

HIGHLIGHTING THE ROLE OF SMALL BUSINESSES IN DOMESTIC ENERGY PRODUCTION

HEARING BEFORE THE SUBCOMMITTEE ON RURAL DEVELOPMENT, ENERGY, AND SUPPLY CHAINS OF THE COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES ONE HUNDRED EIGHTEENTH CONGRESS FIRST SESSION

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WEDNESDAY, MARCH 29, 2023

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON RURAL DEVELOPMENT, ENERGY, AND
SUPPLY CHAINS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:01 a.m., in Room 2360, Rayburn House Office Building, Hon. Wesley Hunt [chairman of the Subcommittee] presiding.

Present: Representatives Hunt, Meuser, Stauber, Mann, Perez, Schoulten, and Golden.

Also Present: Representative Williams.

Chairman HUNT. Welcome, everyone.

Before we get started, if you do not mind, could you please stand? We will say the Pledge of Allegiance, please.

Good morning. Thank you. That is so kind.

Thank you all for being here. Again, I really, really, really appreciate it. Thank you to the witnesses for taking time out of your schedule to be here.

I now call the Subcommittee on Rural Development, Energy, and Supply Chains to order.

Without objection, the Chair is authorized to declare a recess of the Committee at any time.

The Committee is here today to hear testimony about the role of small businesses in domestic energy production and the regulatory hurdles they face which threaten American energy independence.

I now recognize myself for my opening statement.

I have to bang the gavel first.

The Committee meets today to hear testimony about the vital role small businesses play in the U.S. energy production and why now more than ever we need to empower small businesses to unleash America's energy potential.

Small businesses have crucial, yet often overlooked, impacts on the health of the U.S. economy and the U.S. national security.

According to the Small Business Administration, small businesses account for nearly two-thirds of all net new jobs and, in the energy sector specifically, small businesses employ approximately 800,000 workers. From oil and gas exploration to drilling, extraction, and operations, small businesses account for the majority of America's energy firms.

Furthermore, small businesses are at the frontier of innovation, spurring the shale revolution, unlocking vast stores of domestic en-

ergy supply, and helping cut U.S. carbon emissions by 14 percent in just 10 years.

In the oil and gas industry, small businesses are incredibly competitive and adaptable. Their adaptability enables them to innovate, focus on more marginal oil and gas reserves, and pursue revolutionary technologies that larger companies may overlook.

Small businesses in our energy sector do not only drive our economy, but they also meet a critical need for American families.

Hydrocarbons account for 80 percent of the world's energy supplies and oil powers 95 percent of all transportation of goods and people.

Elected officials cannot legislate away for the need for oil and gas.

Recent behavior by the Biden administration highlights the fact that America's need for abundant and affordable fossil fuel energy is not shrinking but growing. In the past 12 months alone, President Biden has called on oil and gas companies to "increase production and refining"; has plundered 180 million barrels from the Strategic Petroleum Reserve; and, has begged Saudi Arabia to produce more oil.

In November, the Biden Administration warned Saudi Arabia that a refusal to increase oil production would be perceived as a choice to side with Russia against American interests. When Saudi Arabia cut production, National Security Council spokesman John Kirby said the U.S. should review the relationship with Saudi Arabia in light of the OPEC decision, and to "take a look to see what the relationship is serving our national security interests."

This is a far cry from the president who, immediately upon taking office, cancelled the Keystone XL Pipeline, halted oil and natural gas lease sales, and raised taxes on the fossil fuel industry.

The facts are clear; our dependence on oil and gas is not going anywhere.

We must do more to invest in oil and gas production even if the world seems that the oil demand peak is within a decade.

But, given the existing U.S. regulatory environment, it is no surprise that the oil and gas production has been outpaced by demand.

The United States can make the decision to either take the lead, or let China and Russia displace us in yet another sphere of influence. The United States should be the swing producer of oil and gas in the globe, not Saudi Arabia or OPEC.

If we continue to depend on countries with high geopolitical risk, we will only cede more leverage over our economic and security interests to nations who want to weaken the United States.

Conflict across the globe and the battle for strategic reserves between the United States and countries like Iran, Saudi Arabia, Russia, and China makes it more critical for the United States to have control over energy production.

In fact, the recent strategic partnership struck between China and Russia is a perfect example of why we must focus on policy that unleashes American energy dominance.

In conclusion, producing energy within the United States is crucial for our economic stability and security, and small businesses play a critical role in this.

The United States must continue to be the standard bearer in the production of abundant, ethically produced, and low-emission energy.

If we empower American small businesses, we will do just that.

I want to thank you all again for being here with us today and I am looking forward to today's conversation.

And with that I yield to our distinguished Ranking Member from Washington, Ms. Gluesenkamp Perez.

Ms. PEREZ. Thank you, Mr. Chairman, for holding this vital hearing on the role of small businesses and domestic energy production. Over the past 2 years, rising global energy prices have placed a burden on American consumers and small firms. During the peak of inflation last June, year over year prices increase in energy nearly matched the previous record set in the 1980s. This has put a serious strain on the pocketbooks of Americans and the balance sheets of our local businesses. The rising costs hurt lower income and working class people the most as we spend higher proportions of our income on gas to heat our homes and power our vehicles.

To fully understand the rising costs of energy, we need to examine the broader context around energy prices here in the U.S. Energy costs have risen due to a number of factors. First, the initial shock of COVID-19 pandemic spurred many major companies to significantly cut oil and gas production as demand plummeted. But while demand rose quickly, production is just slow to catch up. Adding to this was the Russian invasion of Ukraine which put immense strain on global oil supplies resulting in higher prices worldwide. Finally, we cannot ignore corporate greed exhibited by many major companies.

The domestic energy producers have reaped high profits at the expense of hardworking Americans. Instead of investing in more production to ease these prices, companies opted to enrich shareholders with hundreds of millions in dividends and stock buybacks.

The issue before us today has no simple solution. There is no panacea. Fossil fuels will have an important place in our economy. You cannot match the fuel density. Working Americans cannot go out today and buy a new electric car. Buying our way out of this is not, you know, the path. But at the same time we need to contend with the long-term effects of climate change.

Just last week, an IPCC report detailed the catastrophic consequences of refusing to adapt our energy grid to low emission sources. From crop failures to famine to multiplication of infectious diseases, climate change has the potential to wreak havoc on our economy and infrastructure.

As an aside, I work in a garage. When it is 117 degrees outside, bringing in hot cars, we cannot work. That is the reality of working class people in climate change. And we have to acknowledge that domestic production is only part of the equation. Transmission and grid security are equally important and often ignored.

As someone who lives in rural Washington, I know that rural economies cannot reach their potential when we are lacking power lines to get energy from point A to point B. I would love to work with the Chairman to hold future hearings on transmission issues facing rural America.

So, this begs the question, how do we reconcile the urgent need to support working class Americans who rely on fossil fuels to get to work every day with the imperative to transition to cleaner, more sustainable energy.

The answer I believe lies in the power of small businesses and entrepreneurs. These individuals are at the forefront of innovation driving progress in the field of domestic energy production. They have the vision, drive, ingenuity to create new and better solutions to the challenges we face.

As we ramp up production of alternative energy sources, small, clean energy forums are creating hundreds of thousands of local, good paying jobs as these firms flourish, they drive renewal and prosperity in many rural and working-class communities across the country.

That is why I am support of efforts to ensure that small firms have the resources, funding, access to capital and infrastructure necessary to succeed in this transition.

For instance, the Infrastructure Investment and Jobs Act created grants that aid in research and development for clean energy. And the Inflation Reduction Act created important incentives to revitalize domestic manufacturing for clean energy and work to expedite environmental reviews for drilling permits on public lands.

While I support an “all of the above” approach to domestic energy production, the starting place of our proposal should not be fossil fuels above all approach. We need to empower smaller firms across the board to develop solutions that bring down energy prices for working families.

With that, I sincerely look forward to hearing the testimony of our witnesses here today as we examine the important role of small firms in domestic energy product.

Thank you, and I yield back.

Chairman HUNT. Thank you, Ranking Member Gluesenkamp Perez.

I now recognize the Chairman of our Committee, Mr. Roger Williams from Texas, for his opening statement.

Mr. WILLIAMS. Good morning. Thank you, Mr. Chairman. I want to thank again Chairman Hunt for holding today's Small Business Subcommittee on Rural Development and Energy and Supply Chains hearing on the Role of Small Business in Domestic Energy Production.

This is an extremely important hearing so we can shine light on how the Biden administration's harsh rhetoric against the oil and gas industry is having a very real negative impact on American small businesses.

In full disclosure, I am from Texas. I just want to tell you that. So, on top of dealing with out of control inflation, supply chain issues and labor shortages, this industry must also deal with discrimination from the banking sector because their work has fallen out of political favor with my colleagues on the left.

And this hearing is also especially relevant because my Republican colleagues are offering a solution to help these businesses as we speak.

H.R. 1, the Lower Energy Costs Act, which is being debated on the House floor, will solve many of the issues we are discussing

today. And specifically, this bill would increase domestic energy production, reform the permitting process, and reverse the Biden administration's anti-energy regulations that are crushing our nation's small oil and gas producers.

So I want to thank you all again for being here with us today. I am looking forward to today's hearing.

And with that, Mr. Chairman, I yield back.

Chairman HUNT. Thank you, Chairman Williams.

We will now proceed with the witness introductions.

Our first witness this morning is Mr. Lucas Gjovig. Mr. Gjovig is the president of Go Wire—excuse me, of GO Wireline, which provides wirelines and pressure pumping services to customers both large and small who drill and operate wells. A small business based in Williston, North Dakota, GO Wireline's works spans for petroleum wells, to water, helium, and carbon sequestration wells. Through his time at GO Wireline, Mr. Gjovig understands firsthand the negative impacts of uncertain regulatory environment has on the energy industry and by extension, the overall economy. His real-world experience makes him an excellent witness. We are very fortunate to have you with us today, sir.

In addition to his work at GO Wireline, Mr. Gjovig serves on the Advisory Board of the Energy Workforce and Technology Counsel and volunteers on the Legislative Committee of the North Dakota Petroleum Council. He is also an active Member in the community in his hometown of Williston where he serves as Chair of the Williston Planning and Zoning Commission.

I want to thank you, sir, for being here, for testifying before us on the Subcommittee, and I look forward to our discussion today.

Mr. GJOVIG. Chairman Hunt, Ranking Member Gluesenkamp Perez, Chairman Williams, and other distinguished Members of the Committee, thank you for inviting me to share my perspective on this important topic.

I am president of GO Wireline, a small business based on Williston, North Dakota. The men and women working at GO Wireline—

Chairman HUNT. Mr. Gjovig, hold on.

Mr. GJOVIG. Oh, I am sorry. I wasn't supposed to start.

Chairman HUNT. I recognize my colleague, Mr. Mann from Kansas to briefly introduce the other two majority witnesses who are appearing before us today. So we will go through them first and then you are up.

Mr. MANN. Great. Introductions and then we will wait for the witnesses. Thank you.

Chairman HUNT. Thank you.

Mr. MANN. Thank you, Chairman Hunt.

Our next witness after that will be Nick Powell, who I am honored to introduce. He is the Chairman of Colt Energy, which is a company based in Kansas that he acquired in 1986. Colt Energy is an oil and gas exploration and production company that has operated in Eastern Kansas for over 70 years. Colt Energy offers a steady line of employment to small communities all across Kansas.

Over his career, Mr. Powell has been involved with numerous other energy companies, including Overland Energy, Prairie Energy, and is the past president of Eastern Kansas Oil and Gas As-

sociation (EKOGA). Mr. Powell currently sits on the boards of both EKOGA and KIOGA, the Kansas Independent Oil and Gas Association, and he is currently the Chairman of the National Stripper Well Association. Mr. Powell's extensive career will give this Subcommittee important insight into the real world impacts this administration is having on the small business economy. Thank you, Mr. Powell, for what you do as an oil producer and for testifying before this Subcommittee. And I am looking forward to today's conversation.

After that will be Ed Cross. I am honored to also introduce Ed Cross, another Kansan. Mr. Cross is the president and chief operating officer of the Kansas Independent Oil and Gas Association, a position that he has held since 2003. In that position, Mr. Cross serves and represents nearly 3,000 independent oil and gas producers, explorers, and service providers. In addition to his work with Cuyoga, Mr. Cross serves on the boards of the Domestic Energy Producers Alliance and the Council for a Secure America. He is also an active Member of the Independent Petroleum Association of America and serves as an advisory Committee Member for the U.S. Global Leadership Coalition. Thanks to his extensive experience and distinguished career, Mr. Cross can provide a wealth of knowledge about the vital role that small business play in the domestic energy production market and the current regulatory state of the industry. I want to thank you, Mr. Cross, for testifying before the Subcommittee, and I look forward to what you have to say and to the conversation.

Chairman HUNT. Thank you, Mr. Mann.

I now recognize the Ranking Member, Ms. Gluesenkamp Perez to introduce the minority's witness for today's hearing.

Ms. PEREZ. Our final witness today is Mr. Dan Conant, founder and CEO of Solar Holler. Mr. Conant started Solar Holler over 10 years ago with a vision of ensuring that West Virginia was not left behind in renewable energy generation. With some innovative practices and investments in the local workforce, he jumpstarted the industry in his home state while lowering the energy costs of local families' businesses and nonprofits. Mr. Conant has spent his entire career in the renewable energy industry. Prior to launching Solar Holler, he was the first employee at the largest solar company in Vermont and an advisor to the U.S. Department of Energy's Solar Energy Technology Office. He holds an M.S. in Energy and Climate Policy from Johns Hopkins University. Welcome, Mr. Conant. Thank you for being here today.

Chairman HUNT. Thank you, Ranking Member Gluesenkamp Perez. We appreciate all of you being here today.

Before recognizing witnesses, I would like to remind them that their oral testimony is restricted to 5 minutes in length. If you see the light turn red in front of you it means that your 5 minutes have concluded and you should wrap up your testimony.

I now recognize Mr. Gjovig for his 5 minute opening response. Thank you, sir.

**STATEMENTS OF LUCAS GJOVIG, PRESIDENT, GO WIRELINE;
NICK POWELL, CHAIRMAN AND OWNER, COLT ENERGY; ED-
WARD CROSS, PRESIDENT, KANSAS INDEPENDENT OIL &
GAS ASSOCIATION; DAN CONANT, FOUNDER & PRESIDENT,
SOLAR HOLLER**

STATEMENT OF LUCAS GJOVIG

Mr. GJOVIG. Thank you, apologies, Ranking Member Gluesenkamp Perez, distinguished Members of the Committee. Thank you for inviting me.

I am president of GO Wireline, a small business based in Williston, North Dakota. The men and women working at GO Wireline and I are proud to be part of the industry that provides the United States with the energy it needs to grow our economy, maintain our quality of life, and reduce our nation's emissions.

My partners and I started this business in 2011, and have grown to about 200 employees working out of two locations in western North Dakota and one in northern Colorado. But we work across the region, including Montana, South Dakota, Wyoming, Utah, Nebraska, and Kansas.

GO Wireline plays an important role in domestic energy production. Our company provides wireline and pressure pumping services to customers who drill and operate wells. From oil and gas all the way to carbon sequestration. We work on wells throughout their existence from when they are drilled to eventually plugged and abandoned.

Our Wireline trucks have a miles-long spool of cable which we use to hoist tools into wells to accomplish a variety of tasks. This includes well integrity logging, which ensures a well's casing is not damaged and that cement outside the casing is preventing fluids from reaching water-producing zones at the surface. In a horizontal oil well, we perforate the casings so that shale formations can be hydrologically fractured and oil and gas can then flow or be pumped through those perforations to the surface.

