



SENATOR PAUL BETTENCOURT
DISTRICT 7

April 10, 2020

The Honorable Wayne Christian
Chairman, Railroad Commission of Texas
P.O. Box 12967
Austin, Texas 78711-2967

Re: Proposed Oil Pro-Rationing by the Texas Railroad Commission

Dear Chairman Christian,

It is my understanding that on April 14th the Texas Railroad Commission will meet to consider using its authority to implement statewide oil production cuts for the first time in nearly fifty years. I write this letter to strongly urge you and the other commissioners to reject any measure that replaces a market-driven approach to navigating COVID-19 with government-mandated production caps.

As a fellow free-market conservative, I know you share my reservations about government intervention in the economy. Before the Commission undertakes any kind of production caps, I strongly urge you and your fellow commissioners to examine whether or not caps would actually help or harm Texas producers through these turbulent times.

Some, like energy economist Ed Hirs at University of Houston, contend that government restrictions will not only not make a difference in the overall market, but will actually push some smaller producers into bankruptcy by limiting their ability to compete. Worse still, caps short-circuit the market by rewarding inefficiency. As Mike Sommers, president of the American Petroleum Institute, has said: "imposing a production or export quota on Texas crude would really penalize the most efficient producers while supporting less efficient companies."

Texas should not be in the business of picking winners and losers in the private sector. Instead, we should trust producers to adjust their production to fit current market trends. I am not alone in this thinking; both the American Petroleum Institute and the Texas Oil and Gas Association issued statements opposing mandatory limits on the production of oil and gas. I believe that Todd Staples said it best, "Texas enacting prorationing would disadvantage Texas, its producers, mineral owners and taxing entities."

CAPITOL OFFICE
P.O. Box 12068
AUSTIN, TEXAS 78711-2068
(512) 463-0107
FAX: (512) 463-8810

COMMITTEES:
SENATE COMMITTEE ON PROPERTY TAX - CHAIR
EDUCATION
FINANCE
HIGHER EDUCATION

DISTRICT OFFICE
11451 KATY FREEWAY, SUITE 209
HOUSTON, TEXAS 77079
(713) 464-0282
FAX: (713) 461-0108

Any action taken by the Railroad Commission to limit oil production will also negatively effect already dramatic reductions in severance tax receipts to the state. In 2019, the oil and gas industry paid over \$5 billion in severance taxes. Due to the recent significant drop in the price of oil per barrel and the corresponding reduction in production, severance tax collections currently, and unfortunately into the future, could be reduced by 50% or more. While this is a painful adjustment for all interested parties, allowing the free-market and smart hardworking Texans to weather this disruption is a better course of action than the proposed reduction in production being considered.

Texas has weathered such crises before. During the 1980s oil bust, the Railroad Commission wisely elected to not impose any production cuts. The market was allowed to sort out the balance between supply and demand at a time when oil prices were even lower than today. This stands in contrast with what I lived through in the 1970s when Texas last tried to intervene in the oil market. That intervention is now widely viewed as a failure of economy policy. This path of intervention should be avoided. There is a very good reason why the Commission has not imposed mandatory caps since 1973.

The strength of the Texas economy is in Texans' belief in a free market. Let's let the free market recover as fast as possible from the COVID-19 crisis and not impose artificial government production controls on Texas oil and gas producers.

Sincerely,

A handwritten signature in cursive script that reads "Paul Bettencourt".

Paul Bettencourt
Senator, Senate District 7