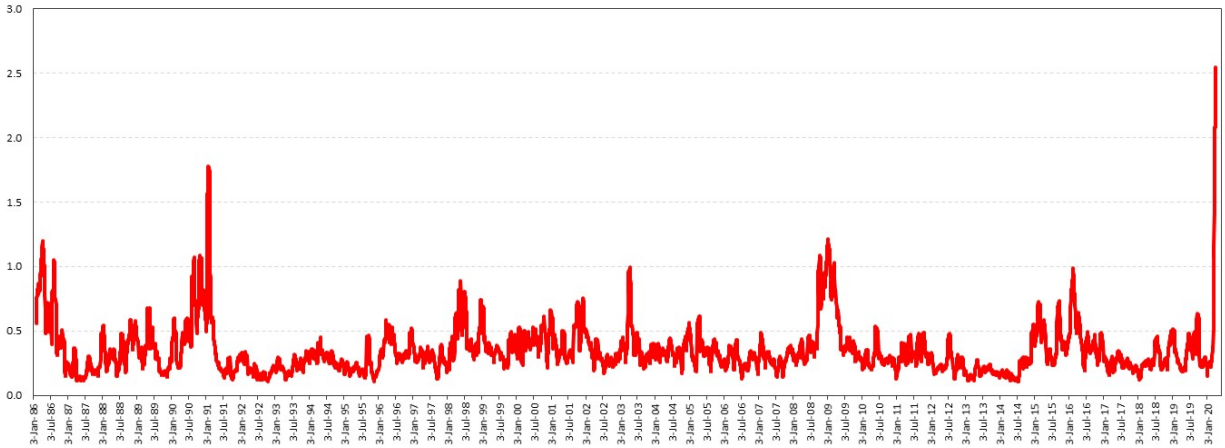
In the US system, investors take risks in the hope of earning a profit. As such, owners of companies have an opportunity to succeed, but also the opportunity to fail. The decision to enter the market through investment is determined by price and cost, with variation in each dictating the risk-reward calculus. Risk and reward are two sides of the same coin. Figure 2 indicates the daily price of oil (WTI) from January 2, 1986 through April 1, 2020 along with a measure of volatility calculated as the standard deviation of the log returns of price over the previous 30 days multiplied by the square root of 252 (the number of trading days in a year). As can be seen, the price of crude oil is anything but stable, with several episodes of extremely high volatility that coincide with periods of heightened oil market and/or economic instability (such as the collapse of oil price in 1985/86, the events surrounding the Iraqi invasion of Kuwait in 1990/91, the Global Financial Crisis of 2008/09, and the collapse of oil price in late 2014 through 2016 when OPEC did not come to agreement on quotas, to name a few). However, this does not indicate a failure of competition; rather, it indicates precisely the opposite.

[2] See https://www.bakerinstitute.org/media/files/files/94020ec4/CES-Pub-EnergySecurity-060214.pdf.

Figure 2. Oil price and annualized oil price volatility (Daily, 1/2/1986 - 4/1/2020)

WTI

WTI Prior 30-Day Annualized Volatility



Source: US Energy Information Administration, Author Calculations

Many factors influence price signals to the global market, which is significantly larger now than it was in 1986 and 2003. Global petroleum and other liquids consumption has risen from 61.5 million b/d in 1986 to 79.6 million b/d in 2003 to 100.6 million b/d in 2020. The scale of the increase in demand has required new sources of supply to enter the market, periodically stressing traditional suppliers. In turn, this has created opportunities for new entrants, especially over the last decade, which producers in the US have captured with spectacular success. The competitive nature of the US oil and gas upstream has facilitated the ability to rapidly capture profit opportunities when they presented themselves, something US policy was keen to address when the long-standing crude oil export ban was lifted in December 2015.

In general, competition reveals winners and losers, and it is effective at driving, and rewarding, efficiency and innovation. The rise of US crude oil and natural gas production over the past decade is emblematic of the US system. Of course, there are also risks, and the reality of the global market is that the conventional resources in Saudi Arabia and Russia are cheaper to produce.

Hence, seeking government support to mitigate risks, regardless of how large the black swan event that precipitates, risks setting a precedent that invites future interventions that may cut the other way or adversely impact the future investment climate. Of course, it is central to the US oil and gas industry that we not tolerate anti-competitive behavior at home or abroad any more than we do for other industries. But there are already well-established processes for bringing and judging such cases.

This begs the question, are there cases when other factors should be considered? Of course. Like the hollowing out of US manufacturing capacity a generation ago, the potential damage to the domestic oil and gas industry has economic, strategic, environmental and military implications. All of those are fair game for policymakers to consider. For example, environmental policy may seek to limit greenhouse gas emissions as well as waste by regulating the excessive flaring of natural gas co-produced with oil. In turn, this could effectively limit oil production by forcing producers to either develop gathering and take-away capacity, which raises cost and could be economically prohibitive, or simply not produce those barrels at all.

But other considerations must clearly outweigh the broader benefits of a competitive system before any government intervention is considered. How would the US look differently today if the horse-drawn carriage industry had asked for government protection from Henry Ford's Model T, with better performance, cost, and environmental impacts, and succeeded? There's plenty of experience from our own industry—for example, how coal benefitted in the 1970s and 1980s when the government restricted the use of natural gas in the power sector.

In a changing competitive environment, which the recent events affecting the global oil market clearly represent, a greater focus on ensuring and maintaining fair and open competition is critical to the long-term health of the market. Some companies will succeed while others fail, but overall, firms and investors will adapt to new realities; they – and all of us – will be better off as cost efficiency and capital discipline will be rewarded. Indeed, the ability to fail is one of the secret weapons of our system. The geologic conditions that are requisite for production do not disappear if a producer fails; when the market picks up, surviving companies and/or new entrants can produce those resources when price warrants it.

But with failure, we need heart. There are lots of things government and companies can do to help the workers manage in these difficult times. Making sure that affected workers have access to a social safety net isn't socialism; it's how we make sure the benefits of capitalism work for all of us. And getting the economy back up and running should be the focus of policy remedies – especially since this is a demand-driven crisis. It is critical to us all, and is germane to the success of the oil and gas industry.

Publicassist

From: rrcwebcontact@gmail.com
Sent: Friday, March 27, 2020 4:03 PM
To: webmaster
Cc: Michelle Banks
Subject: General Comment/Question

Follow Up Flag: Follow up
Flag Status: Completed

CAUTION: This email originated from outside of the Railroad Commission of Texas. Do NOT click links or open attachments from unknown sources without first confirming the message is legitimate. If you believe this to be a malicious and/or phishing email, please contact the ITS Help Desk at 512-463-7229. Do not respond to or forward the email, click on any links or open any attachments without guidance from the Help Desk

From: Kurt Boley
Email: kurtboley@gmail.com
Phone: 4325530518
Russia said a few minutes ago that they will join in a massive OPEC cut if the US will join. The REC can easily accomplish this with some type of 80% allowable. I remember allowables well in the 80's. To put it bluntly - we are dying out here in the Permian with our industry wiped out and the virus. I am 61 year old geologist and I will lose everything if this isn't fixed soon. Please join with OPEC to work out a deal that everyone can live with. 80% allowable won't hurt anyone. In 3-5 years it won't be necessary. Please serve Texas and the U.S. by getting over there next week. Again other than a few rich guys we are dying and more importantly HAVE BEEN FOR 15 MONTHS ALREADY. THE MONEY PULLED OUT OF HERE IN JANUARY OF 2019 due to persistent low prices. The way forward legally is clear please act. Thank you

Publicassist

From: rrcwebcontact@gmail.com
Sent: Sunday, March 22, 2020 6:20 PM
To: webmaster
Cc: Michelle Banks
Subject: General Comment/Question

Follow Up Flag: Follow up
Flag Status: Flagged

CAUTION: This email originated from outside of the Railroad Commission of Texas. Do NOT click links or open attachments from unknown sources without first confirming the message is legitimate. If you believe this to be a malicious and/or phishing email, please contact the ITS Help Desk at 512-463-7229. Do not respond to or forward the email, click on any links or open any attachments without guidance from the Help Desk

From: Kurt Boley
Email: kurtboley@gmail.com
Phone: 432-553-0518
Allowable must be reinstated until the covid19 crisis passes at least. I've been a geologist in this business for 40 years. A 10% cut to save everything shouldn't have to even be discussed. To not implement a 10% cut in production would make us fools. Do it, this is what's right regardless of what EVERYONE does. If the Saudis will do it Russia should too but if the Saudi's will cut too we have to do it. EOG's foolish stance is irrelevant- do what's needed and right for Texas and the United States.

April 14, 2020 Meeting on Oil Market Demand and Possible Responses
By the
Texas Railroad Commission

Via email to RRCconference@rrc.texas.gov

To: Chairman Wayne Christian
Commissioner Christy Craddick
Commissioner Ryan Sitton

From: Kyle McGraw, President of Trinidad Energy
Oil and Gas Operator of 100 wells and 220 bopd
In District 8A

Dear Commissioners,

We are all painfully aware of the current dire condition facing the oil and gas industry caused by the "Doubly Whammy" of the COVID-19 Pandemic and the Saudi and Russian conflict. I applaud the efforts by the Texas Railroad Commission to explore and revisit the concept of Market Demand and the consideration of what the RRC might do to be helpful to this vital Industry.

While most oil and gas producers consider themselves free market proponents and usually resent and resist government intervention, I believe the current world circumstances require a different line of thinking.

There is no free market in the oil commodity market and there hasn't been since the formation of OPEC in the 1970's. In my 37 years in the business I have experienced 5 severe busts. The Saudis and OPEC have always had control of the price of crude oil due to their large production capability.

Many Oil Operators that are in opposition to the RRC taking any action toward "proration", state that they feel the industry is "self-regulating" and each Company is making their own cuts. This may be true, but done in this adhoc fashion we do not get credit as an industry for cooperating with OPEC+. So, when our President tries to put pressure on the Saudis and the Russians he really has nothing concrete to pass along other than low prices are really hurting our domestic industry. If regulated by the RRC and followed by every other producing State we could agree to a 10% production cut, then the President could communicate something much more tangible.

When OPEC was formed the US was an inconsequential producer on the world scene. Today due our scientific ingenuity and our financial risk we have grown to be the largest producer in the world. How can we now, still expect to be treated like an inconsequential producer. The US should be a part of the world oil price conversation. Yes, we're higher cost producers than many of the other OPEC nations, but we still need to be a part of the conversation. I believe we can be a part of the conversation and not be a member of OPEC.

Creating a North American producers coalition will not solve all of our problems. OPEC has been known to cheat on their assigned production quotas and a worldwide pandemic will always be difficult to navigate but it will be much faster and more efficient than the current "adhoc" process. I know it will take months to form a coalition among American producers, but I think it is worth doing for the future decades as balancing world production with world consumption will be needed as long a there remains a hydrocarbon industry.

I believe the Texas Railroad Commission is the ideal organization to be the leader in this effort. It will clearly help in the prevention of waist and falls perfectly within the scope of the organizations mandate.

I believe the details of this type of plan will be very, very important and I would hope that this would include all other producing states and possibly Canada and Mexico, eventually. I would also hope there might be exceptions for stripper wells and marginally insignificant sized producers. I believe special focus could be placed on producers that are choosing to flare at this time, and therefore environmental improvements can be obtained at the same time.

I write this as the President of a very small independent producer in Texas that employs 6 individuals and is struggling mightily to produce our wells profitably. I am also the current Chairman of the Permian Basin Petroleum Association representing over 700 member companies. Members of our organization hold differing views on this subject and therefore I am only writing in my capacity as the owner of an independent producing company. Thank you again for your leadership and willingness to investigate the process fully.

May God bless us all and bring physical healing to our country and our world.

Kyle McGraw
President of Trinidad Energy, LLC

M. BRADFORD MOODY
815 WALKER STREET, SUITE 1440
HOUSTON, TEXAS 77002
(713) 955-6071
BMOODY@HENNEMANRAU.COM

April 6, 2020

VIA EMAIL

Chairman Wayne Christian
Commissioner Ryan Sitton
Commissioner Christi Craddick
Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78711

c/o Callie Farrar, Commission Secretary
Callie.Farrar@rrc.com

Re: Motion Requesting a Market Demand Hearing and Order by Pioneer Natural Resources U.S.A. Inc. and Parsley Energy Inc.

Dear Commissioners:

I read with great interest the letter sent to you on March 30, 2020 by Mssrs. Sheffield and Gallagher asking the Commission to re-institute market demand pro-rationing. As the CEO's of two companies whose investment decisions have contributed in no small part to the current problem with uneconomic production, perhaps they should have examined more closely the history of the oil industry and prorationing before they placed their companies in such a position that they find themselves asking for government assistance in order to survive.

Market demand prorationing is bad policy and bad economics. It's bad policy because it attempts to take the balancing of supply and demand away from the businessmen and women who are supposed to have the most complete basket of knowledge, skills and experience to make those decisions and gives it to the government. If the former Soviet Union were engaged in such an exercise, we would call it "central planning" or something worse. It's bad economics because even with the recent rise of Texas oil production, the state is not in the position that it once was to control the price of oil by artificially restricting supply.

There is no doubt that the oil industry since its infancy has enjoyed a persistent exuberance for production without regard to profit. Perhaps more than any other industry, investment in oil and gas is driven by the fear of missing out on the next big discovery balanced against the anticipated joy of rich profits if that big discovery actually comes in. Historically, geology was no help because the oil companies could not know before they dug a well whether it would be a duster or a discovery of the next supergiant. As a result, companies tend to follow the herd with their investment decisions. Independents would lead the pack and then the majors

would follow behind when the risks were thought to be better understood and therefore more manageable.

More recently, U.S. monetary policy offering extraordinary cheap money has made the assessment and pricing of risk virtually impossible, allowing unsophisticated investors to enter the arena seeking higher yet still ostensibly safe returns. Oil companies like Mssrs. Sheffield's and Gallagher's became adept at tapping into this new pool of investment capital with tales of "never a dry hole" and "just in time manufacturing" and "the next Ghawar." Even before the onset of COVID-19 and the Russia/Arab price war, the results have been nothing short of disastrous, proving that managers of private equity and their pension fund, family office and university endowment investors are often just as deserving of the "mullet" label as doctors and dentists in the heyday of West Texas wildcatting.

Mssrs. Sheffield and Gallagher may not like reaping what they have sown but that it precisely what their responsibilities as CEO's of private sector businesses require them to do. Market demand prorationing is nothing more than an ill-advised attempt to bail out the oil companies whose management and boards failed to understand the emotionally and geologically driven boom and bust cycles that are an essential characteristic of the industry. Oil companies have been one of the louder voices over the years railing against government regulation as the bane of their industry. I for one believe that their voices should be heard on this issue: get out of the way and let industry solve industry's problem.

In the end, I hope you will read your history and listen to your economists when they tell you that oil markets of the early 21st century are nowhere like the oil markets during the golden age of prorationing in the mid-20th century. The differences are almost too many to list but to name a few: (a) loss of control over Middle East supply through nationalizations and the formation of OPEC, (b) the rise of transparent futures and physicals markets, (c) the artificial constraint on foreign supply under the Mandatory Oil Import Program, and (d) the existence of pro-rationing schemes in 17 other producing states besides Texas.

With these vast changes in oil markets, the idea that a Texas-based prorationing scheme would do anything other than shoot the oil company investors, creditors, royalty owners and state tax collectors in the foot is simply absurd. In the absence of a coordinated supply withdrawal from other producers around the world, the lost revenue from withdrawing Texas production from the market would never equal whatever marginal revenue might be gained by the likely trivial increase in price resulting from that withdrawal. Ask your experts how much price benefit Texas oil producers receive for each million barrels of oil that the Commission prorates. I think the answer will surprise you and not in a way that will help the position advocated by Mssrs. Sheffield and Gallagher.

In the end, before you act, consider also the effect of prorationing on all of your constituents who are not employed in the oil business but who depend upon reasonably priced

energy for their business and home economies. It was not that many years ago that I remember our political leaders "jawboning" Arab leaders to keep their oil spigots open, especially during an election year. The price of gasoline at the pump was sometimes even considered a bellwether for election results because of its impact on the everyday lives of most Americans.

