

As we think about how we will rebuild our economy, one point is clear: we need energy to power the machinery of rebuilding this great country. Whether you're operating a laptop, a tractor, or a entire manufacturing facility, we need the combination of energy sources to rebuild and grow stronger.

Introduction:

Much of the world economy has been ground to a halt by the COVID-19 virus and many Americans are facing financial devastation. On April 23, 2020, it was widely reported in the news¹ that the nation had lost 26 million jobs in just five weeks due to lockdowns imposed by state and local governments and recommendations at the federal level. That is one in six Americans who have lost their jobs since mid-March, the worst bout of layoffs on record.² Texas, the economic engine of the nation, has not escaped the devastation with 1.6 million claims for unemployment benefits filed since the week ending March 14.³ One economic report released Wednesday stated that Texas would be particularly hard-hit due to the instability of the energy market and is projected to lose 861,000 jobs in 2020.⁴ Another research consultant estimated that oil and gas jobs could decline by as much as 30% in the first quarter of 2020.⁵

The United States is currently the largest oil producer in the world — and Texas is the largest oil-producing state, accounting for 5 million of the 13 million barrels produced nationally each day. In fact, Texas is by far the top U.S. producer of both crude oil and natural gas. In 2019, the state accounted for 41% of the nation's crude oil production and 25% of its marketed natural gas production.⁶ Demand and production, however, are rapidly decreasing. Not only is the oil and gas industry being sidelined by the lack of demand due to the COVID-19 induced shutdown of the national and global economies, but the price war between Russia and Saudi Arabia has driven supply up and price down. I don't discount reports that this production ramp up was also an effort to harm shale producers in the United States.

A deal was cut with OPEC and other oil producing nations to reduce production by 9.7 million barrels per day, about 23%, in May and June,⁷ the deepest cut ever agreed to by the world's oil

¹ <https://www.npr.org/sections/coronavirus-live-updates/2020/04/23/841876464/26-million-jobs-lost-in-just-5-weeks>

² <https://newyork.cbslocal.com/2020/04/23/coronavirus-update-unemployment-continues-to-spike-with-4-4-million-new-claims-roughly-1-in-6-americans-have-lost-their-jobs-since-mid-march/>

³ See Workforce Commission Briefing dated April 22, 2020.

⁴ <https://www.ibtimes.com/us-economy-texas-projected-lose-more-1-million-jobs-due-coronavirus-oil-surplus-2963324>

⁵ <https://www.bloomberg.com/news/articles/2020-04-21/oil-industry-shed-51-000-jobs-in-march-amid-accelerating-crash>

⁶ <https://www.eia.gov/state/?sid=TX>

⁷ <https://www.marketwatch.com/story/whats-next-for-oil-after-prices-go-negative-saudis-other-producers-expected-to-do-more-to-curb-supply-2020-04-21>

producers. But the reduction is still insufficient in scale and past actions tell us that promises from OPEC and Russia are not always reliable. Though there are reports that OPEC plus is considering further production cuts, at this time no one can predict the duration of the COVID-19 pandemic and the impact on demand for oil, or the timing of the industry's recovery. Only one thing is certain: demand for oil will recover as the world loosens restrictions on movement and people begin to return to work.

Demand and Storage:

A result of the lack of demand for oil is a worldwide shortage of storage space for the oil that is currently being produced. Not only will this storage shortage persist until demand begins to recover, we are also on a path to top out our global storage capacity in late May or Early June unless something is done immediately.⁸ The main U.S. storage hub in Cushing, Oklahoma, the delivery point for much of the crude oil that is produced in west Texas, is expected to be full within weeks.

With current oil production below 90 million barrels per day and demand now fluctuating between at 70-80 million barrels per day⁹ it is clear that more cuts to production are necessary and more storage options are desperately needed. The questions are, quite simply, how are these further cuts achieved, and how can we gain more storage?

Proration:

With the combination of falling demand and a lack of necessary storage, some have called upon the Railroad Commission to utilize its power to curtail, or prorate, the production of oil and gas. It is important to note that we are specifically talking about statewide Texas production limitations due to a decrease in market demand.

