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United States Senate

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

WASHINGTON, DC 20510–6175

May 24, 2016

The Honorable Dan Utech
Special Assistant to the President
The White House
1600 Pennsylvania Avenue N.W.
Washington, D.C. 20500

The Honorable Gina McCarthy
Administrator
Environmental Protection Agency
1200 Pennsylvania Avenue N.W.
Washington, D.C.

The Honorable Janet McCabe
Acting Assistant Administrator
Office of Air and Radiation
Environmental Protection Agency
1200 Pennsylvania Avenue N.W.
Washington, D.C. 20460

Dear Mr. Utech, Administrator McCarthy, and Acting Assistant Administrator McCabe:

President Obama's Climate Action Plan is premised on a series of regulatory mandates that are harming the ability of U.S. businesses to innovate, compete in the global marketplace, and create new jobs. Most recently, this plan has centered on the U.S. Environmental Protection Agency (EPA) regulating methane emissions from the oil and natural gas sector. On May 12, 2016, EPA finalized methane rules for new, modified, and reconstructed oil and gas systems, while simultaneously proposing a request for information from the industry to guide rules for existing oil and gas systems.[1] What is even more striking is that these mandates, as shown by the EPA's own data, will produce *no meaningful climate benefits*. Under this plan, small businesses will be forced to comply with overlapping and unnecessary regulations, while consumers and those who are desperately looking for jobs will suffer. Meanwhile, it will cause jobs, economic activity, and energy production will move to countries with weaker environmental standards leading to greater global emissions.

Across the entire suite of EPA's recently finalized methane rules, the Agency's economic analysis fails to accurately weigh the tremendous costs and resulting impact on domestic oil and natural gas production. The impact of those costs on future U.S. energy development will be significant. Each additional dollar spent on compliance with new federal regulations is a dollar unavailable to be invested in developing domestic resources, and by extension, the U.S. economy.

Perhaps even more troubling than the Agency's lack of understanding of the oil and natural gas industry or the effect that the cost of its final rules will have on it, is the extent to

[1] *See* Regulatory Actions, Oil and Natural Gas Air Pollution Standards, U.S. Envtl. Prot. Agency, available at https://www3.epa.gov/airquality/oilandgas/actions.html.

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which EPA grossly overestimates the potential benefits of its methane rules. Indeed, all of EPA's purported monetized benefits of its final rules for new, modified, and reconstructed oil and gas systems are based on the novel and highly suspect social cost of methane estimate.[2] EPA first used this estimate in its proposed rule, without undergoing proper peer review and transparency guidelines, and failed to respond to significant concerns raised over the estimates in its final rule.[3] Absent this inappropriate and arbitrary estimate, the rule has zero monetized benefits.

Moreover, in one of the Climate Action Plan's primary components, the "Strategy to Cut Methane Emissions," President Obama asserts that regulations targeting methane emissions from oil and natural gas production represent a significant opportunity to reduce global greenhouse gas (GHG) emissions. Yet, according to EPA's own GHG Inventory, methane emissions from U.S. oil and natural gas systems represent only 3.5 percent of overall domestic GHG emissions.[4] This fact is not only inconvenient to the Obama Administration's campaign to vilify the oil and natural gas industry, but also incongruous with the level of effort and resources that the EPA has devoted to developing rules that target this relatively miniscule emissions source. Moreover, EPA has not fully evaluated the unintended consequences of its final actions, and may actually end up *increasing* global GHG emissions through its efforts to reduce them domestically.

