



PERMIAN BASIN
PETROLEUM ASSOCIATION

The Standard

Vol. 4, Issue No. 11



Members,

The Texas Legislature has entered its final weeks of this year's regular session and several key pieces of legislation, including the state budget, are still pending. PBPA staff and members have been hard at work in Austin and will continue to burn the midnight oil until the legislature adjourned at the end of May. We're also working issues in Washington, D.C. and Santa Fe on tax and regulatory concerns that could have huge impacts on your operations. In this version of The Standard, you'll get updates on all the above and more:

- **PBPA Clay Shoot & Pit King Challenge, Register Now!**
- **Congressman Van Taylor Event**
- **PBPA Committee Meetings**
- **PB Environmental Regulatory Seminar**
- **Federal: Senate Finance Comments**
- **Texas Legislative Update**
- **NMED: Proposed Rule on Ozone Precursors**
- **OCD Methane Rules Updates**
- **RRC: Accepting Comments on Monitoring & Enforcement Plan**
- **RRC To Host SWR 32 Webinar on June 2**
- **EPA Taking Steps on Methane Regulations**

Regards,

Ben Shepperd



Upcoming Events



The PBPA Clay Shoot and Pit King Challenge is back! After not being able to hold the event in 2020, we are thrilled to once again bring our members a one of a kind day out at the range.

Join us at Jake's Guns and Clays on June 11th for the 2021 PBPA Sporting Clay Shoot & Oil Patch Pit King Challenge. Come find out how you and the BBQ stacks up against the competition.

Sponsorships and Registration are now available!

Sponsorships & Registration

While PBPA does not engage in political activity, we always want to make sure our members are aware of opportunities to get to know elected officials who make decisions that impact operations in the Permian Basin. The providing of information about such events is not an endorsement of any candidate or party.



THE HOST COMMITTEE
ERNIE ANGELO, JR. ★ JAVAID ANWAR ★
TERRI & TIM DUNN ★ KARL PFLUGER
★ KYLE STALLINGS ★ NICK TAYLOR
*Full host committee in formation

CORDIALLY INVITE YOU TO A
MIDLAND LUNCHEON
honoring

CONGRESSMAN VAN TAYLOR
REPRESENTING TEXAS' 3RD CONGRESSIONAL DISTRICT



DATE & TIME
Tuesday, June 1, 2021
Luncheon: 11:30 am - 1:00 pm

AT THE
Petroleum Club of Midland
501 W Wall Street
Midland, Texas 79701

HOST COMMITTEE LEVELS
CABINET \$11,600 couple / \$5,800 individual
CO-CHAIR \$5,800 couple / \$2,900 individual
PATRON \$1,000
SUPPORTER \$500

To join the host committee and be listed on the signage for the event, and/or to RSVP, kindly contact Kaleta Johnson at kaleta@fortunafundraising.com or Brittany Branard at brittany@vantaylor.com or call 330-806-0095

Upcoming PBPA Committee Meetings

For more information on these committees or to join a committee, please reach out to Stephen at (432) 685-6345 or stephen@pbpa.info.



PBPA in Action



2021 Permian Basin Environmental Regulatory Seminar

On May 20, 2021 PBPA and the Midland College Petroleum Professional Development Center (PPDC) were thrilled to once again host the annual Permian Basin Environmental Regulatory Seminar. And, even more thrilled that we welcomed a packed house!

The seminar is a proactive approach for oil and gas industry professionals to keep current on the most recent environmental regulations and policy changes. This year's edition included presentations from the New Mexico Oil Conservation Division, the Midland County Environmental Enforcement Unit, the Railroad Commission of Texas, and the Texas Commission on Environmental Quality as well as several presentations from those in the private sector on state and federal issues.

At this year's seminar, the highlight of the event, however, was the presentation of the Bruno Hanson Midland College Environmental Excellence Award. This year's award winner was PBPA member Diamondback Energy, who received the award for their work on water recycling and reuse through subsidiary Rattler Midstream in Pecos and Reeves Counties.

Congratulations to Diamondback Energy and thank you to all those who made the seminar possible including the staff of the PPDC, the members of the seminar committee, the speakers, this year's sponsors and of course all those who attended.



Federal Update

Last week, PBPA took advantage of the opportunity to provide the U.S. Senate Committee on Finance with [written testimony](#) regarding the Committee's April 27, 2021 hearing on Climate Challenges: The Tax Code's

Role in Creating American Jobs, Achieving Energy Independence, and Providing Consumers with Affordable, Clean Energy. Our comments focused on the benefits of oil and gas operations in the Permian Basin for the nation and why deciding not to reinvest in these operations (removal of intangible drilling costs (IDCs) and percentage depletion opportunities) would be detrimental to future energy security.

