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An Avalanche of New Federal Regulations Threaten the Nation's Oil & Gas Industry

While the shale revolution has made America more energy independent than at any time in recent history, the growth of new development has coincided with an expanding range of new regulatory mandates that have significantly increased per barrel production costs. These regulatory onslaughts have continued – and actually accelerated in pace – in the face of declining prices for oil and natural gas over the last two years. Combined with challenging market conditions, these regulations have further depressed the industry and delayed the hiring or rehiring of skilled workers. In the long term, this onslaught of new regulations will result in dramatically higher energy prices for American consumers.

From 2009 through 2014, the oil and natural gas industry was the major driver of the national economic recovery following the Great Recession, creating millions of jobs and providing affordable and clean domestic energy necessary for the economy to regain its footing. Imports of foreign produced crude oil fell from a high of 65% of total domestic consumption to less than 25% during this period. During this same period of time, U.S. emissions of greenhouse gases also fell dramatically, largely due to increased use of natural gas in the power generation sector. Overall U.S. emissions of CO_2 fell to 1993 levels, making it the only industrialized nation to date to meet the targets of the 1999 Kyoto Protocol Treaty.

It is important to note that this reduction in overall emissions came during a time in which the domestic industry dramatically increased drilling and production of both oil and natural gas. During this time frame, U.S. crude oil production rose by almost 40% and natural gas production increased by almost 25%, thanks to the rapid development of major new shale formations. This significant lowering of emissions also took place without the implementation of a nationwide cap and trade system in 2009 that was favored by President Obama.

Between 2009 and 2013, the upstream oil and gas industry was able to reduce its methane emissions by 29% through the use of advanced technologies and deployment of best practices. As was the case with CO_2, this reduction in industry methane emissions took place prior to the introduction of new federal methane regulations. Overall, total methane emissions attributable to oil and natural production amount to barely 1% of total U.S. methane emissions. **EPA's focus on spending so much time and energy attempting to regulate what amounts to a trace element in U.S. emissions amounts to an irrational misallocation of resources.** More significantly, the proposed rules impose significant new costs on an industry that has had its operating costs climb over the last eight years.

Examples of Counterproductive Federal Regulatory Efforts – Increased Costs, Negligible Environmental Benefits

- **Regulation of Methane** – the Environmental Protection Agency (EPA) and Bureau of Land Management (BLM) are both fast-tracking major new regulatory regimes related to

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methane emissions on the upstream oil and gas sector. These regulations are moving forward despite the fact that this sector accounts for only a tiny fraction of overall methane emissions in the U.S., and that voluntary efforts by the industry itself have already resulted in dramatic reductions over the past decade. With little coordination between the EPA and BLM, the separate rules proposed by each agency set conflicting standards, thereby significantly increasing compliance costs and creating a confusing patchwork of regulatory requirements. Most recently, the EPA has announced its intention to promulgate new regulations on emissions from existing sources. These new rules could have a devastating impact on the oil and gas exploration and production sector, which is already suffering from extremely low prices and job losses.

- **New Ozone Standards** – the EPA is pursuing more restrictive ozone standards under the Clean Air Act despite the fact that many non-attainment areas have yet to implement plans to comply with the already-existing standard. Such arbitrary regulation is an unnecessary burden, not just on the oil and gas industry but on the entire economy.

- **Endangered Species** – the ongoing "Sue and Settle" abuse of this act by radical environmental groups in concert with the Fish & Wildlife Department continues to create arbitrary and unnecessary burdens on a broad swath of the U.S. economy.

- **Waters of the U.S. Regulation** – This regulation, promulgated under the Clean Water Act by the EPA during 2015, is currently the subject of a stay by the federal courts. The regulation proposes to dramatically expand EPA's reach to regulate almost any body of water in the United States, whether man-made or naturally occurring, permanent, temporary or ephemeral in nature. This would expand EPA's ability to regulate vastly beyond the language in the Clean Water Act, which limits EPA's scope of authority to the "navigable waters" of the United States. If the courts ultimately allow EPA to proceed with this regulatory expansion, the consequences will go far beyond the energy sector, essentially impacting every sector of the U.S. economy.

- **Risk Management Practices** – ongoing efforts by the Commodity Futures Trading Commission to layer in new regulations under the Dodd-Frank Act create uncertainty and elevated risk for producers who attempt to manage risk by hedging oil and gas production.

In conclusion, the oil and gas industry is a heavily regulated industry that has seen significant environmental reductions and has added more efficiencies within operations to reduce its footprint. The onslaught of these new regulations will have little added benefits while drastically increasing costs to operators.