Finally, if you feel that must take the reins away from the private sector and insert yourselves forcibly into this market, I have a modest proposal for you. According to your website, at the end of FY2019, there were 6,972 Rule 32 exceptions (i.e. "flaring permits") outstanding in Texas. Thanks to these permits, uncounted billions of cubic feet of gas are literally going up in smoke. This extraordinary waste contributes to global warming, air pollution and of course, allows more oil to flow, contributing to the very problem for which Mssrs. Sheffield and Gallagher seek relief. If do something you must, revoke these permits and adhere to your statutory mission to prevent waste. I think you will be much happier dealing with oversupply in this fashion than diving into a morass that ultimately led your predecessor Judge James C. Langdon to resign from the Commission in 1977, declaring there "isn't much fun in this thing."

Many thanks for your consideration of the matters set forth in this letter.

Sincerely,

M. Bradford Moody

cc: Governor Greg Abbott
Lieutenant Governor Dan Patrick
Senator John Cornyn
Senator Ted Cruz

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served on the following as indicated below on the 6th of April, 2020.

Via Email
Docket Services
Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78711
docketservices@rrc.texas.gov
Hearingsdivision.efile@rrc.texas.gov

Via Email
Caroline Chadwick
Executive Assistant for Chairman Wayne Christian
1701 North Congress Avenue
Austin, Texas 78711
Caroline.Chadwick@rrc.texas.gov

Via Email
Jared Craighead
Chief of Staff and Legal Counsel for Ryan Sitton
Railroad Commission of Texas
1701 North Congress Avenue
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Kathleen Hayden
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1701 North Congress Avenue
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_____
M. Bradford Moody

RE: 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

Introduction

We have a ranch north of Midland with roughly 110 sections. Over the past few years, we have worked very hard to ensure good mineral development along with prudent and responsible treatment of the surface interests. With the recent developments, we are working alongside our operators for some creative solutions in order to facilitate the viability of their operations through this difficult period. We are opposed to the action being discussed on the following basis:

Reduction of 10% does not Substantive Impact Worldwide Production:

Daily oil production in Texas is closer to 4 million bbls/day than 5 and is on the decline. Global oil consumption has been at 100 million bbls/day. It has been suggested that it will drop by as much as 20% due to the virus. This drop will be temporary. Using the reduced consumption, a 10% drop in Texas production will result in a reduction of 0.5% with respect to global demand. The impact does not justify increased regulations and will not impact prices.

Minimal Industry Support:

We know of no other operators who have publicly stated they are in favor of this. Through private conversations, all Operators we have consulted voice their opposition. Exxon has come out strongly against this concept as have Chevron, Concho and Ovintiv. The Texas General Land Office, Texas Oil & Gas Association and the Texas Pacific Land Trust are each opposed to increased regulation as well.

Market is Already Correcting

We believe strongly in the market correcting itself and in fact, it has already begun to do so. In The United States, rig counts dropped from 793 to 664 in less than 30 days. That is a 27% reduction. Of the 129 rigs that were laid down during this period, 69 were in Texas. That means that Texas accounts for 53% of the rigs that were laid down in March. Texas is already doing its part. Furthermore, this reduction in new drilling will result in far more reductions in production in a shorter time period than regulations can implement and without the many unintended consequences that these regulations will create. I have attached an Enervus anlysis.

National Security Risks

Events of the past two months have brought to light the danger of placing ourselves in global alliances with non-allied countries for our essential services. America has been so successful to a large extent because Free Markets are a cornerstone of our great Constitutional Democracy. There can no longer be any doubt that Russia, Saudi Arabia and China are not our economic allies. We have no interest in tying our production with what has been referred to as OPEC++.

Summary

Our ranch is in the heart of the Permian play and has been in the family for almost 100 years. We are committed to letting market forces determine the rates and viability of each oil and gas company rather than increasing burdensome regulations and letting government agencies pick the winners. The changes suggested will not effectively impact global pricing. Apart from the plaintiffs, we have found no serious industry support for this measure. The market is already adjusting and the reduction in drilling operations will, through natural forces, reduce the oil output in a shorter, more efficient manner than any bureaucracy would. Finally, it is dangerous to give foreign countries leverage over the Great State of Texas and consequently, the United States. The best playing field is the level playing field. THAT is the American Ideal.

Respectfully Submitted,

John W. Mabee
Mabee Ranch Royalty Partnership
6 Desta Drive, Suite 5500
Midland, Texas 79705 (432) 682-1013
John.Mabee@MabeeRanch.com

Lee M. Tillman
Chairman, President and
Chief Executive Officer

Marathon Oil Corporation
5555 San Felipe Street
Houston, TX 77056
Telephone 713-296-4128
Email: lmtillman@marathonoil.com

April 8, 2020

VIA EMAIL: RRCconference@rrc.texas.gov

Chairman Wayne Christian
Commissioner Christi Craddick
Commissioner Ryan Sitton

Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78711

RE: 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

Dear Chairman Wayne Christian and Commissioners Christi Craddick and Ryan Sitton,

Thank you for the opportunity to provide remarks on the issue of oil proration that is currently before the Railroad Commission of Texas (RRC or Commission).

Marathon Oil is an independent E&P company, proud to be based in Houston, Texas. We focus on U.S. unconventional resource plays and are active in the Eagle Ford, Bakken, STACK/SCOOP and Permian.

In short, we support free markets and oppose actions suggested by the petitioners that aim to prorate domestic production in the great State of Texas.

We urge you to continue to support a free market that enables independent E&P companies—big and small alike to react to global market conditions. Texas consumers—and consumers around the world—benefit from a free market system that promotes efficiency and competition.

As a member of the Texas Oil & Gas Association and the American Petroleum Institute, we join our trade associations and others in opposing proration in Texas.

We do not believe proration in Texas would have the desired effect—or any meaningful effect—on global oversupply, and would only serve to disadvantage Texans, for four key reasons.

(1) The purpose of proration is to regulate or limit production. According to the most recent data from the EIA, production cuts are already occurring to the extent that the US will return to being a net importer in 3Q2020. EIA predicts that there will be a reduction of 1.8 mmbbl/d or 14% between 4th quarter of 2020 as compared with 4th quarter of 2019 with no assumed proration by the State of Texas. That's the free market at work—letting natural forces incentivize producers to cut the least profitable barrels.

(2) Proration by the RRC will only result in the reduction of production in Texas, and in a manner not dictated by market economics. As a result, capital will simply be invested elsewhere, harming the Texas economy in the long term and failing to impact global oversupply in the short term. While companies are contractually and commercially committed to many projects that will go ahead, it is the future investment activity that will be reconsidered. When fiscal or regulatory aspects impede value delivery or increase risk, capital migrates away to other basins.

(3) Proration by company also helps to shelter inefficient companies, rather than letting market forces drive behavior. It protects weaker companies from true competition, increases inefficiency and again, harms the Texas consumers. In essence, it artificially allows less economic barrels into the supply mix.

(4) The RRC has only ever implemented proration at a lease level, and that was over 40 years ago. Implementation at a producer level—without precedent—would likely require significant time and resources, making any proration impractical and untimely to address the current situation. Further, contrary to the assertion that operators without regulatory oversight will reduce production in an "ad hoc" manner, we would argue that operators are in fact in the best position to make determinations about which barrels are and are not economic.

In addition to the practical argument that Texas proration will not reduce global oversupply, and is therefore an ineffective solution, there are also policy reasons proration should not be employed.

There have been suggestions that if all the oil producing states act in concert, those states would be able to actually address more of the global oversupply. However, in reality, not all states have the ability to implement proration like Texas, and the RRC would have no ability to ensure other states followed their regulations to prorate.

In the future, proration laws could also be misused by special interest groups as a powerful weapon to restrict operations for reasons other than preventing waste or protecting correlative rights.

The shale revolution would not have begun here in Texas without free-market principles. We are facing a unique set of challenges, but the oil and gas industry will emerge from this

stronger than before. Artificial market manipulation by Texas will not help build this strength. The best solution to our current crisis is to get the world healthy and back to work, while not abandoning the free market principles that have created US energy independence.

Again, I urge you to vote against proration in Texas.

Thank you for the opportunity to comment. I would also like to request the opportunity to present live testimony before the commission on April 14, 2020.

Respectfully,

Lee M. Tillman
Chairman, President and CEO

Publicassist

From: Marilyn Craaybeek <mcraaybeek@yahoo.com>
Sent: Friday, March 27, 2020 5:40 PM
To: Publicassist
Subject: Fw: The screwing of small oil and gas operators

Follow Up Flag: Follow up
Flag Status: Completed

----- Forwarded Message -----
From: Marilyn Craaybeek <mcraaybeek@yahoo.com>
To: R.J.Desilva@rrc.texas.gov <r.j.desilva@rrc.texas.gov>
Sent: Friday, March 27, 2020, 05:38:00 PM CDT
Subject: Fw: The screwing of small oil and gas operators

----- Forwarded Message -----
From: Marilyn Craaybeek <mcraaybeek@yahoo.com>
To: publibassist@rrc.texas.gov <publibassist@rrc.texas.gov>
Sent: Friday, March 27, 2020, 05:34:59 PM CDT
Subject: The screwing of small oil and gas operators

So, there is no help for the small oil and gas operators in Texas. Is oil going the way of the dodo bird or are you just going to let Exxon take it all over and we are screwed? I cannot pay my bills right now or even eat and in my whole life I never though I would vote any way but Republican. But after the screwing we got on this compensation package which helped everyone but oil and gas I AM VOTING STRAIGHT DEMOCRAT from here on out. What have I got to lose. You just destroyed my life. I am white, a woman and 75. This was my retirement and I will die poor.

Thanks you traitors.

Marilyn Craaybeed

From: Bruchman, Mark <Mark.Bruchman@ovintiv.com>
Sent: Tuesday, April 7, 2020 12:48 PM
To: RRC Conference <RRCConference@rrc.texas.gov>
Subject: Texas Oil Proration

I, as a Texan & nearly 40-yr career in the O&G industry, oppose the proration measure currently before the RRC. I have seen many ups and downs in the industry & it tends to weed out the weaker companies and right size the larger ones to be more competitive. Let the free market dictate the outcome as this is the basis for the greatest economy the world has ever seen. The state and federal government can mandate rules and guidelines, however, they should not be allowed to have any additional influence on a private companies business decisions and corresponding bottom line.

I don't know the individuals involved in this proposal, but I will guarantee those in favor of it are definitely politically motivated & favor more government control of the private sector. That's the much larger issue.

Mark Bruchman
2529 Reba Dr.
Houston,TX
Representing self, employee of Ovintiv

From:	Haley Cochran
To:	Travis McCormick; Jeremy Hagen; Bill Black; Jason Modglin; Jared Craighead; Bryan Preston; Wei Wang; Alex Schoch; Danny Sorrells
Cc:	Kellie Martinec
Subject:	FW: Comments for Hearing-Pioneer Natural Resources and Parsley Energy petition for restricted allowables
Date:	Wednesday, April 8, 2020 1:58:31 PM

From: Mark Stanger <mark@banner-resources.com>
Sent: Wednesday, April 8, 2020 1:57 PM
To: RRC Conference <RRCConference@rrc.texas.gov>
Cc: Callie Farrar <callie.farrar@rrc.texas.gov>
Subject: Comments for Hearing-Pioneer Natural Resources and Parsley Energy petition for restricted allowables

To: Texas Railroad Commission

Thank you for giving me the opportunity to voice my thoughts and opinions during this Texas Railroad Commission (TRCC) hearing. This is a very difficult time for very many Americans and Texans. The impact of demand destruction in the energy market is having devastating financial impacts on producing companies, mineral owners, service companies, other businesses that rely on the energy industry, employees, families and unrelated government agencies that depend on tax revenues from oil and gas. I believe that government action should be taken to address and correct many of the inequities and damage that is being done as a result of the covid19 outbreak and the government intervention on commerce in Texas and the United States to address the spread of the virus.

I am a believer in free enterprise and markets. However, this current environment is not a free market. Governmental orders have restricted travel, commerce and issued sheltering in place orders that affect many people in Texas, the United States and abroad. These actions have had huge impacts on the energy market. Governmental action should be taken to address the consequential outcomes of those orders.

The result of these actions began as a collapse in product prices due to the reduction in fuel use from restricted air traffic, automobile use, and transportation in general. This financial impact of price reduction has been partially mitigated through hedging by many companies. However it still leaves many parties vulnerable to the impacts of these artificially imposed demand reductions and the subsequent collapse in prices. In addition to price collapse, market demand reduction has more recently resulted in cancellation of product purchase contracts by the downstream purchasers. If

this environment is left unchecked it can and most likely will lead to discriminatory supply purchases by downstream companies that control the market. For example, integrated oil companies who control the downstream market and also own production can be in a position to advantage their companies relative to other companies that are seeking to sell their products. And now it is being reported that foreign companies, such as Aramco are seeking to increase imports to US markets which will further damage our domestic producers ability sell products.

Because of these issues, I support Pioneer Natural Resources and Parsley Energy's petition for the TRRC to impose market based reduced allowables on a lease basis. I believe the TRRC should seek to do its part to help restore balance in the marketplace that other government orders have disrupted. The TRRC has the ability and jurisdiction to do this and has done it in the past. Reduced allowables should help mitigate discriminatory purchase practices by sharing the burden of this reduced market across all producers in a non-discriminatory manner. I also believe that the RRC should seek to ensure that product purchasers are opening markets and making purchases from producers on a non-discriminatory basis as well.

Although it is probably not within the jurisdiction of the TRRC, I believe that some governmental action should be taken during this artificial demand restriction period to protect domestic producer's ability to access domestic markets. This can be accomplished by imposing import restrictions on foreign crude. For many years there were restrictions on US producer's ability to export oil in order to protect the domestic fuel market. This was only lifted when the US production level was increased to a point that US supply exceeded the needs of the domestic fuel market. I believe that similar restrictions should be put on imports to protect domestic producer's access to domestic markets just as the opposite was imposed on producers to protect downstream fuel markets.

The energy industry is critical to the economic stability of the state of Texas and the United States of America. I believe that Texas being the largest producer of oil in the United States, should lead this country in fighting the consequential results that this virus outbreak has imposed on the energy industry and the oil market in particular. Thank you to the TRRC for its continued leadership and courage to protect all interested parties in the energy business and ensure that the energy industry is here to serve the state of Texas and the United States of America.

Mark Stanger
Banner Resources LLC
5151 Beltline Rd, Suite 360
Dallas, Texas 75254
Off: 972-934-0081
Cell: 214-802-9777
mark@banner-resources.com
website: banner-resources.net

Subject: FW: Oil and Gas Allowable Reductions
Date: Wednesday, April 8, 2020 1:19:43 PM

From: Wayne Christian <wayne.christian@rrc.texas.gov>
Sent: Wednesday, April 8, 2020 9:45 AM
To: RRC Conference <RRCConference@rrc.texas.gov>
Subject: FW: Oil and Gas Allowable Reductions

From: Mark Stanger <mark@banner-resources.com>
Sent: Tuesday, March 31, 2020 10:33 AM
To: Wayne Christian <wayne.christian@rrc.texas.gov>
Subject: Oil and Gas Allowable Reductions

Mr. Christian,

I am asking you to and support the RRC to set reduced market based allowables for oil and gas production in Texas. This is the only way to achieve a fair and equitable treatment to all interested parties that include producers, mineral owners, service companies, banks and all of the small businesses, employees and families that depend on the energy industry. I understand proponents are concerned about ensuring we have a free market. However currently we do not have a free market. We have a war going on with an enemy that is strangling our nation and the world. That enemy will ultimately be defeated however we need to ensure that we have a healthy economy and country when this war is over. The Texas RRC can do its part to ensure that this war is won on all fronts including having as healthy an energy industry as possible. I am also concerned about the inequities that will be involved in how oil and gas is purchased. This type of environment can lead to too discrimination and potential profiteering in the marketplace. This price collapse also affects the tax revenues of the state that help support the people of this state. Severance taxes, sales taxes and advalorem taxes are important to many parties who are not in the industry and they need to be protected as well. Many of the hospitals and government agencies that are fighting this war on the front lines are partially funded by revenues from the energy industry.

After normal market demand comes back into place there will be a decision of what oil and

gas wells should be producing, but it needs to take place in a rational normal market demand environment. Not in the situation we are in now.

I encourage your continued leadership in the RRC and I am hopeful that other states will follow the lead of the State of Texas along with you for the good of our country.

