

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 prorating before they placed their companies in such a position that they find themselves asking for government assistance in order to survive.

Market demand prorating 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

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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,

A handwritten signature in blue ink, appearing to read "M. Bradford Moody". The signature is stylized and cursive.

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
Austin, Texas 78711
Jared.Craighead@rrc.texas.gov

Via Email

Kathleen Hayden
Executive Assistant for Commissioner
Christi Craddick
Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78711
Kathleen.Hayden@rrc.texas.gov

Via Email

Wei Wang
Executive Director
Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78711
Wei.Wang@rrc.texas.gov

Via Email

Alex Schoch
General Counsel
Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78711
Alex.Schoch@rrc.texas.gov



M. Bradford Moody