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ENVIRONMENTAL NEWS BULLETIN

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A Professional Environmental Firm

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Emergency Rule - Offset Requirements in the Baton Rouge Area

Since the redesignation of the Baton Rouge area parishes to attainment of the 1997 ozone NAAQS, a maintenance plan has been put into place to ensure that the area remains in compliance with the standard. In addition, it is expected that East Baton Rouge Parish will again be designated as non-attainment for the 2008 ozone NAAQS in the spring of 2012. In order to implement transitional permitting procedures, the LDEQ has issued an emergency declaration outlining requirements for owners and operators to offset certain emissions of NOx and VOC to ensure that positive progress is made toward also attaining the 2008 ozone NAAQS. In summary, the rule applies to facilities in the parishes of Ascension, East Baton Rouge, Iberville, Livingston and West Baton Rouge (as long as each parish's ozone NAAQS designation is either attainment, marginal non-attainment or moderate non-attainment) and requires the following:

- New stationary sources shall provide offsets for potential VOC and NOx emissions in excess of 50 tons per year.

- Existing stationary sources with a potential to emit 50 tons per year VOC or NOx shall provide offsets for each net emissions increase of 25 tons per year of NOx or VOC. This is without regard to any emissions decreases.

This rule is in effect until April 29, 2012 or until replaced by the revised regulations or a new emergency declaration.

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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.

Renewing and/or Converting SOGA Permits

All SOGA Permits were issued with a 10-year "life-span" and require renewal applications to be submitted at least 6 months prior to expiration. It has been 9 years since the first SOGA permits were issued and as such, the first round of renewals will be due to the LDEQ very soon. While SOGA permits are no longer being issued, the Minor Source Air General Permit is available, if the facility qualifies, as well as the individual minor source permit. HLP has been in contact with the LDEQ regarding the possible implementation of a more streamlined mechanism for renewing these expiring SOGA permits and requesting coverage under a different permit type. As of today, nothing has been issued to streamline the process, but we expect that there will be some type of mechanism in place in the near future. In the meantime, complete applications can be submitted to apply for permit coverage.

Also, LDEQ has begun issuing letters to operators with SOGA permits that were issued to include authorization for glycol dehydration units and engines. The letters offer a simple form to be used to convert the SOGA permit to another type as these sources are no longer covered under the SOGA due to the promulgation of new federal regulations.

New Revisions to Subpart W of the GHG MRR - Final Rule, December 2011

On December 23, 2011, EPA published the finalized revisions of Subpart W of the Greenhouse Gas Mandatory Reporting Rule (GHG MRR) which requires applicable oil and gas facilities to record, calculate, and report GHG emissions from several source types.

A few of the significant changes that are affecting our current clients:

- The definitions of gas and oil wells were revised. There are five formation types (high permeability gas, shale gas, coal seam, tight reservoir rock, oil) with the first four formations being gas wells. More wells now fall into the gas well category. Gas well venting during completions/workovers and gas well venting for liquids unloading are emissions source types in Subpart W.

- For the onshore production industry segment, facilities are grouped by basin (reference AAPG-CSD Geologic Provinces Code Map). The 25,000 metric tons of CO2 equivalent annual reporting threshold applies to all equipment associated with all wells in a basin. In this final rule, the subcategory of sub-basin was introduced. Reporting of some emissions will need to be done on a sub-basin level. Sub-basins are wells located in one county with the same hydrocarbon formation type (high permeability gas, shale gas, coal seam, tight reservoir rock, oil).

- Changes were made to the population emission factors used to calculate fugitive emissions – significantly increasing emissions for gas well equipment (gas wellheads, separators, meters/piping, compressors, line heaters, and dehydrators).

- For the onshore processing industry segment, "recovery of natural gas liquids (NGLs)" was removed from the definition. Facilities that perform forced extraction of natural gas liquids as well as sulfur and carbon dioxide removal are now classified as onshore processing. Generally, facilities/plants with amine gas units or JT-units that have annual average throughputs of 25 MMSCFD or greater fall into this category.

There were several other technical revisions. These changes are in the current final rule of the regulation; however, it is possible that these factors and/or calculations could be revised again. Annual reports for the 2011 calendar year are due to the EPA by September 28, 2012. Please contact HLP if you have any questions about the GHG MRR and/or your company's applicability to these regulations.

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.

Sump Operations: Recent Citations and Agency Interpretation

Is your sump system's "water leg" in compliance with State and Federal regulations? It now appears, according to recent agency inspections/citations, that typical sump configurations are non-compliant due to improper design.

Federal (EPA) and State (LDEQ) Spill Prevention Control and Countermeasures (SPCC) regulations require secondary containment for qualified oil-filled equipment and bulk storage tanks. On land, this secondary containment should be sized for the entire capacity of the single largest container, plus sufficient freeboard for precipitation. For oil and gas facilities located over water, however, both agencies acknowledge that sized secondary containment is impractical in many cases, thereby allowing operators to utilize collection and sump systems in lieu of sized containment. There are thousands of facilities that operate under this premise across the Gulf South, and most of the sump systems are equipped with a "water leg" designed to discard water overboard, while holding any oil for recovery. In the state of Louisiana, these facilities are required to have a LPDES water permit. This permit allows the operator to discharge a facility's deck drainage after inspection for contaminated materials, while under direct supervision.

