California Independent Petroleum Association
1001 K Street, 6th Floor
Sacramento, CA 95814
Phone: (916) 447-1177
Fax: (916) 447-1144

CIPA

California Independent Petroleum Association Comments on the August 15, 2024 Workshop on Potential Amendments to the Greenhouse Gas Emission Standards for Crude Oil and Natural Gas Facilities

Jim Nyarady
Manager
California Air Resources Board

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Submitted to the CARB comment docket.

Jim,
Thank you for the opportunity to share comments related to the initial kick-off workshop on the California Oil and Gas Methane Regulation, or COGR. This first step is coming less than a year after the last set of regulatory revisions to the COGR, and is initially focused on the concepts and costs association with a different set of changes to the regulation. CIPA and its members appreciate the early focus on potential costs of these changes. We understand there will be additional time for focusing on the actual policy and potential amendments.

California Independent Petroleum Association (CIPA) is a non-profit, non-partisan trade association that represents nearly 300 crude oil and natural gas producers, royalty owners, and service and supply companies who all operate in California under the toughest regulations on the planet[1].

The workshop highlighted the background of this regulation, and indeed showed that progress has been made in the oil/gas sector in reducing methane emissions. CIPA members take this responsibility of reducing emissions and regulatory compliance seriously, spending millions of dollars a year to comply with the myriad of California requirements. Given this is an initial workshop introducing concepts rather than one focused on detailed regulatory proposals, CIPA's comments are mainly focused on CARB's request on the potential costs of what was discussed.

CIPA remains strongly opposed to any amendments in which in-state crude, produced under the strictest environmental standards in the world, is replaced with imported crude either by direct regulation or indirect impact such as increased production costs. This effect is known as 'emissions leakage' and CARB is statutorily mandated to minimize it. The 2022 Scoping Plan Update explicitly states that reducing in-state production will lead to increased crude imports[2]—

[1] The mission of CIPA is to promote greater understanding and awareness of the unique nature of California's oil and natural gas resources, and the independent producers who contribute actively to California's economy, employment and environmental protection.
[2] https://ww2.arb.ca.gov/sites/default/files/2023-04/2022-sp.pdf

which bring port communities additional pollution burdens. And, even though this round of potential amendments is mainly focused on a national program[3] implementation, any added regulatory burdens added to in-state producers that is not required to foreign producers increases the pressure for emissions, job and tax-base leakage out of California.

In a letter dated April 22, 2023, the U.S. Secretary of Energy directed the National Petroleum Council (NPC) to "undertake a study that defines pathways and prioritizes options for Greenhouse Gas (GHG) emissions reduction". Out of concern for the potential financial and operational impacts on small to mid-sized operators, the NPC held three "Less Capitalized Operator Workshops", one each in Midland, Denver and Pittsburgh. As has often been the case, most West Coast producers were not made aware of the workshops, and only one operator is known to have attended.

The following two criteria were identified as determining a threshold for what could not be economically upgraded to bring under the new regulations:

- Wells producing less than 3 bopd.
- Tank farm and oil processing facilities more than 20 years old.

The impacts discussed were especially alarming considering the new regulations did not take into account circumstances unique to California heavy oil operators:

- Newly collected gas emissions cannot be monetized by selling it into a pipeline or generating power to be exported due to existing state restrictions. Thus, solutions that can be used in other parts of the country are not applicable in California
- Flaring of stranded gas is being restricted in some California air districts, and permits are not being provided for new combustion sources.

The NPC study "Charting The Course: Reducing GHG Emission from the U.S. Natural Gas Supply Chain" was released in April 2024[4]. The issues raised therein should be considered by CARB, especially in how they relate to California's operations.

There was a significant potential amendment to the current program suggested that is not connected with the U.S. EPA Emission's Guidelines—the reconsideration and potential removal of the heavy oil LDAR exemption. Staff acknowledged that this proposed change could come with significant costs to certain producers in an effort to reduce a small amount of potential emissions. In the past, this issue has been determined to be "not cost effective".[5] CIPA questions the need to revisit this previously settled policy issue. What has changed? The emission reductions per component are still 'extremely small', and the cost of compliance have only increased over time. If control measures are clearly not cost-effective, they should not be adopted.

To follow up with this recent workshop, CIPA sent survey to its members. The survey indicated that while many of CIPA members conduct LDAR across their operations, regardless of the gravity of the crude they produce, removal of this exemption could significantly impact a subgroup of CIPA members. As noted, these requirements would come with material costs without corresponding environmental benefits. This subset of producers would incur costs between tens of thousands and multiple hundreds of thousands of dollars per year per facility,

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[3] US EPA's Emission Guidelines under subpart OOOOc

[4] https://chartingthecourse.npc.org

[5] 2nd Bullet, page 18 https://ww2.arb.ca.gov/sites/default/files/2024-08/Potential_Changes_COGR_EG_2024Aug_workshop.pdf

depending on size. One consultant stated that their costs would 'quadruple' for a particular operator if this exemption were removed. As this requirement could apply to all 'components', including "components found on tanks, separators, wells, and pressure vessels" the actual costs will vary. Additionally, if these newly subjected components are subject to vapor controls, the costs could be an order of magnitude higher.

