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April 8, 2020

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

Chairman Christian, Commissioner Craddick and Commissioner Sitton:

Ovintiv Inc. ("Ovintiv") appreciates the opportunity to comment on the issue of oil proration being considered by the Railroad Commission of Texas (RRC). We oppose the petition seeking proration.

Ovintiv has carefully considered the petition and do not see this as a case for the Commission to exercise its authority because:

- This is not a case of "waste".
- The free market is efficiently addressing industry's challenges.
- Capital markets need certainty.
- Proration may not deliver fair outcomes.

Ovintiv is a publicly traded company focused on the development of unconventional resources with activities in several major basins across the United States and Canada. We invested approximately \$1.1B of our total 2.8B in Texas in 2019. We operate 2,260 wells with 1,070 being horizontal wells and have 150,000 net acres under lease in Texas. Ovintiv has 594 employees working in offices in The Woodlands, Midland, and Karnes City. We are also one of the top 10 largest oil producers in the state, producing 179,000 gross BOE/d. The RRC's regulations and policies have a significant impact on Ovintiv's investment in Texas.



No “Waste”

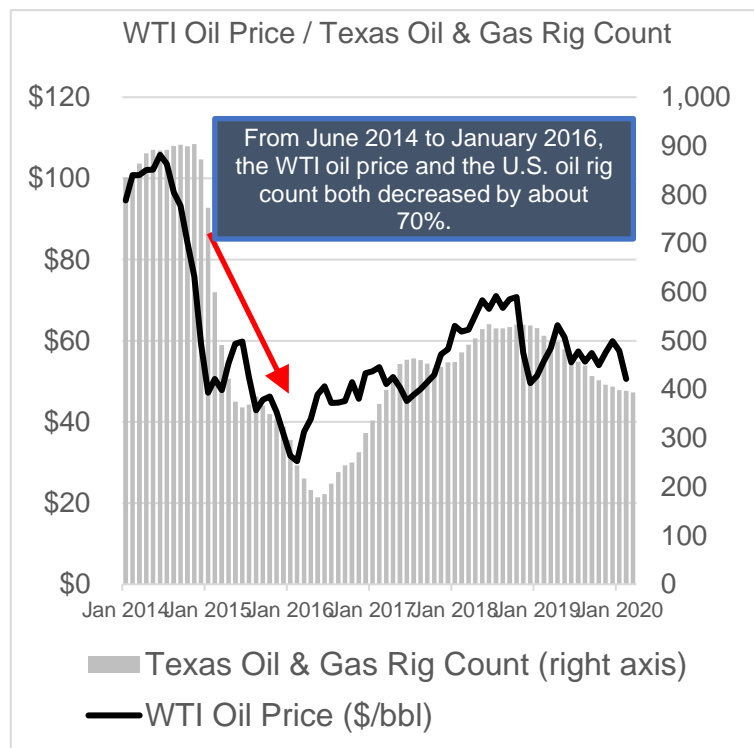
The proponents of proration seek rules or orders to “correct, prevent or lessen the waste” resulting from production exceeding demand. Without question, the global oil market is experiencing unprecedented demand disruption resulting from the COVID-19 pandemic. However, the Texas market is sophisticated and complex. We believe the independent actors in our free market economy are already addressing the issue of potential waste. Emerging data shows that the market has already taken swift action to correct the oversupply of oil production and continues to take corrective action daily. According to Goldman Sachs, “we see potential for full year U.S. capex to fall 30%”. In addition, at least one major U.S. producer has announced immediate production shut-ins of 30%.

Therefore, any risk of imminent waste is being addressed without necessity for the RRC to exercise its authority.

Free Market Efficiency

The market is quickly responding to low oil prices with the rig count falling by 18% in March alone. Rigs are a leading indicator of enormous reductions in production which follow. In fact, on April 7, 2020 the Energy Information Administration published their new “Short-Term Energy Outlook” which calls for U.S. crude oil production to decrease by ~1.7 Mbbls/d this year (~12.8 MMbbls/d in December 2019 to ~11.1 Mbbls/d in December 2020).

Although the current demand collapse is of historic proportions, it is not without historic analog. During the oil market collapse in 2015 and 2016, Texas operators quickly reduced investment, cutting rigs 70% in response (see chart). Our industry in Texas emerged from the painful 2015/16 downturn stronger, more efficient and more globally competitive. It accomplished all of this without prorating production in Texas. Similarly, the Texas oil and gas industry will navigate the current market, innovate, and emerge from this downturn stronger than ever.



Source: Baker Hughes, EIA



Regulatory Certainty

What has become known as the Texas oil & gas miracle is a function of innovation, private property rights, world class infrastructure and workforce, abundant resource and a predictable regulatory environment. It is also a function of competition and the ability to attract capital. Texas has attracted capital from around the globe. Success of the Texas oil and gas industry has directly contributed to the U.S. becoming energy independent for the first time in decades. It has benefitted Texas operators, royalty owners, taxpayers and consumers.

We also know that capital is fluid. It moves quickly to areas of lowest risk and greatest opportunity. Texas has always been strongly associated with free markets. Unexpected regulatory intervention would be interpreted as a new risk to investment in Texas. At a time when continued access to capital is critical to the viability of our industry, this would be an unwelcome development.

Fair Outcomes

The very question of how to implement proration demonstrates the inherent challenges of this petition. Proration would impact thousands of Texas companies; including oil and gas producers, midstream and pipeline companies, refiners and marketing firms. Some of this would play out over time in the courts, as industry players assess potential Force Majeure claims and other implications for their business not contemplated when contracts were written or business decisions were made. Proration will inherently apply unevenly across this very complex industry and have unintended consequences. This too will discourage future capital investment.

Companies that built businesses to withstand the downturns of the commodity cycles will be hindered by proration. And by blunting market signals, less efficient companies or less well positioned companies, are shielded. In the prior downturn, our industry embraced innovation and a lengthy list of efficiencies which emerged to strengthen our global competitiveness. With regulatory intervention, the ultimate competitiveness of the Texas oil industry may be lessened.

The bottom line is that allowing market participants to continue to make independent choices to optimize their business is the fairest and most efficient approach. If market participants are allowed to utilize the real-time data available to them, with regulatory certainty, we get the best outcomes in the least time.

We respectfully submit that proration is not required to mitigate waste; waste is already addressed by strong market forces. Individual companies are in a better position than government to manage their production. The continuation of Texas' predictable regulatory regime is the most critical service we can ask from the Texas Railroad Commission at this time.

Thank you for the opportunity to comment on this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas J. Suttles".

Douglas J. Suttles
CEO