

**WRITTEN TESTIMONY OF
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**BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS FIELD HEARING ON
“THE STATE OF THE AMERICAN ECONOMY: THE HEARTLAND”**

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Good morning, Chairman Smith, and distinguished members of the Committee. It is an honor to have the opportunity to testify before you today on behalf of Charter Oak Production and The Petroleum Alliance of Oklahoma.

My name is Joe Brevetti. I am the Managing Member of Oklahoma City-based Charter Oak Production Co., LLC. Since founding the company in 2004, I have focused Charter Oak’s efforts on the drilling and development of oil and natural gas reservoirs in Oklahoma and Texas. In recent years, my company’s primary focus has been the oil-rich areas of central and southern Oklahoma. I began my career in the oil and gas industry working as a field engineer in the mid-70s in south Texas.

Charter Oak is a privately held oil and natural gas producer with nine full-time employees. In 2022 we drilled and completed 10 wells in Oklahoma, putting our company in the top 20 most active drillers in the state that year. Eight of those 10 wells were “extended laterals”, i.e., the completion interval was two miles or longer. Four of those wells had laterals that were 3 miles in length. While Charter Oak is a “small company” like most Oklahoma oil and natural gas producers, our impact on the state is large. A 2019 study by IHS Markit found that every \$1 million in capital expenditure by an upstream oil and natural gas company like mine creates seven direct jobs, 27 indirect jobs, \$820,000 in total tax revenue and boosts U.S. GDP by \$4.6 million. This benefit to the state’s economy is further amplified by additional midstream and downstream sector investment.

I am also a member of the Board of Directors of The Petroleum Alliance of Oklahoma. The Alliance represents more than 1,400 individuals and member companies and their tens of thousands of employees in the upstream, midstream, and downstream sectors and ventures ranging from small, family-owned businesses to large, publicly traded corporations. Petroleum Alliance members produce, transport, process and refine the bulk of Oklahoma’s crude oil and natural gas.

The oil and natural gas industry is Oklahoma’s defining industry. In 2022, the industry accounted for \$64.9 billion, or 27%, in state gross domestic product, generated \$2.5 billion in

tax payments to the state, and accounted for \$1 out of every \$6 of total statewide household income.¹

The oil and natural gas industry takes great pride in the role we play to both drive our state economy and to provide our nation with American-made energy. However, efforts by the Biden administration to slow oil and natural gas development threaten our ability to do both, putting the communities and families that rely on a robust oil and natural gas industry for survival in jeopardy.

Impacts of Inflation and Worker Shortages

Increased costs for goods and services, difficulty in finding workers, and a strained supply chain have significantly impacted the oil and natural gas industry and companies like mine just as they have other industries.

The shortages of available materials in the supply chain include items from steel casing to transformers used by the local utilities to electrify our well sites. We recently had to run two diesel generators for over a month on a well pad despite us having placed and paid for our power connection 6 months previous. This delay in the connection to the electric grid was due to the availability of power transformers. The result was an unnecessary expense and created additional emissions.

Due to excessive inflation, Charter Oak's average drilling and completion cost for a typical well has increased from approximately \$7.8MM to \$10.2MM over the past 12 months. This 30% increase in costs has come at a time when oil and natural gas prices at the wellhead have significantly declined. This has resulted in an additional financial burden on my company and on all oil and gas producers.

A lack of workers is one reason that U.S. oil production is unlikely to grow much faster than it did last year, despite higher prices and strong demand for petroleum products. A report released on Feb. 3 by the U.S. Department of Labor showed the unemployment rate in the category defined as "mining, quarrying, and oil and gas extraction" is now just 0.3%, versus 8.4% a year ago. Only 2,000 people were looking for work in the industry in January, versus 46,000 last year.

We are part owner of a company that provides services to the oilfield. These services include wellsite construction, trucking, welding, and some specialty services such as crane rental. This company has about 22 employees. We currently have open positions for four roustabouts who earn \$18/hr, two transport drivers who earn \$22/hr, and two crane operator positions that pay \$32-35/hr. All of these workers will also earn overtime. It is not uncommon for a driver or crane operator to earn over \$100,000 in a given year. Applicants for these positions are very few.

¹ RegionTrack: *Oklahoma Oil and Gas Outlook Update*, Jan. 23, 2023

There is a need for training programs to address the growing demand for these positions and other skilled workers such as welders and electricians.

Intangible Drilling Costs and Percentage Depletion

The expensing of intangible drilling costs and the percentage depletion allowance, two long-standing tax provisions that have been used by the oil and natural gas industry for the better part of a century, have long been in the crosshairs for Democratic budget makers.

