

March 30, 2020

**VIA EMAIL AND FAX**

Chairman Wayne Christian  
Commissioner Ryan Sitton  
Commissioner Christi Craddick  
Railroad Commission of Texas  
1701 North Congress Avenue  
Austin, Texas 78711

c/o Callie Farrar, Commission Secretary  
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**Re: Motion Requesting a Market Demand Hearing and Order by Pioneer Natural Resources U.S.A. Inc. and Parsley Energy Inc.**

Dear Chairman Christian and Commissioners Sitton and Craddick:

Attached to this letter please find a Motion, containing a verified complaint, requesting the Commission to conduct a hearing for the purposes of determining the reasonable market demand for oil, whether wasteful production either is occurring or is reasonably imminent, and, if so, the necessary and appropriate proration orders to prevent such waste. We urge the Commission to hold a virtual hearing for these purposes no later than April 13, 2020, and to issue promptly thereafter an order setting the reasonable market demand for oil from Texas beginning with the month of May 2020.

The causes and consequences of the oil market collapse enveloping Texas compel prompt Commission action. Oil purchasers and marketers – including Plains Marketing L.P. and other purchasers, which together are responsible for purchasing over one million barrels per day in Texas – have advised our companies that oil storage availability in May will be limited and producers should reduce oil production. Large-scale production interruptions appear inevitable and imminent. Without Commission action, operators will shut-in wells in an *ad hoc* and haphazard manner that will heighten industry disruption and cause economic waste. In short, the Commission must act promptly to ensure the shut-in process takes place in an equitable and orderly manner across the state.

***The Extraordinary, Unforeseeable Crisis***

Prorating orders by the Commission are not warranted except in extraordinary circumstances. But today, the Texas oil industry faces disruptions that far surpass the merely extraordinary: the global COVID-19 pandemic has collapsed global demand, while foreign oil producers simultaneously have ramped up production to gain market share explicitly at the expense of U.S. shale oil producers. Nearly overnight, U.S. producers have been engulfed by the largest imbalance in history in global supply and demand for oil. This massive oil glut will quickly overrun

available storage capacity and drive down oil prices to shut-in levels, threatening investment, especially in Texas.

We include with the Motion reports by respected business intelligence and research firms that make clear why the recent collapse in oil prices will decimate the achievements of the Texas shale revolution unless producers and regulatory bodies take decisive mitigating actions. Among the key points of these experts are:

- World oil supply will exceed demand in the first half of the 2020 by approximately 1.8 billion barrels.
- Most of this previously unimaginable surplus will be concentrated in the second quarter of 2020, when 100 million barrels or more could be added each week to inventories.
- In the first half of 2020, the global oil surplus will exceed available crude oil storage, which is estimated to be no more than ~1.5 billion barrels.
- As a result of these conditions, U.S. oil producers will necessarily shut in production, lay off employees, and take other actions to reduce costs as cash flow evaporates.

With production exceeding five million barrels of oil per day, Texas is the largest producing state. If Texas stood alone as a country, it would be the fourth largest oil producer in the world. The oil and gas industry employed over 361,000 of our fellow Texans last year, accounting for 40 percent of all oil and gas jobs in the United States. A severe economic downturn will hit communities like Midland, Texas especially hard, as 42.5% of its jobs are in energy and energy-related industries that experts have identified to be at high risk from the economic effects of the COVID-19 outbreak.

This powerful impact is not simply speculative: newly released data show how harshly commercial closures are already hitting workers. On March 27, the U.S. Department of Labor released weekly unemployment insurance claims data for the week ended March 21. Nationally, new jobless claims leaped over 3 million – the largest weekly increase in history. In Texas, new claims rose from 16,176 to 155,657.<sup>1</sup>

Growth in Texas shale oil production is a major contributor to current U.S. oil production of over 13 million barrels per day – the United States is now the largest oil producer in the world. As a result of this growth, the United States has achieved a position of energy independence that seemed remote only a few years ago. Unfortunately, the collapse in oil prices threatens U.S. energy independence. Industry forecasts predict U.S. production could lose up to 6 million barrels per day in the next 18 months. At those levels, the United States will not return to its position of energy dominance and will again become reliant on foreign oil producers to meet its energy needs.

