ISSUE
2
December
2011

ENVIRONMENTAL NEWS BULLETIN

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A Professional Environmental Firm

this issue

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Redesignation of the Baton Rouge Non-Attainment Area

The U.S. Environmental Protection Agency (EPA) has finalized approval of the LDEQ's request to designate the Baton Rouge area as attainment for the 1997 8-hour ozone standard. After much effort in this area, the ground-level ozone levels have been decreased, resulting in improved air quality and a status designation of attainment. This area includes the parishes of Ascension, Iberville, East Baton Rouge, West Baton Rouge and Livingston.

The final rule was signed by the EPA on November 8, 2011, was published in the Federal Register November 30, 2011 and will go into effect December 30, 2011. The implications of this redesignation as it pertains to air permitting are substantial. Mainly, the major source thresholds in the five-parish area are now consistent with the remainder of the state. In addition, upon the effective date of the redesignation, the 'anti-backsliding' provisions will no longer be an issue. There are no expected changes to the emissions inventory reporting rules as a result of this change.

In related news, it is expected that that by mid-2012, the EPA will again redesignate "Baton Rouge" as non-attainment for the 2008 standard; however, the classification would only be marginal and would not affect major source thresholds. LDEQ will likely move forward with a state-only offsets rule. In addition, LDEQ presumes that the area will consist of the same five-parish area as the historical Baton Rouge Non-Attainment Area. The precise boundaries will be established during EPA's designation process.

This bulletin is intended to highlight recent environmental developments that may impact the oil and gas industry. As a service, HLP Engineering will continue to keep abreast of various changes and attempt to convey these developments through publications such as these. Any comments, requests for further information or specific advice concerning these or other environmental topics are certainly welcome and can be relayed to the appropriate contacts listed.

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Overview: EPA's Proposed New Source Performance Standards (NSPS) and National Emission Standards for Hazardous Air Pollutants (NESHAP) for the Oil and Natural Gas Industry

On July 28, 2011 the U.S. Environmental Protection Agency (EPA) proposed new and amended air regulations/standards aimed to reduce emissions of Sulfur Dioxide (SO_2), Volatile Organic Compounds (VOCs) and air toxics from production, processing, transmission, and storage sectors of the oil and natural gas industry.

This proposal was developed pursuant to a consent decree as a result of a lawsuit filed against EPA by environmental groups alleging EPA had failed to re-evaluate existing NSPS and NESHAP requirements applicable to the oil and natural gas industry, as required under the Clean Air Act.

EPA proposes to promulgate a NSPS regulation (40 CFR 60-Subpart OOOO) that will include the first federal air standards for hydraulically fractured wells, along with requirements for several other processes or sources of air pollution in the oil and gas industry that have not previously been subject to federal regulation. This proposed NSPS will also incorporate and strengthen existing standards currently found in 40 CFR 60-Subparts KKK and LLL that regulate VOC emissions from equipment leaks and SO_2 emissions from natural gas processing plants, respectively.

In addition, EPA also proposes to amend and strengthen its existing NESHAP regulations (40 CFR 63-Subparts HH and HHH) that currently apply to "major sources" of toxic air emissions, as defined by the regulation, at oil and gas production facilities and gas transmission and storage facilities. The provisions of these subparts that apply to "area sources" will remain unchanged.

EPA contends that the new and amended rules will result in a net cost savings to industry, as well as significant emission reductions, as natural gas that currently escapes to atmosphere would instead be made available for sales primarily through the use of proven control technologies.

Proposed NSPS 40 CFR 60-Subpart OOOO

The proposed NSPS will apply to new sources that begin construction, and existing sources that are modified or reconstructed, after the date the *proposed* rule was published in the Federal Register (August 23, 2011). In summary, the proposed rule will affect different oil and gas operations as follows:

-New hydraulically fractured natural gas wells and existing natural gas wells that are re-fractured (i.e., modified sources) would be required to employ "green completion" techniques (non-exploratory wells) and/or pit-flaring (exploratory wells) during flowback to minimize VOC emissions.

-New centrifugal compressors would require dry seal systems.

-New reciprocating compressors would require the replacement of rod packing systems every 26,000 hours of operation.

