NEW AND REVISED CLEAN AIR ACT REGULATIONS FOR THE OIL AND NATURAL GAS INDUSTRY

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SUMMARY OF KEY CHANGES & NEW REQUIREMENTS

- Storage Vessels (tanks) > 6 tpy VOCs Covered
  - One year to Comply with Combustion Controls (95% DRE)
  - Pre-notification changes

- Reduced Emission Completions
  - Modifications redefined
  - Definition of Natural Gas Well
  - Phased implementation ‘til January 1, 2015

- Low-bleed Controllers Between Wellhead and Transmission Pipelines Excepted - High-Bleed Controllers Have 1 Year to Comply

- Transmission Pipeline, Dehy and Processing Changes
COVERED EMISSION SOURCES – PRODUCTION AND PROCESSING SEGMENTS

- Oil and Gas Production (NSPS, Quad O)
  - Well completions at hydraulically fractured gas wells
  - Compressors and pneumatic devices
  - Storage vessels (tanks)

- Gas Gathering/Processing (Quad O; NESHAP HH)
  - Glycol dehydrators (Subpart HH)
  - Sweetening units
  - Fugitive emissions
  - Compressors and pneumatic devices
  - Storage vessels (tanks)
COVERED EMISSION SOURCES – PRODUCTION AND PROCESSING SEGMENTS

### Production & Processing
1. Drilling and Well Completion
2. Producing Wells
3. Gathering Lines
4. Gathering and Boosting Compressors
5. Gas Processing Plant

### Transmission & Storage
6. Transmission Compressor Stations
7. Transmission Pipeline
8. Underground Storage

### Distribution (not covered by these rules)
9. Distribution Mains
10. Regulators and Meters for:
   a. City Gate
   b. Large Volume Customers
   c. Residential Customers
   d. Commercial Customer

Source: Adapted from American Gas Association and EPA Natural Gas STAR Program
IMMEDIATE QUAD O COMPLIANCE ISSUES

- What is a gas well affected facility?
- Whether some venting may occur during flowback beginning October 15, 2012
- Use of portable frac tanks to store “recovered liquids”
- Emissions from screenouts and coil tubing cleanouts prior to separation not subject to work practice standards for gas wells
- Scope of general duty obligations prior to 1-1-15
Areas with local regulations prohibiting flaring may qualify for exemption under 60.5375

Storage Vessel controls applicability at ≥ 6 tpy can reflect required enforceable controls (i.e., not based on uncontrolled actuals)

“Storage vessel affected facilities” is much broader than storage vessels “at a well site,” which may be eligible for 30-day VOC estimation and ECD installation periods under 60.5935(a)(1), (2)

LDAR “equipment” definition means only the non-compressor equipment in a process unit at an affected facility (onshore gas plant)
STORAGE VESSELS (TANKS)

- Storage Vessels (tanks) > 6 tpy VOCs Covered
  - Proposed 1 BBL Production Threshold Scrapped
  - 95% Control Required – at Wellhead and Compressor Stations
- One Year to Comply with Combustion Controls
  - Controls Phased in Over First Year
  - Concerns About Device Availability Cited
- NESHAP Revisions
  - Tanks without Potential for Flash Emissions not Covered
  - “Associated Equipment” now includes all tanks for HAP major source applicability purposes
What is required is more flexible (types of equipment used during flowback) than as proposed

Definition of Natural Gas Well – Oil Wells is Problematic
- Excludes low-pressure wells (as well as wildcat/delineation)
- Looks at “key indicators” like infrastructure, formation type
- Involves an element of “intent”

Modifications redefined
- Rewards voluntary use of RECs

Phased implementation ‘til January 1, 2015

Pre-notification requirements simplified
- Two-day advance email, a “foreseeability” challenge
STATUS OF RECONSIDERATION REQUESTS

- API Letter Request of August 17, 2012, more to follow by 10-15-12?
- Western Energy Alliance
- ANGA/AXPC, others?
- All likely to seek:
  - Administrative reconsideration
  - 90 day stay of rules
  - APA court challenge of the rules in tandem
- No immediate relief for operators likely
OVERLAP OF STATE & FEDERAL REQUIREMENTS

- COGCC Green Completion requirements vs. Quad O General Duty obligations prior to 1-1-15

- Green completion practices:
  - Required on oil and gas wells where reservoir pressure, formation productivity and wellbore conditions are likely to enable natural flow of gas to the surface in flammable concentrations at a rate of 500 MCFD against an induced surface backpressure of 500 psig or sales line pressure, whichever is greater
  - Not required for exploratory wells, or where otherwise not feasible - Operator may request variance from Director

- Compare to general duty to minimize emissions/maximize recovery
Odor Control under COGCC Rule 805(b) in Piceance Basin counties

- **No nuisance:** Facilities shall be operated in such a manner that odors and dust do not constitute a nuisance or “hazard to public welfare”

- **Compliance:**
  - Operations shall comply with Colorado Air Quality Control Commission (AQCC) Reg. No. 2 regarding odor emissions
  - No violation of 805(b)(1) odor control shall be cited if practices in 805(b)(2) are used (safe harbor provision – broad scope)

- When new, replaced or repaired pneumatic devices are installed, low or no-bleed valves must be used where technically feasible
OVERLAP OF STATE & FEDERAL REQUIREMENTS (CONT.)

- Low and No-bleed pneumatics, feasibility under 805 vs. Quad O criteria
- Existing storage vessel controls vs. Quad O applicability at > 6 tpy is now reconciled
  - Existing required controls lower PTE
  - If controlled PTE is < 6 tpy, no Quad O
Quad O and HH “standards that apply at all times,” provide a limited affirmative defense only for malfunction events.

D.C. Circuit in *Sierra Club v. EPA* (2010), vacated portions HAP general provisions that exempted SSM events from meeting numerical limits;

Held that “Congress has required that there must be continuous section 112-compliant standards.”

Affirmative defense available under Quad O only for malfunctions or “unplanned” maintenance
CONCLUSIONS

- Recent response to API letter clarifies some more acute concerns with first-day compliance from 10-15-12 forward
- Industry trades likely to seek reconsideration, court challenge to the rules on APA grounds
- Some relief possible from EPA reconsideration
- Important to organize one’s approach to affected facilities and prioritize review/action
QUESTIONS?

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