Small businesses like GO Wireline play an invaluable role in domestic oil and gas production and are vital to job creation and growing the economy. Small businesses like ours are also the heart and soul of the communities in which we work. Our customers are mostly domestic energy companies, both large and small. They have felt the impacts of the increased global demand for energy as the world has emerged from the pandemic, but energy production is not as simple as turning on the spigot. Increasing energy production requires more equipment than people, which in turn requires access to capital and financing. Over the past several years, investors have become increasingly reluctant to invest in our industry. Regulator uncertainty, along with a stream of negative rhetoric from the highest levels of government is discouraging the investment needed to keep up with demand.

Greater manpower is also needed to meet increasing levels of demand. The antipathy communicated against the industry, coupled with an accurate representation of the future of our industry has made it challenging to recruit in the competitive labor market, particularly young people.

In 2022, we spent more time, money, and effort recruiting new employees than we had in the last 10 years combined.

Supply chain issues have created challenges as well. Long lead times, restricted supply and increased costs are all limiting factors on the capital we have available to invest in technology, equipment, and people.

Importantly, an expanded fleet and workforce does not matter if our customers are unable to secure the permits to explore and drill new wells. While our customers are the ones securing permits to explore for new resources, our company is still impacted by the administration's moratorium on new leases on federal lands as future opportunities for us to work on new wells will fall as a result along with production.

While the administration's rhetoric and reluctance to support new infrastructure are hindering our industry's ability to increase production, regulations such as the proposed SEC Climate Disclosure reporting requirements threaten to hurt our business directly. The proposed regulation requires disclosures from public companies on the entire value chain, including product end use impacts and supplier environmental impacts. This massive regulatory action would put enormous administrative demands to small businesses like ours, which do not have the resources or expertise to manage and to report this information to our public customers.

GO Wireline, along with so many other small businesses working in this industry, stands ready to provide the services necessary to increase production to meet increases in demand. The policy decisions by the current administration, combined with the politicized hostility that has targeted the U.S. oil and natural gas industry is hindering our industry's ability to provide abundant, reliable, and clean sources of energy that both the U.S. and our allies need now to meet energy demand, improve standard of living, provide national security, and reduce global emissions.

Thank you again for the opportunity, and I look forward to answering any questions.

Chairman HUNT. Thank you, Mr. Gjovig.

I now recognize Mr. Powell for his 5 minute opening remarks.

STATEMENT OF NICK POWELL

Mr. POWELL. Chairman Hunt, Ranking Member Gluesenkamp Perez, and Members of the Subcommittee, thank you for holding this important hearing and allowing me the honor of testifying before you.

My name is Nick Powell, the Chairman and owner of Colt Energy. Colt Energy's main base of operations is in Iola, Kansas, which has a population of approximately 5,500, and is located in Allen County with a population of 12,500. It is engaged in oil and gas exploration, production, and development. Colt owns and operates over 150 producing oil and gas leases with approximately 400 barrels of oil and 1,800 MCF of gas per day. Our average oil well produces a little over a barrel a day, and we produce about 15 MCF per day from our average gas well.

Colt currently employs 39 full-time employees. That is one employee per 10 barrels of oil and 18 MCF a day of gas. So in our

industry, our marginal well industry, we hire a lot of people for the oil we produce and we are truly a small marginal producer.

Our employee wages average approximately \$75,000 plus profit sharing, health insurance, 401(k) retirement plan, paid vacation, and sick leave. We and other small oil and natural gas producers provide an important source of good paying jobs in small communities throughout Kansas. We also provide tax revenue to counties in which we operate and to thousands of royalty owners, many who rely on their monthly checks.

So why is the current administration clearly trying to make it so hard and expensive to stay in business and produce the oil and natural gas that this country will need for decades to come? In all my years in the business, I have never seen an administration take such a callous and unrealistic approach to energy policy. From the day Biden became president, we were being told that he wants to put us out of business and is threatening costly and confusing regulations and taxes, many of which we have no idea how much it will cost to implement or how to implement them. It used to be that previous administrations and Congress have tried to protect small oil and gas operators from onerous regulations that had no real benefit for their cost. Now it seems just the opposite. Trying to eliminate percentage depletion, removing the marginal well exemption from methane leak regulations and fees to be collected on methane by the EPA to name a few.

The only purpose served by shutting down small producers while oil demand is still strong will be to ship those jobs and revenue and secure energy supply to many of our adversaries that cause much more environmental harm by their producing operations than U.S. companies taking us back to dependency for our nation's energy supply. Here is a clear example that the EPA is more interested in adding to our costs than lowering measurable methane leaks.

The first EPA rule proposal released in November 2021 did not require ongoing emissions, monitoring of low producing well sites that emit less than three times per year. Then, in 2022, the DOE completed a report on the emissions profile of low production wells. In fact, one of our leases was used in that test. They came out and ran a test on our lease and that was in my written report, the outcome of that.

The report shows that well sites producing less than six barrels a day fall below the thresholds that EPA has considered as low emitting sites. On November 11, 2022, the EPA advanced their supplemental proposed rule to regulate oil and gas methane emissions. The EPA ignored the third party DOE study and strengthened the leak detection repair requirements for small oil and gas wells.

Another potential hit to our operating costs is a proposed methane fee of \$900 per ton on operations generating in excess of 25,000 tons of CO2 equivalent. What does equivalent mean in terms of methane and how do we prove we are exempt? The devil is always in the detail which we don't have.

Depending on unknown cost increases we are facing from regulations and fees does not take into consideration other costs of doing business that increased as we deal with inflation and labor shortages, just like everyone else. So when we are continuing to face

some of the highest inflation rates we have seen in 40 years, small operators can ill afford any additional unnecessary costs or regulatory burdens.

Thank you, Mr. Chairman, once again for holding this hearing on the serious issues facing small energy companies. I look forward to answering your questions.

Chairman HUNT. Thank you, sir.

I now recognize Mr. Cross for his 5 minute opening remarks.

STATEMENT OF EDWARD CROSS

Mr. CROSS. Thank you. Good morning, Mr. Chairman, Ranking Member Perez, and Members of the Committee. I am Edward Cross and I am the president of the Kansas Independent Oil and Gas Association. I have worked in the oil and gas industry for over 38 years as a geologist and now as an advocate for the industry, and it is my honor and privilege to serve this great industry that enhances life experiences and improves the quality of life of people around the world. And with over 3,000 Members, the KIOGA as we call it, the Kansas Independent Oil and Gas Industry is a lead state and national advocate for the oil and gas industry in Kansas.

We talk about small independents. Those are the folks that drill and produce oil and gas. We do not generate or market the end products. We raise our capital through the well head. We do not tap equity markets to get that cashflow or any of the cashflow that comes from the wells, what we use to drill and produce the wells that we have here. And many operators spend over 100 percent of their cashflow on drilling and developing those new wells.

In Kansas, oil and gas is producing in 89 of the 105 counties. Our average well makes two barrels of oil per day and 23,000 cubic feet of natural gas, yet we are a 3.6 billion industry in a state that supports over 100,000 jobs and \$3 billion in family income and are consistently one of the top three industries in the state in terms of gross state product.

Over the last 2 years, in the name of climate change, the federal government has done much to impeded American oil and gas production and these actions not only affect producers but they are more often more harmful to the small businesses that are in the oil and gas industry. President Biden and his supporters continue to look for every opportunity to weaken, attack, and destroy domestic oil and gas production, including carbon and methane tax proposals, unilaterally increasing the regulation of oil and gas production, and proposing to eliminate critical oil and gas cost recovery tax provisions. Biden's actions are making it harder for our economy to recover and damaging our nation's energy security.

Because industry and infrastructure require development, Biden's anti-development and environmental policies are a major obstacle to responsible development. In his State of the Union speech in February, President Biden portrayed the global energy crisis as a problem that he is solving, but in fact, it is a problem he has helped cause and is making worse with his anti-fossil fuel policies. Energy information administration says global oil and gas demand will increase over the next 30 years and nearly half of that world's energy is expected to come from oil and natural gas in 2045. That demand will be met one way or another, and if America

does not meet that it will be met by other countries who do not share our security interests, environmental, or human rights values. The solutions are right here in America and we just need to seize upon those. It does not make sense to place unnecessary political and legal obstacles in the way of responsible American oil and gas production, cancel pipelines to discourage investment in fossil fuels, and then beg OPEC and others for more oil to contain inflation.

The oil and gas industry can be part of the solution to our nation's energy solutions or energy challenges. Entrepreneurs in the private sector and smart state led policies can drive American energy leadership. Tax policy proposals from the Biden administration seem designed to punish the energy sector. It is key for the small independent oil producers that Congress retain cost recovery measures like the percentage depletion deduction and intangible drilling cost deduction. These measures are neither subsidies nor loopholes but tax provisions critical for American oil and gas producers to sustain capital availability and formation.

The EPA flipfopped on their proposed methane rule. You know, first exempting marginal wells and then caving to pressure from environmental activists and ignoring a Department of Energy third-party study to make the regulations more harmful to small producers. The EPA proposed oil and gas methane rule is contrary to the congressional intent as the Inflation Reduction Act exempted smaller wells from regulation. Congress should engage EPA to ensure that the agency develops cost effective oil and gas methane regulations that reflect congressional intent and provide flexibility.

We also have concerns about a number of issues that are in my written testimony, whether it be the strategic petroleum reserve or Endangered Species Act or environmental social and governance standards and more of those.

So in closing, you know, the most pressing issues facing the U.S. economy in the foreseeable future are not those arising from climate change or an energy transition; rather, the factors to watch are inflation, rising energy costs, and security threats. America's independent oil and gas producers look forward to working with you and your colleagues to develop innovative solution to address our energy challenges in the coming years. Our mission is to empower people, improve lives, and inspire success. I thank you.

Chairman HUNT. Thank you very much, sir.

I now recognize Mr. Conant for his 5 minute opening remarks.

STATEMENT OF DAN CONANT

Mr. CONANT. Good morning, Chairman Hunt, Ranking Member Gluesenkamp Perez, and all the Members of this Committee. I am honored and humbled to have the opportunity to speak with you today as a representative of the vanguard of a new industry in Appalachia.

And I want to share with you three stories. The story of how we reimagined who solar is for. The story of how we started training the first generation of solar installers in coal country, and the story of what Congress can do to help further emission in bringing clean, renewable energy and jobs within reach of all of our neighbors across Appalachia.

My name is Dan Conant. I am the founder and president of Solar Holler. We are based in Shepherdstown and Huntington, West Virginia, and I also come to you as a former advisor to the U.S. Department of Energy Sun Shot Initiative, as well as a veteran of multiple solar startups.

For generations, Appalachia has powered American prosperity with our coal, and Solar Holler is ensuring that we will continue to power America in the 21st century with renewable energy.

From the moment I moved back to my hometown to start up our company 10 years ago, we have relentlessly pursued innovative approaches that make solar the most affordable source of energy for all of our neighbors across Appalachia.

Due to this dedication and approach, we are a rapidly growing team of incredibly dedicated, talented, and passionate professionals. Over the past decade, we have started the industry from scratch in our region and grown to a staff of 105 people. Our team models, designs, finances, and builds beautiful solar projects that will last for the next two generations, all the while producing free, clean energy.

Every project our team designs and builds helps families, nonprofits, and businesses across our region cut their power bills while revitalizing the economy of West Virginia.

Our dedication to making solar the most affordable source of energy was shown in our very first project. A groundbreaking community effort with my congregation, Shepherdstown Presbyterian Church. That project won national accolades, including the interfaith Power and Light National Renewable Role Model Award for a first of its kind crowdfunding approach.

Rather than passing a plate or doing a traditional capital campaign, we crowdsourced water heaters. Members of the congregation and half the businesses in town agreed to let me connect an internet-connected remote control to their water heater. And we actually connected 100 water heaters across town as a network, registered them as a power plant on the PGM regional grid, and started day trading second by second in tune with the fluctuations of the power grid. Using these water heaters, we were able to create a new source of funds to support solar projects at churches, affordable housing groups, and libraries across the state while stabilizing the power grid, preventing blackouts and power surges and ultimately incorporating more renewable energy into the grid.

That first project with my church would have cost the congregation more than \$50,000 at the time. Instead, it cost them one, one dollar. And over the next 25 years, the project will save the church more than \$100,000 to put back towards their mission.

We had to get creative with that because of the way the solar incentives are built that specifically discriminate against nonprofits. Those incentives have typically left out tax-exempt entities. Thanks to the Inflation Reduction Act that passed last year, however, all of the federal investment tax credits are going to be opened up to churches and schools and municipalities just the same as they always have been for businesses.

In 2015, we relaunched Rewire Appalachia, a workforce development and training program in partnership with our friends at Coalfield Development. Through that collaboration, Solar Holler

gave more than 40 young folks who were kids of coal miners the chance and hand-up into the solar industry. We paid for their college, for their electrical apprenticeships, for their solar certifications, and gave them close supervision under the tutelage of our master electricians, and we kept going from there.

In 2020, we willingly unionized, joined up with the International Brotherhood of Electrical Workers and have been very proud to be leading the union movement in West Virginia.

Our latest efforts are focused on high schools and vocational programs. This January, we launched internship programs with Wayne County West Virginia schools, as well as Boyd County, Kentucky. And through this program, high school seniors spend four days a week in their vocational classes learning electrical theory, learning drafting, and then one day a week they are paid interns on the job, learning how to safely and beautifully install solar systems. Once they graduate in June, they will be able to slide right into a career with Solar Holler and stay at home, which is one of our biggest challenges in West Virginia with the brain drain we have seen over the last 50 years.

I am running out of time but I have got to say, things are going very, very well for us, especially with the investments, the Inflation Reduction Act is making in our states. We have seen a boom in manufacturing just in the past year, particularly around electric school buses, grid scale batteries. We have had five major industrial announcements in the past year that will employ more than 2,900 people in the clean energy industry in West Virginia. We are really excited to be able to keep pushing the envelope here and see where this all takes us over the next 10 years. Thanks so much, and I look forward to answering any questions.

Chairman HUNT. Thank you very much.

We now move to the Member question under 5 minute rule. I recognize myself for 5 minutes.

My first question is for you, Mr. Gjovig. Your company's name alludes to the portion for the energy process you are involved in. In horizontal wells you perforate the casing so that shale formations can be hydrologically fractured, a process that is credited with ushering in today's era of energy, abundance, and independence in North America.

What would a ban on fracks do to your business, your employees, and the overall U.S. oil and gas industry?

Mr. GJOVIG. That is an excellent question, Chairman. It would obviously devastate our business as we are an integral part of that function of completing a well. But in turn, it would devastate the community in which we work, and I think even more importantly it would devastate lower income and working-class communities across the country as the cost of energy would rise as production would fall.

Chairman HUNT. Excellent. Thank you.

Mr. Powell, next one for you, sir. Turning our attention to ESG, regulatory burdens and overreach, would you say that the regulatory environment during the current administration has increased or decreased your ability to access capital?

Mr. POWELL. Well, it would certainly seem to have decreased capital. We have not had to go out and look for capital but I have

people I know that it make sit harder for them. And certainly it does for the industry as a whole. You know, so to answer your question, it increases it.

Now, for me specifically, because we do not go out and look to raise money, but I know other people that I talk to and it is a problem. And there is a concern on where this is going to come because you have to raise money to be able to continue to drill, particularly when the price of oil goes down and you don't have your revenues to do drilling.

Chairman HUNT. Also, sir, you referenced the pending DOE methane inspection rule in your testimony and that your wells were part of the DOE study. To me, especially in the scope of small producers such as yourself, the DEO inspection and testing sounds like a solution searching for your problem but not finding one.