-Each new or replaced pneumatic controller at a natural gas processing plant must have zero VOC emissions (i.e. non-gas-driven). Each pneumatic controller at other sites must emit no more than six cubic feet of gas per hour.

-New or modified storage tanks with a throughput ≥1 barrel per day of condensate or ≥20 barrels per day of crude oil must reduce VOC emissions by 95% or greater.

-New natural gas processing plants will be required to comply with more stringent leak detection and repair (LDAR) requirements to reduce VOC emissions as specified in 40 CFR 60-Subpart VVa. In addition, a 99.9% SO_2 reduction efficiency would be required for plants processing gas with a sulfur feed rate greater than 5-long tons per day and with 50% or greater hydrogen sulfide (H_2S) content. Existing plants currently applicable to 40 CFR 60-Subpart KKK and/or 40 CFR 60-Subpart LLL will continue to comply with those subparts unless the sources are modified.

-For each individual affected source, the owner or operator will be required to submit an initial notification and annual reports, as well as retain records to assist in documenting compliance.

Proposed Amendments to NESHAP 40 CFR 63-Subparts HH and HHH

The proposed NESHAP amendments will affect glycol dehydrators, storage tanks, and valves at oil and natural gas production and processing facilities that are considered "major sources" and glycol dehydrators at natural gas transmission and storage facilities. In summary, the proposed rule will affect different oil and gas operations as follows:

-EPA is proposing to remove the 1 ton per year benzene compliance option for large glycol dehydrators (dehydrators that process ≥3 MMSCFD of gas at oil and gas production facilities or ≥10 MMSCFD at natural gas transmission and storage facilities). In addition, large dehydrators at oil and gas production facilities would have to reduce air toxic emissions by 95% or greater.

-Small glycol dehydrators (those processing <3 MMSCFD of gas at oil and gas production facilities or <10 MMSCFD at natural gas transmission and storage facilities or emitting <1 ton per year of actual benzene emissions) would be required to meet unit-specific air toxic emissions.

-Air toxic emissions from *all* crude oil and condensate tanks at major sources would require 95% or greater reduction regardless of flash potential, API gravity, or GOR. In addition, emissions from *all* tanks would be counted toward determining major source status.

-EPA is proposing to tighten the definition of a leak for valves at natural gas processing plants.

-The proposed amendments also contain a number of new monitoring, recordkeeping, and reporting requirements to demonstrate compliance.

Under the proposed rule, compliance with the emission limits will be required at all times. Exemption from compliance during periods of startups, shutdowns and malfunctions will not apply.

The public comment period for the proposed rule ended November 30, 2011. Pursuant to the Consent Decree, EPA must promulgate the final rule by April 3, 2012.

HLP Engineering will continue to follow this issue and provide additional information to our clients as it becomes available.

USCG Interpretation of Produced Water Transfers as Regulated Transfers

Code of Federal Regulations, Title 33 - Navigation and Navigable Waters, Part 154 – Facilities Transferring Oil or Hazardous Material in Bulk and Part 156 – Oil and Hazardous Material Transfer Operations apply to facilities and transfers of oil or hazardous material over water where the vessel has a capacity of 250 barrels or more.

The Unites States Coast Guard (USCG) has jurisdiction over regulated transfers. Facilities and operations regulated under these parts are required to submit a Letter of Intent, prepare and submit an Operations Manual, and have stamped approval from the USCG prior to conducting transfer operations. Other requirements of the regulations include training, spill response, emergency preparedness, operational controls, and equipment specifications.

Oil is defined in the regulation as oil of any kind or in any form, including but not limited to, petroleum, fuel oil, sludge, oil refuse, and oil mixed with any other wastes. Recently, USCG inspectors have cited Oil and Gas Production Facilities for not treating produced water transfers as regulated transfers when oil was present in the produced water. Facilities should ensure that salt water transfers do not contain oil in any amount, or to treat these transfers as regulated if oil is present. Please contact HLP if you have any questions or need additional information on this subject.

