

Notes at the Margin Update

Philip K. Verleger, Jr.

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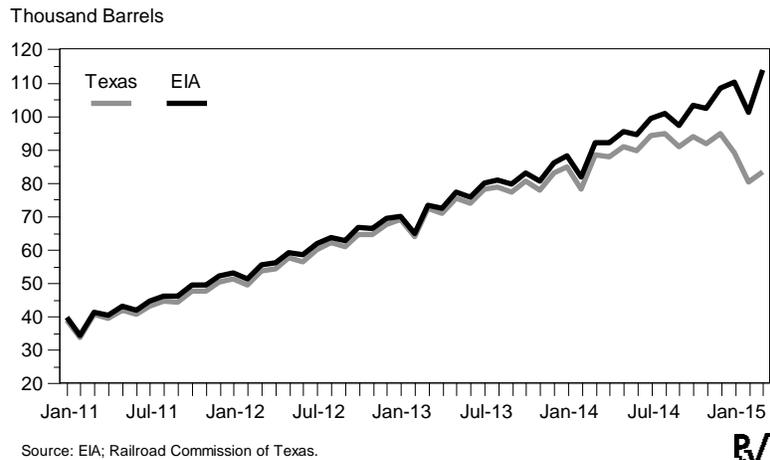
A Difference of Texas Dimensions

Readers of this publication have no doubt noticed our focus on the seeming discrepancy between global supply-and-demand projections and oil price behavior. The forecasts predict a very large increase in global stocks. Ordinarily, this would be reflected in greater market contango. However, as we have written repeatedly, the contango has vanished.

We have identified a possible source for this conundrum. The data on US crude oil production published by the US Department of Energy seems to differ significantly from the volumes published by individual states despite DOE claiming to rely on state data for its estimates. We made this discovery in preparing the forthcoming *Petroleum Economics Monthly*, which we hope to send to clients by Friday. We note here the very large difference between the production volumes for Texas reported by the Texas Railroad Commission and those published by the Energy Information Administration. Figure 1 illustrates the variance. The graph shows Texas output levels by month from January 2011 to March 2015.

Figure 2 (page 2) shows the magnitude of the divergence between the state and EIA data. The Railroad Commission figure for March 2015 output is nine hundred thousand barrels per day less than EIA's. This is not a

Figure 1
Texas Oil Production as Reported by EIA and as Reported by the Texas Railroad Commission, January 2011 to March 2015



misprint. As Figure 2, shows, this gap has been evident for some time and increasing.

One can also note from the graphs that estimates for the months prior to December 2013 show little variance. This should not come as a surprise, given EIA's data collection practice. EIA publishes a first estimate of a state's production sixty days after the end of the month. For example, EIA published data on March 2015 output on

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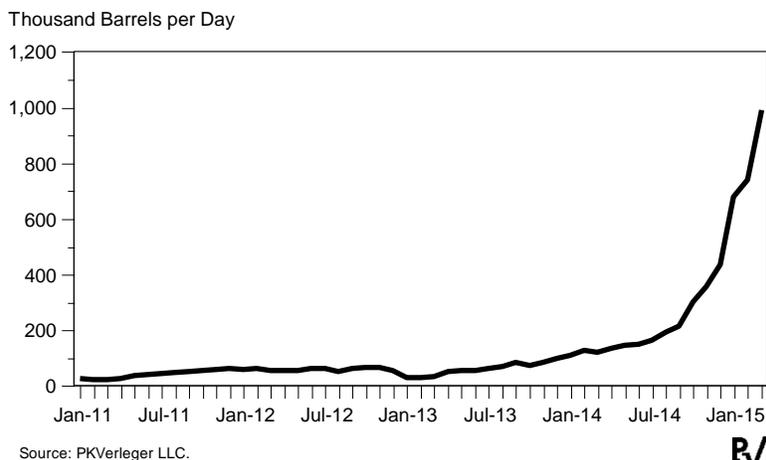
May 28. EIA may revise these estimates once or twice over the next sixty days but does not do so regularly. Six to nine months after the reporting year has ended, the agency revisits its calculation and publishes a final estimate. Final data for 2013, for example, were issued September 2, 2014. Final data for 2014 will likely appear in September or October 2015.

The problem for those who follow the market occurs because the EIA data are not fully disseminated to Texas or any state within DOE's reporting framework. For example, officials in our home state of Colorado told us that this information trickles in over months, often after being revised downward or upward. Thus significant discrepancies can develop between state and EIA numbers.

EIA has apparently attempted to address this issue by modeling the reporting process. In effect, EIA clerks try to predict the final number a state will report for a given month based on the submissions available sixty or ninety days after a month ends. This procedure was likely necessary when EIA's predecessor agency, the Bureau of Mines, began reporting production in the 1950s and remained necessary until the 1990s. However, with the Internet's advent, one can obtain state production estimates instantaneously. We gathered the data in Figure 1 in this way. (See page 3 for instructions on how to retrieve this information.)

