



**Statement of Tom Sanzillo
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Comments:

**In Favor of the Texas Railroad Commission adoption of production goals for oil and gas industry.
April 14, 2020**

Good morning, I am Tom Sanzillo, Director of Finance at the Institute for Energy Economics and Financial Analysis. We are arguing in favor of the Commission setting production goals for the oil and gas industry.

I understand that the RRC as an institution is not perfectly suited for this role. But it's the best forum we have and, as such, the Commission has a responsibility to take bold action now as it has throughout its history.

The problems of oversupplied markets and low prices, aligning interests within the industry, technological competition and the changing composition of economic growth predate the coronavirus outbreak and will persist long after the pandemic passes.

The demand freeze brought on by the coronavirus brings into sharp relief the need for a new business model. Any short-term fix designed by the RRC, or government support for additional storage capacity, will return markets, *not* to the previous status quo, but to a reduced level of chaos in the oil and gas markets and the finance sector.

The business model for the industry is financially broken. The entire industry has been a last-in-class performer for most of the past decade. From 1970 to 2000, the industry led the market, first in class. There was a time when the industry claimed 28% of the S&P 500, today it is only 2.9%.

The massive production boom alluded to by the various commentators here is impressive, but the surpluses have also precipitated an era of value destruction in the financial markets and heightened the importance of realigning government and industry interests.

The coronavirus has put this dynamic on steroids.

The positions articulated by those who oppose RRC action themselves provide powerful reasons why the RRC should act. These opponents offer no solutions. Some argue that the issues should be settled by a kind of free market free-for-all pitting independent producers against integrated oil interests. Such a proposal is precisely why you need a regulator – or should I say a referee.

The structure of demand for oil and gas is undergoing a massive transformation. Today renewable energy, electric vehicles, plastics recycling, home heating demand-side initiatives, new efficiency models and laws restricting fossil fuel use compete with industry growth scenarios. Even as energy demand grows, the markets that serve that demand are expanding beyond the oil and gas and industry.

Finally, we have a system in which global prices are not set by a free market but by a consortium of foreign countries. A new player at the global table is needed but likely to be unwelcome. What is needed now is a trusted leader and the RRC is it. One purpose of a public regulatory body is to step in when markets are in a state of imbalance and there are no clear solutions. That is the case today.

The Commission has the opportunity to address short-term problems and a mandate to be an ongoing venue for understanding market demand that addresses global realities, new financial competitors, changing alignments within the industry and – environmental and climate change challenges.

Thank you for your time and for inviting me to speak today.

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