

**May 2024**

## **Methane Emissions Reduction Program (MERP)**

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The Methane Emissions Reduction Program (MERP) is an initiative designed to reduce methane emissions, particularly in the petroleum and natural gas sector. Methane, a greenhouse gas (GHG) and the primary component of unprocessed natural gas, has a global warming potential 80 times greater than that of carbon dioxide (CO<sub>2</sub>) over a 20-year period.<sup>1</sup> If unchecked, methane emissions could significantly impact the environment and global climate.

Oil and natural gas systems are the largest industrial source of methane emissions in the United States, accounting for one-third of total emissions.<sup>2</sup> These companies regularly vent (release), flare (burn off), and leak methane, a main component of natural gas, into the atmosphere during oil and gas drilling operations. On federal lands alone, operators reported releasing 300 billion cubic feet of natural gas from FY2012-2021.<sup>3</sup> The policies and practices that allow oil and gas operators to release methane with little repercussion harm taxpayers and the climate. Methane waste prevents valuable resources from reaching consumers, limits the economic activity that would have occurred if that gas was brought to market, and leaves taxpayers with increasing public health and climate liabilities.

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<sup>1</sup> U.S. Environmental Protection Agency, Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990–2021, Table A-222, April 2023, <https://www.epa.gov/ghgemissions/inventory-us-greenhouse-gas-emissions-and-sinks-1990-2021>.

<sup>2</sup> U.S. Environmental Protection Agency, Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990–2021, Table ES-8, April 2023, <https://www.epa.gov/ghgemissions/inventory-us-greenhouse-gas-emissions-and-sinks-1990-2021>

<sup>3</sup> TCS, “Gas Giveaways II,” August 2022. <https://www.taxpayer.net/energy-natural-resources/gas-giveaways-ii-methane-waste-on-federal-lands-is-business-as-usual/>

According to the Intergovernmental Panel on Climate Change, nearly one-third of current anthropogenic climate change can be attributed to methane emissions.<sup>4</sup> Over the past five years, taxpayers have shouldered an average annual cost of approximately \$62 billion dedicated to various programs designed to combat and mitigate the impacts of climate change.<sup>5</sup> These costs will continue to rise.

## Methane Emissions Reduction Program

The Methane Emissions Reduction Program, or MERP, was established by the Inflation Reduction Act (IRA, P.L. 117-169), granting new authority under Section 136 of the Clean Air Act to reduce methane emissions in the petroleum and natural gas sector.

The MERP has three primary components: Financial Incentives for Methane Mitigation and Monitoring, Waste Emissions Charge, and Updating Existing EPA GHG Reporting Requirements.

### Financial Incentives for Methane Mitigation and Monitoring

The MERP offers financial and technical support to companies to promote best practices and innovative emissions reduction solutions. The IRA allocated \$1.55 billion, available until September 30, 2028, to fund these initiatives. Of this amount, \$700 million is earmarked for activities at marginal conventional wells – onshore conventional wells producing less than or equal to 15 barrels of oil equivalent per day or less than or equal to 90 thousand cubic feet of gas per day over a calendar year.<sup>6</sup>

Funds are available for grants, rebates, contracts, loans, and other EPA-led activities designed to help petroleum and natural gas facilities:

- Prepare and submit greenhouse gas reports;
- Research and develop tools for monitoring methane emissions;
- Reduce current emissions and legacy pollution from oil and gas systems, including activities to:
  - Innovate and deploy new technologies;
  - Improve climate resiliency of nearby communities;
  - Shut in and plug wells on non-federal land;
  - Mitigate the health effects of emissions in low-income and disadvantaged communities; and
  - Conduct environmental restoration.

In December 2023, the Administration announced a conditional commitment to 14 states to award a total of \$350 million in formula grant funding for the above activities at marginal conventional

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<sup>4</sup> Intergovernmental Panel on Climate Change, “Climate Change 2013: The Physical Science Basis,” 2018. <https://www.ipcc.ch/report/ar5/wg1/>

<sup>5</sup> TCS, “Paying the Price,” June 2023. <https://www.taxpayer.net/climate/paying-the-price/>

<sup>6</sup> DE-FOA-0003109, “Inflation Reduction Act (IRA) – Mitigating Emissions from Marginal Conventional Wells,” <https://www.grants.gov/web/grants/view-opportunity.html?oppld=350045>

wells.<sup>7</sup> The Administration has also released a Notice of Intent to make up to \$1 billion in financial incentives available through competitive awards.<sup>8</sup>

## Waste Emissions Charge

Starting in 2024, the MERP will impose a fee on lost gas from oil and gas operations. Facilities will be charged \$900 per ton of methane emitted over a set threshold based on the amount of oil or natural gas sold. This rate will rise to \$1,200 per ton in 2025 and \$1,500 per ton in 2026.

Waste Emissions Threshold for Methane Fees	
Oil and natural gas producers	0.2 percent of natural gas sent to sale, or 10 metric tons of methane per million barrels of oil sent to sale
Nonproduction facilities (natural gas processors, liquified natural gas storage, importers and exporters, etc.)	0.05 percent of natural gas sent to sale
Natural gas pipelines and transmission facilities	0.11 percent of natural gas sent to sale

The fee applies to production, transmission, processing, compression, storage, gathering, and import and export facilities emitting more than 25,000 metric tons of carbon dioxide equivalent of greenhouse gases annually. These facilities must also report their emissions to the Greenhouse Gas Reporting Program (see below). According to 2019 data, 2,172 oil and gas facilities will be subject to the methane emissions charge.<sup>9</sup>

The methane emissions charge includes several exemptions. The fee will not apply to emissions resulting from “unreasonable delay,” including permitting delays for essential infrastructure, or emissions from wells plugged in the previous year, provided that the plugging met all applicable closure requirements.