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<sup>1</sup> <https://www.dol.gov/ui/data.pdf>

In addition to weakening U.S. national security and decimating the oil and gas industry in Texas, increasing U.S. reliance on foreign oil producers will also hit consumers hard. They will bear the burden of price gouging when these same foreign producers –now with a substantially larger market share – implement policies favoring much higher commodity prices, with little ability for the depleted Texas oil and gas industry to respond. Critical Texas public services, including schools, will also suffer from the loss of tax revenue previously generated by our industry. Disorderly shut-downs and industry disarray would intensify the revenue losses.

***Prorating Would Be a Responsible Measure in the Public Interest***

Urgent action by the Commission is a necessary complement to federal and state responses to the combined health and economic crises our nation now faces. Around the world, governments are mandating cessation of commercial activities except for critical functions. In the United States, leaders at every level of government – from President Trump to state governors to local mayors – have declared states of emergency and are taking new measures daily to protect the public health. Cities across Texas have issued stay-at-home orders, while Governor Abbott has ordered, among other measures, a limit on the size of public gatherings.

We applaud this government leadership. But the Commission must recognize also that while necessary to protect public health, such mandates necessarily mean evisceration of demand for oil. The oil market is effectively now operating subject to global government regulation. Producers in Texas are responding as they must; the only question is whether the hard brake will be orderly. We believe the Commission has an opportunity – indeed, the responsibility – to help ameliorate some of the adverse impact on the Texas industry and the overall Texas economy that flows from these and other imperative government mandates.

We have heard concerns that the Commission should not prorate production because Texas cannot alone address the current market chaos; that instead, measures must be undertaken and coordinated by national governments. We agree that engagement among national governments is essential. However, recognizing the imperative need for a national response does not mean that Texas is powerless to contribute to market-calming actions. To the contrary, Texas is well-positioned to jump-start an international solution. What Texas does will be heard around the world.

Proration of oil production is a well-established tool available to state leaders and regulators in the United States. The Texas legislature long ago empowered the Commission to prorate oil production in Texas based on market demand, in order to meet the Commission's dual responsibilities of promoting economic development while preventing physical waste. If the State of Texas is willing to make these difficult decisions for the good of our industry, then other jurisdictions around the United States and the world will be inspired to follow our state's lead. Decisive action by the Commission is entirely justifiable in a time when President Trump, all state governors, and numerous local authorities have declared emergencies and invoked extraordinary regulatory authorities to combat the health and economic disaster that is enveloping our nation. That disaster is extending to the oil industry.

We urge the Commission also to set aside objections to a hearing on the speculative fear that once the Commission takes any step toward possible proration, it cannot stop nor will it ever be able to re-shelve this authority. We disagree. The circumstances surrounding the current crisis are virtually unprecedented, but also temporary. We would welcome Commission action that is explicitly temporary in nature and is drafted to expire automatically after some limited, specific time period that the Commission deems sufficient for this crisis to abate.

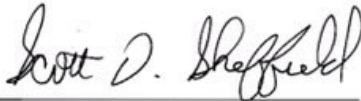
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Over the past few years, the energy renaissance in the United States has been nothing short of remarkable. Through private enterprise and innovation, the oil and gas industry has propelled the United States to become the leading global producer, delivering affordable and environmentally responsible energy throughout the world. The industry's feats have vastly improved the United States' strength in foreign relations, while delivering massive economic benefits to all Americans, but most especially to our fellow Texans.

All of those achievements are now at stake. We thus implore you to act as stewards of Texas's oil resources and to support rationally tailored actions – consistent with the Commission's stated mission – to “enhance development and economic vitality for the benefit of Texans.” As the chief executive officers of the second and tenth largest oil producers in the State of Texas, we are responsible for the employment of thousands of employees by our companies and our contractors. It is on their behalf, as well as other companies that share our concerns, that we submit this request.

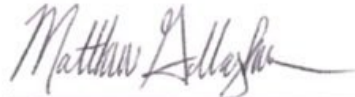
With respect,

Pioneer Natural Resources USA, Inc.



Scott D. Sheffield  
President & CEO

Parsley Energy Inc.



Matt Gallagher  
President & CEO

cc: Governor Greg Abbott  
Lieutenant Governor Dan Patrick  
Senator John Cornyn  
Senator Ted Cruz