In your opinion, does the proposed methane tax make sense for small producers? Will it hurt your business more than it will help your business reduce methane emissions?

Mr. POWELL. Thank you for the question. We had one of our properties, producing properties were used in this DOE study that was done with a third party to see whether or not these small producing wells really produce much methane before you impose a lot of expensive regulations on them. They tend to be widespread and one size fits all we have seen in the past. And so the crew came out and set up their equipment on our lease. And they started the test, and in fact, our executive vice president just happened to go out there and be on site. He was curious to see the testing. And they stopped the test because they thought their equipment wasn't working because they weren't picking up any methane, any at all. So they checked all their equipment, looked around, and said, no, the equipment is working. There just isn't that much methane. And we knew that. You know, these wells when they get old and producing marginal wells like that all the gas is gone. That is why we do a barrel a day because there isn't much pressure moving that oil.

And I was very surprised because I knew that about 60 percent of the wells they tested were very low. So I thought, okay, they have paid for the money. They have run the tests. We are going to get this exemption. Well, they switched. And now some are being put into that. And I do not understand, so.

Chairman HUNT. Yes, sir. Thank you very much.

The last one is for you, Mr. Cross. We have got about one minute left, so if you can wrap it up as soon as possible.

According to the U.S. Energy Information Administration, oil and gas supply 68 percent of the United State's energy in 2022. How long would it take in terms of years for solar and wind to meet that level of energy share? And what would be the cost for the U.S. taxpayer to reach that mark?

Mr. CROSS. Well, it is hard for me to answer how long it would take, the wind and solar to get there. But you know, 68 percent, you know, I think on the world level that project that wind and solar by the year 2045 will make up 10 percent, 10.9 percent or something of globally. And that is globally, not the United States.

So it would take, you know, they would take billions of dollars to get to where they are today, wind and solar, where they are at

today, I don't know, 7, 8 percent of energy today. So it would take quite some time. I don't really have an answer to exactly when.

Chairman HUNT. Thank you very much, sir. I really appreciate it.

And I now recognize the Ranking Member, Ms. Gluesenkamp Perez for 5 minutes of questions.

Ms. PEREZ. Thank you, Mr. Chairman.

Mr. Conant, your company has made amazing investments in workforce development at the local level. As somebody from a rural community, I really appreciate that.

As somebody who works in the trades, I know it is critical for getting early training, you know, junior high, hi school. Can you speak about some of the benefits it provides to communities, particularly in some of the more rural areas to educate young people about the opportunities and the trades and jobs that exist in local areas?

Mr. CONANT. We have made really conservative efforts over the past 10 times. We actually built our company around training up the first generation of solar installers in the state. Across Southern West we have just seen, like I said in my testimony, a brain drain over the last 7 years as the coal industry has declined. And if you go into McDonald County, West Virginia for instance, back in the 50s there were over 100,000 folks in McDowell County. Now we are down to about 15,000. Four out of five buildings are empty and it is because there are no jobs left. People have to leave the state.

So, that is why we have focused so critically on folks coming out of high school, folks early, early adult hood so that we can train them up in the trades, get them into the electrical field. We are actually 3,000 electricians short across West Virginia right now for just the work we need to do as a state. And with the benefits of the IRA coming to fruition, we are going to need another 4,000 electricians in state. So we have a 7,000 electrician gap in a state of 1.8 million people. This is huge. And, you know, the time to do that is when you are in high school or when you are coming straight out of school. So through this partnership with Wayne County Schools, we are really excited to be working specifically with high school seniors, promoting vocational education at the school level and making sure that folks have a career path that allows them to stay at home versus filtering off into the rest of the country.

Ms. PEREZ. Thank you. You know, later today I am going to have a 9-foot chainsaw delivered to my office that my grandpa used in the woods and, you know, like West Virginia, Washington State has been centered around a particular industry for a long time. You know, how has increased investment in renewables in the state helped bring wealth back to the communities and diversity the local economy?

Mr. CONANT. I would say it is still early days. So, the industrial announcements that I was mentioning, those have all just been made in the past year, and really over the last several months with the new battery factories coming in and I think the first electric school buses are just now running off the line.

But for instance, Form Energy makes grid scale batteries. They are locating in Weirton, West Virginia, which is an old steel town

on the Ohio River. It has got I think 5,000 to 7,000 folks, somewhere in that area, and this is going to be 700 jobs in a town of 5,000 to 7,000 people. It is absolutely enormous for giving folks a reason to stay, for supporting the school system, for really supporting the infrastructure of this town with a really rich history. So I am excited to see where all that goes. In our case, we have got over 100 families supported directly by the wages that we are producing. We are scattered all over the state. In the age of COVID, we went virtual across the teams so that everyone could live in their home holler and not have to come into the office every day. And so that is really spreading out the benefits across a really rural state.

Ms. PEREZ. Yeah. Thank you so much.

Mr. Gjovig, outside of H.R. 1 there are some bipartisan efforts to reform the permitting process. Could you give us some details as to which aspects of these bills are most important to lowering the cost for Americans?

Mr. GJOVIG. Permitting reform and access to federal lands I think is an important part of making sure that we have a steady supply of American production going forward in the future. Today, we have work that is going on, but 5 years from now if permitting is not done now and access to federal lands is not granted now, we will see an impact on production.

Ms. PEREZ. Mr. Powell, you mentioned in your testimony—I do not have quite enough time to ask this question. I will catch you in another round. But thank you.

Chairman HUNT. Thank you very much.

I now recognize Mr. Mann from Kansas for 5 minutes.

Mr. MANN. Thank you, Mr. Chairman. And thank you to the witnesses and everyone for being here today.

I represent the big 1st District of Kansas, which is roughly two-thirds of our state. I can assure you there is no tree in my district and in our state that needs a 9-foot chainsaw to cut down. Incredible. But we do have a lot of oil and natural gas. And hundreds and thousands of oil and natural gas wells have been drilled in our state since the late 19th century. And they produce 6.7 billion barrels of oil and 41.2 trillion cubic feet of natural gas.

In Kansas, small independent businesses account for 92 percent of the oil production and over 63 percent of the natural gas production. These independent producers who own and run these small businesses employ thousands of people across the state and they are critical to the American economy.

I am glad that we are having this hearing to shed positive light on this tremendous industry, these fantastic people that too often get told that what they are doing does not matter and the government instead of thanking them, which we should be doing, throws up more taxes, more burdensome regulations, and makes their life more difficult. So I appreciate you all being here today.

A few questions. First for you, Mr. Cross. Can you explain how producers have been affected by regulatory overreach and the impact it has had on the oil and gas industry? And then specifically, what particular regulations are the most onerous or are you most concerned about right now.

Mr. CROSS. Yeah. Thank you for the question. You know, our biggest priority in the oil and gas industry are federal regulations. We do have state regulations, too, that we comply with, but the federal regulation seems to be the most onerous. And so when we looked at, you know, like the endangered species Act where they are trying to list—well, they did list just this week, the lesser prairie chicken in Kansas is a threatened species, which we feel they have not met all of the criteria for listing that particular species. Those are very costly. Or the methane regulations that are supposedly coming down. Like I said, the Department of Energy third-party study which was done not only in Kansas but across the nation found no viable or significant quantities of methane or volatile organic compounds from marginal wells, yet the EPA decided to ignore that study so that they could put these, and these are very costly, for the producers in Kansas.

Mr. MANN. And expand upon the methane fee. What impact would that have on our producers? I mean, what would that mean to our small businesses that are trying to produce oil to feed and fuel all of this?

Mr. CROSS. Well, they have not come out with the regulations yet but the proposals that they have right now could cost as much as 30 to 40 percent of the cap X it would take to drill and produce a well in Eastern Kansas where they make less. Like Nick said, one barrel, it may be as much as 50 or 60 percent of their Cap X on a well to comply with just a methane regulation itself.

Mr. MANN. Yeah. Incredible. Thank you.

A question for you, Mr. Powell. Can you explain the importance of percentage depletion and how the elimination of this would affect your small business and many others like it throughout Kansas and throughout the country?

Mr. POWELL. Yes. Well, small producers depend greatly on percentage depletion. Once we drill a well and it starts producing, it goes into decline. And the only way to maintain our revenues is by continuing to drill more wells. So we have to use a lot of the revenue we get to put back in the ground to continue drilling to maintain our revenue so we can maintain our employees and our fixed costs. And percentage depletion allows that and only for small producers. It is only allowed up to 1,000 barrels per day. It is only on the first 65 percent of your income. And it also, besides allowing you to continue to drill wells to maintain your production and stay in business, it also allows the wells to economically around longer as these wells decline, and if costs go up—keeps more of the money so we can keep these wells economically alive. They produce longer and they produce money for the state, for the royalty owners. People keep forgetting about these royalty owners. There are probably millions of royalty owners across the country, 100,000 in Kansas, and they rely on that monthly check. And once that well is plugged, it is not going to provide any money to the county, to the state, nor to the royalty owners. So it helps all those people besides us.

Mr. MANN. The royalty owners are American, different than the royalty owners in Saudi Arabia or other parts of the world. So these dollars stay in our economy.

Last question. I have about 30 seconds left for you, Mr. Powell. What decisions out of Washington do you feel like have harmed your business, your small business the most?

Mr. POWELL. Oh, I cannot do that in 20 seconds.

Mr. MANN. That is fair. That is fair.

Mr. POWELL. But, I mean, it is a long list. You know? And it is not only the ones that we have to deal with, the cost, because we cannot hire people to come in here and take care of these things. It is what we look coming down the pike, you know, the road. It is a change. It is a change. And it is threatening, so we worry about what is coming down. And the people we want to hire, they worry about, well, are you going to be around as a business?

Mr. MANN. That is the important thing. If you look forward, it is not just the regulations you have but all the talk of the regulations that are coming, how expensive that is, how bad that is for business on every front. So thank you all for being here. And with that, I am past my time so I will yield back the time that I do not have. So thank you.

Chairman HUNT. Thank you, Mr. Mann.

I now recognize Ms. Schoulten from Michigan for 5 minutes.

Ms. SCHOULTEN. Thank you so much. Thank you to the witnesses today for coming and testifying on such a critical issue.

The testimony that has been shared today has touched on different aspects of workforce and retention issues, a vital part of ensuring we have a strong domestic energy industry is cultivating a strong workforce. I rarely have a meeting or a conversation these days where when I ask what is the most critical issue facing your industry or your sector and the first response is not worker shortages or workforce development and retention.

So, Mr. Conant, the Rewire Appalachia and high school vocational programs you mentioned in your testimony are great examples of how to cultivate a strong local workforce. What further measures in the clean energy space should Congress be paying attention to when it comes to some of those workforce development issues?

Mr. CONANT. One of the biggest challenges we see is at the community college level, just having teachers. It is a whole lot more lucrative for teachers to work in the field as an actual electrician than it is to teach other electricians. And that has been seriously holding us back. Not just West Virginia but nationwide. So, I would say increasing teacher pay and making that a more competitive career so that you can enable all the thousands of others.

Ms. SCHOULTEN. Thank you.

And I have one more question for Mr. Cross. You mentioned in your testimony that there are ways for Democrats and Republicans to work together on effective energy policy priorities. Bipartisanship is a guiding principle of my leadership here. What are some of the proposals in this space that you can support that not only strengthen American production but also ensure a green future for our kids?

Mr. CROSS. You know, we believe that we need energy from all forms to meet our energy needs. But that also includes oil and gas in that sector. So, you know, policies that do not penalize the oil and gas industry but support oil and gas in addition to supporting

green are ways I think we can work together to get an energy policy going forward.

Ms. SCHOULTEN. Thank you. I yield back.

Chairman HUNT. Thank you, ma'am. I now recognize Mr. Stauber from Minnesota for 5 minutes.

Mr. STAUBER. Thank you very much, Mr. Chair.

Mr. Conant, you are involved in the solar business and the solar panels and what have you; right? Are there any critical minerals used in the production of solar panels.

Mr. CONANT. Yes.

Mr. STAUBER. Which ones are they?

Mr. CONANT. I am not a chemist, so I am——

Mr. STAUBER. But you know there are critical minerals?

Mr. CONANT. Yes, there are.

Mr. STAUBER. If you want to sole source critical minerals in the United States or foreign countries?

Mr. CONANT. I really want to source them in the United States.

Mr. STAUBER. Great. You are going to support H.R. 1 then. That is my bill. Thank you.

Did you know that this administration pulled the lease in their banned mining in the biggest copper/nickel find in the world? Did you know that? The minerals for your solar panels, did you know that, yes or no?

Mr. CONANT. My business is——

Mr. STAUBER. Mr. Conant, I am trying to help you here because I support all of the best energy. All of the best. And your solar panels are going to be a part of that. What I am telling you, or asking you is, do you support minerals sourced to the United States rather than foreign companies who use child slave labor, yes or no?

Mr. CONANT. Absolutely.

Mr. STAUBER. Okay. In Minnesota, we have the biggest copper-nickel find in the world and this administration just pulled the leases and banned mining in northeastern Minnesota. Do you support that?

Mr. CONANT. I think you should talk to the administration about that.

Mr. STAUBER. No, I am asking you. Because it removed the sourcing in our country. And you said you talked about union labor. These were project labor agreements, thousands of union workers gone because of political reasons.

And it matters to you where we source the minerals; correct?

Mr. CONANT. Yes.

Mr. STAUBER. thank you.

Does your company get any subsidies from the federal government indirectly or directly?

Mr. CONANT. Be inflation reduction Act created a number of tax credits for solar projects. They extended that to the tax-exempt entities, including churches and municipalities and hospitals. There is also a number of incentives to target that development directly into historical coal.

Mr. STAUBER. And I think one of the things that we have to know as we get into the solar universe and you are in the inception of it, we have to understand that we will never meet the Inflation

Reduction Act Standards for Critically minerals mined domestically if we do not allow mining.

Just yesterday, the Secretary of Interior asked, and she signed the ban. When asked if there was critical minerals in that mine she had no idea. Zero idea to help you manufacture in this country. So I am asking you to support H.R. 1, Lower Energy Costs, put union workers in northeastern Minnesota back to work using the best environmental standards, the best labor standards in the world.

So thank you for supporting H.R. 1. I appreciate that.

Mr. Gjovig, Mr. Powell, and Mr. Cross, yes or no, do you consider yourself big oil?

Mr. GJOVIG. No.

Mr. POWELL. No.

Mr. CROSS. No.

Mr. STAUBER. That is what I thought. And I am willing to bet you would take offense at such a claim.

This gets at a larger point that we at the Small Business Committee, we must always keep in mind when more regulations are imposed or taxes are raised they have the greatest effect on you, the small business owners. Through it's worn American energy production, the Biden administration is doing just that, harming small businesses and threatening to put those in the coal, oil, and natural gas industries out of business.

Mr. Gjovig, can you expand on the cost and time that goes into complying with the increased regulations you mentioned in your testimony?

Mr. GJOVIG. It would require me to track our own emissions which is something that I do not have the staff or the expertise to do, but also the environmental impacts of my suppliers, which would require the legwork to track that down from my suppliers, which include small and large business. And then disclose that to our publicly traded customers. It would be a big administrative burden for us.

Mr. STAUBER. And my time is up. And I want to thank all four of you for your testimony.

Mr. Chair, I thank you and the Ranking Member for holding this. It is extremely important and that is why H.R. 1 is so important to get across the finish line. And I yield back.

Chairman HUNT. Thank you, sir.

And I recognize Mr. Golden from Maine for 5 minutes.

Mr. GOLDEN. Thank you very much.

