

Midland Reporter-Telegram

WEEKEND EDITION

Operators urged to prepare now for methane intensity tax

By Mella McEwen MMCEWEN@HEARSTNP.COM



David Goldman/Associated Press

A flare burns off methane and other hydrocarbons as oil pumpjacks operate in the Permian Basin in Midland, Oct. 12, 2021. Three major Permian producers are joining a global initiative aimed at promoting methane emission reductions and better transparency in emissions reporting.

A new methane intensity tax is set to take effect beginning in 2024, and analysis shows smaller producers are facing significant exposure.

Though repeal of the tax, which was included in the Inflation Reduction Act passed last summer, is part of a package of energy legislation unveiled this week by House Republicans, its passage is not certain. Producers are being advised to take proactive steps to meet or come in under the reporting threshold.

An analysis by ESG Dynamics estimates the tax will cost the upstream oil and gas industry \$579 million—other estimates are as high as \$700 million — in 2024, largely carried by smaller producers. ESG Dynamics estimates about 80% of operators producing below 10,000 barrels of oil equivalent per day will be affected, compared to about 40% of operators producing more than 100,000 BOE per day.

Gani Sagingaliyev, founder and chief technology officer of ESG Dynamics, noted that while focus has been on the upstream segment, the tax also impacts gathering, transportation and processing operations.

A lot of upstream companies are generally confused about how to calculate the emissions they report to the Environmental Protection Agency under Subpart W regulations. The tax applies to those applicable facilities reporting more than 25,000 metric tons of carbon dioxide equivalent per year with fees beginning at \$900 per metric ton over that amount beginning in 2024, rising to \$1,500 per metric ton beginning in 2026. ESG Dynamics calculates the average fee will be \$3 million per affected company.

“One client told us he did the calculations and he was fine and we said, ‘No, you’re not,’” Sagingaliyev told the Reporter-Telegram in a telephone interview.

He said operators are divided into three categories: Large companies producing 100,000 BOE per day or more, medium-sized companies producing between 10,000 and 100,000 BOE per day, and small companies producing less than 10,000 BOE per day. While small companies may be reporting less than the 25,000 metric tons, and large companies can afford the technology and manpower to reduce their emissions, it’s the middle-size companies that are getting squeezed by both sides, he said.

“They’ll be incentivized to act so they can reach that threshold,” he said.

There is still some uncertainty around just what exceptions will be available to exempt companies from the tax, he said, and there are some questions remaining, such as who is taxed? Is it the operator or will the tax burden be distributed among the partners and royalty owners and interest owners?

“It will be an interesting development,” Sagingaliyev said.

There are actions companies can take to get their emissions below the threshold, beginning with understanding how methane intensity is calculated and then committing to going out to their production sites and making fixes such as replacing pneumatic devices, reducing flaring or ensuring the pilot lights on combustors are functioning properly before they flare.

At the end of the day, he said, regulations are coming forward and will be enforced at the state level. New Mexico and Colorado in particular are levying hefty fines for violations.

“The message is: take care of the low-hanging fruit,” he advised.