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By Environmental Improvement Board at 9:07 pm, Sep 19, 2021

Topic 6DR



NEW MEXICO OIL AND GAS ASSOCIATION

NMED Ozone Rulemaking Hearing

*Direct and Rebuttal Testimony of John R. Smitherman
Senior Advisor*

Background

- Petroleum Engineer B.S. 1980
- Career experiences: (Upstream O&G Operator)
 - Production Engineering and Reservoir Engineering assignments
 - Drilling and Production Superintendent (Field Operations and data management)
 - Engineering Management (includes eng data management)
 - General Management – Operations (includes ops data management)
 - Executive Management – Operations, E,H&S, Ops data management
 - Extensive experience in SE New Mexico

Background

- NMOGA Board of Directors member until 12/31/19
 - Familiar with MAP process
- Retired from operating company 1/1/20
- Senior Advisor to NMOGA starting 2/1/20 with primarily a regulatory coordinator role
- Coordinated NMOGA response to informal rulemaking from OCD and NMED last summer
- Coordinated OCC hearing process for NMOGA January 2021
- Coordinated NMED hearing process for NMOGA ongoing

Background

- Who is New Mexico Oil and Gas Association (NMOGA)?
- NMOGA 1000+ members represent over 90% of oil and gas production in the state
- NMED rulemaking workgroup includes 80+ member company experts from many disciplines
- Our objective has been to be a valuable, knowledgeable partner to NMED in crafting effective rules that balance emissions reduction with maintaining the viability of this important industry to New Mexico

20.2.50.125 Small Business Facility

- The negative financial impact of this rule not contained to the smallest oil and gas companies in the state
- The vast majority of operators have high volume producing wells and low volume producing wells in their inventories.
- Each business will have to make a rational decision as to how to respond to the new requirements this rule places on each well and facility based on the economics of that well or facility.

20.2.50.125 Small Business Facility

- If operating income cannot justify the expenditures required to comply with this rule for a specific well or facility, the operator will make the rational decision to cease operating that asset.
- As wells and facilities are shut in and plugged, all the benefits from that production are lost, such as: wages for workers, economic activity in communities, tax revenues for local and state governments, and more. This occurs regardless of how “big” the operating company is.
- NMOGA rejects the whole-company profit concept and relies upon tailoring each section’s applicability and requirements such that effective emissions reduction can occur at a more reasonable cost.

20.2.50.125 Small Business Facility

- While NMOGA suggests removal of this provision, we see merit in IPANM's recommendations. This should not detract from the tailored approach that NMOGA recommends throughout the rule.

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20.2.50.2 Scope

- Where this rule applies is important
 - Based on McNally, only the following counties should be included: Dona Ana, Eddy, Lea, Sandoval, San Juan and Valencia
- Understanding where and when this rule applies now and in the future is important
 - This hearing process will determine where the rules apply now
 - If future data indicates that the scope should be expanded,
 - A public process should be followed
 - Transition time for newly applicable regulations should be included for the expansion area just as this rule includes for the initial areas
 - NMOGA has offered language to ensure these two objectives are met

20.2.50.2 Scope

- In Ms. Bisbey-Kuehn's direct testimony, NMED states that any time after this rule's effective date, if an area of the state that meets the requirements for applicability, then this rule applies
- That testimony gives me concern because it does not indicate that a reasonable transition time will be allowed operators in new areas of applicability should such an expansion occur.
 - Applying these rules on operations without warning or transition time would be unfairly burdensome
 - Transition time for newly applicable regulations should be included for the expansion area just as this rule includes for the initial areas
 - Time is needed for engineering design, procurement, installation, integration of all that is necessary for compliance

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20.2.50.6 Objective

- Based on direct testimony of Ms. Bisbey-Kuehn/Brian Palmer (Exhibit 32, page 23) NMED seems to make it clear that this rule will not apply to oil transmission systems. NMOGA concurs.
- NMOGA has suggested adding the words “natural gas” so that it is clear that this rule has applicability to Natural Gas Transmission systems, but it does not have applicability to oil transmission systems. We suggest this addition for clarity.
- Oil transmission system starts at point of custody transfer at the outlet of a CDP or at the outlet of a Well Production Facility if a CDP does not exist.
- A diagram will be provided if questions exist

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Definitions

Various Clarifications

NMOGA has recommended several modifications to definitions that appear to be acceptable to all parties. I will not go over all of these in the interest of time but if the Board has any questions regarding those changes, made mostly for clarity, I welcome your questions.