Mr. Cross, just another opportunity to talk a little bit about ways that we could do some bipartisan work together to have an effective energy policy here in the United States. You mentioned supporting all types of energy but we didn't really get into any specifics. I just want to give you another opportunity. What types of investments or things could we do on a bipartisan basis that would help out your industry?

Mr. CROSS. Okay. I think you saw in my written testimony, I have things, you know, where most Republicans look at energy policy as an economic issue, whereas Democrats seem to think of it as an environmental issue.

Mr. GOLDEN. Well, I would not agree with that.

Mr. CROSS. Okay. Well, those are just polling numbers that came out. But you know, looking at ways, and we talked about several of those, like the tax policy, looking at the oil and gas. We do not feel like any of our cost recovery mechanisms like percentage depletion and tangible drilling cost deductions are subsidies by any means because they have to spend the money. That is the way they raise their capital. We are not big oil. We do not tap equity markets. The cashflows coming from the well is how we do that.

So those are critical for the smallest producers. As I said, the percentage depletion, the majors have not had that since 1975 or something so they do not really care about that. But that is imperative for that small producer that makes two barrels of oil per day.

You know, I might add in Kansas, many of those wells out there in Western Kansas, they are providing 25 percent of the employment in accounting, 75 percent of the property tax. And it is critical for those. So those are the type of policies.

Mr. GOLDEN. Thinking about tax credits and tax policies, are there things out there that are going to be helpful do you think to energy producers for making smart investments like more energy efficient manufacturing or emissions technologies, carbon capture, et cetera? I mean, are there things out there that you would look to take advantage of?

Mr. CROSS. Yes. You know, we do not receive tax credits but like you say, cost recovery mechanisms are there. Whenever you talked about you said carbon capture. What was the other one? I am sorry. You said—

Mr. GOLDEN. Any kinds of tax policies that would help manufacturers to make investments to increase their energy efficiency.

Mr. CROSS. Yeah, you know, so we talked a little bit about ESG, for example. That does not affect directly a lot of the small producers because they are not tapping equity markets and things like that. But it does affect a lot of the suppliers. Some of them use suppliers and service companies that may get capital from companies that are trying to get capital and they have to comply with the ESG standard. So that greatly impacts, you know, in our state, labor supply is a big issue. I mean, we have, it was a very active year in Kansas in drilling but it could have been a lot more if they could have had more people out there drilling. So those are the kinds of things.

Mr. GOLDEN. Yes.

Mr. Powell, I saw in your testimony you expressed concern about the president tapping into the Strategic Petroleum Reserve. You did note that it helped drive down prices which obviously my constituents and probably most people out there appreciated. But you know, you noted some long-term concerns about how that is going to impact you and your business. What types of moves could the government make that would alleviate your concerns about that?

Mr. POWELL. Well, I think that strategic petroleum reserve is not to be used for what they use it for. I mean, you artificially—

Mr. GOLDEN. To drive down high prices?

Mr. POWELL. Yeah, but it is artificial. It is short term. You all are looking at long term, I assume.

Mr. GOLDEN. Short term relief—

Mr. POWELL. You want to make sure that we have the energy we need—

Mr. GOLDEN. I understand that.

Mr. POWELL.—to keep this country. And if by artificially pumping that oil out, well, if you could keep pumping it another six months it will be empty. Then what do you do? And what do you do if you need it? So by bringing the price down you send a message, do not make investments. You have less revenue coming to drill more wells, produce more oil. And if you do not have that as we have seen in Europe, your price will go right back up and even higher than it was when you started to empty the petroleum reserve. So ask me this question in another year or two when we see where the price of oil is.

Mr. GOLDEN. Right. You would like them to restock the reserve?

Mr. POWELL. I would. In fact, President Biden said when he did this he said, I will pump this oil out and bring the price down. But do not worry. When it gets below \$72 I will fill it back up. That is what he said. It is kind of a bait and switch because he did not do that. The price went to 67. Have we seen any oil pump back into that? He could have gone out on the futures market for 6 months and priced it below 72 and bought it and pumped it back in there. And he did not.

Mr. GOLDEN. I have called on him to do that. So I agree with you about that. I disagree, obviously, when gas is \$5 bringing prices down is pretty critically important to the American people.

Mr. POWELL. Like I said, 2 years from now when the effects of artificially bringing down the price of a product has on its supply in the future.

Mr. GOLDEN. Thank you.

Chairman HUNT. Thank you, sir.

I now recognize Mr. Meuser from Pennsylvania for 5 minutes.

Mr. MEUSER. Well, I thank you, Chairman, very, very much. And my apologies for just dropping in. It is just one of those busy days. I am on the Financial Services Committee as many of my colleagues have many other Committee hearings. So this is really important. That is my whole point, just to stress that I am sorry I missed it because it is a very important hearing and we really appreciate you all making the trip here.

My district now includes much of the Marcellus shale area. We call it the Northern Tier of Pennsylvania. I have been very acquainted with that area for quite a number of years, even when I was not representing it only because it just has been so important since 2011-2012. Previously, I was revenue secretary in Pennsylvania so we set up oil and gas workgroups very early just to help the industry understand compliance and grow in a responsible manner. And it has made an enormous difference in Pennsylvania. I think we have the second or third largest reserve of natural gas in the world. And it is developing, things are going well, but it could be doing a lot better. Not so much because of necessarily costs and excessive taxes but entirely because of regulations, permitting, as well as pipelines very much, too. And investing as you, Mr. Cross, have brought up, meaning access to capital from banks, large and small, community, regional, and even the larger banks

where some of this ESG mandates are coming into play. I mean, it is not uncommon for me to get a call from a community bank. You would not believe the call I just got he would say, or she, from the SEC warning me to watch out for my carbon footprint in my investment portfolio. You know, I might have to hire somebody to look after this. I thought I already had somebody good.

So tell me, you know, there is rhetoric about it. There is commentary. There is real life. Today we have these requirements but just wait until next year. They are going to be even harsher so you had better maintain them even more stringently than you already do. Maybe you can just comment on that for me, Mr. Cross.

Mr. CROSS. Yes. That is a big issue for small companies, as well as the big companies. And I know in Kansas, we look at our small banks. Many of them are small banks in Kansas. And we are concerned about whether they are going to use an ESG standard on that.

The other thing we are worried about is insurance companies that have started to say that they are not wanting to insure companies that produce fossil fuel. So that makes a big, you know, I think Chubb came out just this last week or so talking about how they would look at maybe not wanting to insure fossil fuel imprints on your portfolio. And what we do in the small independent oil and gas industry is, you know, we just want them to be fair in their assessments. We are not asking for anything special. We just want them to look at the financial performance.

Mr. MEUSER. And how the upstream and downstream, right, from water suppliers, to farmers, to grocery stores who buy the food from the farmers who use natural gas for their fertilizer. I mean, it seems as if an overreach is an understatement.

Mr. CROSS. There is no doubt. In Kansas, like we say, the people that we have here, and this is true for small producers across the nation, not only Kansas but Pennsylvania as well and others. We are friends and neighbors. We live and work right where we have our product. So we care about our environment as much as anybody. They are wanting to protect that. They have for many years. So ESG standards is really nothing new. The industry has been doing those things for many years.

Mr. MEUSER. I would love to hear from you afterwards. We always have limited time for this. What your suggestions would be, I can do, we can do, this Committee can do to educate the banks and more so the regulators in the banking community on what you see is best, responsible, and yet maintaining a level of responsibility as well as gaining that access to capital.

Lastly, I would just like to ask our thoughts on H.R. 1 that are coming across. This bill, H.R. 1, particularly even maybe comment or afterwards on how we will have the justification right to build pipelines across certain states that have kept us from doing so. In Pennsylvania, for instance, natural gas is about one-fifth the cost that it very often is in the winter anyway in Boston. And if we could pipeline across New York State, America energy wins, consumers' costs go way down, and everybody is a lot happier.

Mr. Chairman, my apology. I am out of time. If I can get that at some other point I would appreciate it, your thoughts on H.R. 1.

Thanks very much. I yield back.

Chairman HUNT. Thank you very much, sir.

I want to thank all the witnesses for being here. I really appreciate it. I really appreciate your testimony today.

Without objections, Members have 5 legislative days to submit additional materials and written questions for the witnesses to the Chair which will be forwarded to the witnesses. I ask the witnesses to please respond promptly.

If there is no further business, without objection, the Committee is adjourned. And thank you very much.

[Whereupon, at 11:12 a.m., the subcommittee was adjourned.]

APPENDIX

House Committee on Small Business

Subcommittee on Rural Development, Energy, and Supply Chains Hearing:

“Highlighting the Role of Small Businesses in Domestic Energy Production”

Lucas Gjovig Written Testimony

Chairman Hunt, Ranking Member Gluesenkamp Perez, distinguished members of the committee, thank you for inviting me to share my perspective on this important topic.

I am President of Go Wireline, a small business based in Williston, North Dakota. The men and women working at Go Wireline and I are proud to be part of the industry that provides the United States with the energy it needs to grow our economy, maintain our quality of life, and reduce our nation's emissions.

After working as a practicing attorney for five years, I returned to my hometown of Williston in 2011 to start Go Wireline with eight partners. We have never taken outside financial investment, and all the partners work in the business. We have grown to about 200 employees working out of two locations in western North Dakota, and one in Northern Colorado. We work across the region, including Montana, South Dakota, Wyoming, Utah, and Nebraska.

Go Wireline plays an important role in domestic energy production. Our company provides wireline and pressure pumping services to customers who drill and operate wells. Our expertise has also given us the opportunity to work on wells beyond petroleum, everything from water wells to helium wells, and now carbon sequestration wells. We work on wells throughout their existence, from when they are drilled, completed, produced, and eventually plugged and abandoned.

Our wireline trucks have a miles long spool of cable which we use to hoist tools into wells to accomplish a variety of services. This includes well integrity logging, which ensures a well's casing is not damaged and that cement outside the casing is isolating the producing geologic formation from others, including water producing zones. In a horizontal oil well, we use our 2,250 horsepower pumps to push wireline tools down the horizontal section of the well where we perforate the casing so that shale formations can be hydraulically fractured. This then allows oil and gas to flow or be pumped through those perforations to the surface. Our team performs these technical and safety sensitive services with an outstanding safety record and incredible efficiency.

Small businesses like Go Wireline play an invaluable role in domestic oil and gas production and are vital to job creation and growing the economy. Small businesses are also the heart and soul of the communities in which we work. At Go Wireline, our mission is to take care of our customers, our team, and our community. We strive to build and maintain the highest respect and reputation in the eyes of those stakeholders. We offer high-paying jobs with great benefits, and a family business culture. We are active members of the communities in which we operate. We provide high quality service to our customers, including investing in technology to

reduce our operating emissions, which helps our customers meet their evolving emissions reduction targets.

Our customers are mostly domestic energy companies, both large and small. They have felt the impacts of the increased global demand for energy as the world has emerged from the pandemic. Energy production is not as simple as “turning on the spigot.” Increasing energy production requires more equipment and people, which in turn requires access to capital and financing.

Over the past several years investors have become increasingly reluctant to invest in our industry. Regulatory uncertainty, along with a stream of negative rhetoric from the highest levels of government is discouraging the investment needed to keep up with demand, whether that be public investment, private equity, and perhaps even traditional bank financing.

Greater manpower is also needed to meet increasing levels of demand. Since 2020, we have more than doubled our headcount in order to support our customers’ activity levels. However, the antipathy communicated against the industry, coupled with inaccurate representations of the future of our industry, has made it challenging to recruit in the competitive labor market. In 2022, we spent more time, money and effort recruiting new employees than we had in the last ten years combined. An entry level candidate will make upwards of \$100,000 per year and receive training and develop skills that they can use throughout their career. The majority of our employees make over \$100,000 per year with leading benefits. Yet, we still struggle to find good people, particularly young people.

Supply chain issues have created challenges as well. We recently had to wait nearly six months for a new tractor and chassis to build a new wireline unit, and the price has risen nearly 33 percent over pre-pandemic pricing. We have had trouble sourcing adequate pickup trucks, as our order volumes are too small to get priority, and the well-known supply chain issues of the auto manufacturers are restricting supply. Rising material costs and increasing lead times for components we use in the well has caused our inventory quantity and value to grow at an unprecedented rate. This limits the capital we have available to invest in technology, equipment, and people.

Importantly, an expanded fleet and workforce does not matter if our customers are unable to secure the permits to explore and drill new wells. A key component of domestic energy production is access to lands and waters for new exploration. While our customers are the ones securing permits to explore for new resources, our company is still impacted by the Administration’s moratorium on new leases on federal lands. We have an existing pipeline of work from leases previously issued, but if new leases are not issued, the opportunities for us to work on new wells will fall in the next five years.

While the Administration’s rhetoric and reluctance to support new infrastructure are hindering our industry’s ability to increase production, regulations such as the proposed SEC Climate Disclosure reporting requirements threaten to hurt our business directly. The proposed regulation requires disclosures from public companies on the entire value chain, including product end use impacts and supplier environmental impacts. Therefore, this would require our

small business to have to report on these topics to our publicly traded customers for them to meet the requirements. This massive regulatory action would put enormous administrative demands on small businesses like ours, which do not have the resources or expertise to manage. Requiring a small business to track its own environmental impacts and to further manage collecting statistics down our supply chain is unreasonable. Even if it feasibly can be accomplished by a small business, compliance with this regulation will be costly and time consuming, which will need to be relayed in the eventual increase of energy costs for consumers.

Go Wireline, along with so many other small businesses working in this industry, stands ready to provide the services necessary to increase production to meet increases in demand. The policy decisions by the current Administration combined with the politicized hostility that has targeted the U.S. oil and natural gas industry is hindering our industry's ability to provide abundant, reliable, and clean sources of energy that both the U.S. and our allies need now to meet energy demand, to improve standard of living, to provide national security, and to reduce global emissions.

Thank you again for the opportunity, and I look forward to answering any questions the committee has.

A handwritten signature in black ink, appearing to read 'L. Gjøvig'.

Lucas Gjøvig
President, Go Wireline LLC

**Testimony of Nick Powell,
Chairman, Colt Energy
Before the
Small Business Committee
Subcommittee on Rural Development, Energy, and Supply Chains
Highlighting the Role of Small Businesses in Domestic Energy Production
Room 2360
Rayburn House Office Building**

March 29, 2023

Chairman Hunt, Ranking Member Perez, and Members of the Subcommittee, thank you for holding this important hearing and for allowing me the honor of testifying before you.

My name is Nick Powell, chairman and majority shareholder of Colt Energy.

I acquired the Mack C Colt Company in 1986. The Colt family started the business in the 1920s. It's an almost 100-year-old company that has always operated in Eastern Kansas. Our headquarters for operations is Iola, Kansas with a population of approximately 5,500. Iola is located in Allen County with a population of 12,500. It is engaged in oil and gas exploration, development, and production and gas gathering in eastern Kansas. Colt owns and operates over 150 producing oil and gas leases throughout the region with approximately 400 barrels of oil and 1,800 mcf of gas produced daily. Our wells are generally less than 1,200 feet in depth. Typically, 500 to 1,300 feet for oil, and for gas a little deeper. Our average oil well produces a little over 1 bbl per day and our average gas well produces 15 mcf per day. Colt currently employs 39 full time field, office, and management personnel. We also maintain our own service units including construction, drilling, well pulling and well washing crews.

Our employee wages average approximately \$75,000 on top of which we add the following benefits: profit sharing, health insurance, 401k retirement plan with a 4% company match, short-term and long-term disability, paid vacation and sick leave, and life insurance.

We and other small oil and natural gas producers provide an important source of good-paying jobs in small communities throughout Kansas. We also provide tax revenue to counties in which we operate and to thousands of royalty owners who rely on their monthly checks.

