EnerVest Operating, LLC
Methane Emissions Reduction Program

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Methane Emissions Reduction Program (MERP)

- Significant to oil & gas operations due to the Inflation Reduction Act

- The Methane Emissions Reduction Program is a new authority under Section 136 of the Clean Air Act to reduce methane emissions from the petroleum and natural gas sector

- The program includes:
  - Over $1 billion in financial and technical assistance to reduce methane emissions from the petroleum and natural gas sector by providing
    - Financial and technical assistance for preparing and submitting greenhouse gas reports
    - Monitoring methane emissions
    - Reducing methane and other greenhouse gas emissions

Use of Funds

- The funding is primarily designed for:
  - Improving and deploying equipment to reduce emissions
  - Supporting innovation
  - Permanently shutting in and plugging wells
  - Mitigating health effects in low-income and disadvantaged communities
  - Improving climate resiliency
  - Supporting environmental restoration

- The program specifies that at least $700 million must be used for activities at marginal conventional wells

- EPA has announced that a partnership with the DOE will be created to administer the grant funding

Waste Tax

- The program also establishes a waste emissions tax for methane from applicable “facilities” (“facility” as defined by existing Subpart W is an entire AAPG basin) that report more than 25,000 metric tons of CO_2 equivalent per year to the Greenhouse Gas Reporting Program (GHGRP) and that exceed statutorily specified waste emissions thresholds
  - Are you currently reporting?
  - As important, should you be reporting?
- Waste emissions charge starts at $900 per metric ton for emissions reported in 2024, increasing to $1,200 for 2025 emissions, and $1,500 for emissions years 2026-on. The program includes some flexibilities and exemptions
- The tax will be administered and collected by the EPA
  - Taxing and collection authority
  - Audit authority
  - Enforcement authority

Who is impacted by the Waste Tax?

- E&P operators with annual CO_2 equivalent emissions (not methane) that exceed 25,000 tons/year per AAPG basin ("facility") after an exemption for the first 0.20%
  - EnerVest has estimated that anyone with 220 conventional wells (single well per pad) will exceed the exemption threshold. For those with multi-well, unconventional pads, the threshold will be much lower regardless of where your wells physically reside.
- Any company with Gathering and Boosting (G&B) operations with an exemption for the first .05% of pipeline throughput
- Royalty owners, when marginal wells are shut-in due to increased taxes, making the wells uneconomic
- State severance tax collections, when marginal wells are shut-in due to increased taxes, making the wells uneconomic
- If we are forced to shut-in wells due to increased taxes, domestic production will decrease, and we will have less energy independence

E&P Segment Issues

- Pneumatic devices:
  - Counting the minutes that devices are in use would be more accurate (i.e. emitting potentially); not 24 hours a day as the math now stands. Each operator knows the actual periods of usage
  - Supply chain issues persist as many companies rush to convert / change their devices over the next 18 months
  - Increased costs are certain

- Facility definition
  - The definition of a "facility" is too broad; an entire basin. Not a field, not a pad, but a basin as defined. The definition should be revised specifically for the methane tax to be based upon a well pad, or compressor site, or even a field, so that the exemption opportunities make more sense.

- Marginal wells are not excluded; all well emissions count toward emission thresholds

- Burdensome monitoring requirements now being proposed may be too much to bear for smaller operators with limited staffs

- There is no relief for inevitable production declines. This penalizes ***ALL*** legacy well production -- since emissions remain relatively stable while production declines, the production exemptions become less meaningful and make it more cost prohibitive to operate.

G&B Segment Issues

- Little to no incentive or method to reduce emissions:
  - The tax is most heavily weighted toward miles of pipeline in service. We cannot reduce those miles other than by:
    - Shutting-in systems
    - Selling pipeline segments to others, who will then have to pay the tax and charge us higher gathering rates

  - **We conduct pipeline surveys, identify leaks, and fix those leaks. A tax, if any, should be based upon leaks and emissions data, not on miles of pipeline**

- Protected vs. Unprotected pipelines:
  - The EPA factors are much higher for non-cathodically protected pipelines
  - Much of our pipelines are above ground and cannot be cathodically protected
  - The definition of "protection" should be expanded to include coated pipe as well other types of protection beyond bare steel

Timing Issues

- EPA has put forth no rules/regulations for comment. They did pose a series of questions to which IPAA, API, and others submitted comments earlier this year
- The methane tax goes into effect in 2024 and increases punitively every year.
- Methane Tax implementation should be **delayed** until proposed NSPS OOOOb and OOOOc, and proposed Subpart W factor reviews and revisions are finalized (2 years?). The process has been on-going for quite some time with no end in sight
- In states that enact the federal standards or stricter standards, there is an opportunity for exemption. However:
  - May take until 2028 for states to create processes for implementing the yet-to-be-defined regulations
  - The tax relief or exemption is not available until all states where you operate have regulations in place
  - Additionally, there is no definition of what constitutes compliance with the regulations (hard to comply with the unkown)
- **Implementation needs to be delayed! (will take an amendment to do so)**

Recent Events

- Senator Manchin sent a letter asking the EPA Administrator to address the issues discussed herein and others. With the Senator's guidance and full support, we hope the EPA will proactively address the many concerns and clarifications needed in any waste tax rulemaking proposal

- The House Energy and Commerce Committee sent a letter to the EPA

- The EPA announced a partnership with the DOE to administer the grant funding (no forms, rules, or plan announced to date)

- The EPA has put forth Subpart W revisions. The 692 pages are still being reviewed, but we are concerned that the revisions will worsen the impact of the waste tax by increasing GHG reporting numbers and requirements; a clear signal of EPA's intent/interpretation of the IRA and MERP

Questions?