May 7, 2020

Chairman Todd Hiett
Commissioner Dana Murphy
Commissioner Bob Anthony
Oklahoma Corporation Commission
PO Box 52000
Oklahoma City, OK 73152-2000

RE: Oklahoma Corporation Commission Cause Number 202000984
Comment on Proposed Proration Formula

Chairman Hiett, Commissioner Murphy and Commissioner Anthony:

Ovintiv Inc. ("Ovintiv") appreciates the opportunity to comment on the issue of oil proration being considered by the Oklahoma Corporation Commission ("OCC"). Ovintiv opposes the application submitted by the Oklahoma Energy Producers Alliance, Cause Number 202000984, seeking a determination of waste and the proration of crude oil production.

Ovintiv has carefully considered the petition and do not see this as a case for the Commission to exercise its authority because:

- This is not a case of "waste".
- The free market is efficiently addressing industry’s challenges.
- Capital markets need certainty
- Proration may not deliver fair outcomes.

Ovintiv is a publicly traded company focused on the development of unconventional resources with activities in several major basins across the United States and Canada. We invested approximately $875 million of our total company-wide $2.8 billion capital expenditure in Oklahoma in 2019. We operate approximately 900 wells and have 385,000 net acres under lease in Oklahoma. Ovintiv has 93 employees working in offices in Oklahoma City, Okarche, and Foster. We have one of the largest drilling programs in Oklahoma and are also one of the largest producers in the state, producing approximately 210,000 BOE/d. The OCC’s regulations and policies have a significant impact on Ovintiv’s investment in Oklahoma.

No “Waste”

The proponents of proration seek OCC relief to prevent waste and to determine that there is not market demand at a price equivalent to the actual value. Without question, the global oil market is experiencing unprecedented demand disruption resulting from the COVID-19 pandemic. We believe the independent actors in our free market economy are already addressing the issue of potential waste. According to the latest data from the Energy Information Administration, U.S. production has dropped to 11.9 million barrels per day, a significant decline from the 13.2 million barrels per day in mid-March. Mercuria Energy Trading is projecting U.S. production to be down 2 million barrels per day in May.
Three of the largest U.S. oil producers – Exxon Mobil Corp., Chevron Corp., and ConocoPhillips – have already announced plans to reduce their U.S. production by as much as 660,000 barrels per day by the end of June. Consistent with these trends, Ovintiv has taken action including reducing capital, shutting in production and deferring bringing on new wells across our portfolio. Operators of all sizes are acting in a very prudent manner, letting the market and individual actors make optimal economic decisions.

Therefore, any risk of waste is being addressed without necessity for the OCC to exercise its authority.

**Free Market Efficiency**

The market is quickly responding to low oil prices with the U.S. rig count falling by over 50 percent since February. Rigs are a leading indicator of enormous reductions in production which follow. Although the current demand collapse is of historic proportions, it is not without historic analog. During the oil market collapse in 2015 and 2016, Oklahoma operators quickly reduced investment, cutting rigs by nearly 60 percent in response (see chart). Our industry in Oklahoma emerged from the painful 2015/16 downturn stronger, more efficient and more globally competitive. It accomplished all of this without prorating oil production. Similarly, the Oklahoma oil and gas industry will navigate the current market, innovate, and emerge from this downturn stronger than ever.

**Regulatory Certainty**

The U.S. shale revolution is a function of innovation, private property rights, world class infrastructure and workforce, abundant resource and a predictable regulatory environment. It is also a function of competition and the ability to attract capital. The U.S. has attracted capital from around the globe. The success of the Oklahoma oil and gas industry has directly contributed to the U.S. becoming energy independent for the first time in decades. It has benefitted Oklahoma operators, royalty owners, taxpayers and consumers.

We also know that capital is fluid. It moves quickly to areas of lowest risk and greatest opportunity. Unexpected regulatory intervention would be interpreted as a new risk to investment in Oklahoma. At a time when continued access to capital is critical to the viability of our industry, this would be an unwelcome development.
Fair Outcomes
The very question of how to implement proration demonstrates the inherent challenges of this petition. Proration would impact hundreds of Oklahoma companies; including oil and gas producers, midstream and pipeline companies, refiners and marketing firms. Some of this would play out over time in the courts, as industry players assess potential Force Majeure claims and other implications for their business not contemplated when contracts were written, or business decisions were made. Proration will inherently apply unevenly across this very complex industry and have unintended consequences. This too will discourage future capital investment.

Companies that built businesses to withstand the downturns of the commodity cycles will be hindered by proration. And by blunting market signals, less efficient companies or less well positioned companies, are shielded. In the prior downturn, our industry embraced innovation and a lengthy list of efficiencies which emerged to strengthen our global competitiveness. With regulatory intervention, the ultimate competitiveness of the Oklahoma oil industry may be lessened.

The bottom line is that allowing market participants to continue to make independent choices to optimize their business is the fairest and most efficient approach. If market participants are allowed to utilize the real-time data available to them, with regulatory certainty, we get the best outcomes in the least time.

We respectfully submit that proration is not required to mitigate waste; waste is already addressed by strong market forces. Individual companies are in a better position than government to manage their production. The continuation of Oklahoma’s predictable regulatory regime is the most critical service we can ask from the Oklahoma Corporation Commission at this time.

Thank you for the opportunity to comment on this matter.

Sincerely,

Matthew R. Vezza
Vice President & General Manager, Anadarko Operating Area