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VIA EMAIL: RRCconference@rrc.texas.gov

Chairman Wayne Christian
Commissioner Christi Craddick
Commissioner Ryan Sitton

Railroad Commission of Texas
1701 North Congress Avenue
Austin, Texas 78711

RE: DOCKET NO. OG-20-00003167; 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

Dear Chairman Wayne Christian and Commissioners Christi Craddick and Ryan Sitton,

Thank you for the opportunity to provide remarks on the issue of oil proration that is currently before the Railroad Commission of Texas (RRC or Commission).

Marathon Oil is an independent E&P company, proud to be based in Houston, Texas. We focus on U.S. unconventional resource plays and are active in the Eagle Ford, Bakken, STACK/SCOOP and Permian.

In short, we support free markets and oppose actions suggested by the petitioners that aim to prorate domestic production in the great State of Texas.

We urge you to continue to support a free market that enables independent E&P companies—big and small alike to react to global market conditions. Texas consumers—and consumers around the world—benefit from a free market system that promotes efficiency and competition.

As a member of the Texas Oil & Gas Association and the American Petroleum Institute, we join our trade associations and others in opposing proration in Texas.

We do not believe proration in Texas would have the desired effect—or any meaningful effect—on global oversupply, and would only serve to disadvantage Texans, for four key reasons.

- (1) The purpose of proration is to regulate or limit production. According to the most recent data from the EIA, production cuts are already occurring to the extent that the US will return to being a net importer in 3Q2020. EIA predicts that there will be a reduction of 1.8 mmbbl/d or 14% between 4th quarter of 2020 as compared with 4th quarter of 2019 with no assumed proration by the State of Texas. That's the free market at work—letting natural forces incentivize producers to cut the least profitable barrels.
- (2) Proration by the RRC will only result in the reduction of production in Texas, and in a manner not dictated by market economics. As a result, capital will simply be invested elsewhere, harming the Texas economy in the long term and failing to impact global oversupply in the short term. While companies are contractually and commercially committed to many projects that will go ahead, it is the future investment activity that will be reconsidered. When fiscal or regulatory aspects impede value delivery or increase risk, capital migrates away to other basins.
- (3) Proration by company also helps to shelter inefficient companies, rather than letting market forces drive behavior. It protects weaker companies from true competition, increases inefficiency and again, harms the Texas consumers. In essence, it artificially allows less economic barrels into the supply mix.
- (4) The RRC has only ever implemented proration at a lease level, and that was over 40 years ago. Implementation at a producer level—without precedent—would likely require significant time and resources, making any proration impractical and untimely to address the current situation. Further, contrary to the assertion that operators without regulatory oversight will reduce production in an “ad hoc” manner, we would argue that operators are in fact in the best position to make determinations about which barrels are and are not economic.

In addition to the practical argument that Texas proration will not reduce global oversupply, and is therefore an ineffective solution, there are also policy reasons proration should not be employed.

There have been suggestions that if all the oil producing states act in concert, those states would be able to actually address more of the global oversupply. However, in reality, not all states have the ability to implement proration like Texas, and the RRC would have no ability to ensure other states followed their regulations to prorate.

In the future, proration laws could also be misused by special interest groups as a powerful weapon to restrict operations for reasons other than preventing waste or protecting correlative rights.


The shale revolution would not have begun here in Texas without free-market principles. We are facing a unique set of challenges, but the oil and gas industry will emerge from this

stronger than before. Artificial market manipulation by Texas will not help build this strength. The best solution to our current crisis is to get the world healthy and back to work, while not abandoning the free market principles that have created US energy independence.

Again, I urge you to vote against proration in Texas.

Thank you for the opportunity to comment. I would also like to request the opportunity to present live testimony before the commission on April 14, 2020.

Respectfully,

A handwritten signature in black ink, reading "Lee M. Tillman". The signature is written in a cursive style with a large initial "L" and "M".

Lee M. Tillman
Chairman, President and CEO