

An open letter to the Pipeline and Hazardous Materials Safety Administration (PHMSA)

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 Miller/Howard Investments

A molecule comprising four hydrogen atoms and one carbon atom can create quite an array of benefits and challenges. Thanks to that molecule, CH₄, people can boil water for tea, keep their kids warm in the winter and cool when summer bears down. It is small, colorless, and odorless.

That's why it's easy to overlook when the molecule escapes the pipes transporting it or the facilities compressing or burning it. But companies still take that hit to the bottom line—and that hurts investor returns.

CH₄, commonly known as methane, is the primary component of natural gas. When methane escapes a pipeline or in any other way evades its intended fate—namely, controlled and intentional combustion—companies and their investors are dealing with lost product. Lost product means lost profits.

Many investors consider relative indicators, such as how their portfolios look when compared to relevant benchmarks, key competitors, or the overall market. With natural gas, a key comparison is that it emits fewer pollutants and greenhouse gases than other fossil fuel energy sources and can act as a bridge fuel—away from coal and towards a future that includes natural gas and more renewables generation. Natural gas can meet baseload generation needs with lower emissions potential, with an important caveat: The positive environmental profile only exists so long as it's produced, transported, and combusted with robust emissions management and operational integrity. This brings us to the last important comparison: Methane's global warming potential is at least 80 times more potent than that of carbon dioxide over a 20-year period.

If a greenhouse gas is like a blanket wrapped around the planet, its global warming potential is how much heat it can absorb over a period of time. The more heat it absorbs, the warmer the planet gets. Methane is like an electric blanket turned up to the highest setting, at a time when we need to be mitigating temperature rise.

Many companies in the natural gas and energy value chains

understand that methane emissions mean not only lost product, but also potential damage to their social license to operate and certain damage to the environmental and competitive edge natural gas enjoys over other fossil fuel energy sources. Such operators are the leaders forward-looking investors want for their portfolios, and the partners we want brainstorming solutions for the future.

But not all companies are self-motivated to prevent methane leaks, and so we support regulations that would help to both even the playing field and ensure that the industry overall is not damaged by the poor practices of some of its actors. The Pipeline and Hazardous Materials Safety Administration's (PHMSA) proposed *safety, leak detection, and repair* rule would be an effective and common-sense standard, in our view, setting an adequate baseline for methane management across the industry. Further, we believe it would provide long-term regulatory certainty to companies and help mitigate climate- and transition-related risks for investors.

What else do we know? That the proposal can improve the efficiency and reliability of US energy infrastructure writ large. That it can help protect the US natural gas industry's appeal in a global market where competition is becoming more fierce and demanding. That, financially, it makes sense: PHMSA's cost-benefit analysis estimates that overall compliance costs to the industry would be \$740 million to \$900 million per year, compared with \$341 million to \$1.4 billion in benefits—and that doesn't even begin to reflect the reputational, operational, and safety risks that such a rule would help mitigate.

With methane, not being able to see the molecule with our bare eyes doesn't mean we can't see a solution when it's in front of us. **First**, we strongly support PHMSA's proposed rule and urge all concerned investors and companies to likewise raise their voices. **Second**, we call on PHMSA to get this proposed rule finalized and in effect as quickly as possible so that companies and stakeholders can begin to enjoy its benefits *now*.

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Luan Jenifer
Chief Executive Officer and President

Luan Jenifer joined Miller/Howard Investments in 2002. Previously, Luan held several key leadership positions at the firm including Chief Operating Officer and Head of ESG. In her long-time work as Head of ESG, Luan was instrumental in expanding the scope and impact our environmental, social, and governance (ESG) program, which began over three decades ago. Luan is chair of the Executive Committee, and serves on Miller/Howard's Board of Directors, Corporate Governance and Nominating Committee, and Compensation Committee. As an avid supporter of local community organizations, Luan created the firm's volunteer time off program. Luan holds a BS from Marist College.

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