Thank You

Mark Stanger
Banner Resources LLC
5151 Beltline Rd, Suite 360
Dallas, Texas 75254

Subject: FW: Oil Proration
Date: Wednesday, April 8, 2020 11:46:44 AM

From: Wayne Christian <wayne.christian@rrc.texas.gov>
Sent: Wednesday, April 8, 2020 9:31 AM
To: RRC Conference <RRCConference@rrc.texas.gov>
Subject: FW: Oil Proration

From: Marshall Tillman <tillmanktc@sbcglobal.net>
Sent: Thursday, April 2, 2020 4:58 PM
To: Wayne Christian <wayne.christian@rrc.texas.gov>; Christi Craddick <Christi.Craddick@rrc.texas.gov>; Jared Craighead <jared.craighead@rrc.texas.gov>
Subject: Oil Proration

Dear Commissioners,

I have read where the RRC will commence hearings to determine the need for oil proration as a means to bring the supply/demand equation back into some semblance of order. As a producer and operator in the State of Texas since 1992, I am requesting that you not institute this policy on the States industry. Perhaps a more reasonable answer is to cease flaring. This is suggested for numerous reasons, but primarily as a means to reduce the current over supply of oil. Secondly, by ceasing flaring the RRC will be taking a positive step toward taking away a huge hammer those opposed to hydrocarbons has. This hammer will be used to beat our industry mercilessly in the political/public arena. Thirdly, we are using a rule from the early 1900's in 2020. The gas being flared is a precious natural resource that is being wasted. The RRC's number one charge is to prevent waste. Finally, this wanton over drilling has crushed the industry's small independent operators.

This may seem be harsh to those who are currently implementing this practice, but, they are the ones who created the current over supply by reckless drilling for a commodity we're awash in. I have said for years "we drill ourselves out of prosperity every time"! My first experience with this was in 1982 then 1986 and so on. We have a boom and then a bust. A never ending cycle. What's the common denominator? Lust for money which results in over drilling and the bust that follows. Never

is there any thought of what the outcome will be. By eliminating the flaring component more prudent business decisions will have to be made. Thus drilling and development of our States natural resources can and will transpire in a more sensible manner.

Thank for your time and thoughtful consideration,

Marshall Tillman
President
Kornye-Tillman Company
P K Gathering and Oilfield Services, Inc.
KT Services, LLC
817.763.9424 office
817.832.4338 cell

Subject: FW: Pioneer Natural Resources/Parsley Reasonable Demand Hearing
Date: Wednesday, April 8, 2020 6:06:00 AM

From: michael collier <michael75205@yahoo.com>
Sent: Tuesday, April 7, 2020 8:46 PM
To: RRC Conference <RRCConference@rrc.texas.gov>
Subject: Pioneer Natural Resources/Parsley Reasonable Demand Hearing

Michael D. Collier

5816 Grassmere Land Suite 30
Dallas, Texas 75205

214 256 5930

Self

Do you seriously want to Partner with OPEC?

I Trust TRUMP! Tariff on ALL IMPORTED OIL INCLUDING CANADA.

We will just have to tough it out until the TARIFF's ARRIVE. NO DEAL W/ YOU or OPEC!

Buy a Submarine!

Publicassist

From: Milton Bishop <mgbishop34@swbell.net>
Sent: Sunday, March 22, 2020 6:30 PM
To: Publicassist
Subject: Prorating oil/gas

Follow Up Flag: Follow up
Flag Status: Flagged

With the world in a turmoil, and going to effect the petroleum VERY severly I think it is about to begin proration again.

Many years ago the RRCT set allowables for oil and gast, restricting pobuction to 7 or 8 days a month,----We are about there now.

A petroleum glut is going to be a very hard dilemma to cope with, storage reservoirs are getting full, shipping is getting close to shutting down, refineries are going to be cut back very severly.

The RRCT used to monitor this very closely, and, should do so again.

My opinion,
texas

Milton G. Bishop
Richardson,

ph: 972 690 6118

April 8, 2020

Chairman Wayne Christian
Commissioner Christi Craddick
Commissioner Ryan Sitton
Railroad Commission of Texas
P.O. Box 12967
Austin, Texas 78711-2967

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

Dear Chairman Christian, Commissioner Craddick, and Commissioner Sitton:

On behalf of Murchison Oil and Gas, LLC ("Murchison"), thank you for the opportunity to submit a written response to the subject motion in lieu of testifying. Murchison writes this letter to respectfully encourage the Texas Railroad Commission ("RRC") to exercise its authority to prorate oil production on a short-term, temporary basis to meet reasonable market demand.

We agree that the macro environment created after the breakout of COVID-19 is unsustainable at all levels, and that it will profoundly damage the US economy, particularly the oil and gas industry, for years to come unless we take imminent measures. On top of that, international producers have acted in order to gain market share, triggering a staggering fall in WTI. The solution is not easy, but there is one.

The shock in the demand for hydrocarbons has created a huge surplus of oil. It is our understanding that in the aftermath of the virus, there will be a 20% decline in oil demand. If we do not want to destroy thousands of jobs across the oil patch in Texas and other states, we need to cut production, in order to recover WTI prices that support the industry by creating an environment that yields profitable wells across US oil fields. If we do not react quickly, we will see continued destruction of value in our industry.

We applaud the fact that President Trump and RRC have leaned into the problem and have spearheaded a very helpful and encouraging, dialogue between the key international producers—the ones that move the needle. These negotiations will not end up prosperous if US producers do not participate, cooperate, and cut production, in order to achieve the ultimate goal—to drill wells in a favorable pricing environment.

Murchison cherishes a free market with few restrictions on production, but in this case, we understand that we have to be pragmatic as an industry. So, if the proposal is framed, at a high level, to cut 1mmb/ day of the circa 5mmb/ day that Texas produces (hence, a 20% cut) prorated equally among all the producers until September 2020—Murchison is in favor and seconds the motion.

If these cuts come to fruition, it is our understanding that the cuts should be analyzed on a case by case basis, since each producer has a unique footprint. Net cuts must be implemented ad hoc to each individual producer, and any future changes in legislations in other states must also be taken into consideration on how they affect producers in Texas.

I also want to thank Parsley and Pioneer for being the harbingers of such a helpful exertion, and for the RRC to listen to my humble opinion.

Respectfully,

J.D. Murchison III
President

From:	Haley Cochran
To:	Travis McCormick; Jeremy Hagen; Bill Black; Jason Modglin; Jared Craighead; Bryan Preston; Wei Wang; Alex Schoch; Danny Sorrells
Cc:	Kellie Martinec
Subject:	FW: Say NO to Prorationing!
Date:	Wednesday, April 8, 2020 5:57:41 AM

From: Nathan Brown <Nathan.Brown.300198702@p2a.co>
Sent: Tuesday, April 7, 2020 5:26 PM
To: RRC Conference <RRCConference@rrc.texas.gov>
Subject: Say NO to Prorationing!

Dear Texas Railroad Commission,

Dear RRC,
As a Midland based O&G producer, we oppose prorationing. We believe that the market will take care of any issues regarding excess supply via pipeline shut in orders, which are already happening, and increased differentials to index prices, which have already pushed the realized price for oil well below the WTI index.

Regards,
Nathan Brown
Champion Lone Star Operating, LLC
1030 Andrews Hwy
Midland, TX 79701
--

NGP

2850 N. HARWOOD, 19TH FLOOR, DALLAS, TX 75201

TELEPHONE: (972) 432-1440 FACSIMILE: (972) 432-1441

April 7, 2020

Via Email

Chairman Wayne Christian
Commissioner Ryan Sitton
Commissioner Christi Craddick
Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78711

c/o Callie Farrar, Commission Secretary
Callie.Farrar@rrc.texas.gov

Re: **Oil & Gas Docket No. OG-20-00003167;** To Consider the Motion for Commission Called Hearing on the Verified Complaint of Pioneer Natural Resources U.S.A. Inc. (665748) and Parsley Energy Inc. (642652) to Determine Reasonable Market Demand for Oil in the State of Texas

Dear Chairman Christian, Commissioner Craddick, and Commissioner Sitton:

On behalf of the Partners of NGP Energy Capital Management, LLC ("NGP"), we write this letter to respectfully urge the Railroad Commission to exercise its authority to prorate oil production on a temporary basis to meet reasonable market demand.

Throughout its more than 30 year history, NGP has organized investment funds with more than $20 billion in cumulative equity commitments for the purpose of making strategic investments in the energy industry. We and other energy private equity funds headquartered or with substantial presences within the State of Texas are currently among the largest sources of equity capital to the Texas oil and gas industry. Currently investment funds managed by NGP have several investments in companies with substantial assets within the State of Texas that collectively produce more than 150,000 barrels of oil equivalent per day.

Today the Texas oil and gas industry is suffering from a widespread downturn that has destroyed billions of dollars of capital and has already had serious repercussions on an industry that has been the backbone of Texas jobs, growth and success. Given that Texas oil production represents approximately 42% of the total oil production of the United States, we believe the Railroad Commission is in a unique position to provide an important leadership role on this issue.

In this environment, we ask that the Railroad Commission exercise its policy and regulatory leadership to help stabilize current conditions. The Texas oil and gas industry is market driven and

has already reacted quickly to cut capital expenditures dramatically. In addition to capital expenditure cuts of more than 80%, several NGP portfolio companies have already initiated production curtailments given the current market conditions. However, these are unusual times that call for unusual measures, and the leadership of the Railroad Commission in combination with these free market forces would undoubtably have a critical impact on the future of our industry.

We urge the Railroad Commission to issue a temporary proration order that would reduce production throughout Texas on a fair and equitable basis and to encourage other states to do the same. Such a proration order should be based upon respective companies' production prior to the onset of the current downturn and terminate once the market rebalances within historical norms. A temporary proration order from the Railroad Commission is a necessary step to combat current global conditions, which do not reflect a rational, free market. In order to protect the economic strength and security of Texas and the United States, we respectfully request that the Railroad Commission utilize its statutory authority to provide needed stability to the oil and gas industry, related industries, and their employees.

Respectfully submitted,

Tony R. Weber, Co-Managing Partner

Christopher G. Carter, Co-Managing Partner

Cc: Docket Services, Hearings Division
Hearingsdivision.efile@rrc.texas.gov

Subject: FW: oil and free markets
Date: Wednesday, April 8, 2020 11:39:07 AM

From: Wayne Christian <wayne.christian@rrc.texas.gov>
Sent: Wednesday, April 8, 2020 9:04 AM
To: RRC Conference <RRCConference@rrc.texas.gov>
Subject: FW: oil and free markets

From: Daryl L. Fowler <daryl.fowler@co.DeWitt.tx.us>
Sent: Tuesday, April 7, 2020 5:50 PM
To: Wayne Christian <wayne.christian@rrc.texas.gov>; Ryan Sitton <ryan.sitton@rrc.texas.gov>; Christi Craddick <Christi.Craddick@rrc.texas.gov>
Cc: Judge Wade Hedtke <wade.hedtke@co.karnes.tx.us>; Judge Patrick Davis <davispatrick100@yahoo.com>; 'Geanie Morrison' <Geanie.Morrison@house.texas.gov>; lois.kolkhorst@senate.texas.gov; john.cyrier@house.texas.gov
Subject: oil and free markets

Dear Honorable Commissioners:

I have been reading about the growing sentiment to impose proration limits on oil production in Texas and would encourage you individually, or as a collective body, not to dig those old rules up from the past.

Each of you were elected by the conservative movement in Texas and we trust you to act in ways that look for market solutions.

My part in this is small. I am the county judge of an eagle Ford Shale producing county. Eighty-three percent of DeWitt County's property tax revenue comes from producing minerals. Production tax revenue generated for the State of Texas exceeds more than $1.5 billion since 2013.

We've been in this low price predicament before. Market solutions are the best solution. As evidence, I offer that companies I am in constant contact with are already making adjustments to

their capital spending plans in order to slow the growth of production.

Additionally, you may gain some value from the investment-related piece I found on the Internet today that was produced by The Motley Fool. I hope the RRC security servers allow the link to function, but I will cut and paste the article which offers anecdotal evidence of corporate decision-making taking place ahead of any draconian measures emanating out of an agency such as the Texas Railroad Commission.

https://www.fool.com/investing/2020/04/07/why-oil-stocks-are-in-rally-mode-today.aspx

Excerpt:

One of the main catalysts for the rise in oil prices and the shares of producers was a report that U.S. shale drillers are about to start cutting output. Continental Resources executive chairman Harold Hamm told S&P Global Platts that he believes U.S. producers will voluntarily slash their production by 30% to 35% in the near term. However, he said that this wasn't in response to a coordinated effort with OPEC but because there isn't enough demand or storage space.

Hamm's company followed through on those comments by being the first U.S. producer to reduce its production. Continental expects to slash its output by 30% in April and May. That's in part because a ***CVR Refining*** *(NYSE:CVI) facility in Oklahoma asked the company to reduce the amount of oil it supplies to the refinery by 25% due to lack of demand. Before voluntarily reducing its output, Continental anticipated that its production would naturally decline by about 5% this year because it had cut its drilling budget and wouldn't complete enough new wells to offset the lost output from legacy ones.*

Meanwhile, ExxonMobil joined the growing number of producers that have slashed spending. The oil giant cut its capital budget by $10 billion, or 30%, and also aims to reduce its operating expenses by 15%. While Exxon isn't joining Continental in reducing its output, the budget reduction will affect its production in the coming months because the company won't complete as many new wells in the Permian Basin as initially expected. It predicts its output in that region will decline by 15,000 barrels of oil equivalent per day, with an even deeper cut coming in 2021, given the timing of its well completion program. However, the company plans to maintain its dividend. That's something Continental isn't doing; it suspended its payout today.

The Permian production of Diamondback Energy and Apache will also fall this year due to previously announced spending cuts. Apache has stopped drilling in the region. Meanwhile, Diamondback expects its oil production to fall by 3.5% this year as it takes a one-to-three-month break on completing new wells in the region. However, given the industry's storage issues, it's possible that Apache, Diamondback, and other producers in that Texas oil basin will reduce their output either voluntarily or by regulatory decree.

Murphy Oil has also cut its spending and activity levels in response to lower oil prices. It initially slashed its capital budget by 35% by delaying some projects in the Gulf of Mexico as well as suspending activity in the Eagle Ford Shale. However, it cut capital spending again this month, reducing it by another 18%, 46% overall. Murphy also slashed its dividend in half, joining Apache, which cut its payout by 90% last month to conserve cash.

In conclusion, please stand for conservative principals; let market forces work; and repel the impulses coming from public or private operators looking for a bailout because there business models are based on too much debt leverage and too little hedging.

Sincerely yours,

Daryl L. Fowler
De Witt County Judge
361-275-0916 office
361-275-0919 Fax

DUE TO THE HIGH VOLUME OF EMAILS RECEIVED DAILY, PLEASE DO NOT ASSUME YOUR EMAIL HAS BEEN READ IN A TIMELY MANNER. IF A TIMELY RESPONSE IS REQUIRED, PLEASE CALL MY OFFICE AND MAKE THE URGENCY KNOWN TO MY EXECUTIVE SECRETARY.

April 8, 2020

Filed via e-mail to: RRCconference@rrc.texas.gov
Chairman Wayne Christian
Commissioner Christi Craddick
Commissioner Ryan Sitton
Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78701

Re: **Oil & Gas Docket No. OG-20-00003167;** To Consider the Motion for Commission Called Hearing on the Verified Complaint of Pioneer Natural Resources U.S.A. Inc. (665748) and Parsley Energy Inc. (642652) to Determine Reasonable Market Demand for Oil in the State of Texas

Dear Chairman Christian, Commissioner Craddick, and Commissioner Sitton:

The Texas Natural Resources Code places a clear duty on the Commission to prevent physical and economic waste. There is no question that the Commission has the resources and the staff to successfully and efficiently implement whatever order the Commission finds necessary to prevent waste.

Much of the conversation to date regarding the need for a proration order has focused on the order as a mechanism to prevent economic waste. Certainly, the prevention of economic waste is a critical goal and clearly part of the Commission's statutory responsibility, but the Commission's focus must also be on the prevention of physical waste. The current environment will cause physical waste, as operators who cannot find a market and cannot store and transport their oil must prematurely abandon projects, wasting available oil.

