



## Inflation Reduction Act's Proposed Methane Fee Would Have Negligible Impact on Natural Gas Prices

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In a 2021 RFF Issue Brief, "**Methane Fees' Effects on Natural Gas Prices and Methane Leakage**", I modeled the potential effects of a proposed fee on methane emissions from oil and gas facilities, such as those recently considered in Congress (e.g., **S.645** and **H.R.4084**). That modeling found that the impacts of those fees at the proposed levels of up to \$1,500 per ton of methane would increase natural gas prices by a very small amount, with a focal estimate of \$0.15 per MMBtu in potential price increase. By comparison, as reported in that Issue Brief, residential consumer prices in May 2021 were about \$13.50 per MMBtu, indicating a price impact of around 1%.

The **Inflation Reduction Act of 2022** (IRA) contains a new version of this fee with a number of modifications, including a one-year delay in implementation and a narrowing of the scope of oil and gas facilities that would be required to pay the fee. Importantly, the new version exempts from the fee facilities that are in compliance with forthcoming Environmental Protection Agency (EPA) regulations on methane. This provision is likely to dramatically reduce the number of companies required to pay the fee, implying that the impact of the methane fee as proposed in the IRA would result in a substantially smaller estimated price impact than the previous estimates of \$0.15 per MMBtu and 1% of residential consumer prices.

While it is difficult to model this new provision in detail due to uncertainties around the timing and stringency of EPA's future regulations and compliance decisions by oil and gas operators, the previous estimates for the broader policy were already quite small, indicating **the impact on natural gas prices of the methane fee in the IRA would be negligible, and well under 1% of residential consumer prices.**

In broader context, Princeton University's REPEAT project recently drew on other work of mine to estimate that the IRA as a whole is likely to reduce natural gas prices by 10-20% in the medium term.<sup>1</sup> I have not independently evaluated those estimates, but that degree of price reduction would offset—many times over—the negligible price impacts of the methane fee.

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<sup>1</sup>See page 10 of [https://repeatproject.org/docs/REPEAT\\_IRA\\_Preliminary\\_Report\\_2022-08-04.pdf](https://repeatproject.org/docs/REPEAT_IRA_Preliminary_Report_2022-08-04.pdf)