May 8, 2020

Chair Todd Hiett
Vice Chair Bob Anthony
Commissioner Dana Murphy
Oklahoma Corporation Commission
2101 N. Lincoln Blvd.
Oklahoma City, OK 73105


Dear Chairman Hiett, Vice-Chairman Anthony, and Commissioner Murphy:

On behalf of the American Petroleum Institute (API), I appreciate the opportunity to submit these comments to the Oklahoma Corporation Commission (Commission) concerning the Application by the Oklahoma Energy Producers Alliance, et al., (Applicants) to provide for the prorationing of the production of crude oil in the state of Oklahoma, among other relief.

The oil and natural gas industry faces unprecedented challenges in the face of the COVID-19 pandemic, and consequently the swift and sudden decline in oil demand. Nevertheless API opposes this application, as we believe proration measures will be ineffective to address the current situation and could acerbate the problems. Additionally, we believe that market fundamentals are realigning and serving to mitigate against this disruption. Upon review of recent market data since the filing of this Application on April 10, we are confident that the free market in Oklahoma is functioning efficiently, oil demand is showing hopeful signs as the economy gradually re-opens, and producers in a key producing state will be well-positioned to aid the nation and the world in an economic recovery.

1. Production has already fallen and is projected to continue to fall.

On May 6, the Energy Information Administration (EIA) released their Weekly Petroleum Status Report (WPSR) for the week ending May 1, 2020. EIA found that U.S. crude oil production was 11.9 million barrels per day (mb/d), which represented decreases of 0.2 mb/d from the previous week and 1.1 mb/d since the last week of March. EIA further projected in its Short-Term Energy Outlook that domestic production could drop by another 0.9 mb/d by June 2020. In addition, the May 1 Baker Hughes rig count reported 325 U.S. oil-directed rigs running as of May 1, a decrease of 52% over the previous two months, the largest drop in over 30 years.

The Applicants are seeking an open-ended proration order of potentially any amount over a potentially unlimited time frame to curtail production in Oklahoma. Yet according to EIA, U.S. producers have already significantly reduced production without government mandates for the month of April alone. By the end of May, EIA projects that total domestic production cuts for the quarter could total more

---

1 API is the national trade association representing all aspects of America’s oil and natural gas industry. Our 620 corporate members - from large integrated oil and gas companies to small independent companies - comprise all segments of the industry. API member companies are producers, refiners, suppliers, retailers, pipeline operators and marine transporters as well as service and supply companies providing much of the nation’s energy.


3 Available at https://www.eia.gov/outlooks/steo/.

4 Available at https://rigcount.bakerhughes.com/static-files/f2844809-a3b2-4a38-8058-b6834388de7e.
than 1.8 mb/d, or close to 20% on a nationwide basis. The market is therefore working to rebalance without government intervention, and the Commission should not now step in to grant relief that the Applicants are likely to receive substantially if not completely from the operation of the free market.

2. **U.S. petroleum demand has risen since the filing of the Application.**

The EIA WPSR additionally found that U.S. petroleum demand was 15.4 mb/d as of May 1. This represented a decrease of 0.4 mb/d from last week, but an increase of 1.3 mb/d over the past two weeks. Meanwhile, refinery throughput also increased to 13.4 mb/d for the week, with increased deliveries of gasoline (up by 0.8 mb/d from the previous week), the product for which demand has been arguably been hardest hit by global shelter-in-place orders. While these trends are only supported with somewhat limited data for now, they are promising and could indicate that the worst of the demand-related effects of COVID-19 is behind us, particularly as certain jurisdictions begin to ease travel restrictions. This trend is further reflected in EIA’s projections of global supply and demand equilibrium:

Moreover, the preponderance of third-party estimates for the global economic boost to come from the approximately $8 trillion in stimulus measures by central banks to date indicates robust GDP growth for 2021:
Taken together, with U.S. production projected to fall by 1.8 mb/d by June, recovering domestic and global demand, and unprecedented stimulus measures in place, there is simply no role for government-mandated proration.

3. A Commission finding that United States market supply exceeds demand would fail given current data.

The Application variously alleges that crude oil market supply exceeds demand in Oklahoma, a threshold finding required before the Commission could affirmatively find that there is economic waste. However, as a state, Oklahoma has long been a net exporter of oil and natural gas, so the criterion relates more to the U.S. national supply/demand balance. On this basis, EIA data indicate that the U.S. produced 11.9 mb/d of crude oil for the week ending May 1, while U.S. refinery throughput into crude oil distillation units (that is, simple refining) increased to 13.4 mb/d for the week. The U.S. extracts additional liquids from natural gas, but from the standpoint of domestic crude oil supply and demand, the U.S. has in fact demanded more than is produced domestically. Separately, from the standpoint of the U.S. petroleum trade balance, EIA reported for the week of April 24 that the U.S. was a net importer of 2.0 mb/d of crude oil and 1.9 mb/d of total crude oil and refined products.5

Consequently, while local supply/demand conditions may be imbalanced in the current environment, from a national standpoint the U.S. has crude oil and total petroleum demand that exceeds its supply, and Oklahoma is among the most economically competitive sources of domestic supply. By the Commission’s own criteria, these data do not support an affirmative finding of economic waste.

---

5 Available at [https://www.eia.gov/dnav/pet/pet_move_wkly_dc_NUS-Z00_mbblpd_w.htm](https://www.eia.gov/dnav/pet/pet_move_wkly_dc_NUS-Z00_mbblpd_w.htm).
4. No other state has implemented proration measures in response to COVID-19, and where they have been implemented in the past, they have failed.

On May 5, a similar request for proration was rejected in Texas.\(^6\) And this Commission has already found that “operators/producers may shut-in or curtail oil production from wells where they determine such action is necessary and warranted to prevent economic waste,”\(^7\) a conclusion directly at odds with the relief sought in the Application. Nor have proration measures been adopted in states with similar authority to that of the Commission, including Kansas and Louisiana.

In one jurisdiction that recently implemented proration measures in response to declining prices – the Province of Alberta – the market effects were exactly the opposite of what was intended by policymakers. The province of Alberta contributes more than 98% of Canada’s oil production, which grew by 8.9% between 2017 and 2018.\(^8\) This rapid production growth occurred at the same time as Canada was unable to expand or build new export pipelines and resulted in exceptionally low oil prices for Western Canadian Select (WCS) heavy oil. According to Bloomberg data, WCS historically traded at prices about 20% below WTI but averaged nearly 50% below WTI over the second half of 2018.

Consequently, “to protect the value of our oil, the Government of Alberta temporarily limited production to match export capacity to prevent Canadian crude from selling at large discounts.”\(^9\) Within two months, the curtailment raised the relative price of WCS to within 15% of WTI. However, curtailment turned out not to be temporary, has remained in effect almost a year and a half later, and has involved Alberta dictating even larger curtailments. Despite increased curtailments, the WCS crude oil discount re-widened to 33% below WTI in the fourth quarter of 2019 and grew to 75% below WTI at the end of March 2020. This price differential was not only worse than before proration, it led to lost opportunities for new investment, infrastructure expansions and economic growth over the period. Oklahoma would do well to learn from Alberta and avoid implementing an open-ended, unlimited proration scheme as requested by the Applicants.

* * *

API appreciates the opportunity to provide these comments and looks forward to working collaboratively to help address Oklahoma’s challenges. Should you have any additional questions, please contact me at (202) 682-8530.

Sincerely,

R. Dean Foreman

R. Dean Foreman, Ph.D.
Chief Economist
American Petroleum Institute


