



Testimony

Of

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Independent Petroleum Association of America

Regarding

House Energy & Commerce Subcommittee on Energy,
Climate, and Grid Security and Subcommittee on
Environment, Manufacturing, and Critical Materials

February 7, 2023 Joint Legislative Hearing

“Unleashing American Energy, Lowering Energy Costs,
and Strengthening Supply Chains”

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I am Jeff Eshelman, President and CEO of the Independent Petroleum Association of America (IPAA). I would like to thank Chairman Duncan and Chairman Johnson and all the members of the Energy and Commerce Committee for holding this important hear today.

IPAA represents thousands of America's independent oil and natural gas producers. Our members are the primary producers of the nation's oil and natural gas and account for 83 percent of America's oil production and 90 percent of its natural gas output. These independent producers are a driving force in our economy and support roughly 4.5 million jobs in the United States. IPAA member companies are innovative leaders that broke the code to usher in the shale oil and natural gas revolution in the United States.

As the United States and the world struggle to rebound from the economic hardship caused by the COVID-19 pandemic, it is essential for America to continue to be a leader in energy development. All forms of energy will be needed in the coming years and natural gas and oil produced in the United States will be a key component of that energy mix. Oil and natural gas will not be the only energy sources for the United States, but they will be essential to the American economy for years to come.

The choices the nation makes regarding its energy mix will have a huge impact on its economy and its international position. If America does not pursue a thoughtful energy policy, the nation will suffer economically. Unless demand for fossil energy changes dramatically, efforts to suppress U.S. oil and natural gas production will be counterproductive to the goals of addressing greenhouse gas emissions, increasing job growth and expanding America's impact around the globe.

Energy is a geopolitical issue. For the last half-century, American foreign policy has been predicated on the nation's vulnerability to oil and natural gas supply disruptions. The shale revolution turned the United States into an energy superpower, enhanced American national security and created significant geopolitical advantages for this nation around the globe. Additionally, natural gas production and use has created the cleanest air quality the nation has seen in two decades. The United States has become the envy of nations for its dedication to reliable, affordable, responsible energy production.

Independent producers recognize the need to manage their emissions, including methane emissions. Over the past several years, as methane regulations have been developed, IPAA has been active in trying to assure that the regulations are designed appropriately for the diverse elements of the industry, including the small business operations that dominate ownership of low producing wells.

While oil and natural gas greenhouse gas emissions must be managed, their use provides key environmental benefits. America's success in reducing its greenhouse gas emissions comes from its expanded use of natural gas. Internationally, expanded use of natural gas promises to help the world improve its greenhouse gas emissions. The environment and public health challenges across the world are large and complex and failure to address fundamental health challenges limits nations' ability to address their greenhouse gas emissions.

IPAA supports the committee in its efforts to pass legislation that will increase American energy production, lower energy costs, strengthen domestic supply chains and protect America's energy grid. The various pieces of legislation being considered today will move the nation

forward in our effort to enhance and strengthen American energy security. The Energy and Commerce Committee should be commended for these efforts.

Although IPAA supports all legislative efforts to enhance American energy and security, we would like to especially focus on two pieces of legislation being considered by the Committee today. First, IPAA strongly supports H.R. 150, the "Protecting American Energy Production Act" sponsored by Congressman Duncan. This legislation prohibits the President from declaring a moratorium on the use of hydraulic fracturing unless Congress authorizes such a prohibition. The bill also expresses the sense of Congress that states should maintain primacy for the regulation of hydraulic fracturing for oil and natural gas production on state and private lands.

Hydraulic fracturing is a decades old well completion technology that is often coupled with horizontal drilling to develop oil and natural gas resources from tight rock formations. Hydraulic fracturing occurs after drilling has been completed and involves pumping fluid – typically 99 percent water and sand – into the target formation at pressure in order to open small fractures in the rock, which allow oil and natural gas to flow out of these tight formations.

Advances in hydraulic fracturing technology have reversed the U.S. trajectory from that of energy scarcity to being the leader of oil and natural gas production around the globe. There is no doubt that hydraulic fracturing has allowed the United States to increase oil and natural gas production and enhanced American energy security. In addition, through the use of increased natural gas, made possible by hydraulic fracturing, air quality has also dramatically improved.