This process has already begun. Operators have been told to shut-in production due to lack of transportation and storage capacity. Without a Commission order, this process will not be well considered, as operators will respond to short-term pressures and will not consider long-term development, leading to physical waste. A Commission order would provide the structure for operators to consider long-term development and life after the present crisis in order to minimize physical waste.

The Commission is the preeminent oil and gas regulatory agency in the United States and must take leadership in this uncertain time. A proration order will best position the Texas oil and gas industry to emerge from the current crisis in a position to continue to grow and supply the world's energy needs.

Respectfully submitted,

/s/ David Porter
The Honorable Commissioner David Porter

Honorable Elizabeth Ames Coleman
Post Office Box 309
Rosedale, Mississippi 38769

Chairman Wayne Christian
Commissioner Christi Craddick
Commissioner Ryan Sitton
Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78711

April 13, 2020

Re: **Motion for Commission called hearing on the verified complaint of Pioneer Natural Resources USA INC and Parsley Energy Inc. to determine reasonable market demand for oil in the state of Texas**.

Dear Chairman Christian and Commissioners Craddick and Sitton,

In advance of the hearing tomorrow, we are hoping you will have the chance to read these comments jointly made by Elizabeth Ames Coleman and Jack Coleman. Elizabeth is a former Commissioner and Chairman of the Texas Railroad Commission serving from February 2005 to March 2012, a former member of the Texas House of Representatives from 2001-2005, a mineral owner, and most importantly, a daughter of the oil patch, the 5th generation of a family of independent oil and gas producers.

Jack is a former senior environmental and oil and gas regulatory and litigation lawyer at the U.S. Department of the Interior and then energy counsel and general counsel of the U.S. House of Representatives Committee on Natural Resources. Jack drafted many parts of the Energy Policy Act of 2005, including the North American Energy Freedom Act establishing U.S. energy policy for North America to become energy self-sufficient by 2030, the proposed Deep Ocean Energy Resources Act of 2006, and many other pieces of energy legislation. In 2009 Jack founded EnergyNorthAmerica LLC, an energy policy consulting and research firm.

Unlike certain comments submitted by Washington DC-based organizations, such as those from writers associated with so-called conservative nonprofits offering up opinions on free markets, or even oil and gas industry trade associations mistakenly claiming to represent a complex, multi-dimensional industry in its entirety, we hope and believe our perspective - based on our unique combination of our various levels of state and federal legislative and regulatory experience, including, but not limited to, the understanding of the jurisdiction of the TRC and its statutory mandate to prevent waste and protect correlative rights, the fiduciary duties of business owners, and the global market and international trade rules, will be of value as your decision making proceeds. As a supplement to our comments, we respectfully include a link to a recent article in Forbes written by Elizabeth and cosigned by our colleague, Phil Bryant, the former Governor of Mississippi.

https://www.forbes.com/sites/steveforbes/2020/04/01/save-americas-oil-and-gas-industry/#1a88e5dd7d98

We believe that recent comments suggesting that market demand pro-rationing by the Texas Railroad Commission is contrary to free market principles are based on a misunderstanding of the functions of the Texas Railroad Commission. With the enforcement of every single statewide rule, promulgated through due process, ranging from proper signage on gates, waste storage, water disposal, quality of cement used in casing, even requiring a drilling permit to drill on one's own land for one's privately owned minerals, there is no free market except that which operates within the confines of the regulatory authority that is the Texas Railroad Commission. Those rules may have changed over the last 100 years to adapt to environmental needs and technological advances but the industry is well aware of these rules when they apply for even the basic permit to operate as an oil and gas producer in the state of Texas. Industry accepts the rules and the administrative procedures process through which complaints are adjudicated; and these rules have contributed mightily to the vibrancy of the industry and to the people of Texas. Companies choose to drill for oil and gas in Texas for other reasons along with its abundance of hydrocarbons. One of those reasons is the oversight of the Railroad Commission, that has been finely tuned over decades so as to create conditions that have made Texas if it were a country the 3rd largest producer of oil in the world just behind Russia and Saudi Arabia. Producers knowingly enter into a "non free market" arrangement with the Railroad Commission when they make an application to drill a well. The Railroad Commission's evenhandness in applying the rules they promulgate has been a magnet for oil and gas producers and simply put, industry knows the rules going in. In fact, Elizabeth can never recall a party claiming ignorance of a rule or law as a defense by a protestant in a hearing. So, the suggestion that applying an existing rule in the TRC's toolbox would be anti-free market suggests a serious lack of understanding of what and why the Railroad Commission exists -- its stewardship role on behalf of many stakeholders. Similarly the allegation that exercising such a tool to protect correlative rights and prevent waste, in this case market demand prorationing of production - as one commenter said " gives Saudi Arabia, Russia and other countries leverage over Texas in perpetuity", is elementary and a notion not worth the paper it is printed out on.

Invoking a force majeure during Elizabeth's tenure on the Commission, the Commission was requested to temporarily set allowables on natural gas production due to the inability for certain gathering systems in the coastal regions during a hurricane to accommodate the supply. It would be a tragedy for the Railroad Commission to forfeit this tool, which protects all Texas producers equally from demands made from parties up and downstream who may want to take advantage of an emergency situation. Temporary across-the-board government-mandated production limits relieves producers of contractual obligation to produce hydrocarbons, thus ensuring that predatory plaintiffs, predatory lenders, and even predatory buyers are not able to take unfair advantage of a situation caused by extreme circumstances.

What are the extreme circumstances other than hurricanes? We believe that extreme conditions started many months before the Coronavirus played havoc on world demand. It is clear that the new Saudi Crown Prince, Mohammed bin Salman, instigated the dumping of oil on the world market early in his tenure (and now joined in this by the energy minister, his brother, Prince Abdulaziz bin Salman), and along with Russia, their trade offences went unaddressed by US trade regulators. We do not believe that the US domestic producer was

collateral damage between this competition by Russians and the Saudis to predatorily flood the world oil market, in fact that they were and will remain a target as US crude gains market share which will happen thanks to the relatively recent crude oil export policy approved by the US Congress.

We disagree with the suggestion from those unfamiliar with trade laws, that Saudi Arabia is not dumping because "the Saudis can just drill cheaper that we can". Dumping is selling below the cost that is required to sustain the value of the commodity to the country, in this case Saudi Arabia. They are and have been backstopping their low-price crude with their sovereign wealth funds. COVID-19 is their friend in that their effort to illegally flood the market to recoup market share and reduce their competition was positively affected by the pandemic. Unfortunately for the perpetrators of unfair trade, the pandemic has destroyed demand when their goal was simply to destroy supply coming from the United States.

Simply put, companies that operate wells in America, in legal collaboration with their investors, make binding contractual obligations based on the laws of our nation - laws that protect American industry from trade offenses by predatory nations. These trade offenses have gone unpunished for reasons too numerous to mention here. But comments - such as those made in the editorial of a major newspaper and others suggesting that by letting companies go broke it is somehow an appropriate way to free up the market for those companies who "planned better" - are not only un-American, but could be - to some extent - aiding and abetting an enemy in a time of crisis. A healthy domestic energy industry is critical to our national security interests, and allowing our domestic industry to founder due to illegal machinations of countries that do not respect America's rule of law cannot possibly be attributable to free markets, and in fact is anti-free market.

On a macro level, the very notion that assets lost from bankruptcy, due to circumstances beyond the control of the company, somehow increases efficiencies in productivity are nothing more than the musings of economic illiterates. In fact, a company's failure cannot be attributed to leadership or investors' decisions when operating under extreme circumstances beyond their control. The creative destruction of capitalism notwithstanding, to tout bankruptcy as an acceptable outcome and a reason to avoid the TRC's statutory authority to prevent waste, is a sad development in the thinking of the oil and gas industry. It malevolently implies, with no facts to support, that all companies unable to survive the onslaught of sinister trade practices, are necessarily mismanaged thus they should get their just rewards, so to speak. Using tools at your disposal that establish production quotas for all companies in times of emergencies, will create a level playing field for crude oil producers because all producers are treated the same.

This issue is purely for the Texas Railroad Commission and applies to operators producing in Texas for the benefit of Texas mineral owners, companies, and state coffers. Unfortunately for some pundits singing the siren song of free markets to influence public opinion, there is sound legal precedent for all the regulations in the Commissioners' quivers, including the authority to allocate production limits. We all want free markets, but that is not applicable here. There is no one rule or regulation that is more "free-market" than another. Commissioners, you will

not be condemned as “anti- free marketeers” by people who really know the facts and the law if you decide to use market demand proration as a tool to stabilize the oil industry operating in Texas. We believe that a market demand proration in the current circumstances will result in a balanced, fair result to all who are intended to be protected by this rule.

Thank you,

Elizabeth Ames Coleman Jack Coleman

Henry Bonilla
610 E. Market St.
Unit 2918
San Antonio, TX 78205
202-223-8959
(representing self)

April 7, 2020

Railroad Commission of Texas
P.O. Box 12967
Austin, TX 78711-2967

Via email: RRCconference@rrc.texas.gov

Dear Members of the Commission:

It is clear that the Texas Railroad Commission has an important decision to make about whether or not to set production quotas for the state's oil producers. But just because the price of oil has plummeted, and many oil producers are struggling doesn't mean Texas should team up with OPEC to try to game the oil market. Not only is that unlikely to work, but it could actually backfire, hurting the oil industry and the people of Texas in the process. I wish to submit the following testimony to the Commission where I am representing myself.

During more than a decade representing energy-producing counties in South and West Texas as a member of Congress, I learned that "two wrongs don't make a right." Even though Russia and OPEC are trying to undermine the U.S. shale industry in the midst of a global pandemic, it does not mean that the U.S. or Texas should follow suit by curtailing production or invoking other drastic measures. There are many reasons.

First, free-market principles and honest competition have always been the hallmark of American oil production. We should stay the course in that regard, leaning into the vast oil supplies that have made the U.S. the world's top oil power. In fact, the Commission should recognize that American dominance in oil production and its continued discovery of massive oil reserves are why Russia and OPEC are colluding in the first place. More oil production and demand, not less, is the trajectory that will ultimately benefit the U.S. and its oil producers.

Second, curtailing oil production by regulatory fiat is not likely to work. Mandatory production cuts in Texas are likely to be met by increased production by domestic producers outside Texas and outside the country. History has shown this to be true. America's attempt to game the market in the 1970s simply led to longer gas lines. A more recent attempt in Alberta, Canada, ended up raising crude prices to the point where customers looked elsewhere for their energy supplies. Alberta's attempt at market manipulation backfired, just as such action in Texas will.

This sentiment was echoed clearly by the Texas Oil & Gas Association, whose president, Todd Staples, explains that "mandatory limits on the production of oil and gas in the state in an effort

to stabilize the current market turmoil will likely result in other producers replacing curtailed Texas volumes."

Third, limits on oil production only hurt the most efficient companies while protecting inefficient ones. This undermines the competitive dynamics that makes the Texas oil industry the industry leader that it is today. In the long term, the crude oil sector in Texas will only suffer if mandatory production quotas distort the market and punish efficiency. As the *Wall Street Journal* has opined, oil production quotas "would punish the most efficient producers."

Finally, mandating production quotas is a high-risk venture. The near- and long-term risks of choosing this path introduce even more uncertainty into an already volatile marketplace. That's one reason why the Commission hasn't used this approach in almost fifty years. That's also why major groups such as the Texas Oil and Gas Association and American Petroleum Institute and oppose the move. Not only is the approach not likely to work, it comes with significant logistical and financial hurdles and makes it more difficult for the U.S. to criticize OPEC in the future for market manipulation.

The Commission historically has avoided trying to game the globe oil market. Now is not the time to start. Rather than signal to Saudi Arabia and Russia they are winning the price war by resorting to a drastic, knee-jerk action, the Commission would better serve the Texas oil industry and its customers by doubling down on the strength and staying power of the U.S. oil supplies. Free markets have led Texas to become an international leader in oil production and commercial activity. The Texas Railroad Commission, and the entities it regulates, would be ill served by retreating from that position.

I recently authored an opinion column in the *San Antonio News Express* and the *Midland Reporter-Telegram* on these matters. I encourage the Commission to consider my views when reviewing the unprecedented and misguided proposal to impose mandatory curtailment on Texas's oil production at this time.

Regards,

Henry Bonilla
Member of the U.S. House of Representatives from Texas's 23rd district, 1993-2007

Addendum:

https://www.mrt.com/opinion/article/Opinion-Steer-clear-of-panic-driven-oil-policies-15166669.php

mrt.com

Midland Reporter-Telegram

Opinion: Steer clear of panic-driven oil policies

Midland Reporter Telegram, Henry Bonilla, March 30, 2020

I represented a vast swatch of South and West Texas during my 14 years in Congress, including dozens of energy-producing counties. As energy policies are being developed in these tenuous times, those in charge must adhere to the class Texas words of wisdom, “two wrongs don’t make a right.”

Just because Russia and OPEC are using the coronavirus pandemic to undermine the U.S. shale industry and drive down global oil prices, it does not mean the U.S. should follow suit.

Earlier this month, as Asia’s demand for oil plummeted due to the pandemic, Saudi Arabia proposed cutting production to boost prices. Russia, a quasi-adjunct OPEC member, surprisingly balked. If Russia figured flooding the market could put another nail in the coffin of U.S. producers, Saudi Arabia seemed more than happy to play that game.

For struggling U.S. producers, oil at less than $20 a barrel would force the abandonment of existing and planned oil exploration and extraction. This is especially true in the Eagle Ford shale play south and west of San Antonio.

Some industry leaders and elected officials say it is time to put a check on Saudi Arabia’s and Russia’s latest attempt at economic sabotage.

Ryan Sitton, a member of the Railroad Commission of Texas, surprised industry observers by announcing plans to meet with OPEC ministers in June to join forces in setting production quotas to help prices recover. It has been nearly 50 years since the commission adopted quotas. It has never teamed up with OPEC on market manipulation. This is not the time to start.

With the global economy headed toward recession, there are already signs Russia and Saudi Arabia fear unintended consequences of their profiteering. As we move forward, the U.S. should stay the course with free-market principles and honest competition, no matter how tough it can be.

Let’s remember why Russia and OPEC are colluding in the first place. The United States has become a net exporter of energy, largely due to advances in hydraulic fracturing. It was the wildcatter spirit, a drive to innovate, compete, and do the impossible that fueled this revolution and created thousands of jobs – not price fixing and quotas.

Saudi Arabia’s move to flood the market in 2014 took its expected toll but many domestic producers were able to weather the storm, cut costs, become more efficient, and thrive. Production limits and export quotas on Texas crude would punish these producers in order to protect the less efficient companies. This would undermine the competitive dynamics that made this country a global energy powerhouse in the first place.

In addition, if the Railroad Commission abandons its long-standing policies and cuts a deal with OPEC on quotas in a moment of panic, the U.S. will lose forever its ability to criticize OPEC for doing the same in the future. This would confer upon OPEC new legitimacy as an anti-market cartel, giving it even more clout going forward. We cannot allow the current distress to legitimize schemes such as the Russia-OPEC gamble and empower the very players who are overtly seeking to undermine us.

Economic principles and fortitude must apply as well to proposals coming out of Congress. Sen. James Inhofe, R-Oklahoma, and other lawmakers want President Trump to invoke a provision in U.S. trade law to boycott Saudi Arabia and Russian oil. They argue that national security considerations make it necessary to protect U.S. oil producers and bolster American energy independence.

To be sure, free and fair trade is more an aspiration than a reality but we should use powerful and controversial trade remedies judiciously. Oil is a global commodity. It's pricing and trade is tied to global financial markets. The near- and long-term risks of unintended consequences of introducing more uncertainty into an already volatile marketplace are numerous and serious. However objectionable the actions of Russia and OPEC are, Mike Sommers, the CEO of the American Petroleum Institute, told the Washington Examiner, a boycott would be "incredibly damaging."

Upholding proven market principles will take a lot of discipline as the coronavirus and the Russia-OPEC machinations compound an already punishing drop in oil prices. Instead of duplicating bad policies in a moment of crisis, we must stand firm and position U.S. producers for ultimate success in the years ahead.

Henry Bonilla represented South and West Texas in Congress 1993-20078 and served on the House Appropriations Committee.