We emphasized that the expensing of IDCs allows operators to recover costs such as labor, site preparation, equipment rentals, and other expenditures for which there is no salvage value. We noted that the elimination of IDCs would hurt independent operators, who account for 80% of the U.S.'s oil production and 90% of its natural gas production, the hardest. As to depletion, we noted that although depletion has changed over time it remains an important factor in the economics of oil and natural gas production and in the continued energy security our nation has embraced.

We made clear that eliminating or reducing the present-law percentage suite of targeted tax deductions – *not subsidies* – would greatly harm the U.S.'s economic competitive advantage, the world's political stability, and the progress on environmental issues that has been achieved by operators over the last decade.

Texas Legislative Update

As the remaining weeks of the Texas Legislature come to a close two of the most important issues have yet to be dispensed with. Senate Bill 3, which would establish several key requirements due to the winter storm in February, and perhaps most importantly, Senate Bill 1, which would fund all state programs over the next two years, are both in the final steps of passage.

On both of these issues PBPA has led important discussions to ensure that any new requirements from the Legislature are reasonable and focused on ensuring that Texans across the state will continue to have electricity during winter storms in the future. The Texas House has just passed a Committee Substitute for Senate Bill 3 out of committee and we expect that to be on the floor of the House in the coming days. From there it will likely be met with a request for a conference committee in the Senate, where 5 Senators and subsequently, 5 Representatives, will be appointed to negotiate the compromise between the differences in both chambers.

Our members have worked tirelessly this session to also ensure that bills filed from the fringes of energy policy did not make it to the House floor for a vote, but late last week, House Bill 3477, which would have created some of the harshest penalties for certain operators, came up to the floor before the final deadline last Thursday night. PBPA spearheaded an effort with many member companies and allied trades to defeat the bill on the floor by a vote of 64-79. This was an important effort that displayed the understanding that members broadly have about the importance of Texas industries, as well as the reasonable penalties that exist at various regulatory agencies.

The General Appropriations Act, or Senate Bill 1, is the state budget that will fund all state programs, including the Railroad Commission of Texas, and the Texas Commission on Environmental Quality. In working with the members negotiating the final budget, it looks as those these agencies will be funded at levels that ensure prompt inspections, permitting, and more that will ensure Texas can rebound quickly with the end of the pandemic in sight. We look forward to robust economic growth and continued improvements in public health and global demand for domestic energy produced in the heart of the Permian Basin.

With less than two weeks remaining in the 87th Regular Session, PBPA will continue to work to the closing bell to ensure that the future remains bright for the next generation of Texans that will call the Permian Basin home. Please let us know if you have any questions or concerns.



Regulatory Updates



NMED releases new proposed rule on ozone precursors

On May 7, 2021 the New Mexico Environment Department (NMED) released a proposed rule that will establish regulations regarding the formation of ground-level ozone in the state's most affected regions. Once finalized, the new rule purports to reduce emissions of ozone precursor pollutants – volatile organic compounds and oxides of nitrogen - by nearly 260 million pounds annually and reduce methane emissions by over 851 million pounds annually. The rule will apply in New Mexico counties with high ozone levels. Currently, this includes Chaves, Doña Ana, Eddy, Lea, Rio Arriba, Sandoval, San Juan, and Valencia counties. The revised rule builds upon a draft issued in July of last year, on which PBPA provided official comment, and contains modifications. Namely, the proposed rule eliminates all exemptions for stripper wells and facilities formerly classified as “low potential to emit” that had been included in the previous draft.

Additionally, the proposed rule sets foundational requirements for all oil and gas operators to calculate emissions and confirm their accuracy through a professional engineer, perform monthly checks for leaks and fix them within 15 days, and maintain records to demonstrate continuous compliance. Building on the foundational requirements are stricter standards for equipment and processes that can emit larger quantities of pollution.

The proposed rule establishes emission reduction requirements for equipment like storage vessels, compressors, turbines, heaters, engines, pneumatic devices, produced water management units, and more. The proposed rule also establishes emission reduction requirements for processes such as well workovers, liquids unloading, pig launching and receiving, and more.

Before taking effect, the new rule must be considered by the seven-member New Mexico Environmental Improvement Board. A public hearing before the Board is expected this fall. The hearing process will include additional opportunities for public engagement, including the opportunity for the public and stakeholders to provide oral and written comments and testimony. Pending the Board's decision, NMED anticipates the rule will go into effect in early 2022.

The proposed rule and supporting technical documents are available [here](#). Sign up for email updates from the Department [here](#).