Definitions

Facilities (See NMOGA exhibit 51)

NMOGA goal: Describe typical facilities to create no gaps, no ambiguities, and no overlaps so that when rule language applies specific requirements to particular facilities, the language of the rule is as clear as possible as to what requirements apply to every facility.

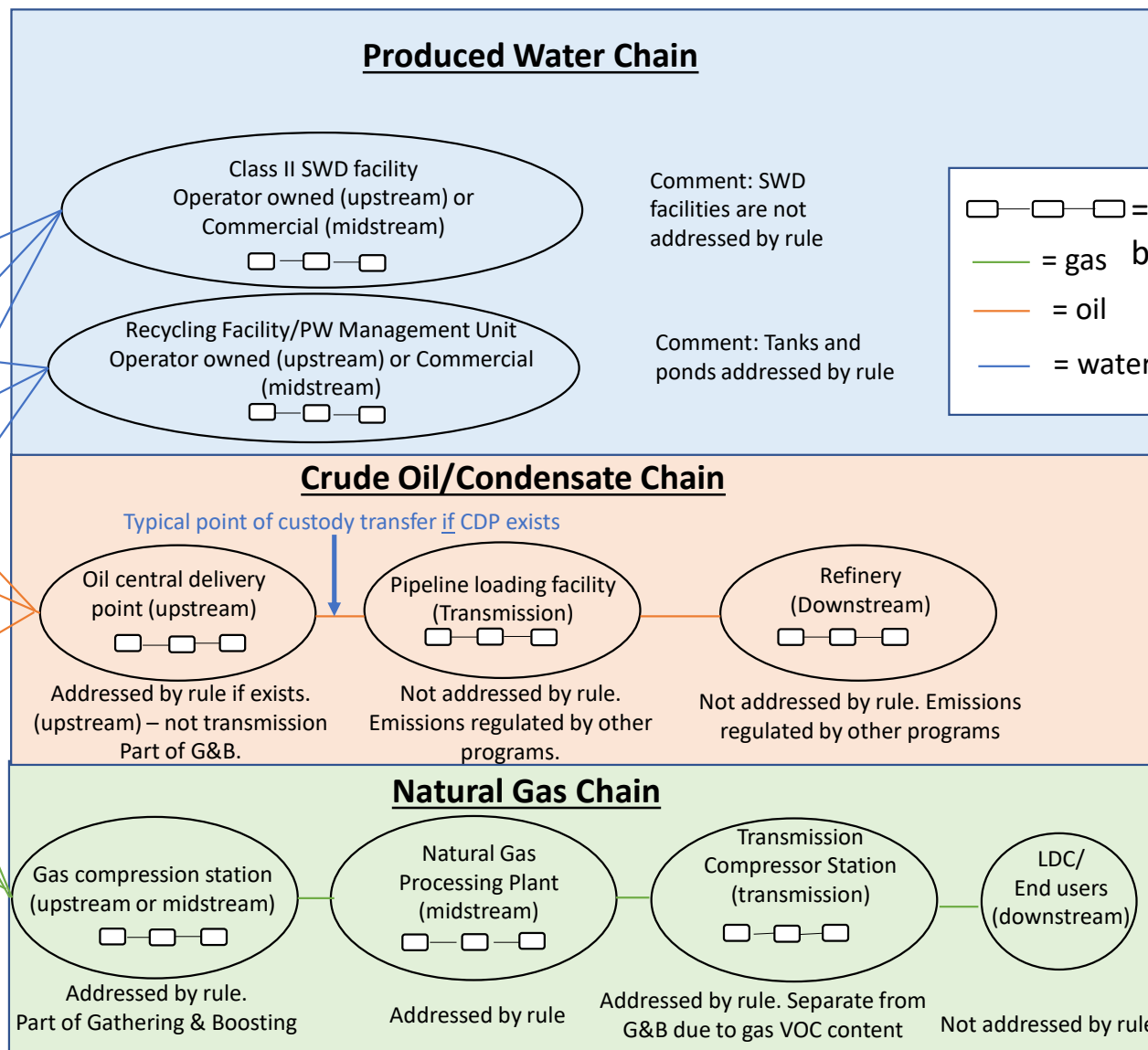
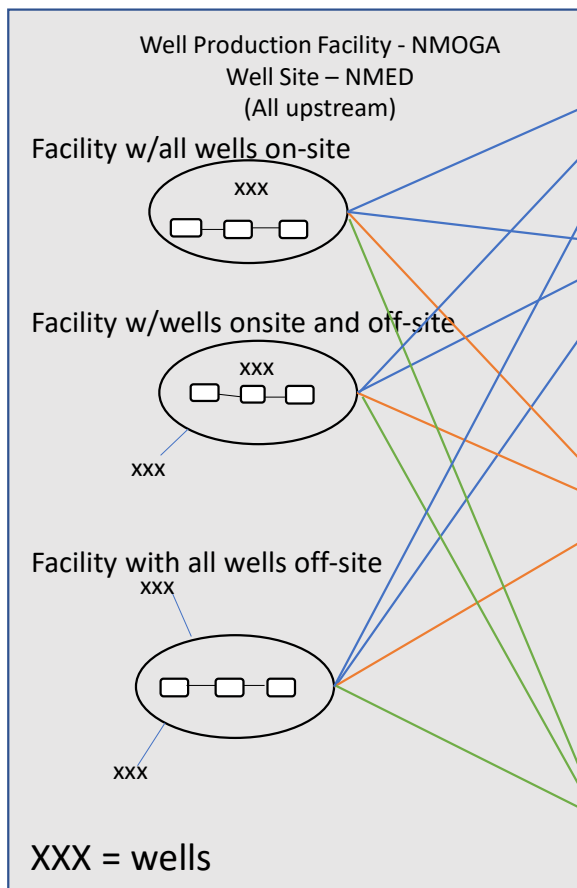
Clarity: Better for NMED, better for regulated community, better for everyone.

