

## **Additional Question for the Record**

The Honorable Rick W. Allen

**Your business is a small business and your facilities, as you discuss in your testimony, are not large emitters. And as you mentioned, two hundred and thirty-one of your marginal-well facilities are being mischaracterized, which could cost your business millions for surveying and reporting. This is on top of other costs associated with compliance. Can you expand on how these compliance costs are hurting your business?**

### **Response**

Drew Martin, Co-Founder & Managing Partner of Miller Energy Company

Before the finalization of the recent methane regulations, my business strategy was to acquire existing Michigan oilfields that were often deemed well beyond their peak for primary production. These rules have completely turned my business model of improving both the efficiency and the economic life of oil wells in the State of Michigan into an uneconomic proposition. Because of the anticipated increase in regulatory reporting, we have started taking steps to mitigate the damage anticipated to the business by selling assets and reducing headcount. If we are fortunate enough to find buyers for our non-core assets, the sales price is expected to be a fraction of the value before the Performance Source Standards (OOOb/c) regulations were finalized.

#### **Direct Costs**

Direct costs to Miller Energy for the fugitive-emissions monitoring of our current marginal-well facilities create an annual cost of \$2M for the surveying and reporting work alone. \$1,890,910.00 of the \$2M incurred is because of the mis-categorization of marginal wellsites and facilities.

	OOO(c) as written (Based on equipment count)			OOO(c) if applying Marginal Well Status (based on throughput)		
Category	Wellsite & Facility Count	Annual Surveying Cost	Total	Wellsite & Facility Count	Annual Surveying Cost	Total
Single-Wellhead & Small Well Sites	30	\$660.00	\$19,800.00	257	\$660.00	\$169,620.00
Wellsites & Centralized Production Facilities	227	\$8,990.00	\$2,040,730.00	0	\$0.00	\$0.00
			<b>\$2,060,530.00</b>			<b>\$169,620.00</b>
<b>Mis-Categorization Difference</b>						<b>(\$1,890,910.00)</b>

Another way to observe the impact is by forecasting the monitoring costs throughout the remaining economic life of the wells. For the purpose of this example, assume our wells don’t become immediately uneconomic and that the economic life remained the same as before OOOb/c (Avg. 20 years). The increased cost from mis-categorization across the next 20 years adds up to roughly \$38M in less funds available for investing in actual methane reductions and other environmental improvements.

At this point we are not capable of forecasting the financial impact of the additional expenses associated with program management, expedited repairs, and replacing older equipment, which are all expenses in addition to the above outlined reporting increases.

An interesting fact about oil and natural gas producers is that they do not have the ability to set the price at which they receive for the product they produce. Miller Energy’s sales revenue from oil production is based on the West Texas Intermediate commodity price, therefore Miller does not have the ability to choose what to charge for the crude oil produced and leaves 100% of the cost burden to the oil producer’s bottom line.

If the Methane Emissions Reduction Program and the OOOOb/c Performance Standards are implemented as currently written, Miller Energy is forecasting the following scenario :

- Lost Jobs
  - **Headcount will be decreased from roughly 54 to about 20** – More than half of Miller Energy’s current staff will be re-assigned or laid off – most of these employees work and reside in small communities with fewer employment opportunities.
  - **Service Providers & Vendors will be impacted** – With Miller Energy’s reduced or eliminated business, it is anticipated that several service providers and vendors will also need to institute layoffs of their staff to adjust staffing needs. .
- Decreased Business Valuation & Banking Concerns
  - **Bank covenants will be violated** – With extreme shifts in Miller Energy’s assets and their valuation, Miller Energy will be in violation of multiple bank covenants, creating the need for alternative financing requirements.
  - **Investors will lose their invested dollars** – The value of Miller Energy’s asset dramatically reduced overnight when OOOOb/c was finalized. What before was viewed as a 20-year revenue stream turned into an immediate plugging and remediation liability.
  - **Immediate reduction of properties will be attempted** – Miller Energy will attempt the sale or abandonment of its uneconomic properties. Operated wells are anticipated to be reduced from 600+ to a targeted 185. 52 operated fields would be reduced to between 12 and 17.
  - **The viability of the Michigan oil market will cease to exist** – Rules like OOOOb will stifle all economic benefits of future investment in Michigan oil-and-gas exploration and production and eliminate an economic incentive to continue to develop energy and empower people. Michigan faces unique challenges compared to most other states as we lack a gas-sales system to route the minimal associated gas produced.
- Reduced Community Support
  - **Royalty checks eliminated or significantly reduced** – We will no longer have revenue coming from the majority of its wells, so most of the current 2,000 mineral owners will no longer receive royalty checks.
  - **Tax revenues would be significantly reduced** – We contribute significant dollars to taxes from our revenues, and those would cease.
  - **Contributions to Michigan’s communities would be significantly reduced** – As an oil producer in Michigan, a portion of our revenue funds the [Michigan Natural Resources Trust Fund](#). With reduced operations, the Fund would lose revenues to build and maintain parks and projects throughout the state.
- Increased Environmental Risks from Unmanaged Wells
  - **No daily AVO inspections** – If Miller Energy is forced to close its doors due to the compliance costs to satisfy new regulations, 600+ wells go unmanaged overnight. Wells that are currently monitored daily with audio, visual, and olfactory (“AVO”) assessments being completed when onsite to ensure proper operation and minimal environmental impact.
  - **Increased contamination risk** – Without skilled staff to continue maintaining the wells, there is a significant potential for increased oil and natural gas contamination with delayed discovery and response time to remediate.
  - **Plugging backlog concerns** – If the estimated 75% of Michigan wells become uneconomic at once, it is anticipated to create a 10-year backlog for Michigan for plugging.

## Conclusion

For Miller Energy to continue to play a vital role in developing energy and preventing the waste of vital energy resources, the EPA Performance Source Standards (OOOOB/c) must be reworked to address marginal-well production. The best way to manage and reduce methane emissions in wells, like Miller Energy’s, is to allow states to accurately work with businesses to continue to invest in and produce wells to the end of their natural economic life, not simply end production and put us out of business through one-size-fits-all regulation.