COUNTY OF LIVE OAK

COUNTY JUDGE
JIM HUFF

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GEORGE WEST, TEXAS
78022

FAX 361 / 449-3155
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April 8, 2020

VIA EMAIL: RRCconference@rrc.texas.gov
Chairman Wayne Christian
Commissioner Christi Craddick
Commissioner Ryan Sitton
Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78711
Submitted via www.regulations.gov

RE: 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

Commissioners:

I respectfully submit these comments as County Judge in Live Oak County, Texas. Located in the heart of the Eagle Ford Shale, Live Oak County benefits from the responsible development of oil and natural gas. This industry anchors our economy by creating high-paying jobs and providing an important source of revenue.

I am concerned by the Texas Railroad Commission's consideration of prorationing within the oil and gas industry. Prorationing penalizes efficient producers and distorts free markets. Allowing the free trade of energy to continue benefits the U.S. economy by creating and sustaining domestic jobs.

I recognize that this is an extraordinary time for the oil and gas industry, however, state government intervention is not the solution. I do not believe the Railroad Commission should engage in prorationing or curtailment of production statewide or in any region. History shows it to be bad policy when government manipulates supply and demand. This seems to once again follow the thought, *"government knows what is best for us, not those involved at the grass roots level"*. The oil and gas industry in the great State of Texas has set world standards; lean times can make us stronger. In my opinion, Intervention by prorationing is a mistake. The State of Texas should remain a free market.

I appreciate this opportunity to comment and I do not wish to testify at the upcoming RRC meeting.

Sincerely,

Jim Huff
Live Oak County Judge
P. O. 487
George West, TX 78022
361-449-7020

HANCE SCARBOROUGH, LLP
ATTORNEYS AND COUNSELORS AT LAW

Kent Hance
Founding Partner
khance@hslawmail.com

April 8, 2020

Via Email
Docket Services
Hearings Division
Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78711
RRCconference@rrc.texas.gov

Re: **Oil & Gas Docket No. OG-20-00003167;** To Consider the Motion for Commission Called Hearing on the Verified Complaint of Pioneer Natural Resources U.S.A. Inc. (665748) and Parsley Energy Inc. (642652) to Determine Reasonable Market Demand for Oil in the State of Texas

Dear Chairman Christian, Commissioner Craddick, and Commissioner Sitton:

My name is Kent Hance, and I am representing myself and as former Chairman of the Texas Railroad Commission. I respectfully urge the Railroad Commission to exercise its authority to prorate oil production for the near future due to the COVID-19 pandemic. This is to prevent waste of our natural resources and conserve for the future. Conservation is in effect preventing waste from taking place.

The State of Texas is not an oil and gas state, it is THE oil and gas state. We have had a rich history from the days of Spindletop in southeast Texas, to the activity in the Permian Basin at the present time. One theme that has prevailed within Texas was to conserve our natural resources and not give them away through unregulated and wasteful overproduction. The Railroad Commission has shown leadership in this area in the past. "Regulation" at the Railroad Commission is not a dirty word because the Railroad Commission, by statute, reasonably regulates industry with the sole purpose of enhancing oil and gas exploration production in ways that also prevent waste of the resources. I have great confidence in you individually and collectively to continue your role of regulator in a reasonable, fair and decisive manner to serve those purposes.

Today, the Texas oil industry faces an unprecedented challenge, two unexpected, massive and opposite shocks. The first, the outbreak of the global COVID-19 pandemic, which has decimated global oil demand, and, the second, a production dispute between Saudi Arabia and Russia, which has resulted in a massive surge in the supply of oil. Oil prices have plummeted below $30, with some grades in the teens. Some producers are seeing oil prices in the single digits. At the current prices it appears to me that we are certainly not conserving our resources for the future of the State of Texas. The United States is the largest producer in the world and Texas is by far the largest producer in the United States, producing over 5 million barrels per day. To not conserve our natural resources we are encouraging waste.

The threat to our natural resources is not the only one we face. The Texas oil industry is gravely threatened and faces widespread collapse, potentially costing the Texas economy millions of jobs. The jobs that many our Texas families rely on in the oil and gas industry are in severe peril to be lost now, and for the foreseeable future, without significant leadership from our government. Further, the taxes that the State of Texas collects, both directly and indirectly, from the oil and gas industry are in freefall, exacerbating the current economic crisis. During the 2008 recession, Texas stood strong with the "Texas Miracle" driven largely by the robustness of the oil and gas industry. That vigor is no longer, and the tax shortfall we face harms the health, safety, and education of our fellow Texans. The days of sitting on the sidelines have come to a close and we need to take a strong position in protecting the natural resources of the State of Texas.

Just as in the past, in this current environment the Texas oil industry looks to the Railroad Commission to provide the policy and regulatory leadership to help stabilize current conditions. The Railroad Commission has been entrusted by the voters of Texas to conserve the state's natural resources through the prevention of waste. The Texas Natural Resources Code specifically includes production above reasonable market demand as waste and instructs the Railroad Commission to issue an order or rule to eliminate this waste. It is clear that, with the global upsurge in production and the collapse in demand, production now exceeds reasonable market demand. It is precisely at this time of the COVID-19 global crisis that the Railroad Commission must take leadership to show its commitment to the prevention of waste and to fulfill its duties to the people of Texas.

I respectfully urge the Railroad Commission to adopt a temporary prorationing order to address the fallout from COVID-19. This can be reexamined on a monthly basis as conditions and circumstances evolve and change, however, the order should state that it is a temporary order until the virus is under control and no longer artificially affecting the market. I believe this limited action will provide the regulatory response that Texas oil producers need now. A temporary allowable order from the Railroad Commission, as a strong sign of commitment and leadership from the premier regulator of oil and gas in our great country, is a necessary step to combat current COVID-19 crisis, which does not reflect a rational, free market. In order to protect the economic strength and security of Texas and the United States, the Railroad Commission must lead from the front and utilize its statutory obligation to provide needed stability to the oil industry, related industries, and their employees.

Respectfully submitted,

Hon. Kent R. Hance
Hance Scarborough, LLP
400 W. 15th Sreet, Suite 950
Austin, Texas 78701
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via email on the following on the 8th day of April, 2020.

Chairman Wayne Christian
Commissioner Ryan Sitton
Commissioner Christi Craddick
Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78711

c/o Callie Farrar, Commission Secretary
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NAME

STATE REPRESENTATIVE
LYLE LARSON

DISTRICT 122

April 10, 2020

Chairman Wayne Christian
Commissioner Christi Craddick
Commissioner Ryan Sitton
Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78711

RE: 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

Dear Chairman Christian, Commissioner Craddick and Commissioner Sitton:

As you are aware, the Eagle Ford Shale has experienced a fifty percent drop in drilling rigs working in the last six weeks. Saudi Arabia and Russia remain locked in an oil price war, but last Wednesday, Russia indicated it intended to cap production.

While the oil and gas industry is important to our nation's economy as a whole, it has an outsized impact in certain areas, particularly in Texas where it accounts for 428,000 jobs. Additionally, it helps fund Texas' public education system and roads throughout the state. The industry contributed $16 billion in state and local taxes and state royalties last year alone.

Over the last century, the Texas market brand across the globe has been oil and cattle. We lead the nation in output of both commodities and agriculture and oil and gas have been the backbone of our economy. The concept of proration defies the entrepreneurial spirit of every Texan who has taken the risk of drilling an oil well or buying the first cow-calf pair to build a herd.

Markets ebb and flow based on world events and consumer behaviors, but the imposition of government caps is the wrong approach and frankly the most un-Texan action anyone could suggest. The amount of oil pumped or number of cows kept each year is a decision that only folks who took the risk to invest should make.

Quite frankly, the proration discussion is both arrogant and condescending to every Texan. Advocating to follow the Saudis and Russians in market collusion is about the most un-American thing we have heard in Texas in the last 50 years.

Please drop any consideration of socializing Texas oil today. My office looks forward to working with the RRC to take this anti-free market concept out of all statutes in the next legislative session.

Sincerely,

Lyle Larson

P.O. Box 2910 • Austin, Texas 78768-2910 • (512) 463-0646 • (512) 463-0893 fax

The Honorable Michael Williams
835 E. Lamar Blvd., #409
Arlington, TX 76011
mlw@michaellwilliams.com
(512) 750-3805

April 8, 2020

Representing only myself

By email: RRCconference@rrc.texas.gov

To the Railroad Commission of Texas:

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

Dear Chairman Christian, Commissioner Craddick, and Commissioner Sitton,

My name is Michael Williams, and I was honored to serve on the Texas Railroad Commission from 1999 to 2011. I am writing today to highlight my concerns around a recent proposal to impose restrictions on oil production here in Texas.

As a former member of the Railroad Commission, I understand the importance of oil prices and supplies to our state's economy. I also understand that mandating oil production cuts is both rare and risky. This is just one reason this body hasn't employed such a measure since 1973.

The oil industry has taken a one-two punch in recent weeks when Russia announced a break in cooperation with Saudi Arabia, which has led to a flooded oil market. This coupled with the growing impact of the COVID-19 on a global scale has depressed oil demand and sent financial markets into decline, which has resulted in oil prices to fall below $21 a barrel. This is roughly a third of the price earlier this year.

The interest in countering a dangerous oil war between Saudi Arabia and Russia that has flooded the global market with product is understandable. This price war has resulted in two of the Permian Basin's largest oil producers, Pioneer Natural Resources Co. and Parsley Energy Inc., to petition this Commission for a hearing on curtailing crude production. Such a curtailment proposal is ill advised and will fall short of ensuring relief for producers. Furthermore, this curtailment will likely result in a variety of unintended consequences for Texas, and the country as a whole.

Analysts have noted that the enormity of the current oil surpluses means that unilateral action by Texas will have limited to no impact. Experts like University of Houston Energy Fellow Ed

Hirs have explained, “They’ve gone to the referee to ask for some sort of assistance in enforcing something that really is just nonsense on the rest of the Texas market. Even if they were able to reduce production in Texas, it would not have the desired impact of raising prices.” A recent Wall Street Journal editorial went a step further and noted, “An especially bad idea would have the Texas Railroad Commission impose production quotas, which the state last did in the 1970s… Texas can’t control global oil prices in any case, and state quotas would encourage higher production in other regions like the Bakken. Quotas would also signal to Saudi Ara-bia and Russia they are winning the price war.” There is value to these concerns.

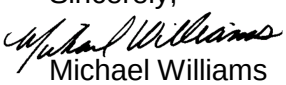
It's worth noting that stakeholders across the industry remain doubtful about the prospect of curtailing oil production by government fiat. Chairman Christian himself has stated publicly that Texas should avoid acting on its own and should instead collaborate “with other states and the federal government.” Energy industry leaders like the American Petroleum Institute also oppose the idea, labeling it “shortsighted” and “anti-competitive.”

A knee-jerk reaction to mandate oil production cut overlooks the glaring reality of American oil dominance in the global marketplace. As the world’s largest oil producer, producing 40% of the world’s oil, we can afford to weather storms, including the current Saudi-Russian gamesmanship.

We’ve done it before. I can remember the day I was sworn into office. Oil prices were languishing around $20 a barrel. Same as today. The industry and Texas got through it just as it will now. In fact, our position of dominance is poised to grow due to finds in West Texas that could add as many as 230 billion barrels of new oil to the vast U.S. portfolio.

While no one faults those who propose this measure, the indiscretion of curtailment must be pointed out. As Elizabeth Rosenberg of the Center for a New American Security explains, production cuts are “antithetical to the way that the industry has been run and managed in the U.S. for so many decades.” Curtailing oil production will hurt Texas far more than it helps. I hope this body makes the right choice by refraining from moving forward with curtailment plan.

Sincerely,



Michael Williams
Former Commissioner
Texas Railroad Commission

SENATOR PAUL BETTENCOURT
DISTRICT 7

April 10, 2020

The Honorable Wayne Christian
Chairman, Railroad Commission of Texas
P.O. Box 12967
Austin, Texas 78711-2967

Re: Proposed Oil Pro-Rationing by the Texas Railroad Commission

Dear Chairman Christian,

It is my understanding that on April 14th the Texas Railroad Commission will meet to consider using its authority to implement statewide oil production cuts for the first time in nearly fifty years. I write this letter to strongly urge you and the other commissioners to reject any measure that replaces a market-driven approach to navigating COVID-19 with government-mandated production caps.

As a fellow free-market conservative, I know you share my reservations about government intervention in the economy. Before the Commission undertakes any kind of production caps, I strongly urge you and your fellow commissioners to examine whether or not caps would actually help or harm Texas producers through these turbulent times.

Some, like energy economist Ed Hirs at University of Houston, contend that government restrictions will not only not make a difference in the overall market, but will actually push some smaller producers into bankruptcy by limiting their ability to compete. Worse still, caps short-circuit the market by rewarding inefficiency. As Mike Sommers, president of the American Petroleum Institute, has said: "imposing a production or export quota on Texas crude would really penalize the most efficient producers while supporting less efficient companies."

Texas should not be in the business of picking winners and losers in the private sector. Instead, we should trust producers to adjust their production to fit current market trends. I am not alone in this thinking; both the American Petroleum Institute and the Texas Oil and Gas Association issued statements opposing mandatory limits on the production of oil and gas. I believe that Todd Staples said it best, "Texas enacting prorationing would disadvantage Texas, its producers, mineral owners and taxing entities."

CAPITOL OFFICE
P.O. BOX 12068
AUSTIN, TEXAS 78711-2068
(512) 463-0107
FAX: (512) 463-8810

COMMITTEES:
SENATE COMMITTEE ON PROPERTY TAX - CHAIR
EDUCATION
FINANCE
HIGHER EDUCATION

DISTRICT OFFICE
11451 KATY FREEWAY, SUITE 209
HOUSTON, TEXAS 77079
(713) 464-0282
FAX: (713) 461-0108

Any action taken by the Railroad Commission to limit oil production will also negatively effect already dramatic reductions in severance tax receipts to the state. In 2019, the oil and gas industry paid over $5 billion in severance taxes. Due to the recent significant drop in the price of oil per barrel and the corresponding reduction in production, severance tax collections currently, and unfortunately into the future, could be reduced by 50% or more. While this is a painful adjustment for all interested parties, allowing the free-market and smart hardworking Texans to weather this disruption is a better course of action than the proposed reduction in production being considered.

Texas has weathered such crises before. During the 1980s oil bust, the Railroad Commission wisely elected to not impose any production cuts. The market was allowed to sort out the balance between supply and demand at a time when oil prices were even lower than today. This stands in contrast with what I lived through in the 1970s when Texas last tried to intervene in the oil market. That intervention is now widely viewed as a failure of economy policy. This path of intervention should be avoided. There is a very good reason why the Commission has not imposed mandatory caps since 1973.

The strength of the Texas economy is in Texans' belief in a free market. Let's let the free market recover as fast as possible from the COVID-19 crisis and not impose artificial government production controls on Texas oil and gas producers.

Sincerely,

Paul Bettencourt
Senator, Senate District 7

Publicassist

From: rrcwebcontact@gmail.com
Sent: Saturday, April 4, 2020 10:30 AM
To: webmaster
Cc: Michelle Banks
Subject: General Comment/Question

Follow Up Flag: Follow up
Flag Status: Completed

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From: Tim
Email: timbp_us@yahoo.com
Phone: 562-537-9988
I worked in the oil industry downstream sector (refining & trading) for close to 30 years. From my trading experience, I have seen the ramification credit & non payment performance can have. This is brewing in the fracking industry and should be a major concern for RRC, the answer is not to look for life line, but to encourage producers to be mindful of their business and curtail (by their own choice) their production. Additional, one of the bigger knocks on oil industry is their lack of response and discipline to poor market conditions. This is being shown today and why short sellers have a field day with CL futures and why investment money stays away from oil which is not good. I understand cost of jobs and shutdowns costs, but producers need to be more disciplined and renegotiate contracts or work out settlements if they have obligations to meet. Shoving more bbl into a market is not the answer even if it goes into SPR which will just keep market in contango for a long, long time. contango is a sign of weak market, NOT a sign of stronger future market.

Tintera Energy

John James Tintera, Geologist P.G. # 325
117 Scissortail Trail
Georgetown, Texas 78633
(512) 680-3055

April 8, 2020

Written Testimony for April 14, 2020: 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.

I am John Tintera, and I respectfully submit this testimony in my individual capacity. As a longtime former employee and previous Executive Director of the Railroad Commission (The Commission), I am submitting this document because I believe in the agency, it's mission, your leadership, the staff that serve it, and the industry you regulate.