So why is the current administration clearly trying to make it so hard and expensive to stay in business and produce the oil and natural gas that this country will need for decades to come.

In all my years in the business, I have never seen an administration take such a callous and unrealistic approach to energy policy. We have been hit with costly and confusing regulations from the day Biden became president. Many of which we have no idea how much it will cost to implement.

It used to be that previous administrations and congresses tried to protect small oil and gas operators from onerous regulations that had no real benefit for their cost. Now it seems just the opposite. Trying to eliminate percentage depletion, removing the marginal well exemption from Methane leak regulations and taxes to be collected on methane by the EPA to name a few.

The only purpose served by shutting down small producers while oil demand is still strong and will be for decades is to ship those jobs, revenue and secure energy supply to many of our adversaries that cause

much more environmental harm by their production process than US producers taking us back to dependency for our nation's energy supply.

President Biden opened the SPR and released 200 million bbls of oil into the market. This is an artificial and temporary increase in oil supply driving down prices hurting investment in long term real supply. This of course will lead to even higher prices in the future than existed before the release.

Percentage Depletion

While I recognize percentage depletion is outside the jurisdiction of this committee, its critical you and your colleagues understand its value and purpose.

It was established a number of years ago to provide a minimal but critical simple tax deduction to a limited scope of producers, those small upstream operators producing 15 bbls of oil or 90 mcf of natural gas per well per day with total production under 1,000 bbl/d.

Unlike other revenue producing assets, an oil or natural gas well after quickly reaching peak production goes into a steady decline as it depletes the reserve from which it is producing. The only way to maintain production and therefore revenue levels to meet operating costs is to continue to drill more wells. The percentage depletion allowance was put in place to account for this situation in oil, natural gas and mineral extraction.

In terms of percentage depletion for these stripper wells, they are also low-margin wells because it costs a lot more in terms of man-hours to manage so many wells to get so little oil, so we've got higher operating costs per barrel, high lifting costs, whereas the majors might be \$10 a barrel, we've got thinner margins, no cost depletion, and so that percentage depletion of 15% of gross income on a well has a big impact on your taxable income and allows needed income that can be put back into drilling and hiring.

So, maintaining percentage depletion is key to maintaining cash flow and continued efforts to drill. Because, if we drill less, production declines we have slower to no growth rates, and fewer, if any, people hired. Loss of domestic supply and the cascading adverse impacts.

Kansas, in particular, is almost exclusively a stripper well state. We have a lot of old wells where if you eliminated percentage depletion, you'd take a big chunk of wells and they'll just knock-off into the uneconomic category. We're people-intensive, when we're putting dollars into new wells, the ratio of that money going to people instead of steel and drilling rigs is much more people-intensive. A bigger share of our investment goes back into jobs instead of steel that is imported from overseas, it drives right back into local hiring. That hiring helps small communities that are struggling. In states like Kansas, we've become a pretty good employer in the areas we operate in.

Pending Taxes and Regulations

With the number and complexity of the regulations and tax proposals threatening our company we have to rely on our industry associations to monitor and keep us informed of these possible threats. We can't afford to have in house lawyers and regulatory and tax specialists on our payroll.

Two big regulation and tax issues they have been having us follow are the regulation of monitoring and repairing methane leaks and taxes to be collected by the EPA on methane.

Regarding the EPA's pending methane inspection and testing rule. I and many others I know on the small energy company spectrum, believe that under any regulation EPA issues, stripper/marginal wells should continue to be exempt as we have been under the previous rule issued during the Trump Administration (any operator that produced 15 barrels a day or less was exempt). However, the pending testing and inspection EPA rule eliminates that exemption.

It is important to note that generally emissions from our wells are minimal and often almost immeasurable. Don't take my word for it: The Biden Administration's DOE released a study of methane emissions from small producers has determined as much.

Oil leases owned and operated by our company were used in this DOE study. I have included with my written testimony a letter from our Executive Vice President who was on site to witness the tests. Once the test started they were concerned that their equipment was reading little if any methane and stopped the test to check their equipment. Turns out the equipment was good, there just was not much methane there to register on their equipment. And this turned out to be true for most low producing wells.

What is worse, is the level and frequency of inspection required of each facility and the nature of the reporting is truly unknown at this point. For a marginal operator, how those kinds of questions are answered are critical. And frankly, I and others are very concerned.

Second, let's take the Inflation Reduction Act's methane fee of \$900 per ton, based on a CO2 emitted calculation and conversion which begins to kick in next year and would be a twin hit on top of the testing and inspection regulation, which could also significantly impact operations in terms of cost etc.

There are too many questions and concerns regarding the fee to take the committee's time here, but I can tell you that as I have looked at it, in terms of my company, I am very concerned about the cost, time and effort necessary to determine if I am covered.


These two examples don't take into consideration other costs of doing business that increased as supply issues surround shortage of steel pipe and casing for exploration for example have gone up, looming additional regulatory requirements associated with remediating and monitoring inactive or terminated wells, as well as general labor, fuel and operating costs.

So, when we are continuing to face some of the highest inflation rates we have seen in 40 years, small operators can ill afford any additional unnecessary costs or regulatory burdens.

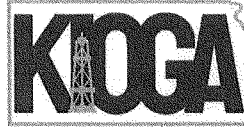
Thank you, Mr. Chairman, once again for holding this hearing on the serious issues facing small energy companies.

I look forward to answering your questions.

Sincerely,



Nicholas K. Powell, Chairman
Colt Energy, Inc.



Kansas Independent Oil & Gas Association

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Testimony to

U.S. House of Representatives Committee on Small Business
Subcommittee on Rural Development, Energy, and Supply Chains

Highlighting the Role of Small Businesses in Domestic Energy Production

Room 2360

Rayburn House Office Building

Washington, DC

Edward P. Cross, (P.G., M.B.A.) President
Kansas Independent Oil & Gas Association

March 29, 2023

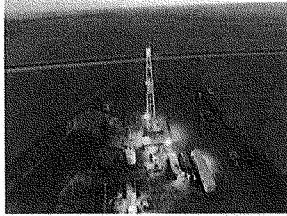
Chairman Hunt, Ranking Member Perez and members of the subcommittee. I am Edward Cross, President of the Kansas Independent Oil & Gas Association (KIOGA). KIOGA represents



thousands of independent oil and natural gas explorers and producers, as well as allied service and supply companies. In Kansas, small independent producers account for 92% of the oil and 63% of the natural gas produced. Nationally, independent producers drill about 90% of American oil and natural gas wells; produce about 54% of American oil, and more than 85% of American natural gas. With nearly 3,000 members across Kansas, KIOGA is the lead state and national advocate for the Kansas independent oil and natural gas industry.

I am delighted to share my thoughts about the role of small businesses in domestic energy production and regulatory and policy hurdles that threaten American energy independence.

Who are Independents?

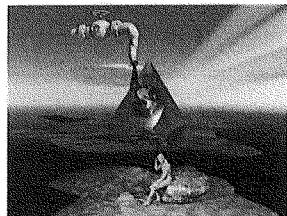


Independent producers are small oil and gas companies operating marginal wells across the U.S. Marginal wells are defined by the Interstate Oil & Gas Compact Commission (IOGCC) as an oil well producing less than 10 barrels of oil per day (BOPD) or a natural gas well producing less than 60 thousand cubic feet of natural gas per day (Mcfpd). Small independent producers that drill and produce marginal wells do not generate or market end-products. They sell the oil and natural gas produced to purchasers. Small independent producers generate their capital through production, not by tapping equity markets or other corporate measures.

In 2022, the Kansas oil and gas industry generated nearly \$3.6 billion in output, put tens of thousands of people across Kansas to work, and pumped hundreds of millions of dollars into the state's economy. While the average oil well in Kansas produces 2 barrels of oil per day (BOPD) and the average natural gas well produces 23 thousand cubic feet of per day (Mcfpd), the industry supports more than 100,000 jobs, \$3 billion in family income, and \$1.4 billion in state/local tax revenue. The industry is consistently in the top three Kansas industries in terms of gross state product and is an important element of the Kansas economy today and will be a critical part of the economy going forward.

Nationally small independent producers' employees paid \$30.7 billion in income taxes (federal & state), sales tax, and excise tax last year. The entire direct/indirect/induced economics of small independent producers generated \$131 billion of federal and state taxes last year, a figure that is expected to increase to \$189 billion this year. Every \$1 million of capex for independents results in \$1.1 million of total taxes generated along with the creation of 39 jobs. Every \$1 million of capex for independents results in \$2.4 million of direct and \$5.1 million of overall contribution to GDP.

Federal Energy Policy/Regulatory Overreach is Hurting Small Businesses in the Domestic Oil & Natural Gas Industry



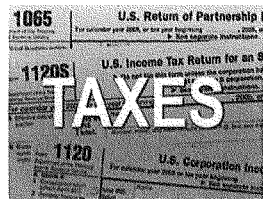
As we have seen over the past few years, the choices our nation makes regarding energy policy will have a huge impact on America's economy and our international position. If America does not pursue a thoughtful energy policy, the nation will suffer economically. Efforts by the Biden Administration to suppress U.S. oil and natural gas production are counterproductive and do not serve the best interests of

our nation. Energy is a geopolitical issue, and it not only benefits the United States, but the entire world when America is an energy superpower.

Additionally, natural gas production and use has created the cleanest air quality the nation has seen in two decades. The United States is the envy of nations around the globe for our dedication to reliable, affordable, responsible energy production. The continued growth of America's oil and natural gas renaissance is essential and can be done with even greater efficiency and technological acumen. KIOGA and the thousands of men and women who work in the Kansas oil and gas industry stand ready to help you ensure America has a strong and vibrant energy economy for years to come.

We believe there are several issues that are key to helping the United States remain at the forefront of energy development in the coming years. We look forward to working with you during the 118th Congress.

Tax Policy



Tax policies, particularly those designed to punish the energy sector, only serve to raise costs to consumers while limiting opportunities for growth and development. Any proposed modifications to the tax code regarding American energy policy must recognize the critical role capital formation and capital recovery play for our nation's oil and natural gas industries. It is key for our industry that Congress retains necessary and ordinary business tax treatments critical to capital recovery and redeployment. We also support any efforts to lower the overall tax liability for American companies, allowing for a greater degree of investment and growth. America's oil and natural gas producers continue to reinvest capital at a rate well over 100% of their U.S. cash flow, hiring employees, purchasing equipment, and exploring new energy frontiers. Sound tax policy regarding the oil and natural gas industry has been a significant reason the U.S. is a leader in energy production and is poised to remain there for years to come.

Contrary to what some in politics and the media have said, the oil and natural gas industry currently enjoys no unique tax credits or deductions. Since its inception, the U.S. tax code has allowed corporate taxpayers the ability to recover costs and to be taxed only on net income. These cost recovery mechanisms or tax provisions, also known in policy circles as "tax expenditures", should in no way be confused with "subsidy", i.e., direct government spending. Cost recovery measures, like the percentage depletion deduction and the intangible drilling costs (IDCs) deduction, are neither subsidies nor loopholes but tax provisions critical for American oil and natural gas producers to sustain capital availability and formation. By improving cash flow, these cost recovery measures allow the small businesses that make up the America oil and

natural gas industry to invest more money into creating jobs and producing the energy that our economy needs.

Percentage Depletion – The percentage depletion deduction is a cost recovery method that allows taxpayers to recover their lease investment in a mineral interest through a percentage of gross income from a well. Percentage depletion is available to all extractive industries (gold, iron, etc.) in the U.S. and is in no way unique to the oil and gas industry. In fact, this depletion method is limited for the small businesses that make up the independent oil and gas industry and not available at all for major integrated companies.

Intangible Drilling Costs (IDCs) – The IDC deduction is a cost-recovery mechanism that allows for the deduction of drilling costs, such as labor costs, associated with exploration activities. IDC is a deduction, not a credit or government spending outlay and is no different than the policy behind the treatment of R&D cost deduction available to other industries. The IDC deduction is utilized by independent oil and gas producers most of the time and is only available to the major integrated companies on a reduced basis.

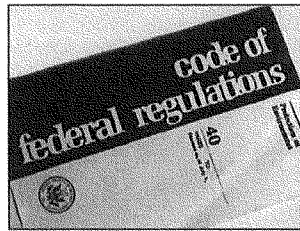
Percentage depletion and IDCs are cost recovery mechanisms similar to those used by other industries. These tax provisions are critical for independent oil and gas producers to sustain capital availability and formation. Market-created jobs, rather than those directly created and supported by the government, is a key benefit of increased activity by the small businesses that make up the American independent oil and natural gas industry. These jobs are stable, high-paying, and often in rural areas of the country that are struggling for opportunity. These tax provisions are neither “loopholes” nor “subsidies” but rather methods very similar to real estate depreciation in accounting for capital expenditures.

Carbon Tax – Taxing carbon to tackle climate change may sound like a good idea. All too often proposals to tax carbon directly or launch new carbon tax schemes have much more to do with raising revenue than helping our environment. However, taxing carbon only takes more resources from the private sector to support swelling state and federal government.

U.S. Doesn't Need a Carbon Tax – Even if the U.S. imposed some kind of carbon tax, it would not make a difference to global climate. In 2018, U.S. carbon emissions were around 5,100 billion metric tons from all sources, an almost 20% drop below emissions in 2007. While U.S. greenhouse gas emissions have been falling in recent years, world carbon emissions keep increasing by an average of more than 300 gigatons each year for the last decade, driven primarily by China's and India's increasing demand for energy. Together, these two countries now account for one-third of world carbon emissions. China and India are not going to impose a carbon tax on themselves. Doing so would increase their energy costs and reduce their economic growth.

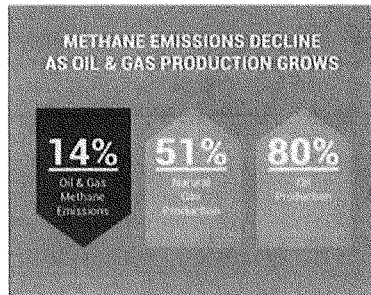
Methane

Addressing an onslaught of prohibitive federal regulations is a growing challenge and has become a primary priority for KIOGA. As Americans continue to face a fragile economy, it is important to pull back the curtain on the ideological-driven processes the EPA and other federal regulatory agencies are using to justify an avalanche of costly rules.



The Biden administration is strengthening its plan for limiting methane emissions from oil and gas wells after environmentalists said an earlier version was too weak. The Environmental Protection Agency (EPA) advanced the supplemental proposed rule on November 11, 2022. The proposed regulation, which isn't set to be finalized until later this year (2023), responds to criticism by environmentalists by strengthening leak-detection-and-repair (LDAR) requirements for small oil and gas wells.

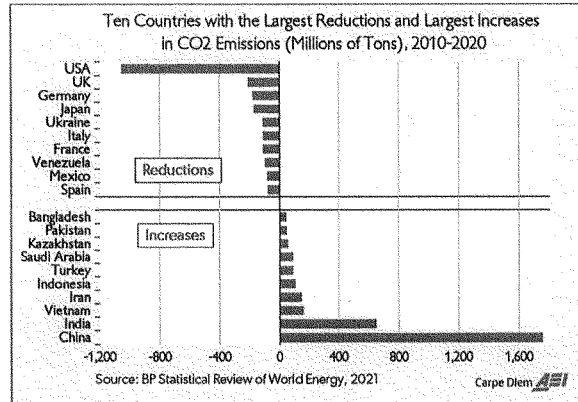
Methane (CH_4) is a more potent greenhouse gas than carbon dioxide (CO_2), though CH_4 is far less prevalent than CO_2 and has a much shorter atmospheric life. The real reason methane



has become an obsession of environmental activist groups is that it sometimes leaks in nominal amounts when extracting or transporting oil and natural gas. Thus, methane can be a pretext for interfering with and raising the costs of drilling. But this means willfully ignoring the plunge in U.S. methane emissions. According to the EPA, methane emissions from oil and gas operations declined by 14% from 1990-2017. According to the EPA, oil and gas methane emissions account for only 1.22% of total U.S. greenhouse gas emissions.

