



## Tech Talk - The Railroad Commission of Texas

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When I have written about oil and natural gas production from individual wells in previous posts, I have referred to the website of the [Texas Railroad Commission](#) as the source of my information. You might wonder why they are in charge. Well, it all began back in the days after Texas first became a State, and the government wanted to encourage folk to move out into the state.

Historically railroads had been built to connect existing towns and cities, but there weren't any going West. And so, to encourage railroads to grow out west, they were allowed land grants and a number of tax and other grants and incentives that would encourage rail and the growth of towns along the track, as a result. Since this provided a sensible monopoly on transportation, the Texas legislature, as far back as 1853, had enacted comprehensive laws regarding the railroads. The problem was that these laws were not enforced, and for a number of years the railroads could charge as much as the traffic would bear.

This led to many protests, particularly from farmers, and after many promises, the Railroad Commission of Texas (RRC) was created in 1891:

An Act to establish a Railroad Commission for the State of Texas whereby discrimination and extortion in railroad charges may be prevented, and reasonable freight and passenger tariffs may be established; to prescribe and authorize the making of rules and regulations to govern the Commission and the railroads, and afford railroad companies and other parties adequate remedies; to prescribe penalties for the violation of this act and provide means and rules for its enforcement.

That created the RRC, and after some struggles, and a trip to the Supreme Court the RRC succeeded in establishing that it had the power, which it enforced, to cut shipping rates. But how did that allow it to get into controlling the "oil bidniss"?

The simple part of the answer is that when the Commission was set up, its responsibilities included:

Determination of passenger fares, freight rates, and charges for all classes of common carriers in Texas.

As the boom in oil production began in Texas, production rates were initially high and, as I [noted last time](#), many wells were being drilled in close proximity, with incentives (including the "right of capture") that drove owners to produce their wells as fast as possible. And in 1931 an average of 8 wells a day was being drilled in Texas.

The result was a glut of oil on the market with prices falling from \$1.10 before the Daisy Bradford #3 well was drilled (By H.L. Hunt) to \$0.15 and even \$0.02 a barrel on the spot market ([The Big Rich](#) by Bryan Burroughs). Someone had to do something, and the choice pointed to "proration". In

this each well could be assigned a certain production or number of days in the month that it could produce, based on the number of wells and the amount of oil that the market was considered able to bear. But who should set the quantities.

Oil, once it is out of the ground, has to be transported and the early alternatives were either by rail car or pipeline. The rail roads were already under the RRC and in 1917 the Texas Legislature designated pipelines as “common carriers” which also brought them under the RRC. By 1919 this oversight was extended to include jurisdiction over Oil and Gas. And a new Division was born. (The agency continued to have some role in railroads until 2005, when that was completely phased out).

The RRC had unsuccessfully tried to control production earlier, and in 1931 it tried again, setting a proration order for the East Texas field of 160,000 bd at a time when it was producing half-a-million barrels. That didn’t go anywhere either, but the impact on the economies of the states was becoming too great. It was the larger companies that [largely argued for proration](#)

Jacob Wolters of the Texas Company (Texaco), warned of the ruin of thousands of wells, as well as “the bankruptcy of producers, the loss of millions of dollars in revenues of the State, and the consequent increase of taxes on other sources in order that the public schools, higher institutions of learning, eleemosynary institutions and the departments of the State may continue to function.”

Up in Oklahoma City the city council had passed a law that restricted oil wells to [one per city block](#), and their attempt to close wells was so challenged that the Oklahoma Governor, William Murray, declared martial law and closed the wells, initially for a day. This in turn led him to place the 3,106 oil producing wells in Oklahoma under martial law from August 4, 1931 until April 1933.

Down in Texas, as Bryan Burroughs notes, H.L. Hunt and other large producers urged the Texas Governor to follow suit.

On August 16, declaring East Texas oilmen to be in open “rebellion” against the state, he declared martial law and sent in the National Guard to shut down the oil field.

It was re-opened three weeks later, but with individual wells limited to only producing 225 bd. As these controls began to limit production in the face of growing demand so the price stabilized and slowly began to creep up. By 1933 it had reached \$0.99 before falling again. A “hot oil” market was making it too lucrative to flout the law and smuggle oil, and this led to the [“hot oil wars.”](#)

To enforce the proration limits the Texas Legislature began to pass tighter and tighter regulations giving the Railroad Commission greater powers. Further the governments of Kansas, New Mexico, Texas and Oklahoma got together to establish a common approach, out of which came the [Interstate Oil Compact](#) in 1936. At the same time the Federal Government passed the Connally Hot Oil Act giving it the power to [enforce the directives of the Texas RRC](#) in interstate commerce. The regulation of output was considered as one of the steps in increasing the estimated reserves of the East Texas field from one to five billion barrels.

From 1936 until 1972, with the exception of the War years, the RRC controlled production through proration. In this way, when the Iranian revolution in 1951 nationalized the oilfields there, Texas was able to increase production and [fill the gap](#). It was able to do the same during the Suez Canal crisis in 1958. And then, as foreign oil became a glut on the market, the RRC cut production from the wells, down to only [seven days a month](#) in 1962. But production over time was depleting the fields. When the Arab-Israeli war broke out in 1967 production could not be brought high enough to meet demand, and in 1972 the RRC set the proration at 100%. The result was only a limited

gain in volume, for American oil production had peaked. And Texas had taught the rest of the world's oil producers a lesson, for OPEC was aborning.

The commission still monitors well production, and is a site where this information is available. The [site notes](#) that both oil and gas production and oil well completions this year are running behind last years numbers.



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