In the press release corresponding the Agency's May 12, 2016, final methane rules, EPA stated its desire to reduce domestic methane emissions by 40 to 45 percent below 2012 levels by 2025.[5] Importantly, domestic methane emissions reductions of this scale *will have a negligible impact on global temperatures*. Using the Intergovernmental Panel on Climate Change (IPCC) models, maintaining the rate of emissions at 45 percent below 2012 levels for the next 84 years would yield a 0.004 degrees Celsius reduction in global temperature by 2100.[6] This potential long-term benefit, which is approximately zero, is used to justify billions of dollars of new costs over the same time period to one of the biggest employers in the U.S. economy, with *virtually no associated environmental benefit.*

An additional, unintended consequence, of EPA's final methane rules is that they will ultimately shift oil and natural gas production to other, more GHG emissions-intensive regions of the world. Oil and natural gas are traded in a global market; whether a barrel of oil is produced in Venezuela, China, or in the U.S., it can be refined into the same finished products, which are

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[2] Regulatory Impact Analysis of the Final Oil and Natural Gas Sector: Emission Standards for New, Reconstructed, and Modified Sources, pp. 1-8, available at https://www3.epa.gov/airquality/oilandgas/may2016/nsps-ria.pdf.

[3] See Letter from Hon. James M. Inhofe, Chairman, S. Comm. on Env't & Public Works, to Hon. Gina McCarthy, Adm'r, U.S. Envtl. Prot. Agency, Dec. 4, 2015, available at http://www.epw.senate.gov/public/_cache/files/c3bbcbd9-89ea-4a19-a870-5fd426603e41/12.04.15-administrator-mccarthy-re-socialcost-of-methane.pdf.

[4] U.S. Envtl. Prot. Agency, 2016 Greenhouse Gas Inventory, Apr. 15, 2016, pp. ES-5 to ES-6, available at https://www3.epa.gov/climatechange/Downloads/ghgemissions/US-GHG-Inventory-2016-Chapter-Executive-Summary.pdf.

[5] New Releases, EPA Releases First-Ever Standards to Cut Methane Emissions from the Oil and Gas Sector, U.S. Envtl. Prot. Agency, May 12, 2016, available at https://www.epa.gov/newsreleases/epa-releases-first-ever-standards-cut-methane-emissions-oil-and-gas-sector.

[6] Steve Everly, *The Climate Math of EPA's Costly Methane Rule,* EnergyInDepth (March 10, 2016), available at http://energyindepth.org/national/climate-math-epa-methane-rule/.

also fungible. The global market is highly competitive, making areas where production expenses are the lowest the most advantaged, thereby shifting activity and investment accordingly. Due to the nature of international trade, oil and gas producers are not able to simply pass the cost of additional domestic regulations on to their consumers, which means that the cost of regulatory compliance reduces the available capital for producers to develop domestic resources. As operators reallocate capital to the least cost-intensive production areas, domestic production will decline. A reduction of thousands of new wells per year would reduce domestic production by hundreds of thousands if not millions of barrels of oil and natural gas per day between now and 2025 and would have a tremendous correlated negative impact on the U.S. economy.

Yet, EPA's efforts will not affect global demand for crude oil, natural gas, nor refined products. The Paris-based International Energy Agency projects global oil demand will increase every year over the next two decades, driven mainly by growth in developing countries.[7] Natural gas is projected to have even steeper demand growth as more natural gas-fueled power generation comes online around the world. This demand *will* be met by increased supply – the only question is where it will come from.

Every country approaches environmental regulation differently and companies do not all share the same commitment to research and development and technological innovation. As such, the GHG intensity of oil and natural gas production is different from one region to the next. Thanks to significant strides in new technology and operating practices, U.S. operators have been able to drill more wells and produce more product, while reducing their emissions to the lowest levels in 25 years.[8]

Unfortunately, EPA fails to recognize that the extraordinary aggregate costs associated with its newly finalized methane rules will have the unintended consequence of shifting production to other parts of the world, where there is less technology and fewer environmental regulations in place. Almost all of those regions produce, on average, more GHG emissions per unit of energy than oil and natural gas produced in the U.S. In fact, emissions data shows that compared to the top 20 economies in the world, the U.S. already reduces significantly more GHG emissions from energy than any other country.[9] EPA fails to consider the potential GHG emissions impact of this global production shift, instead focusing solely on the purported benefits of reducing domestic emissions—as if the U.S. were somehow isolated from the rest of the world. The U.S. has a relatively low GHG intensity with fewer grams of carbon dioxide equivalent emissions per unit of produced barrel of crude oil released in the U.S. than in many other nations. In fact, a barrel of crude oil produced in Oklahoma may release only a third of the GHG emissions that a barrel of oil produced in Venezuela, Nigeria, or Iran would release.