The Railroad Commission held a ten-hour long hearing on the issue on April 14th, with a follow-up discussion on April 21st and a vote on the issue the morning of May 5th. Though the Commissioners heard varying viewpoints and arguments on the proration issue, I agree with the majority of the Commissioners that Texas should not reinstate statewide proration for one basic reason – the free market can act and adapt far quicker than government.

We are already witnessing producers react to storage shortages. Significant cuts to production are occurring without regulatory requirements from bureaucrats who lack specific knowledge

⁸ <https://www.msn.com/en-us/finance/markets/why-oil-at-negative-24100-isn-e2-80-99t-a-crazy-bet-anymore/ar-BB131BZM>

⁹ <https://www.forbes.com/sites/kenrapoza/2020/04/22/russian-energy-minister-on-oils-demise-lets-not-dramatize-this/#672a092a6bb5>

about the independent needs of companies and how they might best manage cuts across their diverse asset portfolios. We don't need bureaucrats picking winners and losers. If we abandon free-market principles for government mandated production limitations, the precedent for government intervention in the Texas oil and gas industry's business operations will permanently exist and could be more readily deployed in the future.

I applaud the Commission for taking testimony on the issue and allowing the voices of Texans to be heard. I am deeply sympathetic for Texans who are suffering in these uncertain times. However, I do not believe interference in the free market will provide the help the oil and gas industry needs. The market has begun its painful correction. I expect these cuts to naturally increase with continued volatility in West Texas Intermediate (WTI) crude futures. Again, U.S. producers have already reacted to cratering crude prices by cutting production by 900,000 barrels a day in what appears to be the biggest one-month reduction since the Great Recession.¹⁰

I believe that Russia and Saudi Arabia will likely be favorable to further cuts in production as their economies continue to feel the pain of the pandemic and the supply glut. In fact, Kuwait has said it has started cutting oil output ahead of May 1, the date worldwide suppliers had agreed to slash production. Although I do not believe proration is right for Texas, I do believe that certain actions are needed immediately to complement the current market corrections.

Call to Action:

First, we must immediately turn around the over 40 million barrels¹¹ of oil that Saudi tankers are carrying to the United States, as we speak. Frank Fannon, the U.S. Assistant Secretary of State for Energy Resources, said tariffs were a possibility and I believe they may be necessary.¹² We do not have the storage capacity and do not want their ships in our harbors when we need a market for our own American oil.

Second, a federal loan program should be established to allow the oil and gas industry to service their debt at a reasonable rate and begin to rebuild their business. By no means am I saying the loan program should be forced upon industry, but it should be an option.

In addition to funding, the government's role as a facilitator of communication between industry participants is more important than ever. For government action to be effective, industry members must be consulted for expert and practical industry advice. Government must be careful not to stifle the innovation and creativity that has led our nation to become the

¹⁰ <https://www.cnbc.com/2020/04/22/us-oil-production-plunges-as-the-industry-retrenches-and-more-cuts-are-expected-after-a-price-crash.html>

¹¹ <https://www.nasdaq.com/articles/ban-on-saudi-crude-wont-rescue-u.s.-oil-industry-2020-04-23>

¹² <https://finance.yahoo.com/news/incoming-50-million-barrel-saudi-21000227.html>

largest oil producer in the world. I want to ensure the conversation at the RRC consistently includes questions such as: What actions are needed to allow you to recover and thrive? What actions are necessary to help strengthen the state's oil and gas industry? How can the Railroad Commission remove regulatory obstacles and create paths that will keep us on the path to energy security?

In the near-term, I believe extraordinary action is needed to reduce oil supply until demand recovers. Ideas that originate in Washington are rarely efficient, but we should ask the federal government to help with the implementation of industry-driven plans for recovery. Some industries have called for the federal government to bail them out, but we must always remember that federal money only comes from two places – taxes and debt – and the taxpayer is on the hook for both. I believe another approach warrants exploration, one which provides liquidity for industry participants to service their debts and also builds in protections for the taxpayer.