Definitions

Tank Battery

NMOGA recommends adding a definition for “tank battery” and defining them as components of other facilities and not separate facility types. The term “tank battery” *should then be removed from the Applicability paragraphs of various sections and from certain tables and texts that include that term (i.e. Pneumatics) to provide clarity.*

Typical upstream, midstream, transmission, and downstream facilities



Definitions

Tank Battery

Well site NMOGA views Tank Batteries as a component of a Well Site as an example of equipment used for storage. NMED has rejected that proposal based on the idea that “Tank Battery” is a term of common usage and that term would be clearly understood by all. Subsequently, NMED offered no definition of “Tank Battery” but uses the term throughout the rule. This will cause unnecessary confusion.

- The common usage definition of Tank Battery that I have been familiar with for 40 years is synonymous with a Well Site as defined by NMED but there was disagreement even within our team as to what Tank Battery means. Without a definition, lack of clarity arises in the rule. See the Applicability section of Compressor Seals (20.2.50.114) where the provisions of that section apply to “tank batteries” but they do not apply to Well Sites. In that case, what is a “tank battery” to which this rule applies? SWD stations typically have tanks. SWD stations are not impacted by this rule. If an SWD station has tanks, does that make it a tank battery and therefore subject to the rule? This lack of clarity is not necessary.

Definitions

Tank Battery

NMOGA is trying hard to identify facilities so that there are no gaps, not ambiguities, and no overlaps so that these rules will be clear as to where they apply.

This is important! This term shows up in most of the applicability paragraphs in most of the rule sections and shows up in Tables that dictate what requirements apply to certain facilities. This will lead to a lack of clarity that is just not necessary.

I urge the EIB and NMED to adopt NMOGA's definitions of facilities and make the then necessary changes to the applicability details that derive from that change. NMOGA stands ready to assist in this exercise, which benefits everyone.

Definitions

Potential To Emit (PTE)

- Jeremy Nichols of WEG, along with UCLA staff, criticizes operators for beginning construction of wellhead facilities prior to obtaining permits, especially in the northwest portion of the state. They offer this criticism as support for their concerns that emissions from pre-production activities are excluded from PTE calculations.
- Drilling permits, required to construct well site pads, are issued by the Oil Conservation Division and not NMED. Even if NMED permits are required to operate production facilities, it is not a violation in all cases to begin well pad construction and even drilling operations without a NMED facility permit.
- Further, the emissions associated with equipment such as drilling rigs, bulldozers, backhoes, etc. and trucks delivering such equipment are not under the authority of this Part as they are off-road engines and/or mobile sources.

