



April 8, 2020

The Honorable Wayne Christian, Chairman  
The Honorable Christi Craddick, Commissioner  
The Honorable Ryan Sitton, Commissioner  
Railroad Commission of Texas  
P.O. Box 12967  
Austin, Texas 78711-2967

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:

Concho Resources Inc. ("Concho") appreciates the opportunity, in lieu of live testimony, to provide written comments regarding the referenced motion brought by Pioneer Natural Resources and Parsley Energy. After reviewing the motion, complaint and requested relief that the Railroad Commission ("RRC") impose production limits for May 2020, Concho encourages the Commission to allow the markets to work as intended and not issue a rule or order prorating oil production to achieve "reasonable market demand".

Concho is one of the largest unconventional shale producers in the Permian Basin, with operations focused on safely and efficiently developing oil and natural gas resources. We are keenly aware of the global deterioration in oil and natural gas demand and resulting price destruction due to the unprecedented COVID-19 pandemic and the war for market share between Russia and Saudi Arabia.

We offer the following key points:

- Although the speed at which the markets have deteriorated is unprecedented, immediate government intervention is not warranted. Indications are that production in Texas, and across the nation, is already headed toward a dramatic decline in response to the pandemic and price war, as evidenced by the reported reductions in individual operator capital budgets, as well as the material decrease in the number of active drilling rigs. History has shown that material commodity price moves result in a corresponding impact to development operations and therefore production, and time should be allowed for the market to naturally adjust to prevailing supply and demand conditions. In fact, Concho, as well as other operators in the Permian Basin, have begun shutting in uneconomic production in rapid response to the

recent market shift. Once the market moves towards equilibrium, commodity prices will respond accordingly.

- Of the 13 states with the regulatory authority to implement production limits, Texas is the only state currently considering proration. As such, the implementation of proration in Texas would encourage increased production in other states and nations, thereby putting Texas producers at a disadvantage when competing in the global market. Texas producers alone cannot and will not be able to resolve the demand destruction caused by the COVID-19 pandemic.
- Accurate and fair production limits would be very difficult to implement across the basins and against the hundreds of operators in Texas, and any attempt to enforce those limits could potentially violate the property rights of mineral interest owners, leaseholders and operators. In addition, imposing production limits will lead to unintended consequences. For example, some parties to existing contracts would likely be forced to breach those contracts, or alternatively, be subject to an enforcement action as a result of being in violation of production limitations.
- Although the RRC has implemented proration in the past, to implement such a policy today would establish new precedent and move the industry away from a free market to one where industry relies on proration policy as market conditions fluctuate over time. Free market principles and regulatory certainty are what have driven innovation, competition and growth in the oil and gas industry, increased the national security of the United States and enabled a fundamental shift towards energy independence.

The COVID-19 pandemic, together with the injection of foreign supply into the oil market, have created tremendous uncertainty that is forcing the Texas oil and gas industry to make difficult and lasting decisions. That said, the Texas oil and gas industry has endured difficult times before and given the opportunity to focus on free market solutions, Concho is confident the oil and gas industry will emerge stronger than ever.

Thank you for your consideration of these comments.

Concho Resources Inc.