The standard intangible drilling cost (IDC) tax deduction, which allows the expensing of ordinary and necessary business expenses and has been an integral part of the tax code in one form or another for 100 years, allows producers to recover costs quickly and reinvest funds to explore for, and produce, new American oil and natural gas supplies to power our nation. The book minimum tax created by the Inflation Reduction Act could remove it.

Prohibiting the oil and gas industry from deducting ordinary and necessary business expenses like labor, fuel, services, and supplies would be a new 25% tax hike on oil and natural gas companies. Instead of those dollars being available to put men and women in Oklahoma to work, they would disappear inside the Washington, D.C., beltway.

IDCs are not significantly different from tax provisions used by other industries and eliminating the deduction would dramatically change the business model of nearly every oil and natural gas producer in the nation. Such a reduction of companies' cash flow and capital budgets would hinder the ability to drill new wells and drive up energy prices for consumers.

Percentage depletion is an alternative to cost depletion for tax purposes and is like depreciation for a non-mineral asset. Used only by the smallest, family-owned oil and gas businesses, operators of marginally producing oil and natural gas wells would lose a significant economic incentive to continue operating those wells, forcing the premature plugging and abandonment of wells and curtailing future energy production from them.

If percentage depletion were eliminated, Oklahoma would be second only to Texas in harm done over the next 15 years with 5,170 jobs shed each year, \$29 million in state revenue lost each year, \$71 million in foregone Oklahoma royalty payments each year, and the loss of 37,305 barrels of oil per day.

Regulatory Uncertainties, Burdens, and Costs

I am concerned that Federal agencies are placing more and more regulatory burdens on my industry with little regard to the impacts on small businesses. The following are just two proposed rules that highlight some of the regulatory burdens and uncertainties that federal agencies have proposed that will have significant financial impacts on my operations.

1. EPA's Proposed Methane Rule

First, EPA's Proposed Methane Rule provides stringent, "one-size-fits-all" regulations for new and existing oil and gas wells. Essentially, EPA is placing the same requirements on facilities that produce thousands of barrels of oil per day in the same category as a marginal well that produces 1.4 barrels of oil per day (Bpd) while claiming the requirements are cost-effective for these lower-producing, marginal wells.²

The Proposed Rule contains a super-emitter response program where I would be required to investigate and take actions upon receiving a notice from an "approved" third-party of detected emissions that are 100 kilogram per hour of methane or greater. Basically, I would be responding to a third party, not the state regulatory agency and/or EPA.

EPA proposes fugitive emission monitoring for the life of my wells with no opportunities to reduce or cease monitoring even if I'm not detecting any emissions. I would then be required to keep detailed records and report semiannual and annual fugitive emissions. EPA is also requiring me to submit a well closure plan and provide notification on closure activities which unnecessarily duplicates state requirements.

Pneumatic pumps and controllers used at my sites are required to have zero emissions. I will be required to replace or retrofit equipment at all my existing well locations. Existing facilities that don't have onsite power will require the installation of generators to power either electric-driven or air-driven devices that will drive up emissions – opposite the goal of emission reductions.

I will no longer be able to send associated gas from my oil wells to a flare or other combustion device unless I conduct a detailed analysis and demonstrate that the specified options are infeasible due to technical or safety reasons. I would then be required to report changes at the site and whether those changes impacted the infeasibility analysis. If the change did not impact this infeasibility analysis, a revised demonstration and certification would still be required.

If I'm able to use a flare, the requirements are onerous. However, EPA's requirements may not be technically feasible for older wells and facilities with low or intermittent vapor flow to a flare or combustor, as there is often not enough gas produced by the well to keep a pilot continuously lit or to produce enough tip velocity to meet the flow rate requirements and promote the mixing of gas and air necessary to achieve 95% destruction efficiency in a flare.

Covers and closed vent system requirements are basically a zero-emission standard. This is not technically feasible or realistic for equipment located outside, subject to harsh

² In Oklahoma, there are approximately 28,000 marginal oil wells (with an average production of 1.43 Bpd) and approximately 45,000 marginal gas wells (with an average 18 thousand cubic feet per day [Mcfpd]); however, they contribute approximately 9.5% and 12%, respectively, to Oklahoma's total production. IOGCC, Marginal Wells: Fuel for Economic Growth, 2016.

conditions and undergoing continuous wear and tear of operations. For example, there is the potential for foreign objects e.g., dirt or ice that may interfere with the sealing surfaces of tank hatches.

2. BLM's Waste Prevention Rule

I also drill wells on Federal leases. BLM proposed its Waste Prevention Rule (WPR) that includes air emission requirements that are similar but slightly different as compared to EPA's Methane Rule. BLM's WPR removes long-standing economic feasibility analysis (except for vapor recovery units ("VRUs") on storage tanks) that allows me to account for the diverse nature of my oil and gas production operations that I've relied upon when I obtained the lease.