Currently the Department of Energy is in the process of leasing available space in the Strategic Petroleum Reserve (SPR)¹³ to U.S. oil companies, but the federal government should instead purchase the crude oil to provide liquidity for the industry. The current value of any oil purchased by the government would not deliver enough liquidity to make a significant contribution to the debt service of the industry, so I would suggest the oil be valued at a higher, more reasonable price. For example, the price of WTI crude oil averaged \$57.00 a barrel in 2019. If the federal government were to fill the remaining approximately 79 million barrels of available storage¹⁴ space in the SPR and purchase the crude at \$57.00 a barrel, over \$4.5 billion dollars would be available for debt service. This money should be directed to lenders to provide bridge loans that will allow companies to remain viable until market demand returns.

In addition, the President and his administration should continue to request OPEC plus for further productions cuts. Kuwait has already begun cutting production prior to the May 1st deadline, and there is talk that Saudi Arabia is considering the same thing.¹⁵ If this is true then it is proof that countries that sought to take advantage of the situation to the detriment of the US are now recognizing the same demand and storage problems in a way that may give them justification for the cuts.

¹³ The SPR is the world's largest supply of emergency crude oil and was established reduce the impact of disruptions in supplies of petroleum products and to carry out obligations of the United States under the international energy program

¹⁴ The SPR has an authorized storage capacity of 714 million barrels but is currently at about 635 million barrels.

¹⁵ <https://www.cnbc.com/2020/04/22/us-oil-production-plunges-as-the-industry-retrenches-and-more-cuts-are-expected-after-a-price-crash.html>

Flaring:

The amount of flaring has grown alongside the increase in production, and I know that, generally, producers do not want to flare gas unless they must do so for legitimate reasons related to ensuring safe operations. However, just like in any industry, we must look for bad actors that seek to disregard permits limitations.

The Commission currently has sufficient authority from the legislature to curtail waste, and in some cases, flaring is just that – waste. We need to connect more natural gas wells to the market by facilitating the development of critical infrastructure and prevent waste. At this juncture, market demand has fallen, thus we must also look to reduce flaring through tougher enforcement and predictable permitting. Permitting that is clear and provides a uniform structure for flaring allowances. I believe that we should require precise locations for flaring activities, including GPS coordinates, so the Commission can work with its partners at TCEQ and the EPA to eliminate all unnecessary flaring.

I will work with industry and other advocacy groups to listen to the needs of both the people of Texas and the industry when addressing the issue of flaring. The need for more transport capacity is apparent and any barriers to building out that capacity should be removed. At the end of the day, flaring means the burning of a valuable resource. We must all work together to protect our environment while providing the tools for our vital oil and gas industry to operate safely and efficiently.

COVID-19:

I am proud both of the essential workers that are on the front lines of this fight every day and all of the people that have stayed home to prevent a catastrophic spread of this terrible virus. As noted above, we are dealing with an unprecedented interruption in global trade and facing unemployment that is accelerating at a quicker rate than in the Great Depression. Demand has fallen over most economic sectors due to the pandemic, and I believe that federal stimulus cannot bail us out of this issue. Congress has passed two relief bills of \$2 trillion, and most recently, \$484 billion. The responsibility for this additional debt will ultimately fall on the American taxpayer, as well as the responsibility for ramping up productivity.

We have a responsibility to ensure that our government does not infringe on the liberties guaranteed by the Constitutions of the United States and of Texas. Stay-at-home orders deprive you of your occupation, business and property, without any due process of law in violation of the Fifth Amendment right to due process. I do believe we are some time away from herd immunity, so we must also continue to employ sensible safeguards until that time, or until a safe and effective vaccine is developed. Safe and effective is key for any vaccine, and we must not sacrifice safety for expediency.



In the meantime, I applaud Governor Abbott for his plan to begin opening the economy with Phase One of the plan to reopen beginning this past Friday, May 1st. His plan to open the economy in phases is prudent as perhaps the most catastrophic thing we can do is to open the economy prematurely only to have the infection rate soar, making the comeback short-lived and meaningless.

Only ingenuity, innovation and creativity will return the Texas economy back to the top of the list, and this can only be possible with the deployment of our Texas values of free enterprise and entrepreneurship. I encourage you all to buy Texas and buy American at every opportunity.

