New Source Performance Standards for the Oil and Natural Gas Sectors
INGAA Meeting with OMB
March 20, 2012

Key Issues:

(1) There is a logical and defensible dividing line between which industry sectors should be considered "affected sources". VOCs are removed from natural gas in operations upstream of transmission and storage (T&S). The VOC content of "pipeline natural gas" apparently serves as a basis for EPA's decision to exclude the distribution sector. Distribution is excluded from Subpart OOOO. For the same reasons, transportation and storage should not be included. Moreover, the Consent Decree does not require EPA to include the T&S sectors in its rules.

(2) The justification for regulating VOCs from T&S is not supported because T&S is a negligible source of VOCs. EPA's projected *total* VOC reductions for T&S are minimal – estimated at 64 tons per year (TPY) nationwide for the three affected source types. Such reductions do not warrant such an expensive and expansive set of regulations.

- 64 TPY is an over-estimate.
  - Practices proposed in Subpart OOOO are already generally employed where they make sense, yet the EPA analysis assumes the practices are all new. The analysis should consider *incremental* VOC reductions that go beyond current practices.
  - Furthermore, EPA's estimates use idealistic voluntary data from the Natural Gas STAR program, which provided incentive for reporting reductions, typically implemented the "best of the best" reduction opportunities, and was not intended as a basis for regulation. Thus, the STAR program data are inflated relative to typical, industry-average scenarios.
- By comparison, the national anthropogenic VOC inventory is approximately 15 *million* TPY, and 53 million TPY if biogenic sources are included. The 64 TPY in VOC reductions from T&S would be 0.00043% of the anthropogenic inventory and 0.00012% of the total inventory.
- For Subpart OOOO, EPA estimates 535,000 TPY of total annual VOC reductions for all sources and sectors. The 64 TPY from transmission and storage accounts for 0.012% of this total.
- INGAA has not conducted a detailed cost analysis, but general anecdotal evidence indicates EPA costs are significantly under-estimated.
  - EPA estimated ongoing annual costs of approximately $60,000 per year for the *entire* transmission and storage sectors (excluding capital costs), with approximately $11,000 for pneumatic devices and $49,000 for compressors.
  - A simplified cost estimate considering costs for permitting (e.g., replacing pneumatics) and ongoing recordkeeping and reporting indicates actual annual costs would be approximately $30,000 to $80,000 per year *for each company* (excluding capital costs). First year start-up costs would likely be $100,000 or more per company.
  - Conservatively, first year implementation costs for the transmission and storage sectors would exceed $1,000,000 with ongoing annual costs on the order of $750,000 or more. Thus, EPA under-estimated costs by more than a factor of ten. So, cost per ton for VOC reductions would be at least 10 to 20 times higher than EPA's estimates.

(3) Since Subpart OOOO pursues VOC reductions, a VOC threshold is necessary to appropriately target the regulation on meaningful reductions.

- A ten weight percent VOC threshold is consistent with the current NSPS (Subpart KKK) and EPA treatment of gas processing plants in the proposed Subpart OOOO.
- VOC content directly impacts overall VOC reduction and cost per ton for control.
- A rational VOC threshold results in significantly fewer affected sources in transmission and storage if Subpart OOOO retains these sectors in the rule.
- Tracking VOC content still institutes ongoing transactional costs to document compliance.

(4) Subpart OOOO should not imply that natural gas is a regulated pollutant. The definition of "modification" improperly suggests that natural gas is a regulated pollutant. Characterizing a critical component of our national energy supply as a pollutant is unsupportable and irresponsible.

For the transmission and storage sectors, the proposed NSPS appears to be aimed at reducing GHG emissions. Using VOC regulations to regulate GHGs is premature and inconsistent with prevailing regulatory policy. In fact, EPA does not have reliable data to establish that meaningful, cost-effective VOC emission reductions will be achieved for the affected emission sources because the analysis is based on unreliable data. EPA promulgated its GHG reporting rule precisely to develop a database that would inform decisions about whether and how to regulate GHG emissions, *including the establishment of NSPS.* Transmission and storage operators have undertaken an unparalleled measurement, monitoring, data collection and reporting program and that GHG reporting program should be fully implemented and its data analyzed before reductions are pursued.

Recommendations:

(1) Exclude the transportation and storage sectors from Subpart OOOO because they do not significantly contribute to the problem EPA is attempting to address and EPA is not required to include those sectors in the rule.

(2) Do not imply that natural gas is a pollutant. Delete "or natural gas" from the definition of "modification".

(3) ***If*** Subpart OOOO requirements for the T&S sector are retained:

- Establish a VOC threshold using the existing Subpart KKK threshold, which is currently being proposed by EPA for natural gas processing plants, i.e., affected sources exceeding 10% VOC by weight would be covered. This well-established practice should be retained.
- Simplify and revise operational standards, and recordkeeping and reporting requirements, which can be done without compromising EPA's need for data and compliance assurance.
- The cost-effectiveness analysis should be revisited and based on actual operating and maintenance experiences and not rely on data from the voluntary program.