BLM's rule, similar to EPA's rule, generally treats new and existing wells the same. BLM does not account for the additional time it may take smaller operators of existing wells, especially volume, marginally economic wells, to plan and budget for new requirements, obtain and install new equipment or retrofit equipment, obtain and implement new electronic recordkeeping and reporting systems, and train employees on the collection of new reporting and recordkeeping requirements. BLM doesn't appear to consider the ongoing supply chain issues that are still occurring in our industry.

BLM requires me to develop and submit a detailed Waste Minimization Plan (WMP) with my Applications for Permits to Drill (APD). BLM may deny or delay my APD if I fail to submit an "adequate" WMP; however, BLM doesn't define what is "adequate." In addition, they may add requirements to my APD.

BLM states that a flare that is not lit may be subject to an immediate assessment of \$1,000 per violation without obtaining any details from me as to why it's not lit. There may be systems in place that do not have a pilot flame and instead have an automatic ignition system that sparks when gas is present or situations where a well is shut in and the pilot flame is not lit.

BLM is requiring me to use an optical gas imaging technology (cameras can cost \$100K) to detect fugitive emissions or hire a consultant. This is excessive. The goal is to find and fix leaks, so an audio, visual, and olfactory inspection should be allowed, especially for low producing, marginal wells.

BLM states that oil-well gas may be flared due to pipeline capacity constraints, midstream processing failures, or other similar events up to 1,050 thousand cubic feet ("Mcf") per month, per lease, unit, or CA. However, BLM's 1,050 Mcf per month threshold is 35 Mcf per day, well below the definition of a low-volume, marginally economic well³. Any flaring over that threshold would trigger royalty payments.

³ IOGCC, Marginal Wells: Fuel for Economic Growth, 2016.

An operator of a lease, producing at least 120 Mcf of gas or 20 barrels of oil per month would be prohibited from using natural-gas-activated pneumatic controllers or pneumatic diaphragm pumps with a bleed rate that exceeds 6 standard cubic feet per hour, effective one year from the effective date of the final rule. It is unlikely there will be adequate equipment available to meet this deadline. Again, the 120 mcf of gas per month or 20 barrels of oil per month equates to approximately 4 mcf per day or 0.7 barrels of oil per day, which is extremely low and well below what is considered a marginal well. This will require me to retrofit or replace all my pneumatic controllers and pumps.

BLM states that if they find a thief hatch that has been left open and unattended, the BLM will impose an immediate assessment of \$1,000 on the operator without contacting the operator to determine if there are legitimate reasons (e.g., such as a shut in well) why the hatch is open. If vapor recovery units are not installed on tanks, BLM is requiring me to conduct costly and rigorous compositional sampling analysis of the production flowing to the storage vessels and submit that information annually, even if there have been no changes in the production stream.

BLM is requiring me to develop and submit a leak detection and repair plan, conduct inspections and repairs, and submit an inspection and repair information. Again, this overlaps with EPA's Methane Rule. However, BLM's repair time frames do not align with EPA's repair timeframes.

Overall, these two proposed rules create significant burdens, costs, and uncertainties on my daily operations.

Permitting Delays

I would like to share a current situation regarding one of our recently drilled horizontal wells.

While in the process of leasing what were believed to be private minerals in a section that is adjacent to the South Canadian River in McClain County, Okla., it was determined by a river survey that a portion of the north section of this two-mile horizontal now contained federal minerals due to river movement. These minerals are managed by the BLM. A river survey was conducted to confirm the current size and location of the BLM minerals in this section.

Our federal leasing consultant informed us that we cannot traverse the federal minerals even though our pad site is two miles away on private land. To do so would require an APD with the associated archeological, environmental, and biological studies resulting in a several-month delay. We altered the path of the lateral to the northeast of the federal minerals to avoid this delay. This action will affect future development locations likely resulting in decreased ultimate recovery from this section.

We still must obtain a lease from the BLM. We were informed by our consultant that it would be two to three years before the BLM Cadastral Office in Santa Fe could review the river survey. The leasing process would be an additional 6-8 months after that time. These time delays are inexcusable and costly to all parties. Certainly, this system can be streamlined.

In closing, I would like to remind the Committee that as it explores the state of the American economy and the well-being of working families, in Oklahoma, working families work in the oilfield. Burdensome regulations and increased taxes on oil and natural gas production hamper the ability of companies like mine to put more Oklahomans to work and bring more oil and natural gas to market for families across the country.