CIPA has participated with other organizations nationally on an effort to focus attention on marginally producing wells[6]. New requirements, such as expanded LDAR, can contribute to the early shut down of these wells. The economic impacts then becomes much bigger, and therefore CIPA recommends that the potential loss of production in the state should be included in any evaluation conducted for this rulemaking.

The cost impact of all such measures proposed at the workshop are not just costs to operators. In any economic assessment of this rule package, CARB should also consider increased costs to consumers for the energy they consume. Increasing natural resource production costs translates to increased costs of goods and movement of goods. Loss of domestic oil and gas production also has a cost in energy security. As stated above, there are considerable financial resources spend to on local, state and federal regulation aimed at reducing air pollutants and GHG. As these rules go after smaller and smaller amounts of remaining pollutants, the costs get bigger and more disproportionate.

The survey of CIPA members has confirmed that Audio, Visual, Olfactory (AVO) inspections are routinely conducted, as required by state and local regulations. These inspections are not usually electronically documented, but rather noted on regular inspection forms/sheets. If these inspections were to "expand", along with new electronic recordkeeping and reporting, the combination of costs would not be immaterial. These are daily activities so the costs per producer per year compound quickly. Costs per produce compliance-grade reporting data will vary depending on whether in-house staff or hired third-party consultants are used for this effort. Additional software may need to be developed, purchased and used thus adding to the overall expense. The NPC workshops also identified the fact the software and IT systems necessary if and when they were available would not be suited for use by most smaller producers; only the largest operators would be able to implement these types of data collection and management systems. These costs could be upwards of $50,000 per operator, again without a quantifiable emissions benefit.

The suggested amendment to lower the LDAR leak concentration trigger from 1000 ppm to 500 ppm most likely would not itself come with added costs. Several air districts have already established these levels of compliance and operators routinely repair leaks to levels well below these limits.

While CIPA represents most of California oil producers, it does not represent all of them. Thus, it is difficult for us to provide specific numbers of affected components on such short notice. This data is best provided by CARB and the air districts so that we can work together to ascertain the impact of the proposed regulations.

Though there may be impacted facilities, CIPA's survey did not indicate producers directly affected if conversion to all zero-emitting pneumatics/process controllers was required. As such, CIPA does not have a cost estimate to provide.

[6] https://www.ipaa.org/methane-budget-language-coalition-support-letter/

The widest range of costs came on the topic of no longer allowing open well casing vents, i.e. banning open well casing and thus requiring new vapor controls to be installed on existing facilities, or reducing production from closing off the vents. These costs range from several thousand dollars per well where existing vapor control can be tied into, to several hundred thousand dollars per well (or groups of wells) where the isn't existing vapor control infrastructure. This new infrastructure costs include, labor, design, permitting, operations and piping and flares (if allowed). One operator estimated their costs, including loss of production, could individually exceed $30 million dollars.

Some of the remaining potential amendments are difficult to quantify cost for, such as allowing alternative LDAR approaches, or addressing U.S. EPA's super emitter program. More details would need to be provided by CARB to see if these were cost drivers or maybe cost savers.

CIPA, and its members, attempted to provide accurate, real-world data for CARB to use in the upcoming SRIA economic analysis. As with any regulation in this early form, exact costs are hard to know. What is known is that the cost of labor, materials, engineering, electricity, and permitting are all rise over time, especially in California. It is also difficult to know the exact impact on each operator in California given the diversity of size, operational efficiencies, percentage of outsourced work and many other factors. But if CARB would like to discuss the estimates provided, CIPA is available to discuss further, and can further dive into our survey results.

We have previously stated this broader policy position, but as we engage on another round of amendments, it is appropriate to reiterate it here. This regulation, as an adopted set of statewide standards and limits should be used by other state agencies as they address methane emissions from this sector. CIPA strongly requests that CARB states such intention as a fact. Other state agencies should not be allowed to implement different methane leak detection and emission standards. This is *the* state Oil/Gas Methane Regulation.

<u>Conclusion</u>

The adopted 2022 Update to the AB 32 Scoping Plan acknowledges that California will need petroleum and natural gas fuels for many years, and that when in-state production is reduced faster than the demand reduction, GHG leakage occurs[7]. During this time, California should prioritize in-state supply. Any regulatory proposals that run counter to the ultimate goal of reducing GHG emissions worldwide should be discarded.

The last barrel of oil used in this state, should be produced in state. Thank you for continuing the dialogue with us. We look forward to working with CARB on this important topic.

Sincerely,

Rock Zierman
Chief Executive Officer
California Independent Petroleum Association

[7] https://ww2.arb.ca.gov/sites/default/files/2022-12/2022-sp.pdf [pages 100-106]