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April 8, 2020

Representing: Myself

To the Railroad Commission of Texas:

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

Dear Commissioners:

The ongoing price war between Saudi and Russian oil producers has introduced fresh volatility to the global oil market, further beleaguered by demand shocks from the COVID-19 pandemic. This price war has drawn hasty policy prescriptions from certain Texas regulators. Specifically, in a *Bloomberg* [column](#) Commissioner Ryan Sitton advocated for mandatory production cuts for Texas producers to abate market volatility. Several U.S. senators have also called for market intervention remedies in the form of trade restrictions.

In the face of adversity, now is not the time to abandon long held free market principles and an effective production strategy in favor of tactics aligned closely with OPEC and Russia.

Historically, quotas are an ineffective prescription that seldom work as a policy tool to improve a marketplace or protect domestic interests. Instead of engaging in a prolonged price war that will far outlast the current predicament (think the U.S./China trade war), we should allow America's oil producers to weather the storm and trust powerful realities; namely, superior reserves and advances upstream technology applications, and refining and export capacities that have afforded the U.S. a leadership position in the global oil market. Recent market developments have led the U.S. to become a net oil exporter.

Production restrictions threaten the US dominant position that the industry has built through technological innovation during the last 20 years. Hampering the efficiencies offered by hydraulic fracturing, horizontal drilling and other innovations would do nothing to strengthen the marketplace and will only introduce new costs to operations like wellhead monitoring. In fact, shale plays in Texas like the Permian and Eagle Ford have led to a rapid increase in U.S. oil production levels – [growing 11% in 2019 and surpassing 12 million barrels per day](#) – in large part due to our country's successful tradition of championing free markets and enlightened regulations.

As a former administrator of the Energy Information Administration, I am keenly aware that the data supports the case against proration quotas. Government efforts to dictate commodity prices in the past have frequently backfired in the short run and led to negative unintended consequences in the mid to long term. Throughout the 1970s natural gas price control programs created shortages and industry curtailments. This forced a number of Midwest factories to close in 1976 and 1977. These businesses then missed out on a natural gas oversupply in the 1980s that also had ill effects for domestic producers.

In response to falling prices, the Alberta, Canada government instituted a mandatory production cut in late 2018 – similar to the one contemplated in Texas – to bring Western Canadian Select (WSC) in closer proximity to Western Texas Intermediate (WTI) prices. The measure was modestly effective before the price differential widened past the disparity that prompted the initial round of production cuts. Alberta doubled down on their position, increasing the size of the cut, only to further cheapen WSC prices. By –mid-March of this year [WSC prices were a third of its WTI counterpart](#). Canadian actions have undoubtedly had negative effects on US companies and operations.

Any attempt to ration production at the state level would further hurt an industry that [supports 361,271 Texas jobs](#) and generates millions in taxes and royalties paid to local governments and communities. Abandoning our free market principles would be forgetting how we got to our enviable position in the first place. Further, regulators should be mindful of burdening producers who will inevitably have to respond flexibly to the volatile market developments as the world overcomes the economic fallout from COVID-19.

Texas Railroad Commission Chairman Wayne Christian offered wise insights on quota considerations, [noting](#) “First, Texas does not operate in a vacuum. If we prorate our oil, there is no guarantee other nations, or even states will follow suit,” [and that](#) “from a practical standpoint, the Railroad Commission has not prorated oil in over forty years; we do not have staff at the agency with experience in this process and our IT capabilities to handle this process are limited at best.” While Christian’s comments are reassuring, it is important that other officials understand the importance of the free market on this issue.

Because of the importance of the energy industry to all Americans, I would be happy to discuss this issue further with the commission or it’s designated representatives.

Regards,

Guy Caruso

Former administrator of the Energy Information Administration