Ed Hirs
BDO Natural Resources Fellow
University of Houston Energy Fellow
4265 San Felipe, Suite 1100
Houston, Texas 77027
713-961-9661

April 6, 2020

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

Testimony of Edward A. Hirs III before the Railroad Commission of Texas

Chairman Christian, Commissioner Craddick, Commissioner Sitton, ladies and gentlemen, thank you. My testimony is mine alone and does not represent views on this matter held by BDO USA, LLP or the University of Houston.

I will address the matter at hand: whether the Railroad Commission of Texas should unilaterally restrict Texas oil production by using its power to impose proration.

The short answer is no. Here's why.

On January 1, 2020, the price for Texas crude was roughly $60 per barrel. Now it is close to $20. The precipitous drop is primarily due to two factors: an increase in supply due to a foreign price war, and decreased world demand (from 100 million barrels per day to 80 million) resulting largely from the current coronavirus pandemic.

Oil is a relatively fungible commodity, and one that can be shipped worldwide, so competition in the market is global. Because the U. S. oil market is a free market with imports and exports, Texas oil producers compete with oil producers everywhere.

Texas produced approximately 3.9 million barrels of oil and condensate per day in January 2020 (according to recent Railroad Commission data). This is roughly five percent of current global demand. Reducing production in Texas would not bring supply and demand anywhere near the balance they enjoyed at the beginning of the year, so instituting proration would do nothing to raise the price of Texas oil.

Any producer can choose to shut-in production. At the current low prices, all but the most desperate high cost producers will stay out of the market and wait for prices to recover. Proration cannot help them, but proration will hurt low cost producers who can still produce profitably and want positive cash flow now.

The solution is to let oil producers and oil consumers reach a market equilibrium without government intervention. The well-known cure for low oil prices is low oil prices.