REPORTING REMINDERS

LOUISIANA

- Emissions Inventory Reports – March 31st
- Title V Annual Compliance Reports – March 31st
- Title V Semiannual Monitoring Reports – March 31st
- Equipment Runtime Reports – March 31st
- Oil Loadout/Throughput Reports – February 15th or March 31st
- Semiannual General Condition R&XI Reports – March 31st
- Discharge Monitoring Reports – January 28th
- SARA Tier II's – March 1st

TEXAS

- Emissions Inventory Reports – March 31st
- Mass Emissions Cap & Trade Program
  - NOx Allowances obtained by – March 1st
  - NOx Credits in Accounts by – January 31st

MISSISSIPPI

- Title V annual Compliance Reporting – January 31st
- Title V Semiannual Monitoring Reports – January 31st
- Synthetic Minor Permit Monitoring Report January 31st

FEDERAL

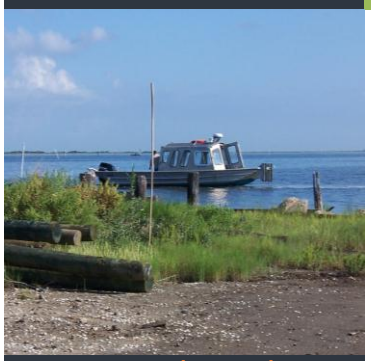
- Notice of Intent for EPA Subpart W of Greenhouse Gas Mandatory Reporting Rule – December 31st

New Revisions of the Greenhouse Gas Mandatory Reporting Rule (GHG MRR)

40 CFR Part 98

EPA has finalized a new revision of the GHG MRR which includes a one-time six month extension of the 2012 reporting deadline for facilities that contain one or more source categories for which data collection began in 2011. The new reporting deadline is September 28, 2012 which will allow sufficient time for the development and testing of the electronic-GHG Reporting Tool (e-GGRT). EPA has also clarified that if the facility contains source categories for which data collection began in 2011 (ex. Subpart W) as well as source categories for which data collection began in 2010 (ex. Subpart C), this new reporting deadline applies to **ALL** source categories at the facility. This will prevent reporters from submitting two separate reports. For example, if the facility is applicable to Subpart C as well as Subpart W, the reporter will submit both GHG reports by September 28, 2012. EPA is requiring that all operators that submitted an annual GHG report for the 2010 reporting year (reported in September 2011) notify the EPA by March 31, 2012 if they are not required to submit their second annual GHG report until September 28, 2012.

At this time, EPA is not finalizing the proposed technical corrections under 40 CFR part 98, Subpart W as additional analysis and consideration of comments is required.



HLP Engineering Environmental Management Database

For information on, accessing HLP Engineering's Environmental Management Database, please visit www.hlpengineering.com or contact HLP Engineering to request log on information. An HLP representative will be happy to assist you with navigating the system and getting the most out of this management tool.

Texas Green House Gas Permitting

On January 2, 2011, the EPA began regulating emissions of greenhouse gases (GHGs) and has established major source thresholds for Title V/PSD permitting. Under EPA's guidance, a facility would require a Title V operating permit if the potential to emit (PTE) for GHGs from the site is equal to or greater than 100,000 TPY. Guidance has also been issued for PSD sources and thresholds have been established within the regulations.

It is EPA's stance that state agencies are best equipped to oversee GHG air permitting programs. While the Louisiana Department of Environmental Quality has a program in place for issuing these permits, the Texas Commission on Environmental Quality (TCEQ) does not agree with EPA's ruling since GHGs are not regulated pollutants as defined by the Clean Air Act. Therefore, TCEQ is currently not issuing Title V or PSD permits for any site applicable to these programs solely based on GHG emissions. As a result, the EPA was left with no permitting authority in place to issue the required permits for GHG emissions.

On November 10, 2011 the EPA issued the first Texas PSD permit for GHGs and will be the permitting authority for such permits until the TCEQ has a permit in place to cover these activities. There is currently no permitting authority to prepare Title V operating permits for GHGs. EPA's guidance, dated March 2011, states that sources which become subject to Title V permitting solely based on GHG emissions as of July 1, 2011 should apply for a Title V permit within 12 months of July 1, 2011. However, HLP Engineering has received guidance from the EPA stating that any site located within the state of Texas in which a Title V operating permit is required solely based on GHG emissions will need to apply for a Title V permit within twelve months from the point at which a permitting authority is established in Texas.

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