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>
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Subject: oil and free markets

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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
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