My comments will focus on a narrow but critically important aspect – the significant challenges and resources required by the Commission to accurately and correctly implement a robust pro rationing regulatory framework based on market demand.

The era of pro ration ended almost 50 years ago. Pro rationing was a necessary and appropriate tool decades ago to control overproduction when the East Texas field was discovered and overproduced. As producers rushed to capture as much resources as quickly as possible, there was massive above ground and below ground waste of the resource and markets were disrupted. This was true physical waste of the resources.

To refurbish and expand a pro ration scheme will take more than just political will. It will require an investment of resources, including funding, personnel, industry technology, and the time needed to plan, implement, perform, and report on the success or failure of this program that should not be underestimated. These are the tall hurdles the agency will need to overcome. Please allow me to make the following observations:

Funding: No agency has unlimited budget or personnel resources. The Commission under its current leadership has admirably focused on the key issues mandated by our State Legislature through the biennial budget process, the findings of the Sunset Commission, and other legislative actions. New funding will need to be considered through the legislative budget process, a process which has not yet begun and will not conclude until well over a year from now. In the interim, existing budget dollars would have to be directed away from existing programs into the new pro ration effort. Many of these priority programs that will lose funding are focused on safety, efficiency and regulatory oversight. These indeed are the essential functions of the Commission.

Personnel: The Commission will have important decisions to make regarding staffing. Staff make or break a program, and hiring, reassigning, and training personnel takes time and money. Decades ago, when the Commission fully exercised proration authority, it had engineers, regulatory personnel, forecasting capability and an array of personnel to implement the far-reaching program. There is also a "boots in the field" component to be addressed. It is my understanding that well tests were critical to

the allocation process and Commission inspectors were needed to police the accuracy of the tests. The existing inspector head count and their inspection priorities may not meet the agency's needs and likely do not have well testing as a high priority.

Industry technology - Drilling and completion technology has changed. Prolific production from tight shales was unimaginable when oil pro rationing was used previously. In the old days, the prorated wells produced from conventional reservoirs, many of which had strong water drive, resulting in a steady well capacity that endured for many years. Modern shale plays have wells with steep, hyperbolic declines. Well capacity changes very rapidly. It is not unreasonable to be concerned that this shale production profile may not work with the previous form of pro rationing and would require significant adjustments to the prior program.

Time: New or expanded programs take time to prepare and put in place. Planning, public interaction and transparency, legal enforcement hearings, the development of performance measures and goals, and more are needed to ensure fairness and accuracy. Computer programs will need to be written, tested, and orientation classes for staff and industry held. New forms may be needed. For many operators this will be an additional regulatory burden on an already struggling industry. The Commission may determine that rulemaking is needed to ensure transparency, fairness, and provide a voice to all interested parties. All these activities will serve to increase the time frame for implementation.

Furthermore, it is prudent to recognize that the risk of unintended consequences must be avoided. For example, if well production is curtailed, will production come back as strong when wells are reopened or will waste occur because of damage downhole? Also, national organizations with a political agenda are already inserting themselves into the discussion, apparently arguing that invigorating proration should serve as a springboard to limit other vital oil field operations, such as flaring. From my years of service to the State, I would expect more of this type of misdirection, not less, and the Commission will need to be prepared to deal with the issues that arise.

In conclusion. I respectfully request the Commission decline to implement a stringent pro ration scheme unless and until answers to these and other critical questions are available. It is best to let the current market adjust to the downturn and allow individual producers to make individual decisions regarding their production in the best interests of the mineral owner, their investors and the state of Texas.

At the Commission's pleasure, I am available to answer any questions or provide additional verbal or written testimony.

John James Tintera

P.G. 325

From:	RRC Conference
To:	Travis McCormick; Jeremy Hagen; Bill Black; Jason Modglin; Jared Craighead; Bryan Preston; Wei Wang; Alex Schoch; Danny Sorrells
Cc:	Kellie Martinec
Subject:	FW: Upcoming Meeting Re Supply Cuts
Date:	Friday, April 10, 2020 9:57:12 AM

From: tony kamin <tnk11@prodigy.net>
Sent: Friday, April 10, 2020 9:39 AM
To: RRC Conference <RRCConference@rrc.texas.gov>
Subject: Upcoming Meeting Re Supply Cuts

Dear Commission,

I realize the deadline for comments has passed but I hope you will consider this short note as I just saw the request for comments. Although I am Chairman of a small public oil company Empire Petroleum and we announced this morning an acquisition in Texas, I write in regards to the current world emergency and economic crisis which has so gravely impacted the oil industry. These are my personal views and not the companys. In a crisis all persons and entities should act in good faith to be part of the solution. Although foreign governments greatly exacerbated this problem, through the efforts of the U.S. government the parties have come back together to initiate a fix back towards more rationale supply and pricing. The Texas RRC should do everything in its power to support our governments efforts to do so. Overproducing compared to demand wastes resources and causes considerable economic pain particularly to those companies who are not super-majors and badly impacts affiliate industries and companies such as financial institutions and those who support the industry in any fashion. This pain includes considerable job loss including in Texas. The RRC acting in a small fashion at this time will create a healthier environment for all of Texas. I wholeheartedly believe in free markets, but on rare occasions such as this, some guiding rationality to improve the future for all is warranted. This is one of those times. The RRC has a rare opportunity to help the entire worlds economy and most particularly Texas. Please be leaders in getting a solution.

Sincerely,

Tony Kamin
Chairman
Empire Petroleum

Subject: FW: Troy W. Eckard - Eckard Global LLC
Date: Wednesday, April 8, 2020 11:43:39 AM

From: Wayne Christian <wayne.christian@rrc.texas.gov>
Sent: Wednesday, April 8, 2020 9:19 AM
To: RRC Conference <RRCConference@rrc.texas.gov>
Subject: FW: Troy W. Eckard - Eckard Global LLC

From: Troy W. Eckard <teckard@eckardenterprises.com>
Sent: Monday, April 6, 2020 11:58 AM
To: Wayne Christian <wayne.christian@rrc.texas.gov>; Christi Craddick <Christi.Craddick@rrc.texas.gov>; Jared Craighead <jared.craighead@rrc.texas.gov>
Subject: Troy W. Eckard - Eckard Global LLC

To the Texas Railroad Commissioners,

I am 100% opposed to any production quotas and or interference in the current status of the industry.

Free Market is the only way to retain the energy industry's independence, its ability to grow and to shrink. If you succumb to the media's pressure or presumption that we should work with Saudi and Russia to jointly reduce output, instead of allowing our own independent producers figure out their solution based upon economics, then we are not a democracy but have fallen in line with socialism and communism. We do not need your "saving us" nonsense or sale pitch.

If we agree to be supply controlled, then our energy industry's future growth and global presence will then be limited to their (Russia and Saudi's) financial dynamics not our free will of running our businesses with "best practices". They (Russia and Saudi) are in worse financial shape than we are by a factor of 3 times. We consume a heck of a lot more than we produce. These two global terrorists only consume 1/3 of their production. Thus, their game of supply hostage is not the time to bow down and sell us energy independents out.

Let the weak go broke. Let the overpaid, poorly run private equity backed companies fall by the wayside.

I have been in this business since 1985, I survived by adapting and lost a lot of money to learn my lessons.

Parker Parsley and others are whining because they are ill prepared to adapt. If you put or adapt a production quota or limits, you will kill export projects who cannot trust our supply side to fill those lines and terminals. In six months, we win, they lose. Leave us to our own free market solutions.

In addition, this could set a precedent for liberals to use production output controls to promote their liberal agenda for alternative fuel and energy resources and to undermine the oil and gas industry. This is not a short term game nor one that has not been carefully though out by Russia, Saudi and others who intend permanent harm to our industry.

Troy

Troy W. Eckard
Manager/CEO
Eckard Enterprises, LLC
1301 Central Expressway South
Suite #100
Allen, Texas 75013

800-527-8895
972-884-5920

teckard@eckardenterprises.com

Subject: FW: Comment Confirmation
Date: Wednesday, April 8, 2020 1:29:43 PM
Attachments: image007.png

From: Troy W. Eckard <teckard@eckardenterprises.com>
Sent: Wednesday, April 8, 2020 11:54 AM
To: Callie Farrar <callie.farrar@rrc.texas.gov>
Subject: RE: Comment Confirmation

Callie,

I am an independent and a non-operated working interest owner. I also am on the Board of Directors and co-owner of Kinetica Partners, a privately held FERC natural gas pipeline in the Gulf of Mexico. I am not fancy but having started my career in 1985 and having seen many prior storms, I may be a person with commission sense input.

These producers who are asking for the Texas RRC to implement production reductions simply need to follow Harold Hamm with Continental Resources, cut your own wells back 30% and allow your reserves to be sold later in the year for more money per unit.

What I would share Is quite simple: Free market approach allows industries to

become more resilient by showing all participants the required fine tuning required to be current, effective e and profitable. Either figure it out or get out. Cow towing to Russia and Saudi simply removes our right as an industry to ever be a net exporter, a major global dominant force, would kill export terminals and midstream assets relying upon volumes to underwrite their capital and essentially create a fixe d market that in fact deters the very economics of the independents that are screaming the loudest. If we limit output, the ones hurt the most are those that have the smallest margins.

I await your comments or request to participate of simply will be a spectator of the process. Thank you for putting up with my diatribe.

Troy

Troy W. Eckard
Manager/CEO
Eckard Enterprises, LLC
1301 Central Expressway South
Suite #100
Allen, Texas 75013

800-527-8895
972-884-5920

teckard@eckardenterprises.com

From: Callie Farrar <callie.farrar@rrc.texas.gov>
Sent: Wednesday, April 8, 2020 11:13 AM
To: Troy W. Eckard <teckard@eckardenterprises.com>
Subject: Comment Confirmation

Good Morning,

Thank you for your comment submission for the RRC Open Meeting being held on April 14th. Your comments are currently being reviewed and if you are asked to provide live comments during the meeting, you will be notified before Monday, April 13th and given instructions on how to participate from a remote location. A list and order of those who will comment live will be posted on the Commission's website on Monday, April 13th. If you are not asked to comment live, your written comments will be posted on the Commission's website.

Regards,

Callie Farrar
Commission Secretary
Railroad Commission of Texas
512-463-7865

Callie Farrar
Commission Secretary
Railroad Commission of Texas
512-463-7865

Publicassist

From: rrcwebcontact@gmail.com
Sent: Sunday, April 5, 2020 7:28 PM
To: webmaster
Cc: Michelle Banks
Subject: General Comment/Question

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From: troy w eckard
Email: teckard@eckardenterprises.com
Phone: 9728845920
I am 100% opposed to any production quotas and or interference in the current status of the industry. Free market is the only way to retain the energy industry's independence, its ability to grow and shrink. If you sub comb to the media pressure or presumption that we should work with Saudi and Russia to jointly reduce output, instead of allowing our own independent producers figure out their solution based upon economics, then we are not a democracy but have fallen in line with socialism and communism. We do not need your "saving us". Our future growth and global presence will then be limited to their financial dynamics not our free will of running our businesses. They (Russia and Saudi) are in worse shape than we are by a factor of 3 times. We consume a heck of a lot more than we produce. These two global terrorists only consume 1/3 of their production. Thus, their game of supply hostage is not the time to bow down and sell us out. Let the weak go broke. Let the overpaid, poorly run private equity back companies fall by the wayside. I have been in this business since 1985, I survived by adapting and losing money to learn my lessons. Parker Parsley and others are whining because they are ill prepared to adapt. If you put or adapt a production quota or limits, you will kill export projects who cannot trust our supply side to fill those lines and terminals. IN six months, we win, they lose. Leave us to our own free market solutions.