Methane is a greenhouse gas, emitted both by natural sources and from human activity. Methane is also the largest component of natural gas, the product that companies sell. Operators have every incentive to capture and sell as much of this product as possible to American consumers, rather than letting it escape into the atmosphere.

In fact, the United States leads the world in the reduction of carbon emissions, even as the production of U.S. oil and natural gas continues to increase. Our success in lowering carbon emissions in the U.S. is not because of additional regulations, but because of the increased use of natural gas.



The EPA released their first oil and gas methane rule proposal in November 2021. The November 2021 EPA proposal did not require ongoing emission monitoring at well sites that emit less than 3 tons per year (TPY).

In 2022, the Department of Energy (DOE) completed a report on the emissions profile of low production wells. The DOE report offers insights into understanding the nature of methane emissions from these operations. The report shows that the primary emissions at low production sites come from storage tanks and some separators. Well sites producing less than 6 barrels/day or 6-15 barrels/day with 5 or fewer pieces of equipment fall below thresholds that EPA has considered as low emitting sites.

On November 11, 2022, the EPA advanced their supplemental proposed rule to regulate oil and gas methane emissions. The EPA largely ignored the third-party DOE study on low-production well emission profiles. Instead, the EPA responded to criticism from environmental groups by strengthening LDAR requirements for small oil and gas wells and establishing requirements for abandoned facilities.

Our experience is that EPA often underestimates the cost of compliance and overestimates the benefits provided by proposed regulations. We solicited quotes for combustion devices prescribed to meet compliance with proposed EPA oil and gas methane regulations. A certified combustion device that will meet gas flow rate requirements and gas quality will cost owners/operators \$12,000 – \$22,000 to purchase and an additional \$8,000 to install, for a total installed cost of \$20,000 – \$30,000 per well. A conventional oil well in Kansas may cost \$300,000 to \$600,000 to drill and complete. Installation of a combustion system could add 5% to 10% to the total cost of the project.

In addition, proposed EPA requirements for LDAR emissions testing using EPA Method 21 or a forward looking infrared (FLIR) camera is cost prohibitive. Each FLIR camera could cost more than \$90,000 and requires training to properly operate the equipment. Utilizing EPA Method 21 requires each operator to pay an outside contractor to visit each location with monitoring equipment and produce a report of leaking components. In addition, Method 21 also requires each facility to have a drawing of each fugitive gas emission component, and have each component tagged and labeled on the drawing. Both options are very expensive for small operators with limited budgets. The additional compliance cost will eliminate projects from being implemented.

If the cost of compliance was only \$405 (as cited by the EPA), we would agree with EPA that the costs are not exorbitant; or “more than the industry can bear and survive”. We find that compliance costs will be considerably greater than the estimates that have been provided. We estimate that the compliance costs could exceed 15% of the capital cost to drill a well. These costs are significant and could drive many small operators out of business. We disagree with EPA’s assessment that the industry can bear the cost and survive.

Also, the EPA has said they want implementation of the new proposed oil and gas methane rule to be implemented by state agencies. However, many state agencies have commented to the EPA that implementation of such a rule would be enormously costly. The Kansas implementation agency said the cost to implement the proposed EPA oil and gas methane rule would be “enormous”. West Virginia stated in their comments that it would cost \$40 million annually and require the hiring of 373 additional full-time equivalent employees. These cost estimates far exceed the state agency’s entire budget.

Well-structured, cost-effective regulations are essential to manage methane emissions while assuring that American oil and natural gas producers can provide the energy demanded by the U.S. and world economies. At the same time, technology to manage emissions is evolving and the regulatory process needs the flexibility to allow energy innovators to utilize new technology. Rather than mandate a “one-size-fits-all” system of rules and regulations, the EPA and other federal regulatory agencies need to embrace evolving information and technologies to address issues surrounding the management of methane.

One key aspect of the independent component of the American oil and natural gas production industry is its breadth – spanning from large publicly traded companies to small business and from large, high production wells to marginal production wells. Of the roughly one million active oil and natural gas wells in the U.S., about 750,000 are low production wells. However, these low production oil wells produce about one million barrels/day and low production natural gas wells account for 8% to 10% of U.S. production. Yet, collectively, these wells only account for 1.2% of GHG inventory CO₂ equivalent emissions. The regulatory structure

to address methane emissions applied to low production wells is significant because their viability is dependent on their cost of operation.

An important point is that the EPA-proposed oil and gas methane rule is contrary to congressional intent as the *Inflation Reduction Act of 2022* (P.L. 117-169) exempted smaller wells from regulation. It appears the EPA is engaged in the practice of changing, altering, and amending laws after the fact. They say that their role and responsibility at the agency level is to improve upon a statute if they disagree with it. This creates a lot of regulatory uncertainty.

Congress needs to engage the EPA to ensure the agency develops a cost-effective regulatory program that encourages energy innovators to address methane and other issues. The 2022 DOE report presents information that can be a guide to cost effective management of methane. EPA should look for ways to provide flexibility in its regulatory regime and encourage innovation in addressing these important issues.

Endangered & Threatened Species

Ensuring the protection of species and their ecosystems is an important component of American oil and natural gas exploration. However, the Endangered Species Act (ESA) continues to be used by opponents of American energy production to stymie needed energy projects across the nation. Leadership is needed to ensure listing decisions under the ESA are done in an open and transparent manner and are designed to achieve a positive outcome that will ensure protection of species while at the same time allowing important energy projects to move forward.

Unfortunately, the ESA has evolved into a litigation tool used by some to advance an agenda that impedes American oil and natural gas production – destroying economic growth and job creation while diverting hundreds of millions of taxpayer dollars away from species recovery.

Despite the significant amount of taxpayer dollars spent in the name of the ESA, the law has failed at its underlining mission of recovering and delisting species. Less than 2% of all listed species have been removed from ESA protection since 1973.

Independent oil and natural gas producers are good stewards of the land and are committed to protecting the environment. Energy production and species conservation can go hand in hand.

In Kansas, the U.S. Fish & Wildlife Service (USFWS) listed the lesser prairie chicken (LPC) as a “threatened” species effective March 27, 2023. For oil and gas operators, big or small, the ESA is becoming a huge problem. Operating or just living within the area of an endangered or

threatened species' habitat becomes hazardous because your operations may impact a protected animal that could result in enforcement actions that include criminal liability. You might conduct oil field or farming operations that create sounds that disturb lesser prairie chickens or engage in field operations too early in the morning. Nearly any activity that could disturb the animal and its habitat becomes a jurisdictional hurdle.



The best scientific and commercial information available demonstrates that the LPC does not meet the ESA's definitions of either a threatened or endangered species. None of the five factors utilized by the USFWS under the ESA to determine if a species is endangered or threatened are present in the case of the LPC in the northern distinct population segment. In short, there is no basis for action under the ESA and its implementing regulations. Through a combination of public and private efforts, the LPC is now better protected than at any previous time. A listing as threatened or endangered will not provide any additional conservation benefits above what already exists.

Energy Infrastructure

Expanding and modernizing America's energy infrastructure are critical components of continuing our increased production of oil and natural gas, increased reliance on natural gas for electricity generation and reduced greenhouse gas emissions. Groups opposed to fossil fuel production have seized upon opposition to infrastructure to stymie production. If natural gas can't be transported to markets, it won't be produced. The Federal Energy Regulatory Commission (FERC) remains the key regulator for approving interstate natural gas pipeline projects. Unfortunately, FERC has become increasingly polarized with the Democrats on the commission voting against projects not based on their merits, but to simply halt much needed natural gas projects. KIOGA urges Congress to conduct robust oversight of FERC and the entire federal system for approving natural gas pipelines to ensure the system is not used to stop needed infrastructure projects to placate environmental extremists.

Crude Oil Releases from the Strategic Petroleum Reserve

The Strategic Petroleum Reserve (SPR) is meant to protect Americans against emergency supply disruptions, not be a tool for politicians. KIOGA has long believed that the SPR should not be used to manipulate the crude oil market. The SPR is America's first line of defense against a

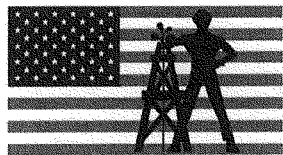
major disruption in domestic petroleum supplies. Releasing oil from the SPR is a short-term fix for prices at best. It not only reduces our capacity to protect ourselves in case of a true emergency, but also increases America's reliance on politically volatile countries around the globe.

Policy makers should oppose all non-emergency sales of oil from the SPR. Rather than looking for a quick fix, the Biden Administration should promote the production of oil and natural gas in the U.S. Exploring for more oil and natural gas at home will not only increase our nation's energy supply but will also create jobs and increase government revenues through taxes and federal royalties.

Access to Capital Markets

Over the past several years, there have been concerted efforts to use government actions to prevent investment in American oil and natural gas production and use. Some of these have surfaced in legislative actions such as those that were thwarted in the legislation to respond to the COVID pandemic, proposals that would have prevented oil and natural gas producers from accessing recovery funds designed to assist all Americans. Other efforts have been created in the Administration to use financial agencies, like the Treasury Department, the Securities and Exchange Commission, the Commodity Futures Trading Commission, the Office of the Comptroller of the Currency and others, to develop regulations and policies designed to inhibit investment in the industry. These are attempts to use non-legislative ways to impose perceived climate costs and raise the price of energy. By employing environmental, social and governance (ESG) standards, some financial institutions and government agencies espouse policies prioritizing a focus on factors unrelated to a company's bottom line. ESG forces investors and company managers to view company operations through the eyes of a vocal set of stakeholders, for whom a company's climate reputation is of equal or greater importance than a company's financial performance. These actions need to be scrutinized and prevented.

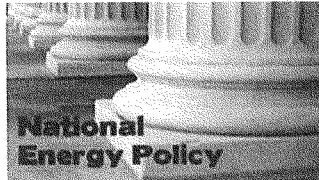
Labor Market Challenges



Labor is a critical issue for the Kansas oil and gas industry. Tight labor markets make it difficult to find qualified workers. Tight labor markets are caused by demographics (baby-boomer exits), overly heated economy (increased competition among employers), and friction within the labor market (time needed to develop new skills for new processes).

The oil and gas industry has lived through several ugly downturns before, and we know that patience, persistence, insight, and innovation pay off. We move forward together in 2023 to focus on value reconstruction and prepare for brighter days ahead.

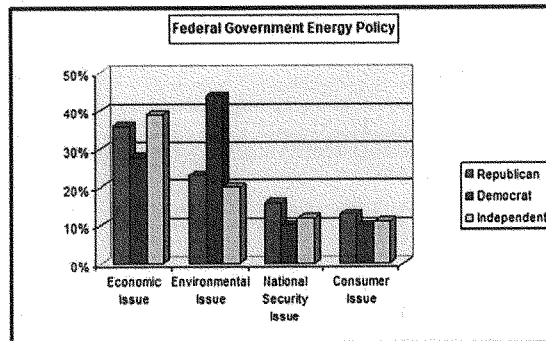
Energy Policy



One area where Republicans and Democrats can work to find a compromise is around energy policy. During times of economic recession and recovery, the public's priorities revolve around improving the economy. This extends to energy legislation. According to several recent public opinion reports, the public supports moving to renewable energy, but is concerned about the impact to the lives and finances of the American consumer. The U.S. public wants Congress to provide energy legislation that will help bolster the economy, protect the environment, and require very minimal personal sacrifice by the consumer.

While not all segments of the population are ready for a transition to renewable fuels to begin, it is clearly an expectation for the future. We expect the 118th Congress to propose energy initiatives that not only promote renewable energy but protect the economic benefits currently provided by fossil fuel industries.

Recent polling indicates the public primarily sees energy policy as an economic issue or environmental issue. The energy policy challenge for the 118th Congress will be to mediate these opposing viewpoints to create policy that is beneficial to the economy and the environment.



The federal government has a variety of issues to address, and for some energy policy is not a top priority in comparison to inflation, healthcare, reducing the deficit, improving education, and ensuring national security. However, for many, energy policy is a top priority issue that needs to be addressed.

The public is divided as to whether U.S. energy policy is an economic or environmental issue. Essentially, the public wants a strong economy while improving environmental standards.

The general public is supportive of policy initiatives that expand renewable energy sources, but they are not as supportive of penalizing the oil and natural gas industry. Less than half of the general public supports a tax on carbon emissions. While Democrats are largely supportive of taxing carbon emissions, Republicans are likely to oppose such initiatives. The public seems far more supportive of incentivizing companies to pursue renewable fuel sources rather than penalizing industries.

Many folks across the nation are not financially secure enough to deal with rising energy costs and unwilling to make significant changes to their lifestyle. Republicans and Democrats will need to work together to improve energy policy. This will be difficult due to the competing interests of industries and environmental organizations. Environmental organizations want policies that utilize the highest environmental standards and industry wants policy that has minimal impact to the economy. If energy legislation does not serve the best interest of the public, it offers no incentive for the public to make significant changes in their lifestyle.

Is energy policy that creates a compromise of all interested parties and public expectations better than no energy policy at all? That is a question the 118th Congress may have to answer. One thing is certain. The public places a high priority on energy policy and will continue to be dissatisfied with the direction of energy policy unless progress is made.

Just a few years ago, no one would have imagined the U.S. could increase production of oil and natural gas while cutting greenhouse gas emissions, which are now near 25-year lows. The oil and gas industry has proven that over the long-term, it is possible to lead in energy production and environmental stewardship.

By focusing on more efficient use of energy, it is possible to lower emissions without imposing a carbon tax or even more environmental restrictions. Energy policy that values innovation over regulation can turn energy policy challenges into great opportunities for economic growth and energy security. This approach is not just good business, it's good stewardship and a much better strategy for improving the quality of life for all.

Energy prices affect all corners of the economy, and keeping up with demand is essential for maintaining a high standard of living. Thankfully, that doesn't require abandoning efforts to

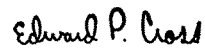
protect the environment, because newer technology is cleaner technology. The key is to avoid placing unnecessary political or legal obstacles in the way of innovation and expansion.

Conclusion

America's independent oil and natural gas producers stand at the forefront of energy use and development in the coming years. We look forward to working with you and your colleagues to develop innovative solutions to address America's energy challenges in the coming years.

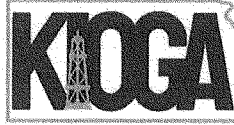
For further information or any questions, please contact Edward Cross, President, Kansas Independent Oil & Gas Association, 800 SW Jackson Street, Suite 1400, Topeka, Kansas (785-232-7772; email: ed@kioga.org).

Sincerely,

A handwritten signature in black ink that reads "Edward P. Cross". The signature is written in a cursive, slightly stylized font.

Edward P. Cross, President

Kansas Independent Oil & Gas Association



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1. Contact Information

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2(a) Description of Current Tax Expenditure

Title of Tax Expenditure: Excess of percentage over cost depletion, fuels (oil and gas)

Estimated Cost (2018-2022): \$2.3 billion

Internal Revenue Code Section: Secs. 613 and 613A

Description of Current Law:

Depletion is available to any person having an economic interest in a producing oil and gas property. There are generally two types of depletion – cost and percentage depletion. Cost depletion is limited to the taxpayer's basis in the property, whereas percentage depletion is not limited by the basis but is subject to limitations on net income derived from the property and taxable income.

