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The Honorable Lisa Jackson
Administrator
U.S. Environmental Protection Agency
1200 Pennsylvania Ave., NW
Washington, DC 20460

Re: New Source Performance Standards for the Oil and Gas Sector

Dear Administrator Jackson:

API and its member companies have urged EPA to improve the final rule to ensure it is both achievable and environmentally beneficial. API does not oppose the rule if changes can be made to ensure it can be reasonably implemented to avoid negative impacts to domestic oil and gas production and job creation. Now that EPA has obtained a short extension of the deadline for completing this rule, we would like to reiterate two important points.

I. NSPS requires consideration of cost in the selection of control measures.

In our comments on the proposed rule, we explained that, when the VOC content of gas is low, control measures (such as reduced emissions completions, or RECs) achieve very little VOC emissions reduction and are extraordinarily expensive (i.e., not cost-effective). Therefore, imposing control measures on low-VOC gas is not practicable and cannot be justified under the Clean Air Act.

EPA's cost analysis for the proposed rule assumed a fixed gas VOC content of about 18% by weight, which clearly is substantially higher than the VOC content of gas from many of the shale gas formations currently under development around the country. Our analysis shows that the estimated cost of control measures that EPA developed in support of the proposed rule was unrealistically low. For example, EPA's cost estimate for RECs did not take into account the time needed to transport needed equipment to a site and to set up the equipment once it arrives on site.

As a result of high VOC content and low equipment cost assumptions, EPA concluded that control measures, such as RECs, could be cost-effectively implemented at all affected facilities when, in fact, they can not. When applying the cost-effectiveness criteria EPA has routinely used in prior NSPS rules, control measures are not cost-effective unless the VOC content of the gas is 10% or higher.

In addition, even assuming EPA's cost estimates are correct, RECs still would not be cost-effective for a vast number of oil and gas productions sites. For example, we explained in our comments that the average VOC content of gas from coal bed methane wells is close to zero. Using EPA's own REC cost estimates, assumptions about the VOC reductions achieved, and the value of methane that would be captured, the net cost effectiveness of VOC control would still be hundreds of

thousands of dollars per ton of VOC reduced. This is plainly not cost-effective.

EPA does not have unlimited authority under § 111. EPA may regulate only to the extent that its rule can be justified under the prescribed statutory factors. A rule that applies without regard to VOC content is beyond EPA's authority.

II. A phase-in period for reduced emissions completions is needed.

In our comments on the proposed rule, we explained that a phase-in period will be needed to assure successful implementation of the new REC requirement where it will apply. We pointed out that about 25,000 new wells are completed each year and that there are approximately 300 REC sets currently in use in the industry. Assuming each REC set can be used to complete 25 wells per year, this means that about 1000 new REC sets will be needed to ensure that the rule can be implemented without unreasonably delaying new well development. In addition, many existing REC sets likely will need to be retrofitted to meet the new standards. This means that all 300 existing sets will not be immediately available upon the effective date of the rule. For these reasons, the REC requirement should become effective two years after the rule is issued.

If EPA requires immediate compliance with the REC requirement, the rule will cause substantial delays in most oil and gas development projects. Not only is this bad energy and economic policy, such an outcome is not supported by the law (e.g., a standard that cannot be met by most affected sources plainly cannot be shown to be achievable). This situation can and should be avoided by providing a two-year phase-in period for the REC requirement.

While this letter focuses on the REC requirements, similar situations apply to storage vessels and pneumatic controllers. A VOC applicability limit and phase-in period should be included for these two affected sources as well.

Thank you for the opportunity to submit these supplemental comments. Please feel free to contact me if you have questions or need additional information.

Sincerely,



Jack Gerard
President and CEO
American Petroleum Institute