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Questions for the Commission.

When the commission was regulating Texas production fifty years ago, the process began with the industry providing expected demand numbers to the commission. The commission then matched allowable production with expected demand. As the industry considers a process to deal with the current oversupply of production, does the commission have expected demand numbers as a target for reduction?

The oversupply problem that the commission is addressing is not just a Texas oversupply, it is a global surplus. Who will provide the numbers for the global oversupply to the commission? And will the numbers extend the time period to anticipate a reduction, going forward, for the needed continuing reduction from Texas?

During the successful implementation of pro-rationing that ended fifty years ago, the price of crude was dictated by the refinery purchasers of oil through a posted price system, predominately led by the major international oil companies. Is it expected that the industry will restore a posted price or will it continue to utilize the regulated futures market, with its random and highly volatile swings based only on speculative fervor, to determine the price of crude?

The current oversupply is composed of two major elements: 1) The long-term buildup of productive capacity encouraged by prices being too high and thereby inappropriately encouraging the creation of too much productive capacity on a global basis. 2) A short-term abrupt and severe demand destruction by the COVID-19 virus. Each element needs to be addressed, but the actions required for one is distinct and different from the other. Is the commission dealing with these elements as separate and distinct challenges?

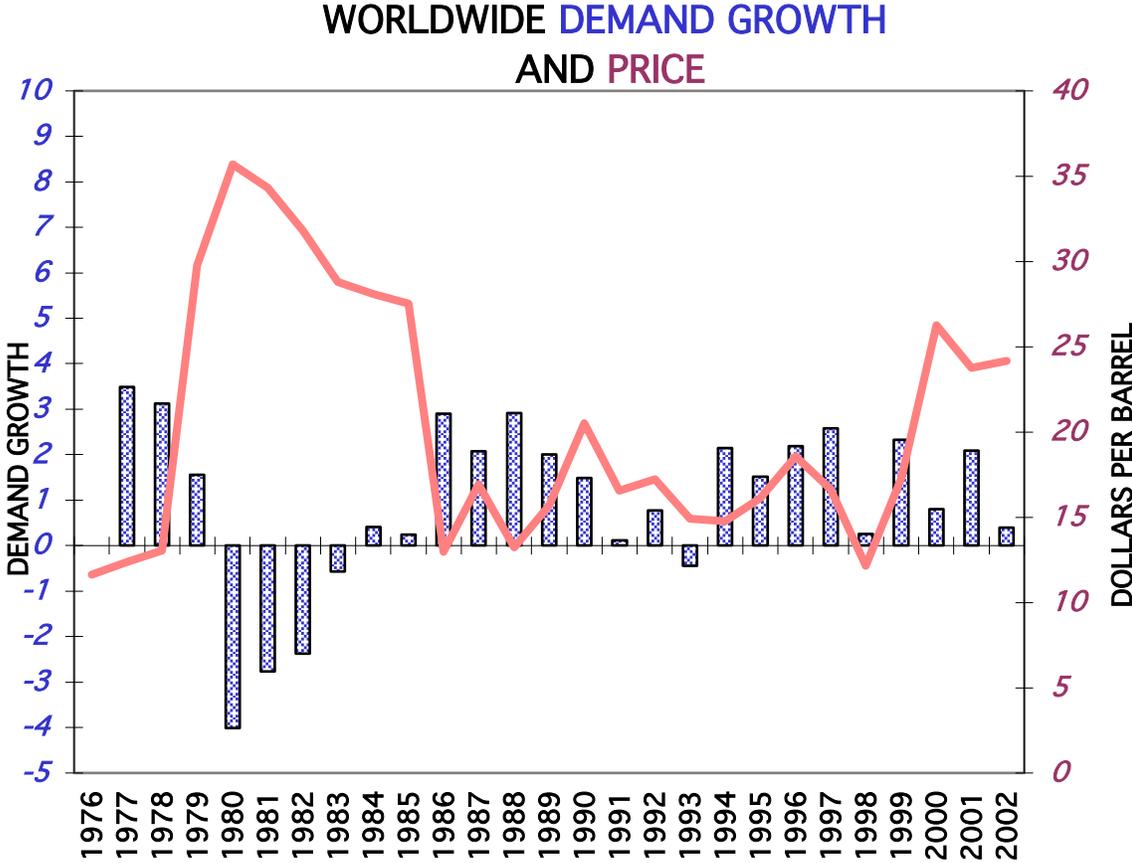
Prior to 1970 the global petroleum industry was managed with stability by the dual actions of the Texas Railroad Commission's quantity control (pro-rationing) and the major oil companies price control (posted crude prices). OPEC took over the job after 1970 with the result that price volatility soared from a range of pennies to a range of more than 1500%. OPEC adopts oil futures contract prices as their oil price and allows the resulting, highly variable price to set production expectations and shut-ins. The result has been a thirty-year cycle of prices moving from unreasonably low prices to unreasonably high prices during the thirty-year swing. We are now on the downside of the most recent overpricing foray that began after the year 2000 and produced expectations, going forward of prices above \$100/B

forever. The average price over this fifty-year period is between \$30 and 40/B. Has the commission defined the price level that will allow productive capacity installation to match the expected demand levels that would be created at that price level?

Has the commission decided upon the mechanism for implementing the selected price level?

One popular misconception is that short-term supply/demand imbalances or inventory swings determine the daily price of crude. Either simple logic or a cursory look at the data prove this popular belief to be invalid and in fact, impossible. From the logical standpoint, how can numbers, such as inventory levels, that will not be available for many months, determine today's decisions on the price for today's cargo nomination for May loading (also the futures price basis)? That is impossible.

For a cursory but instructive look at the data, the following chart of historical data for a similar demand-falling period obliterates the idea that the price move resulted from an inventory or demand change.



Price is the starting point. And that price is selected by the controlling elements of the industry. That selection can be intelligently based, or randomly based. Futures-based pricing, OPEC's current method, is randomly based.