Wood Mackenzie Presentation

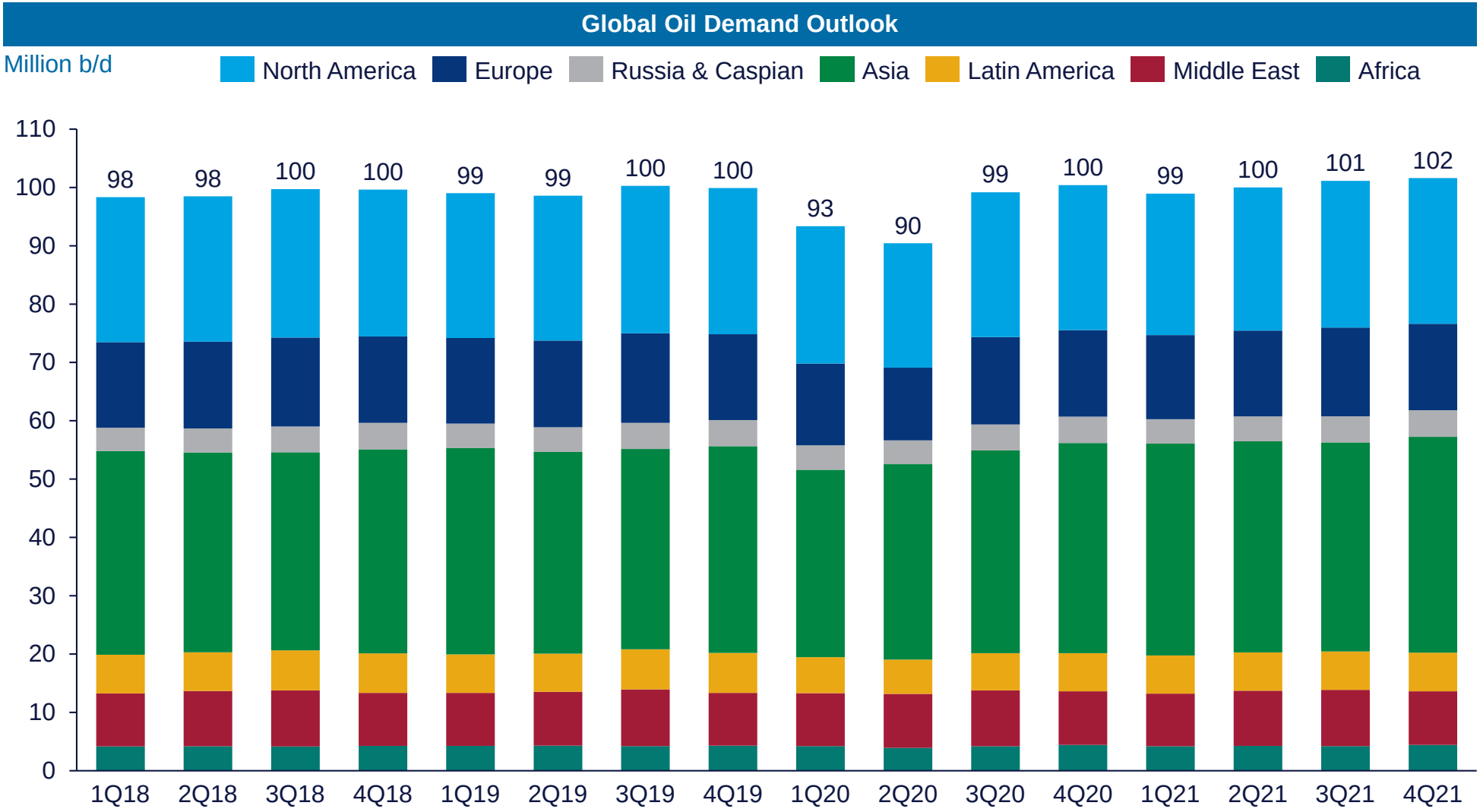
April 2020

Agenda

Wood Mackenzie Presentation

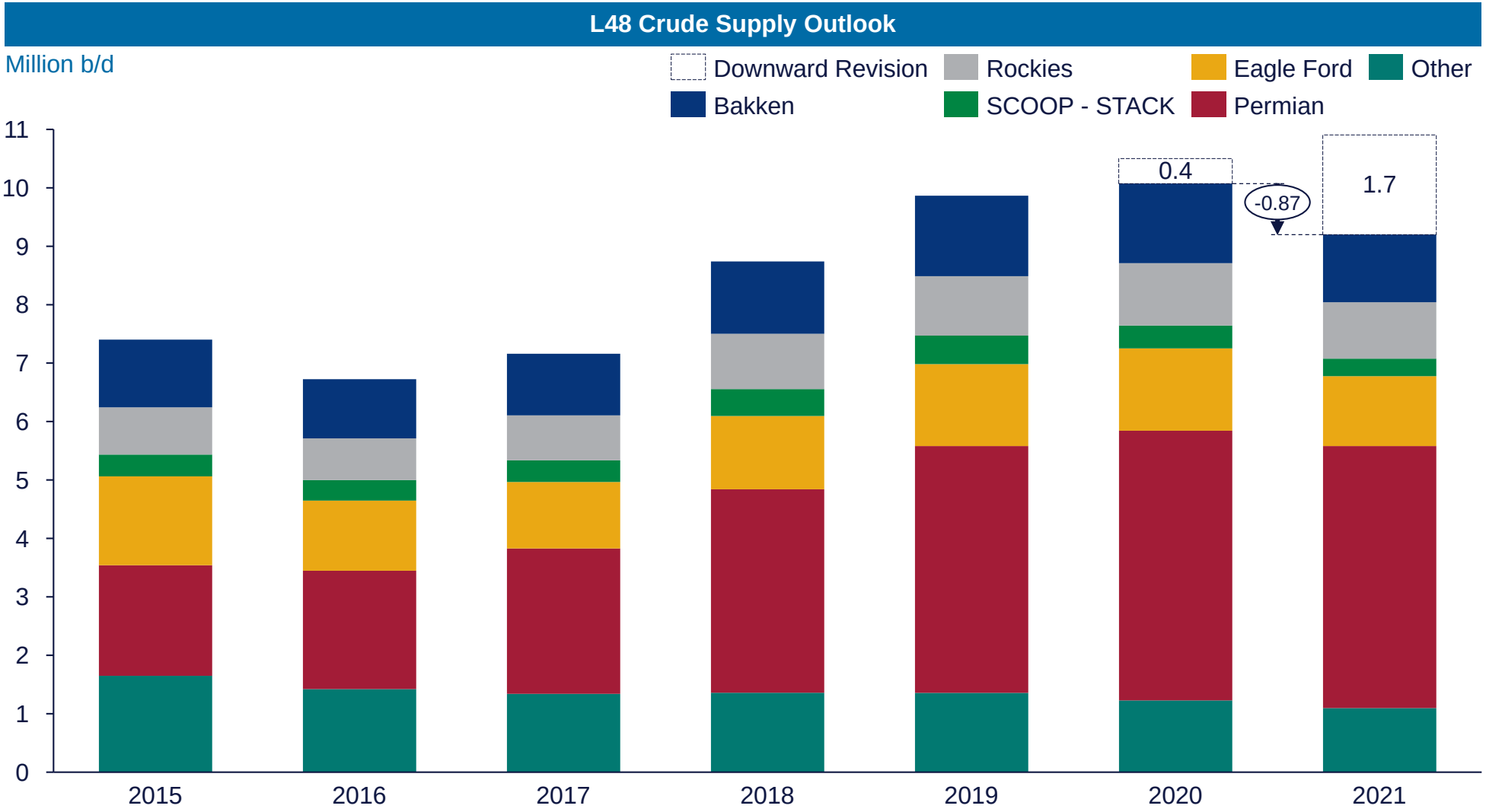
About Wood Mackenzie

Global oil demand expected to fall by ~ 9 million barrels per day in 2Q20 from 2Q19



Source: Wood Mackenzie

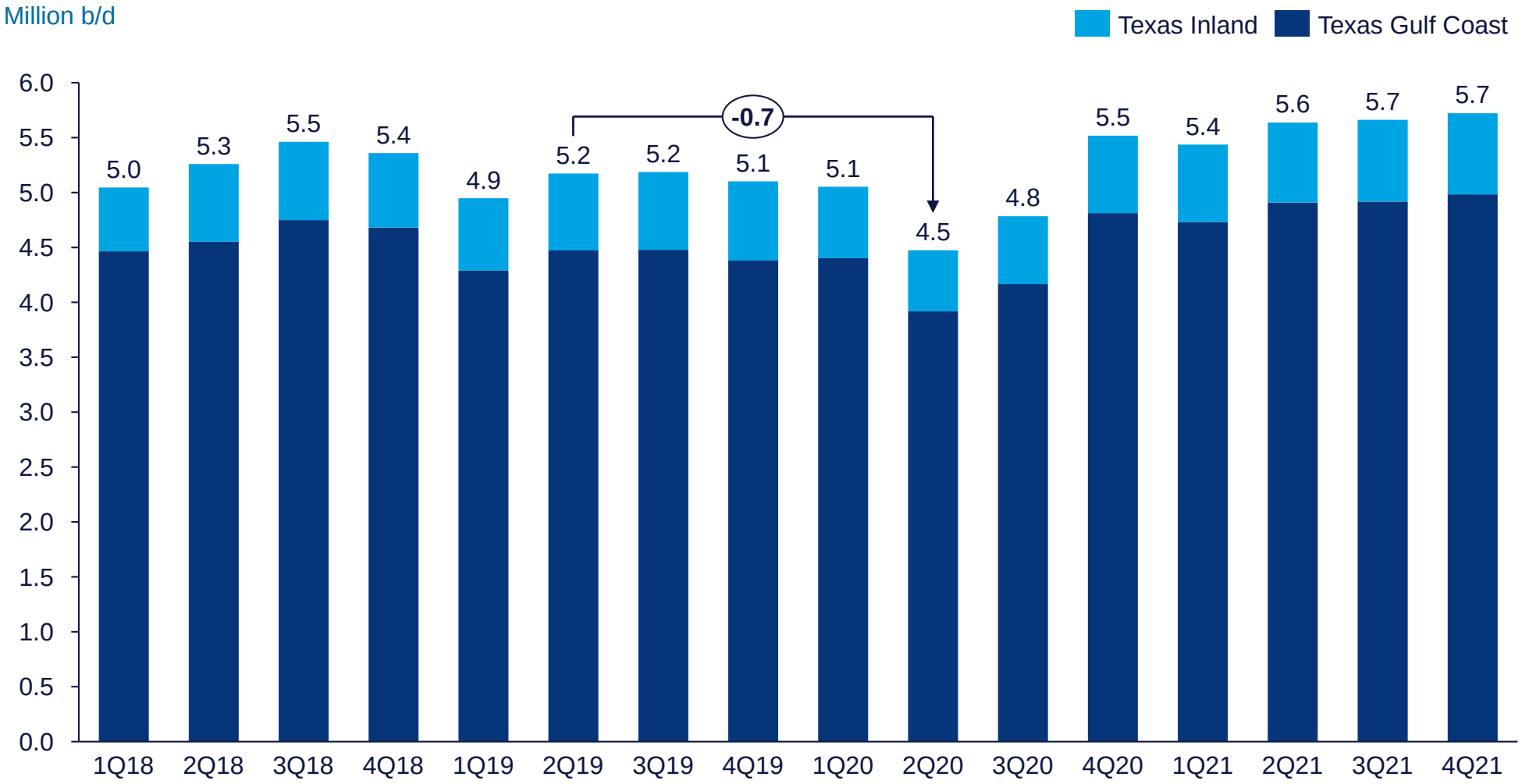
US Lower 48 crude supply is expected to fall by 870k b/d from 2020-2021, revised down by over 2.1 million b/d



Source: Wood Mackenzie

Wood Mackenzie expects crude runs in Texas to decline by ~700,000 b/d in 2Q20 compared to 2Q19 as result of COVID-19 impacts

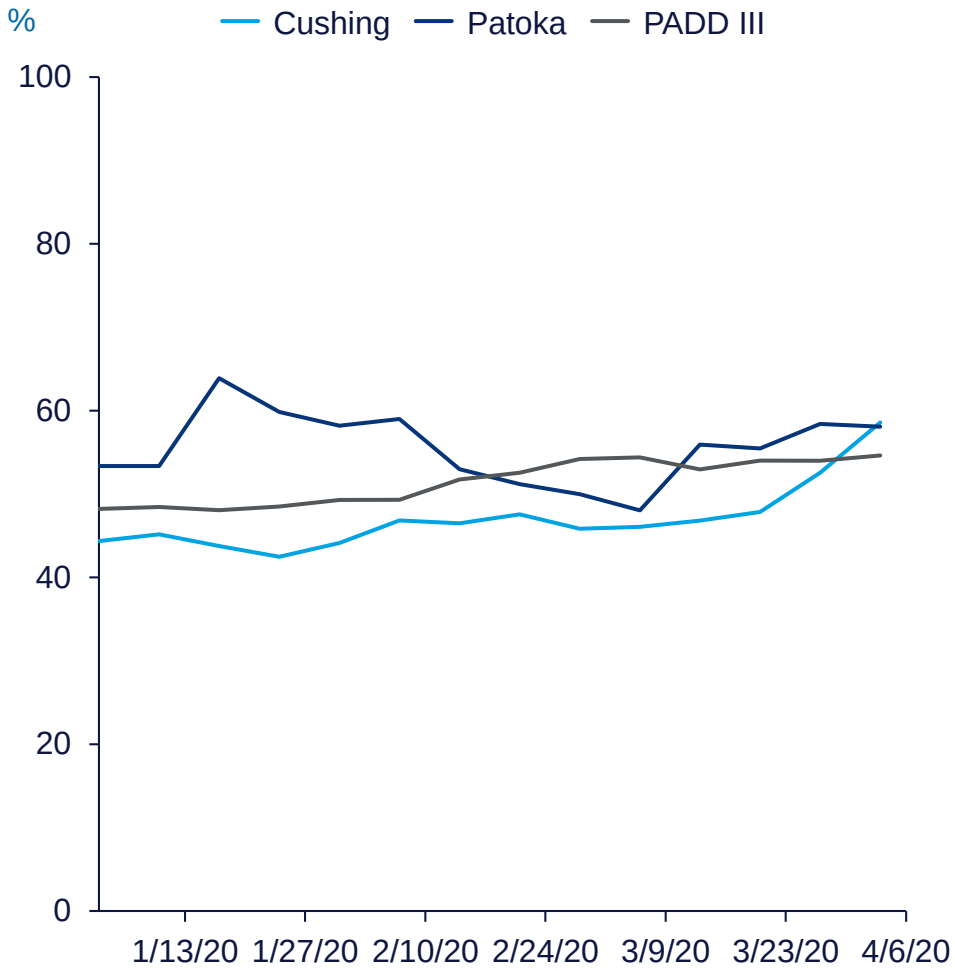
Texas Refinery Crude Runs Outlook



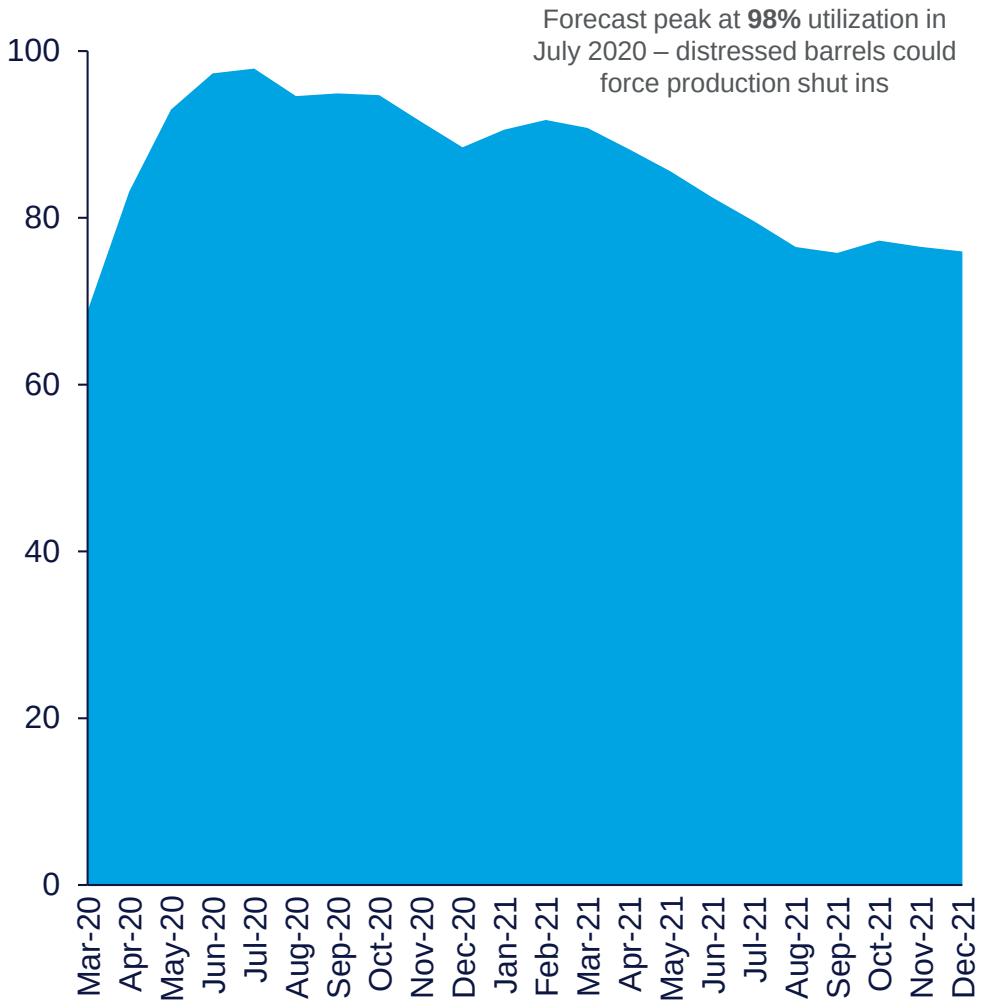
Source: Wood Mackenzie; Genscape

Crude storage utilization a major concern as demand continues to fall in the US; US commercial storage forecasted to peak in July

Historical Weekly Crude Storage Utilization



Forecasted US Commercial Storage Utilization



Source: Genscape; Wood Mackenzie

Agenda

Wood Mackenzie Presentation

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1,000+

natural resources analysts across

35+

offices globally leverage the integrated Wood Mackenzie platform to provide clients commercial insight and access to subject matter experts

+

Consulting

150+

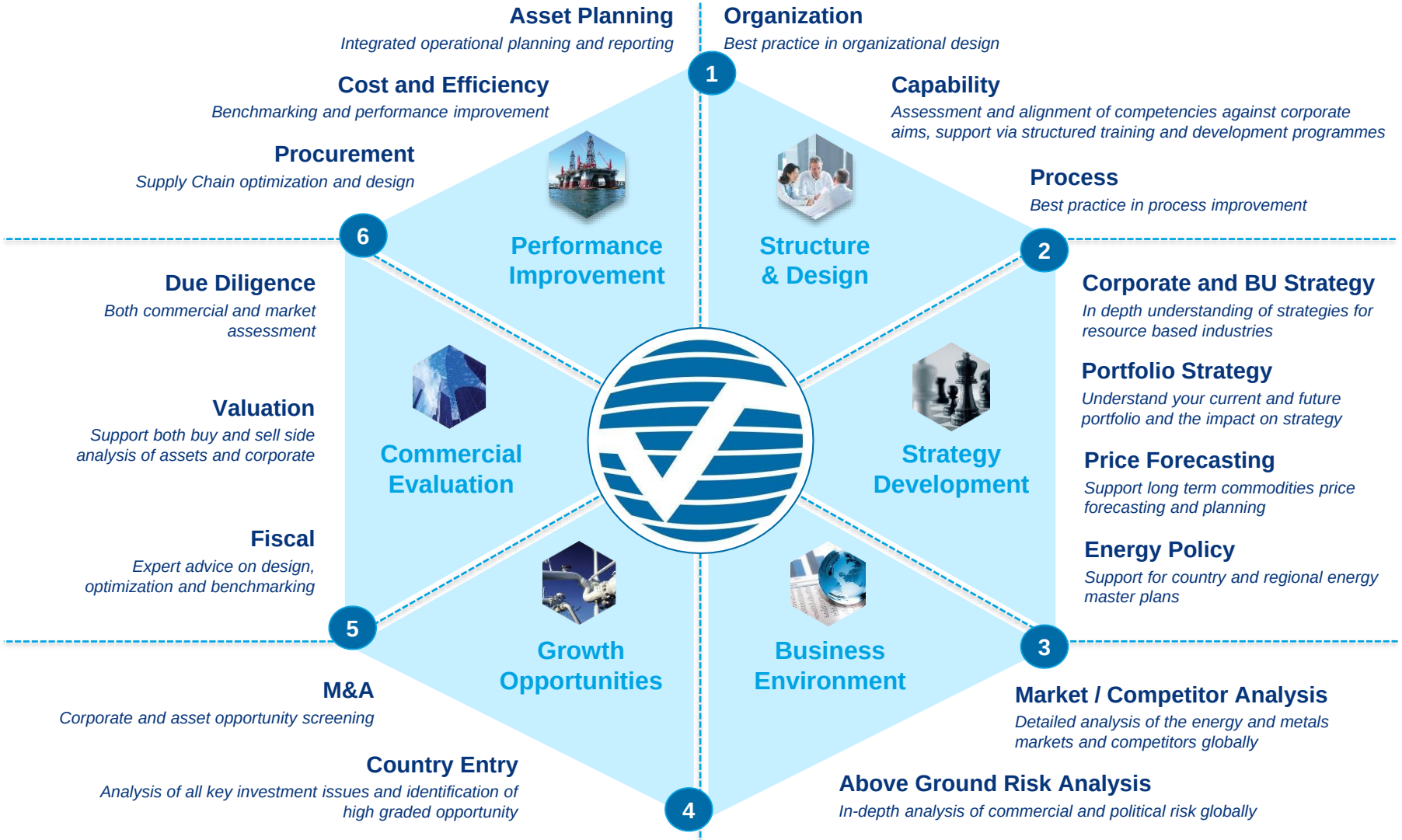
specialized natural resources consultants

across the globe serve as trusted commercial advisors to the world's leading companies, investors and governments