Percentage depletion for producing oil and gas property (15 percent rate) is available only to independent producers and royalty owners. Special rules apply to oil and gas production from marginal wells (generally, wells for which the average daily production is less than 15 barrels of oil or barrel-of-oil equivalents or that produce only heavy oil). In no event may the rate of percentage depletion exceed 25% for any taxable year.

Also, perhaps most notably, percentage depletion is limited the first 1,000 barrels of oil (or equivalent) of daily production, some many larger independents receive this tax treatment for only a small percentage of their production.

2(b) Description of Current Tax Expenditure

Title of Tax Expenditure: Expensing of exploration and development costs, fuels (oil and gas)

Estimated Cost (2017-2022): \$6.2 billion

Internal Revenue Code Section: Sec. 263(c)

Description of Current Law:

Federal law provides special rules for the treatment of intangible drilling and development costs (IDCs). Under these rules, an operator or working interest owner who pays or incurs IDCs in the development of an oil or gas property in the United States may elect either to expense or capitalize those costs. If an election to expense IDCs is made, the taxpayer deducts the amount of the IDCs as an expense in the taxable year the cost is paid or incurred. IDCs include all expenditures made by an operator for wages, fuel, repairs, hauling supplies, etc., incident to and necessary for the drilling of wells and the preparation of wells for the production of oil and gas. The election to deduct IDCs applies only to those IDCs associated with domestic properties.

Reason to Keep Percentage Depletion and IDCs in the Tax Code:

Continued domestic exploration requires significant amounts of capital. In today's exploration/production industry, most capital for drilling is generated by independent producers internally. However, even in instances when outside investors are involved, these two tax provisions (percentage depletion and IDCs) are essential in attracting capital sufficient to maintain the pace and volume of drilling activity necessary to sustain current or increasing demand. Without these two tax provisions, neither large nor small domestic independents would generate the capital necessary for continuing to grow drilling and production activity. Estimates are that the repeal of IDCs and percentage depletion would decrease domestic drilling by at least 30 percent.

3. How does this Tax Expenditure Grow the Economy?

Domestic oil and natural gas drilling and production activities are major positive economic drivers in a struggling economy. U.S. independent oil and natural gas producers are primarily responsible for current domestic energy production, with its attendant economic, employment and national security benefits. More than 18,000 independent producers drill about 95% of US oil and natural gas wells and account for 67% of US oil and gas production.

Independents point to two primary factors that drive the domestic oil and natural gas industry:

- 1) Advancements in the science and technology of drilling and completing oil and gas wells and,
- 2) Availability of capital sufficient to finance the enterprise.

As mentioned earlier, without these two tax provisions (percentage depletion and IDCs), neither large nor small domestic independents would generate the capital necessary for continuing to grow drilling and production activity.

A recent study conducted by the Wood Mackenzie consulting firm found that if intangible drilling costs could no longer be expensed, an average of 225,000 jobs per year would be lost, of which an estimated 65,000 would be jobs in the oil and gas industry. The same study concluded that investment through the drilling and development of oil and gas resources would decline by \$407 billion over the period 2017 to 2026.

4. How does this Tax Expenditure Make the Tax Code Fairer?

Percentage Depletion

Percentage depletion provides capital to keep current marginal wells producing and capital to be reinvested in new oil and gas ventures in the United States. In addition, percentage depletion acts as a hedge that cushions small royalty owners against the time of ultimate recovery of all commercial oil and gas production. According to the National Association of Royalty Owners, the typical royalty owner in the U.S. is over 60 years of age, widowed, and receives less than \$500 in monthly royalties.

Intangible Drilling Costs

It takes several years and millions of dollars to drill the exploration and production wells that eventually extract oil/natural gas and generate revenue. Even in shale plays, there is no guarantee that a company will produce oil/gas when it drills exploration wells. Today's domestic E&P industry deals with both exploration risk (dry holes) and especially economic risk (completed, producing wells may never produce sufficient hydrocarbon value to return the initial investment costs). Allowing a current tax deduction for IDCs helps to alleviate the tremendous costs and risks involved in exploration, completion and production.

5. How do these Tax Provisions Help Other Important Federal Policy Objectives?

The idea of North American energy independence – a pipe dream as recently as the turn of the 21st Century – is no longer just a concept, but a tangible, achievable reality. America is no longer as reliant on unstable and/or unfriendly regimes for oil supply. The reality of decreasing reliance on certain OPEC nations for a majority of our crude oil supplies provides new options for the U.S. in foreign affairs and military planning and decision-making.

In addition, the availability and long-term reliability of reasonably priced energy (particularly domestically-produced natural gas) will continue to play a critical role in the resurrection of the U.S. manufacturing sector.

Finally and most importantly, oil and natural gas drilling activity by domestic independents and the oilfield service/support sector creates and sustains millions of U.S. jobs (estimated at 9.2 million by recent industry surveys). This job creation extends to manufacturers (steel mills in Ohio, pump makers in New Jersey, sand miners in Wisconsin) that provide technology, equipment and materials to this burgeoning industry.

6. Should this Tax Expenditure be Repealed or Reformed, and if so how?

No. Current law provisions for percentage depletion and expensing of intangible drilling costs should be retained, so that domestic, independent oil and gas producers and royalty owners are allowed to continue to deduct their ordinary business expenses, just as do other U.S. businesses and industries.

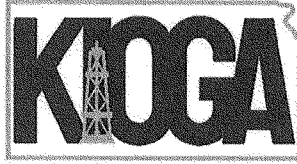
7. How does this Tax Expenditure benefit Kansans?

Kansas remains one of the major oil and natural gas producing states ranking 11th among 31 oil producing states and 14th among 32 natural gas producing states. Over 2,100 licensed oil and natural gas operators produce over 28 million barrels of oil and over 167 billion cubic feet of natural gas annually.

After many decades of productive stewardship, oil and natural gas resources continue to play an important part in the livelihoods of Kansans throughout the state. The Kansas oil and natural gas industry puts tens of thousands of people all across Kansas to work each day and pumps hundreds of millions of dollars into the state's economy each year; money that helps support families, fund schools, and build roads.

A recent University of Kansas study, the oil and natural gas industry in Kansas supports an average annual estimated 118,000 jobs, over \$3 billion in family income, and add over \$1.4 billion in state and local tax revenue. The average annual pay in the Kansas oil and natural gas industry is \$60,000. In areas where oil and natural gas are found, the industry represents a quarter of the jobs in some counties. High paying jobs are essential for economic development.

Mineral leases and royalty payments provide additional income to Kansas residents. According to the National Association of Royalty Owners, Kansas royalty owners received over \$258 million last year.



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Summary of Oil & Gas Tax Provisions

Repealing current oil and gas tax provisions would have an estimated \$4.3 billion negative impact on the Kansas economy within four years of enactment. The tax provisions are important to small, independent oil and gas producers and royalty owners – NOT “Big Oil.” Independents produce 92% of the oil and 63% of the natural gas in Kansas.

Most independents are small, privately-held companies, and they invest large sums of personal money in personal risk. In order to find more oil and natural gas, independents use their money and, to a lesser extent, raise capital from investors. Percentage depletion, which has been in the tax code since 1926, helps offset some of the high risks of exploration, and helps the “mom-and-pop” producers keep small (one to two barrels per day) wells active. There are already limits on percentage depletion which is 15% of gross oil and gas income as follows: (1) limited to first 1,000 barrels per day of production; (2) limited to the net income of a property for non-marginal properties (15 barrels per day or more); and (3) after the above limitation, the amount deducted for depletion cannot exceed 65% of the taxpayers income before the depletion deduction.

While percentage depletion applies to production, intangible drilling costs (IDCs) is the cost of drilling a well. This cost is paid to a drilling company that pays wages and buys goods and services. Once the well is drilled it has no value, because all you have is a hole in the ground. Currently, IDCs can be expensed in the year they are paid or incurred by independents. This allows companies to recover their costs quickly so they can drill more wells faster. This encourages more production of oil and gas in the U.S. Expensing of IDCs has been in the tax code since 1913.

Other important oil and gas tax provisions include:

(1) passive loss exception for working interests in oil and gas properties - Investors in drilling programs are called working interest owners and they must share in the costs of the risky venture. The tax code, in effect, allows working interest owners who have a loss to be classified as an active loss that could be used to offset any type of active income instead of being treated as a passive loss.

(2) geological and geophysical (G&G) amortization - G&G costs are incurred in the beginning of the exploration process, and are very expensive with no guarantee of recouping the costs if the venture fails. Like IDCs, the faster the independent can recapture his G&G costs the more wells he can drill and find more oil and gas. Currently, G&G costs must be amortized over two years for independents and seven years for major oil companies, but the change would increase amortization to seven years for everyone. Again, it is the independent that gets hurt.

Every change negatively impacts small independents, not Big Oil, and decrease drilling and production of oil and natural gas in Kansas and in the nation. If percentage depletion and IDC tax provisions were taken away, the drilling rig count would decline to its lowest level in history within 12 months (488 rigs running nationwide in March 1999 when oil was \$6 per barrel). Oil and gas production would drop and the state of Kansas would lose approximately \$140 million in state taxes over four years.



**Economic Impact of
Independent Oil & Gas Industry
to Kansas and the Nation**

Kansas

- Kansas Oil & Gas Industry is a \$3.6 billion industry
- Employs annual average of 13,800 employees paid \$814 million
 - Average salary of nearly \$60,000 per year
- In areas where oil and natural gas are found (rural Kansas), the industry represents a quarter of the jobs in some counties and 60% - 70% of the property tax.
- Add in indirect oil and gas industry service sector jobs and the number of jobs grows to 28,000 with payroll of \$1.4 billion and state and local taxes of \$403 million.
- Throw in every Kansas job touched by the oil and gas industry, such as refinery workers, fuel haulers, etc. and the number of employees swell to 118,000, payroll to \$3 billion and taxes to \$1.4 billion.
- Eliminate percentage depletion and intangible drilling costs (IDCs) would strip essential capital from independent oil and natural gas producers. Small independent producers (who drill 94% of the wells in the U.S.) generate their capital through their production, not by tapping equity markets or other corporate measures. In Kansas, small independent oil and natural gas producers produce 92% of the oil and 63% of the natural gas. **Eliminating percentage depletion and IDCs would result in an estimated direct loss to Kansas of over \$140 million annually of investment capital, an estimated loss of over 4,000 jobs, and an estimated \$4.3 billion negative impact on the Kansas economy within four years of enactment.**

National

- Small independent oil and gas producers support nearly 4 million jobs and contributes \$579 billion to U.S. GDP.
- Independent's employees pay \$30.7 billion in income taxes (federal & state), sales tax, and excise taxes.
- The entire direct/indirect/induced economics of small independent producers generated nearly \$190 billion of federal and state taxes in 2019.
- Every \$1 million of capital expenditures (capex) for independents result in \$1.1 million of total taxes generated by independents.
- Every \$1 million of capex invested by independents results in 6 direct and 33 total jobs.
- Every \$1 million of capex for independents results in \$2.4 million of direct and \$5.1 million of overall contribution to GDP.

For questions or more information, please contact KIOGA at 785-232-7772 or visit www.kioga.org

Comparison Of Tax Provision For Majors and Independents

Tax Provision	Major Integrated Company	Independent producer
Expensing of intangible drilling costs	Able to expense 70% of U.S. drilling costs and capitalize 30% over 5 years. Majors raise much of their drilling capital internally.	Able to expense drilling costs in the year incurred. Important to smaller companies that have to drill with personal money, because the quicker costs recouped the more wells they can drill.
Percentage depletion	Has not been available to majors for more than 44 years.	Helps small producers keep marginal wells (15 barrels or less per day) producing. Percentage depletion is limited to 15% of gross oil and gas income. Also limited to first 1,000 b/d. Limited to net income from marginal properties. Amount deducted for depletion cannot exceed 65% of taxpayers income before the deduction.
Repeal of passive loss exception for working interests	Does not apply.	Working Interest owners are investors who share the costs in drilling and production. Current tax law allows WI owners to be classified as an active, rather than passive, investor if they do not have limited liability.
Geological and geophysical costs	Majors must amortize costs over 7 years.	Independents currently must amortize G & G costs over 2 year period. The economic life of a property for independent is considerably less than 7 years, which is the new proposal.
Marginal well tax credit	Never been in effect because prices have never reached the trigger point since enacted.	Never been in effect because prices have never reached the trigger point since enacted.
Enhanced Oil Recovery (EOR) tax credit	Available to majors, but has been rarely used.	Available to independents, but not many have decided to apply for the credit because of bureaucratic red tape and the costs to implement.
Manufacturing tax deduction	Designed to encourage creation of jobs in U.S. rather than taking employees overseas.	This is a current benefit to independents but it is insignificant.
Excise tax on Gulf of Mexico production.	Majors are still active in the Gulf of Mexico somewhat, but most are pulling out.	Independents are drilling most of the new wells in the Gulf today. They would be hit hardest by a new tax.

Key points to remember: Independents raise capital from U.S. sources – most of it personal – while majority of majors' income comes from foreign sources.

Independents drill 95% of the wells in the U.S. Proposed tax changes would drive most small independents out of business, because they would not be able to raise capital for new ventures. Dry hole costs must be deductible. If not, no one will risk drilling dry holes looking for new production.

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**DOE Report Points Toward Potential Paths to Manage
 Low Production Oil and Natural Gas Well Methane Emissions**

The recently released Department of Energy Report, *Quantification of Methane Emissions from Marginal (low Production Rate) Wells*, presents information that can be a guide to cost effective management of methane emissions from these facilities. The Report points to the nature and sources of emissions at marginal well facilities. Knowing these facts can be used to develop a targeted, more cost-effective approach to managing these emissions.

Key Points from DOE Marginal Well Emissions Report

- Marginal – or low production – oil and natural gas wells are defined as wells producing ≤15 barrels/day of oil (≤90 mcf/d of natural gas). There are 783,000 marginal oil and natural gas wells in the U.S. – 79% of all U.S. oil and natural gas wells. They account for 7%-9% of U.S. production. For oil production, marginal wells account for about 900,000 barrels/day – roughly equivalent to the amount of daily releases from the Strategic Petroleum Reserve managed by the Biden Administration to influence the oil marketplace.
- Marginal well emissions occur at the wellhead (the actual point of production), separators (where oil, gas and water are separated), and tanks (where oil, natural gas liquids and water are stored). No emissions were detected at 55-65% of sites. Ninety percent of observed emissions were less than 2.4 tons/year.
- The top 10% of emitting sites accounted for 90% of emissions. The predominant sources of routine emissions occurred at tanks and separators. Large wellhead site emissions were related to non-routine events like damaged facilities, equipment failures or operational events.
- The DOE Report concludes that the 783,000 marginal wells collectively account for approximately 50% of oil and natural gas production methane emissions – about 1.0 million tons/year of the total production emissions of about 2.06 million tons/year. This estimate is well below the inflated 4.0 million tons/year methane emissions for marginal wells by environmental lobbyists like the Environmental Defense Fund.
- While the definition of marginal (low production) wells is ≤15 boe/day, 83% of marginal wells produce ≤6 boe/day. In its November 2021 regulatory initiative, EPA proposes that well sites emitting 3 tons/year or less should be subjected to a different, less intense Leak Detection and Repair (LDAR) requirement. The Report shows that marginal well sites with production less than 6 boe/day clearly fall below the 3 tons/year threshold and smaller sites (those with ≤5 pieces of equipment) and 6-15 boe/day of production do as well.
- LDAR programs are predicated on the concept that leaks must be found and then repaired. The Report demonstrates that the emissions locations at low production well sites are predictable – tanks, separators and improperly maintained well head equipment.
- The Report provides a perspective for an effective low production well leak management program that is far less costly than the expensive optical gas imaging (OGI) programs that are currently required by EPA.
 - Routine AVO (Audio-Visual-Olfactory) inspections of tanks to eliminate open thief hatches and deteriorated seals and of separators to assure proper operation for control valves.
 - Routine AVO inspection of wellheads to assure proper operation of equipment and valves.
 - Periodic simple testing like soap bubbles to check for leaks.
 - Use of production rates and equipment counts to determine that applicability of the program rather than costly emissions calculations that are not currently done for low production wells.