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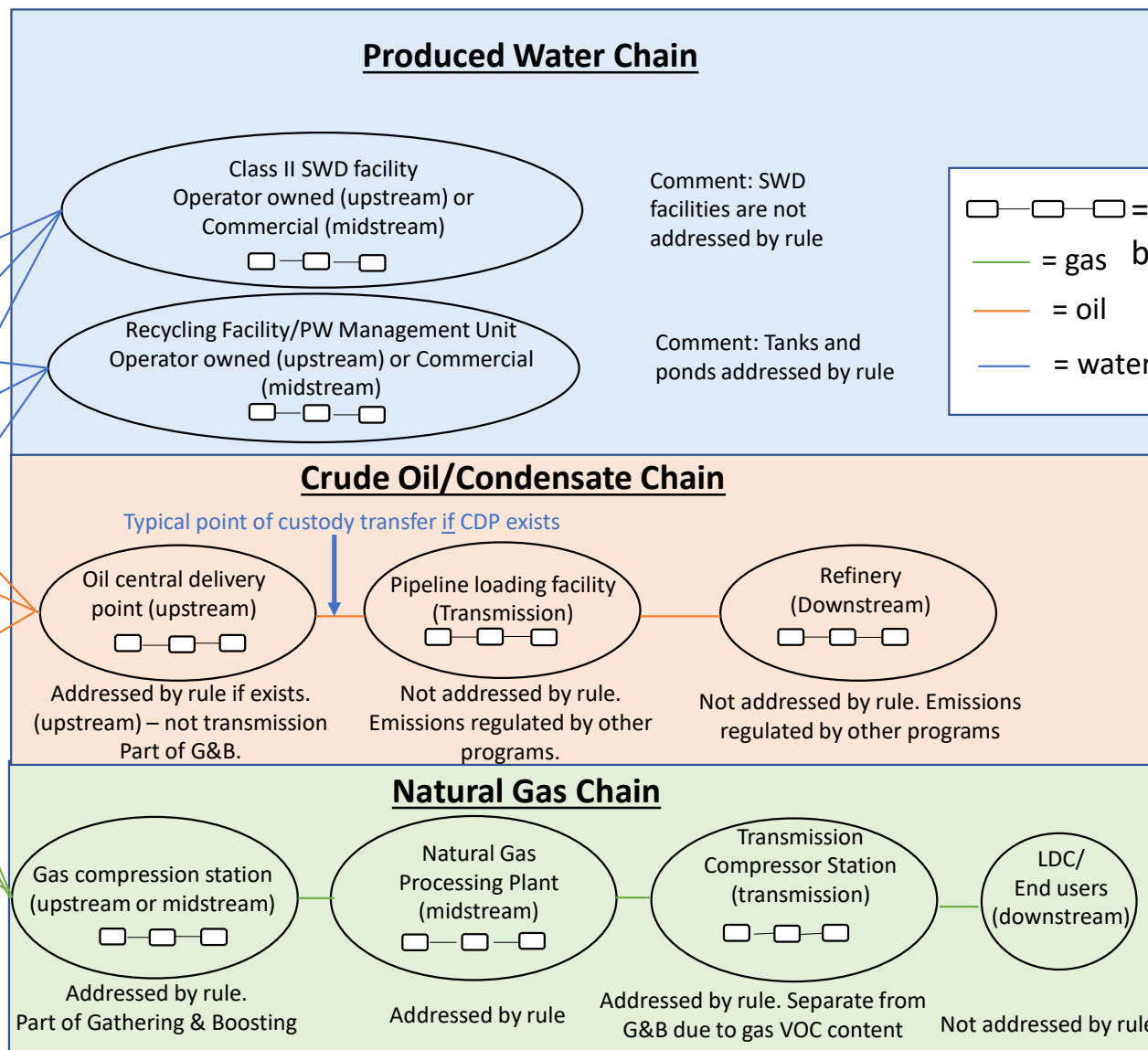
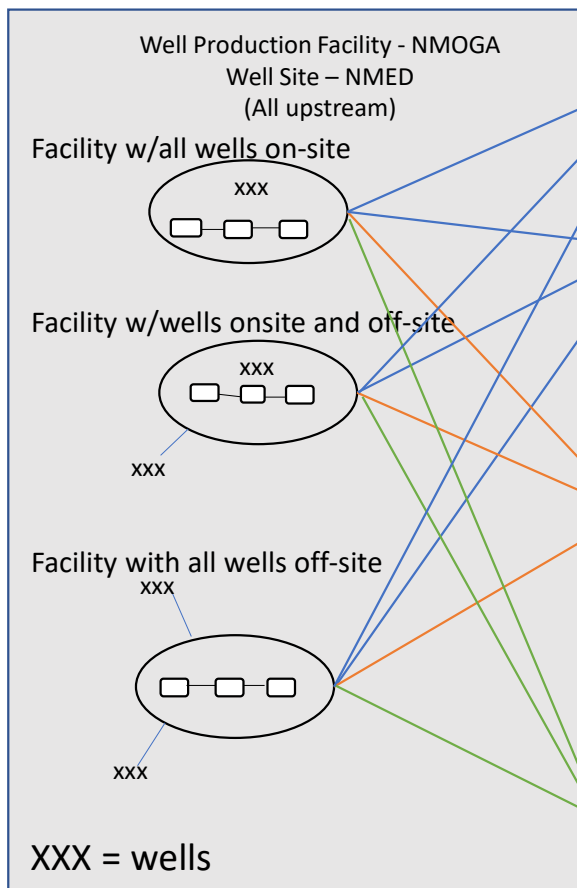