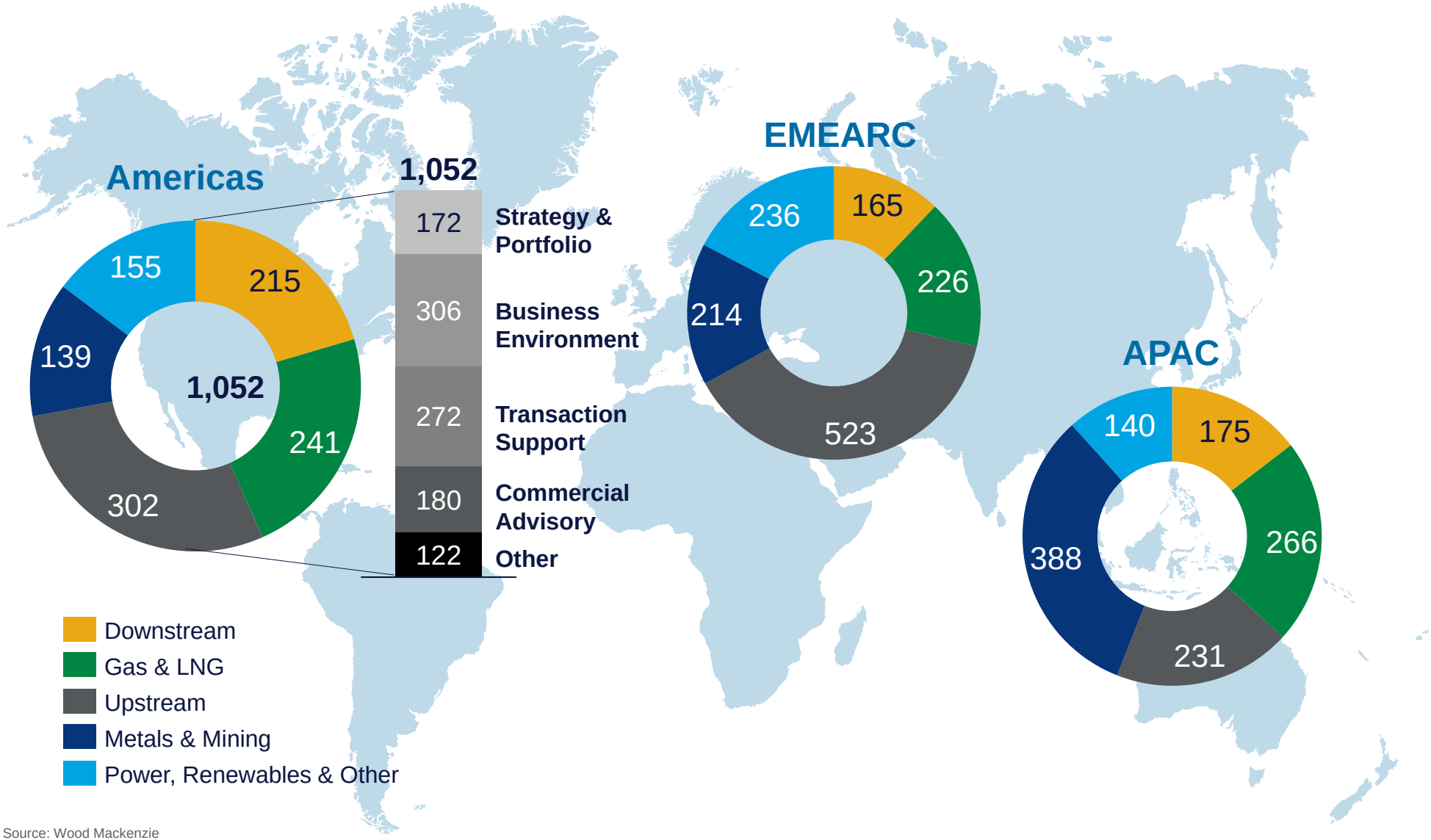
Trusted Advisor

An integrated research and consulting business with strong expertise and vast industry relationships across the global natural resources value chain

Our consulting teams bring world-class knowledge, methodology, and people to natural resources advisory engagements



Wood Mackenzie has completed 3,600+ consulting engagements across the natural resources sector over the past five years



Source: Wood Mackenzie

Wood Mackenzie is uniquely suited to provide commercial support and industry expertise leveraging our integrated Research tools

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Americas Transaction Projects 2015-2020

Crude Flow outlook for **60+** North American Pipelines

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Years of Experience

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170+
Americas Strategy Projects 2015-2020

Relevant Wood Mackenzie Tools and Accelerators

North America Crude Markets Service	**Crude disposition model covering every key supply basin and takeaway pipeline in North America** • 20 refining centers across eight crude oil quality categories • Price projections for 13 crudes • Dynamic nodal model that can quickly run supply, takeaway, demand and tariff scenarios on over 60 major pipelines
Refinery Evaluation Model	**Benchmark of Refinery Economics Around the World** • Model 700+ refineries globally (every refinery 50+ kbd) • 90% coverage of refining capacity in every region • >140 metrics on each refinery • 500+ historical net cash margin models and forecasts
Oil Supply Tool	**Global Oil Supply Forecasts** • 4,000+ supply nodes • 115+ countries covered • 600+ current and future crude stream forecasts • Underpinned by our field-by-field supply data
Product Market Service	**Detailed Country and Regional Forecasts for Refined Product Markets** • 100+ geographies and their major oil products
Lens	**Detailed Evaluation of Well Performance Across North America** • Powerful well level visualization tool for 100+ well cost, completion design and productivity metrics

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Ann-Louise Hittle – Senior Project Advisor

Vice President, Oils Research

Biography

Ann-Louise Hittle brings to Wood Mackenzie over 25 years experience in analysing global oil markets. She directed the development of and leads Wood Mackenzie's Macro Oils Service, launched in April 2005 and focused on global oil markets. Ann-Louise has established an international reputation for her analysis of short to long term oil markets.

Her career began with Gulf Oil after which she was Staff Editor with Petroleum Intelligence Weekly focused on OPEC and markets in Asia. Thereafter, she was Middle East/Oil Markets research associate with Kissinger Associates in New York and then Senior Oil and Gas Futures Analyst with Shearson Lehman Brothers.

Ann-Louise joined Wood Mackenzie from CERA, where she was Research Head of the Upstream Oil Service with responsibility for world oil market analysis and writing the long term scenarios.

Ann-Louise graduated from St. Lawrence University and holds a Masters Degree from Harvard University in Middle East Studies.

Connect with Ann-Louise

ann-louise.hittle@woodmac.com

+1 781 869 6803

WPXENERGY

April 8, 2020

VIA EMAIL RRCconference@rrc.texas.gov

Chairman Wayne Christian
Commissioner Christi Craddick
Commissioner Ryan Sitton
Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78711

c/o Callie Farrar, Commission Secretary
Callie.Farrar@rrc.texas.gov

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

Dear Commissioners:

On behalf of WPX Energy, Inc. ("WPX"), I would like to thank you for the opportunity to provide written comments on the motion referenced above and offer these as our official position in this matter before the Texas Railroad Commission ("RRC"). As you may know, WPX is an exploration and production company with substantial operations in the Delaware portion of the Permian Basin of Texas and New Mexico as well as operations in the Williston Basin of North Dakota. Our Texas operations represent a substantial portion of our daily production and as such these proceedings are of great interest to our company.

WPX is keenly interested in the outcome of these proceedings and it is our position that enacting a proration regime at this juncture is premature and unwarranted. Such action would represent an unnecessary infringement upon the market forces which are reshaping the supply-demand balance in global markets and are working to correct the current imbalance.

The conditions we are experiencing today represent the early stages of this most recent downward revision in oil market fundamentals. US producers have already begun to make the necessary adjustments to their capital spending and production efforts to correct for this period of oversupply and we fully expect that these conditions will continue to correct themselves as we move forward. WPX, along with a number of this country's large producers, have announced such cuts and curtailments to public markets and are in the process of rapidly shifting efforts to meet this current challenge just as we have many times in the past. These efforts have yet to fully impact

WPXENERGY

the market conditions that we see today, but we believe their impact will register soon. We further believe that efforts by the RRC to intervene have the potential to distort natural market forces and may prevent prices from moving back up to natural level once market fundamentals come back into balance.

WPX also understands that these current market conditions are suboptimal and represent a serious threat to the overall economic health of Texas and beyond. It is not lost on us that the conditions that we now face are not entirely of our own creation. Foreign governments are actively exacerbating current oversupply conditions with anti-competitive behavior in an attempt to win market share. It is critical that that our governmental regulatory authorities not heed their calls to adopt the same type of anti-competitive regimes as a condition of securing their promise to reign in their market manipulation. To do so now would mean that the solution to all such future actions on their part would be predicated on similar responses and would compromise American energy security.

American producers have responded to current conditions based upon free-market principles and maintaining these principles will ensure we weather this and subsequent storms. We encourage you to reject efforts to establish a proration regime in Texas and preserve a market-based system.

Respectfully,

Richard E. Muncrief
Chairman & CEO
WPX Energy, Inc.

Staale Gjervik
President
XTO Energy Inc.
22777 Springwoods Village Parkway
Spring, Texas 77389

April 8, 2020

VIA EMAIL: RRCconference@rrc.texas.gov

Chairman Wayne Christian
Commissioner Christi Craddick
Commissioner Ryan Sitton
Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78711

Re: ***Comments – XTO Energy Inc., An ExxonMobil subsidiary***
Motion by Pioneer Natural Resources U. S. A., Inc. and Parsley Energy Inc.
Requesting a Market Demand Order; *Oil and Gas Docket No.* OG-20-00003167

Dear Chairman Christian, Commissioner Craddick, and Commissioner Sitton:

We respectfully submit these comments, in lieu of testimony, opposing the referenced motion for a market demand order leading to a potential prorationing of production. The motion requests that the Commissioners issue a market demand order under circumstances that do not meet the requirements imposed by the Texas Natural Resources Code for entry of such an order. Moreover, the motion asks the Commissioners to take actions that would unquestionably interfere with the free market.

Free markets are most effective and efficient when there is stability and are best able to recover from periods of instability in supply and demand when government does not try to restrain or manipulate market forces. The operation of the free market is the most efficient means of sorting out the extreme supply and demand imbalances we are now experiencing. Indeed, the best manner in which to allow our economy to be fully restored is by addressing the public health crisis confronting us.

Market surplus and reduced prices are nothing new. This is not the first time, nor will it be the last time, that the oil and gas industry has confronted market surpluses and reduced market prices. Significant market downturns have occurred since 1973 (the last year of crude oil proration in Texas); examples include 1986 -1990, 1998, 1999, 2002, 2009, 2016, and 2020. The Railroad Commission did not institute oil proration as a response to any of those downturns.

Proposals to impose quotas or mandatory production cuts will lead to unintended consequences for the State to the benefit of competing states in the U.S. and countries abroad. When government has intervened in energy markets historically, as it did in the 1970s by imposing price controls on crude oil and gasoline, that action interrupted the market's response; it contributed to supply shortages and long lines for gasoline across the country.

The Commission should also deny the motion because it fails to offer adequate analysis to prove how much oil from each field in Texas would be needed to meet market demand, as required by Section 85.054 of the Texas Natural Resources Code. It does not purport to offer either allegations or evidence about the reasonable market demand for any individual field, or, for that matter, for the state of Texas. Rather, the

motion and the attached marketing reports discuss only national demand and storage. This fails to meet, or even address, the mandatory requirements of Section 85.054 of the Texas Natural Resources Code. The plain wording of Subsection (b) of Section 85.054 requires that the "the reasonable market demand of one pool shall not be discriminated against in favor of another pool" when the Commission is "ascertaining the reasonable market demand for the entire state." Additionally, Subsection (c) of Section 85.054 authorizes the Commission to "determine the reasonable market demand of the respective pool ... so that discrimination may be prevented."

The petitioners also fail to prove there is a wasteful excess of production, which is required under Texas law to enact the market demand order. The motion states, ***"[w]hen there is little or no storage, there is no place for oil shipments to go and <u>production will be shut in</u>."***

This undisputed fact – that production will be shut in by the operator – is critically important because it precludes any risk that production could ever exceed transportation and storage facilities or market demand. Subsection (10) of Code Section 85.046 defines waste as "production ***in excess of*** transportation or market facilities or reasonable market demand." Only if that excess production were to occur would the Commission have any authority to enter a market demand order.

With today's modern operating methods, the wasteful excess production that is the mandatory prerequisite for a market demand order will not happen. When originally adopted, the definition of waste in Subsection (1) of Section 85.046 addressed the then common operating practice in which operators would produce excess oil into earthen pits dug to hold oil until it might be transported to market. In modern times, that practice has been prohibited. That is no longer the way that wells and lease equipment are configured and no longer the way that producers conduct their operations. Instead, as correctly described by the motion, in the modern setting ***"production will be shut in."*** There is no authority for a Commission market demand order if the lack of transportation, storage, or market will prevent excess production. Without excess production as specified by the definition of waste in the Code, there is no legally valid basis for the Commission to enter a market demand order.

Although the motion fails to address the Code's definitions and requirements, it broadly asserts, without any supporting evidence or explanation that an unregulated shut in by producers would occur across the state in an "*ad hoc* and haphazard manner." However, there is no explanation of why this would, as the motion contends, "heighten industry disruption and cause economic waste." *Ad hoc* simply means done for a particular purpose as necessary, or when necessary or needed. Given the qualifications and experience of Texas oil producers, it is reasonable to expect each operator to devote extreme care to ensure that its wells are shut in in an orderly manner, as necessary or needed, and for the particular purpose of not producing more oil than the market can take. In other words, *ad hoc* correctly describes the automatic way in which operators will already act to prevent excess production, without any intervention by the Commission.

The very last thing that can be expected from such producers is that they would act in a "haphazard manner" given the value of the properties involved. The motion, however, goes on to assert that a shut in might somehow be haphazard, although it offers no evidence that any operator or producer might act haphazardly in shutting in its production. In fact, the normal expectation would be to the contrary. Haphazard does not describe how Texas operators conduct their business.

The motion also attempts to raise supposed risks of industry disruption and economic waste, again without any supporting evidence or explanation. No doubt, there will be unavoidable disruption in the production, sale, and transportation of oil. That disruption will occur automatically when production is shut in by producers, as described above. A market demand order would not stop that disruption.

In fact, a market demand order could itself cause disruption and economic waste by voluntarily renouncing Texas' share of the crude oil market. A market demand order will disrupt Texas oil production – an intentional regulatory action to surrender market share for crude oil. It is certain that other states will take up the slack created by any reduction in Texas production. The current situation faced by our industry is demand-driven, and it may be resolved only by improving demand over time.

We ask that you deny the motion for a market demand order.

Respectfully submitted,

Staale Gjervik
President
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