Testimony of Dan Conant
Founder and CEO — Solar Holler
Before the Committee on Small Business
United States House of Representatives

"Building a Renewable Energy Economy in Coal Country"

I. Introduction

Good morning Chairman Hunt, Ranking Member Gluesenkamp Perez, and all the members of the Committee. I am honored and humbled to have the opportunity to speak with you all today as a representative of the vanguard of a new industry in Appalachia. I want to share today with you three stories—the story of how we re-imagined who solar is for; the story of how we started training the first generation of solar installers in coal country; and the story of what the Congress can do to help further our mission of bringing clean, renewable energy and a jobs within reach of all of our neighbors across Appalachia.

My name is Dan Conant; I am the Founder and CEO of Solar Holler. We are based in Shepherdstown and Huntington, West Virginia. I also come to you as a former advisor to the US Department of Energy's SunShot Initiative, and a veteran of multiple solar startups.

For generations, Appalachia has powered American prosperity with our coal. Solar Holler is ensuring that we will continue to power America in the 21st Century with

renewable energy. From the moment I moved back to my hometown to start up our company 10 years ago, we have relentlessly pursued innovative approaches that make solar the most affordable source of energy for all of our neighbors across Appalachia.

Due to this dedication and approach, we are a rapidly growing team of incredibly dedicated, talented, and passionate Appalachians. Over the past decade, we've started the industry from scratch in our region, and grown to a staff of 105 people. Our team models, designs, finances, and builds beautiful solar projects that will last for two generations—all the while producing free, clean energy. Every project our team designs and builds helps families, non-profits, and businesses across our region cut their power bills, while revitalizing the economy of West Virginia.

Our dedication to making solar the most affordable source of energy for the folks who need it most was shown in our very first project—a groundbreaking community effort with my congregation, Shepherdstown Presbyterian Church. The project won national accolades—including the Interfaith Power & Light National Renewable Role Model award—for a first-of-its-kind crowdfunding approach.

Rather than passing a plate or doing a traditional capital campaign, we crowdsourced water heaters. Members of the congregation (and half the businesses in town), agreed to let us connect an internet-connected remote control to their water heater. We connected one hundred water heaters in a network—a network that we registered as a virtual power plant on the PJM regional grid. By adjusting water heaters second-by-second in tune with fluctuations of the needs of the regional grid, we have been able to incorporate more renewable energy into Appalachia's grid. We also created a new source of funds to support solar projects at churches, homeless shelters, affordable housing, and libraries across our state. That first project with my church would have cost the congregation more than \$50,000 at the time. Instead it cost them \$1. Over 25 years, that project will save the Church more than \$100,000. That's

\$100,000 that rather than going to a large out of state corporation will go towards the mission and the ministry—feeding, housing, and clothing our neighbors.

We had to get creative and develop this approach because the normal model of using a Power Purchase Agreement in which a solar company sells the power to a non-profit was ruled by the West Virginia Public Service Commission to be at odds with our state-granted utility monopolies. Without those PPAs, the IRS had ruled that solar projects on non-profits are ineligible for the federal investment tax credit. Additionally, the USDA Rural Energy for America Program, which administers loan guarantees and grants to rural and small town solar projects, will not support any non-profit project.

Word in West Virginia gets around fast—especially when we do things first. Within a week so many community organizations wanted solar that we outstripped the capacity of the entire industry and everyone who had ever installed solar in our state. So we set to work building that capacity.

In 2015, we launched Rewire Appalachia—a workforce development and training program in partnership with Coalfield Development Corporation, a non-profit in Wayne County, West Virginia. Through this collaboration, Solar Holler gave more than 40 young folks whose families have been in the mines for generations a hand up into the solar industry. We invested in their associates degrees at Mount West Community College; we paid for their electrical journeyworker courses; and enrolled them in their NABCEP solar certification training coursework. Apprentices have been able to further their educations, while learning on the job under the close supervision and tutelage of our Master Electricians.

And we kept going from there. In 2020, we willingly and joyfully unionized our installation crews—ensuring that everyone has representation, and that even as we

move to the latest, greatest technology, we don't step back to the 19th century for workers.

Our latest efforts are focused on our high schools and vocational programs. This January, we launched internship programs with Wayne County, West Virginia Schools, as well as Boyd County, Kentucky Schools. Through this program, high school seniors spend 4 days per week in their vocational classes—learning electrical theory, drafting, etc. Then for one day a week, they're a paid member of our crews, learning on the job how to safely and beautifully install solar systems. After they graduate in June, they will be able to slide right into a career with Solar Holler.

At Solar Holler, we like to say it takes all kinds to pull a solar project off. It of course takes talented, eagle eyed electricians and roofers. But it also takes designers, engineers, warehouse and procurement staff, accountants, project managers, financiers, marketing, and everything else that it takes to support a team as big as ours. With no existing industry in the regions where we work, we've had to build up a new one. We needed to build the supply chains, build the financing tools, and work with local building inspectors who had never seen a solar project before.

II. Market Demand for Renewables in Appalachia

It may seem counterintuitive that solar could be doing so well in Coal Country. After all, the common perception around the nation is that solar is eating into coal's market share. But coal jobs have been declining for generations in my state due to automation and the move toward surface mining from underground mining.

Yet every day we work with retired miners, kids of miners, and families who have been sustained by coal for generations. When you ask a retired miner why they're going

solar when they spent a lifetime in the mines, the answer is invariably the same: to save money and free themselves from the utility. It's no wonder. Since 2003, utility rates have dramatically increased across our state—increasing at the fastest rate of any state in the nation. During that period, rates increased at an average of 5.5% per year, compared to a national average increase of 1.4% annually. In just the past 4 years, utility rates have skyrocketed—up 47% since 2019.

That drastic increase is hard on our neighbors. We have the second lowest median income in the nation. Median income is 29% below national average. So when utility rates rise, it hurts. At 12,000 kWh per year, the average utility bill eats up more than 4% of the median take home income.

III. Solar Economics in Appalachia

While monopoly utilities continue to increase their rates year after year for West Virginians, solar has gotten cheaper. And cheaper. And cheaper. Since 2010, the price per Watt of a solar panel has decreased by over 80%. Utility scale solar farms have declined from \$4.50/Watt to just \$1.03/Watt. Nationwide, residential scale solar prices have declined by 24% just in the last 5 years. Across Appalachia, homeowners and businesses alike are looking to these declining prices as a source of relief from their ever-increasing utility rates.

IV. Policies that are Building the Clean Energy Economy in Appalachia

While our team is amazing and I'm proud of the work we've done to build this industry, there is still so much more to do in the coming decade. Fortunately, the Inflation Reduction Act that was passed and signed into law last year is already having an incredible impact on my state.

At Solar Holler, we believe that solar won't just power our grid for the next Century, it must—and it will—power our economy, too. That's why we only use Appalachian-made panels, and work with Ohio-based racking companies.

Since the Inflation Reduction Act passed, manufacturing has started its long-awaited return to West Virginia. In the past year, 5 major facilities have been announced and are under construction. We have clean steel, electric school buses, and next generation grid-level batteries. Collectively, these facilities are employing more than 2,900 people—and breathing new life and energy into entire towns. These investments were made possible by both the incentives themselves, as well as the long term certainty the IRA provided.

As I mentioned at the start, our mission is to bring solar within reach of everyone—not just the well-to-do. That's why we work with congregations and shelters and affordable housing. That's why we work with retirees and folks across the coalfields that the rest of the country has forgotten.

The changes in the Inflation Reduction Act have supported our work—by leveling the playing field for schools, churches, hospitals, food banks, and every other tax exempt entity. Tax exempt entities are now being supported the same way a manufacturing facility always had been.

We have all the tools we need to ensure that all Americans have access to affordable clean energy that is made in America. This year, and in the coming years, Congress could help level the playing field for all Americans and organizations wanting to go solar in three principal ways:

1. Ensure that the provisions of the Inflation Reduction Act are quickly, and fairly, rolled out.

2. Ensure that homeowners investing in their own systems have parity with utility and corporate owned systems by allowing homeowners to access the same tax credits encouraging American manufacturing and investment in coal country.

V. Conclusion

Chairman Chairman Hunt, Ranking Member Gluesenkamp Perez, and all the members of this Committee—thank you for inviting me to share these thoughts with you today. I am thrilled every day to be doing my part to build a 21st Century industry in my home state. We have demonstrated that there is demand for solar, even in Coal Country. Yet there are still challenges that keep many of our neighbors and community organizations from enjoying the benefits of lower bills, and control over their power source. I look forward to working with this committee to bring solar within reach of all Americans.

Thank you,

Dan Conant
Founder & CEO
Solar Holler



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BROOKLYN, NEW YORK

Testimony of

Janna Chernetz

Senior Director Global Government Affairs, Amogy
Brooklyn, NY

House Committee on Small Business Subcommittee on Rural
Development, Energy, and Supply Chains

“Highlighting the Role of Small Businesses in Domestic Energy
Production”

March 29, 2023

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BROOKLYN, NEW YORK

April 20, 2023

The Honorable Roger Williams
Chair
Committee on Small Business
2361 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Nydia Velazquez
Ranking Member
Committee on Small Business
2069 Rayburn House Office Building
Washington, D.C. 20515

Dear Chair Williams and Ranking Member Velazquez,

Amogy is an ammonia energy small business developing the technology to use liquid ammonia (hydrogen carrier) as a zero-emission fuel to decarbonize maritime shipping, heavy-duty & industrial transportation, and stationary power. Amogy was founded in November 2020 and is headquartered in the Brooklyn Navy Yard in Brooklyn, NY with offices in Stavanger, Norway and Houston, TX. As of April 2023, Amogy has over 120 employees. As a company at the forefront of clean energy innovation and domestic energy production, we are offering our testimony for the record to the Subcommittee on Rural Development, Energy, and Supply Chain's hearing on Highlighting the Role of Small Businesses in Domestic Energy Production.

Small, innovative technology companies like Amogy play a vital role in the clean energy industry. The current clean energy landscape lacks a clear solution to the hard to abate sectors such as heavy transportation (aviation, trucks and maritime) and energy demanding applications (stationary power, heavy construction and mining equipment). This is a \$34 trillion global industry, \$7 trillion in the U.S., left without a viable solution. While the landscape is currently robust with plug-in EV solutions for light weight vehicles, lithium-ion batteries are limited in power, and there is a need to move toward off-the-grid solutions. Small, agile businesses like Amogy are developing solutions to answer this clean energy challenge for the mega trillion-dollar market.

How does Amogy technology work to solve this challenge?

Amogy offers ammonia-based, emission-free, high energy-density power solutions to decarbonize the hard-to-abate heavy transportation industry for a sustainable future. To date, Amogy's scalable ammonia-to-power energy system has been demonstrated with success in a 5kW drone, 100kW heavy-duty tractor, and 300kW semi-truck. We have recently announced plans to power a 1MW tugboat with our system, to set sail in late 2023, which is a vital step toward our expansion into the maritime industry.

Amogy's technology uses liquid ammonia as a zero-emission fuel to decarbonize maritime, heavy-duty &

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industrial transportation, and stationary power. Amogy's technology cracks ammonia (ammonia) in situ into nitrogen and hydrogen, and the hydrogen that is formed can then be utilized three ways: (1) distributed to an integrated FC, (2) the hydrogen can be used as a pilot fuel in an ammonia combustion engine, or (3) remain as pure hydrogen for chemical applications or other hydrogen needed end-uses. In all three instances, using ammonia as the hydrogen carrier and the on-demand cracking technology, the need to store hydrogen is eliminated, which is the biggest challenge in hydrogen use. In addition, ammonia can be transported more easily than pure hydrogen, which makes Amogy's cracking technology ideal for meeting hydrogen demand in rural and more remote locations. Ammonia can be easily stored as a liquid and as such, it gives our system a high energy density that is 5x that of a battery and almost 3x that of H₂ gas. Eliminating the need for both intermittent hydrogen storage and complicated hydrogen transport and the energy density of ammonia enables Amogy's technology to be compact, efficient, and scalable.

Amogy's ammonia technology will provide for off-the-grid hydrogen production and power solutions. With the emphasis on green hydrogen and green ammonia production through the historic \$10 billion Hydrogen Hub program, ammonia is perfectly poised to be a true carbon-free solution for the hard to decarbonize sector. Adding ammonia to the portfolio of clean energy solutions is critical to creating a resilient hydrogen ecosystem as Amogy technology allows for the easy transport of hydrogen, using ammonia as its carrier. For Amogy, that means creating a solution for the maritime sector.

Supporting Small Business in Clean Energy is Critical for Improved Health and Equity outcomes

Supporting small, innovative clean technology companies like Amogy also helps to solve the profound health and equity problems caused by emissions for the transportation sector including maritime. The International Council on Clean Transportation found¹ that air pollution from fine particulate matter (PM_{2.5}) and ozone from on-road vehicles, non-road engines, and oceangoing vessels was linked to an estimated 385,000 premature deaths in 2015 worldwide.² A large fraction of the early mortality—approximately 15%, or 60,000 deaths—were due to air pollution from the 70,000 international ships.³ That equates to about 160 billion dollars of health damages annually. To that end, finding a carbon-free, emission-free solution for the maritime sector is critical.

In the U.S., residents of communities around ports suffer⁴ disproportionate health impacts as the result of harmful emissions. In the U.S., 12% of the population (39 million people) live near seaports, many in what are considered environmental justice communities. These communities exhibit higher rates of

¹ <https://theicct.org/silent-but-deadly-the-case-of-shipping-emissions/>

² <https://theicct.org/silent-but-deadly-the-case-of-shipping-emissions/#note>

³ <https://theicct.org/publications/GHG-emissions-global-shipping-2013-2015>

⁴ <https://www.epa.gov/community-port-collaboration/environmental-justice-primer-ports-impacts-port-operations-and-goods>

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respiratory and cardiovascular disease, dangerous soil and water quality, and poorer health outcomes exacerbated by elevated emissions from port related equipment/vehicles/ships (standard port related activities).

Small businesses cannot go about this alone without government support. The passing of the Inflation Reduction Act (IRA) and the Bipartisan Infrastructure Law (BIL) are examples of historic government investments and commitment to supporting private industry and small business in making the transition to clean energy. Among many other investments, these bills provide much needed funding for maritime decarbonization, through programs such as Clean Ports⁵ and programs sponsored by MARAD⁶ as well as tax credits. However, we need to make sure these programs are friendly to small businesses in order for the true intent of the laws to be reached.

At Amogy, we are committed to building a more sustainable future, and we believe small businesses like ours are critical to domestic energy production. We thank you for accepting our testimony for the record and for highlighting the role of small businesses in domestic energy production. We welcome the opportunity to continue this discussion to support the efforts on this Committee.

Sincerely,



Janna Chernetz
Senior Director Global Government Affairs, Amogy

⁵ <https://www.epa.gov/inflation-reduction-act/clean-ports-program>

⁶ <https://www.maritime.dot.gov/about-us/bipartisan-infrastructure-law-maritime-administration>

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