Facilities can also secure exemptions from the charge if they comply with Clean Air Act methane regulations in all states that result in equal or greater emission reductions. Under the authority of Clean Air Act Section 111, the EPA requires specific operators in the oil and gas industry to adhere to standards and emissions guidelines for air pollutants.<sup>10</sup> In March 2024, the EPA issued a final rule (Standards of Performance for New, Reconstructed, and Modified Sources and Emissions Guidelines for Existing Sources: Oil and Natural Gas Sector Climate Review) to strengthen and

<sup>7</sup> U.S. Environmental Protection Agency, “Biden-Harris Administration Announces \$350 Million to 14 States to Reduce Methane Emissions from Oil and Gas Sector as Part of Investing in America Agenda,” December 2023. <https://www.epa.gov/newsreleases/biden-harris-administration-announces-350-million-14-states-reduce-methane-emissions>

<sup>8</sup> U.S. Environmental Protection Agency, “EPA and DOE announce intent to fund projects to reduce methane emissions from the oil and natural gas sectors as part of President Biden’s Investing in America agenda,” February 2024. <https://www.epa.gov/newsreleases/epa-and-doe-announce-intent-fund-projects-reduce-methane-emissions-oil-and-natural-gas>

<sup>9</sup> CRS, “Inflation Reduction Act Methane Emissions Charge: In Brief,” August 29, 2022. <https://crsreports.congress.gov/product/pdf/R/R47206>

<sup>10</sup> 40 U.S.C. §7411

expand these standards.<sup>11</sup> Facilities with equal or greater emission reductions under these proposed emissions standards may be exempt from the MERP emissions charge.

According to the Congressional Budget Office (CBO), the methane waste emissions charge is projected to generate \$8.47 billion over FY2026 to FY2031.<sup>12</sup> The EPA proposed its rulemaking on the fee in January 2024.<sup>13</sup>

## Updating Existing Reporting Requirements

The MERP requires the EPA to revise portions of the Greenhouse Gas Reporting Program (GHGRP, 40 U.S.C. § 98) applicable to the petroleum and natural gas systems source category (subpart W) by August 2024. The GHGRP, first implemented in 2009 and supervised by the EPA, tracks facility-level emissions from the largest sources of GHG emissions in the United States. Subpart W specifically applies to petroleum and natural gas systems.

The MERP mandates the EPA to revise subpart W to ensure that collected data is based on empirical data and accurately reflects total methane and waste emissions. The program also stipulates that facilities may submit empirical emissions data.

In August 2023, the EPA published a proposed rule (Greenhouse Gas Reporting Rule: Revisions and Confidentiality Determinations for Petroleum and Natural Gas Systems) to update reporting requirements. A final rule was published in May 2024.<sup>14</sup> Changes include requiring reporting on additional emissions sources (e.g., nitrogen removal units), new calculation methodologies, and efforts to improve verification of reported data.

## Conclusion

The Methane Emissions Reduction Program represents an important step towards cutting methane emissions—a major contributor to climate change and a threat to public health. The CBO estimated the MERP would generate \$6.35 billion from FY2026-FY2031.<sup>15</sup>

The effectiveness of the program will hinge on both the allocation of federal funding and the implementation of the waste emissions charge. Accurate tracking and measurement of methane

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<sup>11</sup> U.S. Environmental Protection Agency, “Standards of Performance for New, Reconstructed, and Modified Sources and Emissions Guidelines for Existing Sources: Oil and Natural Gas Sector Climate Review,” *Federal Register*, March 2024 <https://www.federalregister.gov/documents/2024/03/08/2024-00366/standards-of-performance-for-new-reconstructed-and-modified-sources-and-emissions-guidelines-for>

<sup>12</sup> Congressional Research Service, “Inflation Reduction Act Methane Emissions Charge: In Brief,” August 2022. <https://crsreports.congress.gov/product/pdf/R/R47206>

<sup>13</sup> U.S. Environmental Protection Agency, “Waste Emissions Charge for Petroleum and Natural Gas Systems,” *Federal Register*, January 2024, <https://www.federalregister.gov/documents/2024/01/26/2024-00938/waste-emissions-charge-for-petroleum-and-natural-gas-systems>

<sup>14</sup> U.S. Environmental Protection Agency, “Greenhouse Gas Reporting Rule: Revisions and Confidentiality Determinations for Petroleum and Natural Gas Systems,” *Federal Register*, May 2024, <https://www.federalregister.gov/documents/2024/05/14/2024-08988/greenhouse-gas-reporting-rule-revisions-and-confidentiality-determinations-for-petroleum-and-natural#p-1042>

<sup>15</sup> Congressional Budget Office, “Estimated Budgetary Effects of H.R. 5376, the Inflation Reduction Act of 2022,” August 2022. [https://www.cbo.gov/system/files/2022-08/hr5376\\_IR\\_Act\\_8-3-22.pdf](https://www.cbo.gov/system/files/2022-08/hr5376_IR_Act_8-3-22.pdf)



emissions remain challenges that could affect the program's efficacy. Other obstacles, such as technological limitations, infrastructure constraints, and inconsistent economic incentives, may also slow progress toward achieving methane emission reduction goals.

If implemented with fairness, transparency, and sufficient oversight, the MERP stands as a promising opportunity for taxpayers and the climate.

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