Despite all of the facts and data showing that hydraulic fracturing has enhanced America's quality of living and made the nation energy secure, relentless attacks on this technology continue from the environmental community. IPAA applauds Congressman Duncan for introducing H.R. 150 to ensure that any efforts by the Executive Branch to prohibit the use of hydraulic fracturing technology, must first be authorized by Congress. Hydraulic fracturing is too important to the energy security of the nation and the world to be subject to the whim of a President determined to handcuff America's energy producers.

IPAA also supports H.R. 484, the "Natural Gas Tax Repeal Act" sponsored by Congressman Pfluger. This legislation would strike language designed to establish a tax on natural gas imposed on America's independent oil and natural gas producers as part of the "Inflation Reduction Act" passed by Congress last year.

IPAA recognizes the importance of managing air emissions of methane and other volatile organic compounds. The American oil and natural gas production industry participates in voluntary programs to identify and implement cost effective management technologies. Our members work diligently to comply with state and federal regulations.

The Methane Emissions Reduction Program (MERP), which was passed as part of last year's Inflation Reduction Act, is an inappropriate and unworkable methane emissions tax. This tax was included despite not ever being considered in a hearing, receiving expert testimony in favor or opposition, no economic analysis, and no consideration of efficacy. Instead of looking at this issue holistically, the MERP was on the simple premise that if something is taxed, less of it will be produced.

The methane emissions tax proposes to collect emissions data, which has historically reported under Subpart W of the Clean Air Act, and use that information to assess a tax for emissions exceeding 25,000 tons of CO2 equivalent. Beginning in 2024, companies will be required to collect this data and begin paying a fee of \$900 per metric ton beginning in 2025. That cost ramps up to \$1200 per metric ton in 2026 and ultimately settles at \$1500 per metric ton for 2026 and beyond.

Currently, the Environmental Protection Agency (EPA) is in the process of revising regulation of methane emissions under OOOO. Comments are due next week, and that process is ongoing. The methane tax is a redundant effort to lower methane emissions that goes beyond EPA's historical jurisdiction and mandate. Regulating emissions under the CAA through the regulatory process is within the scope of the agency's jurisdiction, experience, and expertise. The methane tax would add the burden of moving EPA into tax collection, including audit processes which involve a degree of accuracy in measurement and tax assessment that goes well beyond the agency's capacity.

Further, the MERP formula requires an operator to calculate the number of tons of methane emitted in a year from applicable facilities. The formula then subtracts that tonnage from a number called the waste emissions threshold. The aforementioned fee schedule applies to any overage.

The IRA establishes a waste emissions charge for methane from applicable facilities that report more than 25,000 metric tons of CO2 equivalent per year to the Greenhouse Gas Reporting Program (GHGRP) petroleum and natural gas systems source category (GHGRP Subpart W) and that exceed the statutorily specified waste emissions thresholds. None of the tools that the law uses to generate the tax were ever designed to be used for this purpose. Moreover, this law creates a tax collection function within EPA that triggers complex audit challenges and the potential for abusive use of Clean Air Act (CAA) enforcement authorities by OECA.

The methane tax established as part of the IRA will impose financial and filing burdens on independent American oil and natural gas producers that will jeopardize many of their operations. It will add another complexity to these small businesses and divert their attention from what they do best, produce the cleanest and safest oil barrels of oil and natural gas in the world.

We thank Congressman Pfluger for introducing H.R. 484 and urge the Committee to take quick action to stop the implementation of this misguided and unreasonable tax on natural gas.

Conclusion

Oil and natural gas will remain a key component of energy supply in the world for the foreseeable future. Their emissions will need to be managed, but no modern economy will function without them. This is clearly true in the United States where oil and natural gas contributes approximately 70 of the energy consumed in the country now and in 2050. Growth in other energy sectors will occur, but more energy will be needed to maintain a robust American economy.

Artificial political efforts to suppress American supply will not reduce demand; it will only lead to a return to an import dependent energy structure with attendant energy security risks. False attacks targeting American oil and natural gas producers will reduce supply while hurting independent producers, particularly small businesses, and royalty owners. They will not reduce

greenhouse gas emissions. The ultimate beneficiaries of these actions would be foreign national oil companies producing with less emissions management than those in the United States.

Congress should oppose all efforts to reduce American energy supply. IPAA commends the Energy and Commerce Committee for holding this hearing today and looks forward to the Committee acting on these important pieces of legislation that will protect and enhance American energy security.

Thank you for this opportunity and I look forward to answering your questions.