Texas Conservative Coalition Research Institute

April 8, 2020

Via Email
Chairman Wayne Christian
Commissioner Christi Craddick
Commissioner Ryan Sitton
Railroad Commission of Texas
1701 North Congress Ave.
Austin, Texas 78711
RRCconference@rrc.texas.gov

RE: Docket No. OG-20-00003167 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:

Thank you for the opportunity to comment on the Railroad Commission's consideration of imposing production limits on Texas oil producers. TCCRI opposes the request to curtail state output by 20%—or any number, for that matter—because it violates TCCRI's principles of limited government and free enterprise. Such an intervention would also likely harm the industry's ability to respond to market forces, which is ultimately what will be needed in order to recover in earnest. It also fails to account for the fact that as the entire state of Texas recovers from the current shutdown, low fuel prices provide an across-the-board benefit to that process.

TCCRI's principles of free enterprise and limited government are central features of Texas's oil and gas industry. Even though that industry is in a difficult position, it shares that position with the rest of the world, and when it recovers, it will do so on the strength of those principles.

A proration policy is the wrong choice for several reasons.

It is not clear that a mandatory limitation on Texas's oil production would ultimately help the industry. Even if we were to assume that Texas requires a production cut of 20% as the proposal calls for, there is no guarantee that the rest of the producers in the nation and the world will make a similar cut. Knowing that a large producer like Texas is taking such action may incentivize other producers to continue at their current pace or even slightly increase production. An artificially smaller market mandated by law could easily be seen as an opportunity for others without such a mandate. Furthermore, without such an incentive, those producers would likely respond to the market and limit their own production, which is ultimately what will need to happen in order for the market to improve and recover.

Indeed, regardless of any kind of government intervention, oil producers will need to change their behavior and adapt to what is currently happening in the marketplace. Government interventions such as mandated production cuts distort the market in ways that prevent producers from knowing how to respond appropriately. To illustrate, how does the government know that 20% is the appropriate number? What if it is 10% or 50%? What should the government's next step be if the marketplace does not respond to a mandatory 20% limitation? Should it increase the limitation? A far better approach is to let producers adjust on their own. If they are not producing at a profit with current prices, they will limit production appropriately until the marketplace tells them to change course.

This, of course, is already happening. The American Petroleum Institute recently pointed out that "[w]hile some argue the U.S., the world's leading natural gas and oil producer, also must cut production in some kind of evolving grand bargain, the private industry has already made cuts, driven by market realities."[i] Similarly, an economist with the Texas Alliance of Energy Producers explained that:

> Production … can't fall fast enough to keep up with the rate to which demand is dropping. The market is about to do this to us whether we take up a practice like proration, like they're talking about, or not.[ii]

Production is slowing because markets work, *not because they are failing*. Reducing output in response to declining prices is a rational response that occurs without government intervention. There is simply no need for the Commission to mandate an arbitrary reduction when the market is already responding appropriately. Fewer people are flying domestically during the pandemic too,[iii] but a government mandate to prorate the remaining flights between the various airlines would be similarly ill-advised.

The oil and gas industry is a cornerstone of the Texas economy. The desire to provide assistance in such a great time of need is understandable, but Texas should not forget that it is just one sector of the economy. Every individual and business in Texas is currently experiencing economic hardship. Like other industries, the oil industry will recover. In the meantime, low fuel prices are a boon to individuals, families, businesses, and entire industries. Those low prices make it less expensive to travel, transport, manufacture, and generally engage in business.

That is not to say that low fuel costs are more important than the industry that provides it. Rather, it is just to point out that every change in the marketplace has many consequences, positive and negative. While the oil and gas industry recovers, all of Texas clearly benefits from low prices. This point was made in 2016 by former economic advisor to President Trump, Stephen Moore:

> It isn't just motorists who benefit mightily from low energy prices. Energy is the fundamental input in *everything* we produce in America. The chair you are sitting in. The

> breakfast you ate this morning. The car you drive. The computer you power up … What about the argument that oil production is a big part of the American economy now, so the shocks to the oil industry cancel out the benefits felt elsewhere? That argument doesn't hold up. As a nation, we are sufficiently diversified to withstand oil slumps. Even Texas has seen growth as oil prices have fallen.[iv]

Since the days of Spindletop in 1901, a light regulatory hand has allowed the Texas oil industry to grow into one of the biggest and most successful in the world, through good times and bad. A proration policy would be a departure from the core principles that helped facilitate the industry's success. The industry will recover, and it is best to let that happen in the marketplace

TCCRI does not wish to provide live testimony, but we ask that our comments be included in the record.

Sincerely,

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END NOTES

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[i] Mitchell Ferman, "As oil price crisis grips the globe, small Texas producers feel the ripple effects," *The Texas Tribune* (Apr. 6, 2020), https://www.texastribune.org/2020/04/06/texas-oil-producers-shutting-wells-coronavirus-dispute-plummet-prices/
[ii] *Ibid.*
[iii] Nicquel Terry Ellis, "Chicago, Los Angeles and more airports shutter gates, runways as coronavirus halts travel," *USA Today* (Apr. 3, 2020), https://www.usatoday.com/story/travel/2020/04/03/u-s-airports-reduce-operations-travel-declines-due-coronavirus/2939126001/
[iv] "Are Low Oil Prices Good for the Economy?" The *Wall Street Journal* (Nov. 13, 2016), https://www.wsj.com/articles/are-low-oil-prices-good-for-the-economy-1479092581