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Typical upstream, midstream, transmission, and downstream facilities



Definitions

Well site

- NMOGA recommended that this rule utilize the term “Well Production Facility” rather than “Well Site” to increase clarity and avoid confusion. After consideration, we now support the use of Well Site and will offer a small but important edit later in this hearing process.

Definitions

Facilities

Gathering and Boosting Station

Q. “Gathering and boosting station” means a facility, including all equipment and compressors, located downstream of a well site that collects or moves natural gas prior to the inlet of a natural gas processing plant; or prior to a natural gas transmission pipeline or transmission compressor station if no gas processing is performed; or collects, moves, or stabilizes crude oil or condensate prior to an oil transmission pipeline or other form of transportation. Gathering and boosting stations may include equipment for liquids separation, natural gas dehydration, and tanks for the storage of water and hydrocarbon liquids. ~~means a permanent combination of equipment that collects or moves natural gas, crude oil, condensate, or produced water between a wellhead site and a midstream oil and natural gas collection or distribution facility, such as a storage vessel battery or compressor station, or into or out of storage.~~

Definitions

Facilities

Gathering and Boosting Station NMOGA supports the latest definition that incorporates not only such facilities that gather and boost pressure of natural gas but also those facilities that gather and boost pressure of crude oil before it is pumped down oil transmission pipelines to market. Sometimes called Central Delivery Points (CDPs), these crude oil facilities, which are not part of the oil transmission system, should be viewed similarly to gas gathering and boosting stations.

Definitions

Facilities

Gathering and Boosting Station Also, some of these crude oil facilities receive oil that has already flashed to atmospheric pressure or is treated at the CDP to lower its vapor pressure and is therefore “stabilized”. This is an important fact, and I will touch on another definition later to add clarity.

Definitions

Facilities

Transmission Compressor Station NMOGA supports NMED's latest definition. NMED has added this definition to describe a facility that compresses gas that is suitable for end use. This is typically natural gas that has had heavy hydrocarbon components (including VOCs) stripped from the gas leaving mostly methane. Because this gas has virtually no VOCs, it is right that NMED apply different rules to such facilities. In contrast, compressor stations that handle natural gas prior to processing are included in Gathering and Boosting stations and can be found at Well Production Facilities. A compressor will naturally fall in one of these three separate facility categories.

Definitions

Facilities

Natural Gas Compressor Station (Site per NMOGA) NMOGA supports NMED's deletion of this definition. This is not needed, not advisable, and would have caused confusion. By deleting this unnecessary term, the resulting rule is clear without gaps, overlaps or ambiguities.