The lower Texas production reported by the Railroad Commission seems consistent

Figure 2
Difference between EIA and Texas Railroad Commission Estimates of Texas Crude Oil Production, January 2011 to March 2015



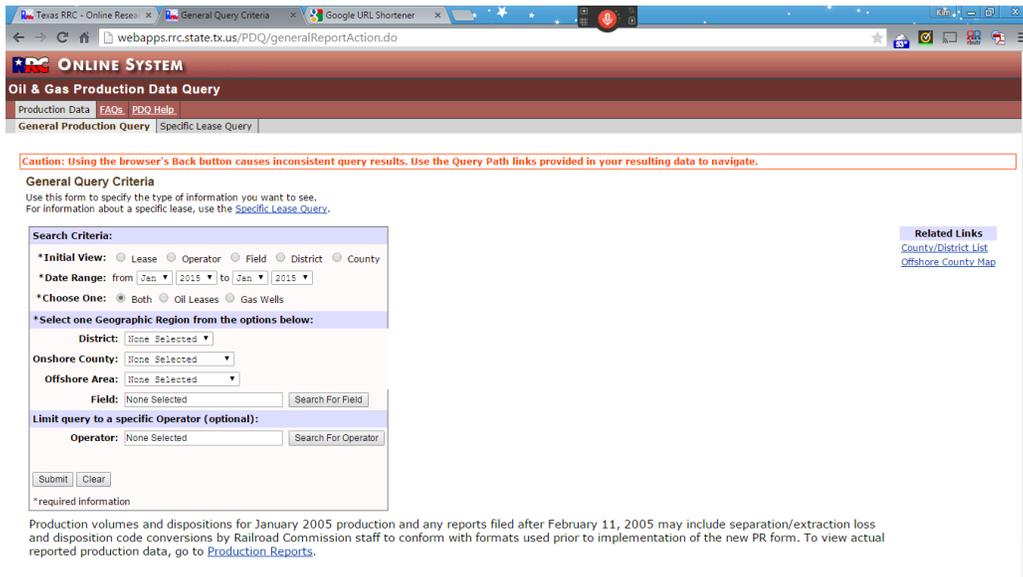
with market behavior, in particular the outflow of oil from Cushing and the narrow spread between Bakken and Brent.

In our view, the global surplus is a figment of DOE's overestimate of US production.

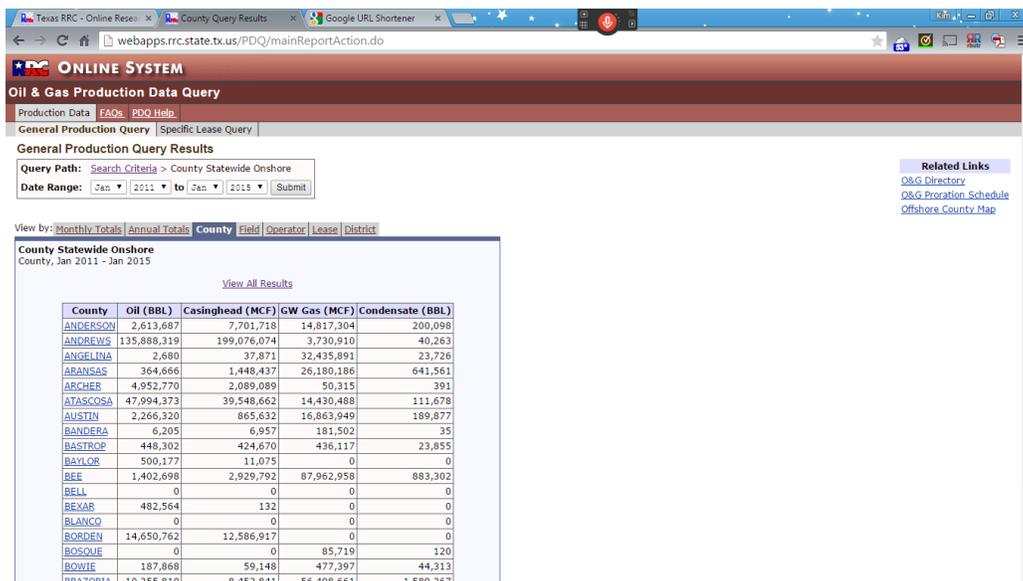
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Instructions for Accessing Texas Railroad Commission Data on Texas Monthly Crude Oil Output

1. Go to the Commission's "Online Research Query" web page at <http://goo.gl/1wrQZh>.
2. Scroll down the "Type of Query" table to "Production Data Query System (PDQ) (Statewide)" and click "Launch Application."
3. On the next page, click "General Production Query." This opens the page shown below.



4. Under "Search Criteria," select "County" and the desired date range. Leave "Both" selected.
5. Under "Select one Geographic Region from the options below," select "Statewide" from the "Onshore County" droplist.
6. Click the "Submit" button in the lower left-hand corner. This will display the data as shown below.



7. Select "Monthly" from the "View by" tab list to view the data by month.
8. For offshore data, repeat this process, selecting "Statewide" from the "Offshore Area" droplist instead of using the "Onshore County" list.