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[7] International Energy Agency, World Energy Outlook 2015, available at https://www.iea.org/bookshop/700-World_Energy_Outlook_2015.

[8] U.S. Envtl. Prot. Agency, 2016 Greenhouse Gas Inventory, Apr. 15, 2016, pp. ES-13, available at https://www3.epa.gov/climatechange/Downloads/ghgemissions/US-GHG-Inventory-2016-Chapter-Executive-Summary.pdf.

[9] American Petroleum Institute, *Climate Change and Energy* (Nov. 2015), available at http://www.api.org/~/media/Files/Policy/Environment/Climate-Change-and-Energy/CLIMATE-PRIMER.pdf?la=en

In short, President Obama's climate mandates for oil and gas producers are set-up to fail because they flout a simple, commonsense and widely shared principle: that the benefits of regulation should outweigh the costs. A more practical and sensible approach would be to empower states to continue their success in regulating methane emissions and managing environmental risks. State authorities have already promulgated regulatory regimes that account for unique geological characteristics that differ across regions. This tailored approach leads to beneficial environmental results, and enables—rather than stifles—more jobs and greater economic and national security that come from American energy production.

Before proceeding any further with the "Strategy to Cut Methane Emissions," or plans to regulate existing sources, I request the EPA answer the following critically important questions:

1. All of EPA's purported monetized benefits of its final rules for new, modified, and reconstructed oil and gas systems are based on the novel and highly suspect social cost of methane estimate. EPA first used this estimate in its proposed rule, without undergoing proper peer review and transparency guidelines, and failed to address significant concerns raised over the estimates in its final rule. Please explain why the Agency failed to provide a response to comments on the social cost of methane in the final rule, and how the Agency could finalize a rule without addressing significant comments on the sole monetized benefits of the rule.

2. In the Administration's "Strategy to Cut Methane Emissions," the President asserts that regulations targeting methane emissions from oil and natural gas production represent a significant opportunity to reduce global greenhouse gas emissions. Yet, according to data found in the EPA's own Greenhouse Gas Inventory, methane emissions from U.S. oil and natural gas production represent only 3.5 percent of overall domestic greenhouse gas emissions. Please explain how the Agency can justify regulations that will impose billions of dollars of new costs in exchange for emissions reductions from a source that emits such a miniscule percentage of actual domestic emissions.

3. In the May 2016 final methane rules for new, modified, and reconstructed oil and gas sources, EPA stated its desire to reduce domestic methane emissions by 40 to 45 percent below 2012 levels by 2025. Importantly, domestic methane emissions reductions of this scale *will have a negligible impact on global temperatures*. Using IPCC models, maintaining the rate of emissions at 45 percent below 2012 levels for the next 84 years would only result in a reduction in global temperature of 0.004 degrees Celsius by the year 2100. Did EPA ignore the IPCC data when designing its suite of methane rules or does it believe that *four one thousandths of one degree of avoided warming by the end of the century* justifies imposing billions of dollars of new costs on a domestic industry that is one of the biggest employers in the U.S. economy?

4. By making it more difficult for domestic onshore operators to compete with other oil exporting nations through regulations that have minimal climate impact, production will shift towards nations that do not have the same regulatory and technological standards,

resulting in greater global emissions. How exactly did EPA consider the global emissions impact of increased foreign production in its analysis of the final rules?

5. What is the Agency's analysis regarding any potential shift in production towards regions of the world where there are less stringent environmental protections in place, which will occur in light of the cost of the final methane rules?

6. Will EPA commit to re-evaluating the economic impact of its final rules in light of increased *global* climate forcing emissions created as a result of its rulemakings?

I look forward to your prompt responses to my questions by no later than June 13, 2016. If you have any questions on this request, please contact the Senate Committee on Environment and Public Works at (202) 224-6176.

Sincerely,

James M. Inhofe
Chairman