EPA Region 6 recently held an SPCC/FRP outreach conference to discuss compliance issues concerning Oil and Gas Facilities in the Gulf South. One of the compliance items brought to light during this meeting was the difference in EPA and LDEQ requirements concerning sump systems with water legs. Several operators have recently been issued citations by the LDEQ for not having a valve, in the closed position, located on their sump's water leg. The regulation referenced for this citation is found under the water quality regulation: LAC 33:IX.708.C.1.b.ii. The regulation reads as follow:

> *"…all storage tanks, separators, and related production and transfer equipment to be located in open water or wetland areas, where building dikes is impossible or impractical, shall be installed on impervious decking provided with a system of curbs, gutters, and/or sumps capable of retaining spills of oil, produced water, or any other product or waste material".*

LDEQ's justification for the recent citations, is that under the water quality regulation referenced above, a spill of produced water will flow unimpeded through the facility's sump system, and out of the water leg without proper inspection and supervision. EPA, on the other hand, has stated that they will not issue citations for a facility that does not have a valve in the closed position on the water leg. They will, however, cite a facility for an inadequate sump system, when a visible sheen is noted coming from the water leg of a sump.

As most operators along the Gulf Coast know, frequent, heavy rains plague our area. Having closed valves on a sump's water leg will inevitably cause problems, and sets the stage for much larger problems if the sump system overflows. EPA is scheduled to hold FRP/SPCC outreach conferences in Houston, TX on 4/11/2012 and in New Orleans, LA on 4/12/2012, at which, this and other compliance items will be discussed.

LA Emission Inventory (ERIC) Reporting (LAC 33.III:919)

Several changes have been made to the emissions inventory reporting requirements and the two largest changes are summarized below:

- While all of the parishes formerly designated as non-attainment were recently redesignated to attainment status, the rule will continue to pull in facilities located in those parishes. This means that until the rule is revised to say otherwise, all facilities in parishes designated as non-attainment or adjoining non-attainment parishes as of June 1, 2011 are still required to submit an emissions inventory report, if permitted emissions are over the reporting threshold.

- Emission Inventory Reports are required based on the site's *potential to emit*. As such, the rule now requires facilities operating in a non-attainment or adjoining non-attainment parish with a Standard Oil & Gas Air (SOGA) permit to submit an emissions inventory report. Likewise, just as a reminder, all facilities operating in a non-attainment or adjoining non-attainment parish with a Minor Source Air General permit are required to submit an emissions inventory report.

Texas PBR: Common Misconceptions

It is a common misconception among operators in Texas that documentation or authorization is not required for a facility authorized under the permit by rule (PBR). However, this is not the case. Every oil & gas production facility in Texas is required to have authorization on the 73rd hour of operation following a well test.
In the case of a facility whose uncontrolled potential to emit (PTE) is less than 25 TPY each for SO2 & VOC and 250 TPY each for NOx & CO, an operator may not be required to submit any documentation to the Texas Commission on Environmental Quality (TCEQ). However, in this situation the operator is still required to keep documentation on site in order to prove compliance with all conditions of the PBRs being claimed. This documentation authorizes the facility to operate and acts as the permit.

Some PBR(s) are required to be registered with the TCEQ depending on the nature of the source and the requirements of the respective PBR. In regards to oil and gas facilities, registration is required for any site that handles sour gas (greater the 24 ppm) or which operates an engine with a horsepower rating greater than 240 HP. Registration can be obtained utilizing a Form PI-7. In many cases there are also applicable testing and/or monitoring requirements associated with such sources. A registration number will be issued by the TCEQ for any site that is registered. The PBR along with all documentation from the TCEQ should be kept on site. Registration should be done prior to operation for a sour site and within ten days after construction begins for engines greater than 240 HP.

It is important to note that emission estimates from a source claiming authorization under a PBR must be based on a source's potential to emit (PTE). PTE is defined by the TCEQ as the maximum capacity of a stationary source to emit any air pollutant under its physical and operational design or configuration. If the source's PTE must be limited to reduce emissions below the thresholds established within the PBR (i.e. limiting runtimes, installing a control devices, etc.), those emissions must be certified. This certification serves to make the emissions federally enforceable and is done by utilizing a Form APD-CERT, or Form PI-7-CERT if done in conjunction with registration.

The TCEQ does not issue any documentation for a site merely requiring certification of emission limits; however the PBR should be kept on site in order to act as the facility's permit.

For facilities in the Barnett Shale area, there is currently a revised PBR which contains more stringent requirements than the original. Based on guidance provided by TCEQ, beginning in the year 2015, all facilities in Texas claiming authorization under a PBR will be required to utilize this new PBR. Any facility authorized under the current PBR will be allowed to continue utilizing this PBR until such time as the facility is modified. Therefore for existing facilities operators may find it beneficial to obtain authorization under the current PBR and address requirements of the new PBR only when modifications are made.

REPORTING REMINDERS

-Annual Title V Compliance Reports due March 31, 2012

-Semiannual Title V Monitoring Reports due March 31, 2012

-Louisiana Semiannual General Condition R & XI Reports due March 31, 2012

-Texas Annual Emissions Inventory Reports due March 31, 2012

-Texas Mass Emissions Cap & Trade compliance reports due March 31, 2012

-Oklahoma Annual Emissions Inventory Reports due April 1, 2012

-Arkansas Annual Emissions Inventory Reports due April 15, 2012

-2011 GOADS due April 18, 2012

-1st Quarter 2012 DMR's due by April 28, 2012

-Louisiana Annual Emissions Inventory Reports due April 30, 2012

-Wyoming Triennial Emissions Inventory Reports due April 30, 2012

-2011 GHG Annual Reports due September 28, 2012