The PBPA Regulatory Practices Committee will lead PBPA's review and commenting on this proposed rule. To engage in this effort, please email stephen@pbpa.info.



On Tuesday, May 25, 2021, the Oil Conservation Commission's ("Commission") natural gas waste rule, 19.15.27 NMAC – Venting and Flaring of Natural Gas, will go into effect. Under the new rules, venting or flaring of natural gas during drilling, completion, or production operations is prohibited except as authorized in Subsections B, C and D of 19.15.27.8 NMAC. Additionally, the Commission revoked 19.15.18.12 NMAC, and all exceptions approved on form C-129 under that rule are null and void on May 25, 2021.

During the initial implementation period of the rule, and on a temporary basis the Oil Conservation Division ("OCD") may exercise enforcement discretion for venting or flaring from a well or facility that is not connected to a natural gas gathering system. Upon an operator's request, OCD may enter into an Agreed Compliance Order ("Order") with the operator that provides an initial period until January 9, 2022 to eliminate such venting or flaring and may establish enforceable conditions. The OCD in its sole discretion may extend the Order to no later than March 31, 2022 upon a showing of good cause.

Beginning April 1, 2022 operators must begin attaining their natural gas capture requirements, including the final requirement of 98% natural gas capture by December 31, 2026. Entering into an Order will not delay an operator's obligation to comply with these requirements.

To be eligible for an Order, operators must notify OCD in writing no later than July 9, 2021 by submitting [this spreadsheet](#) (for a copy of this spreadsheet in Excel format, please email stephen@pbpa.info) identifying each well and facility not currently connected to a natural gas gathering system and providing the specified information. Submit the spreadsheet to OCD.Engineer@state.nm.us with “Venting and Flaring” in the subject line. Operators who intend to request an Order are encouraged to give notice of their intent to OCD as soon as possible.

Operators who fail to timely request and enter into an Order and vent or flare natural gas from a well or facility that is not connected to a natural gas gathering system may be subject to enforcement action and sanctions, including shut-in, termination of authority to transport, and civil penalties. OCD will publish a list of operators and ACOs on its website in the Announcements section.

On May 17, 2021, the OCD released their first [Frequently Asked Questions \(FAQ\)](#) sheet to accompany OCD's new waste rules. OCD plans to continue to update the FAQ as new questions come their way. If you have had a question that is not represented on the linked FAQ sheet, please let PBPA know or send the question to OCD using the following email address: EMNRD.Wasterule@state.nm.us.

OCD also plans to release its final C-129 and Gas Management Plan forms on May 21, 2021. Once those are released, we will provide you with those documents and links to where those documents will be hosted on the OCD website.



RRC Accepting Comments on Draft Oil and Gas Division Monitoring and Enforcement Plan

The Texas Legislature (House Bill 1818, 85th Legislature, Regular Session, 2017) directed the Railroad Commission of Texas (RRC) to develop an annual plan to assess the most effective use of its limited resources to protect public safety and minimize damage to the environment. The RRC strives to strengthen its capabilities to track, measure, and analyze the effectiveness of its oil and gas monitoring and enforcement program.

The purpose of this plan is to define and communicate the Oil and Gas Division's strategic priorities for its monitoring and enforcement efforts. The plan confirms many of the division's current priorities as well as establishing direction for data collection, stakeholder input, and new priorities for fiscal year 2022. House Bill 1818 directed the RRC to seek input from stakeholders in the development of this plan. We look forward to hearing from you as this planning process moves forward.

To view the draft plan, visit the RRC website at <https://www.rrc.texas.gov/oil-and-gas/compliance-enforcement/enforcement-activities/>.

To submit comments online by 5 p.m. on Thursday, June 10, 2021, complete the survey at <https://survey.alchemer.com/s3/6317260/Commission-Accepting-Comments-on-FY-2022-Oil-and-Gas-Division-Monitoring-and-Enforcement-Plan-copy>.

RRC Hosts SWR 32 Exception Application Online System Webinar on June 2

The RRC will host a free webinar titled *Statewide 32 Exception Application Online System* to inform and train oil and gas operators about their responsibilities when obtaining an exception to Statewide Rule (SWR)

32 and how to file the new Form R-32, *Application for Exception to Statewide Rule 32*, online using the RRC Online System. The webinar will be held via Zoom at 2 p.m. on Wednesday, June 2, 2021.

To obtain an exception to SWR 32, the Form R-32 must be filed with the RRC by the end of the next full business day following the first 24 hours of the release of gas unless the deadline is extended by the RRC or the RRC's delegate. The application can be filed online using the RRC Online System at <https://webapps.rrc.texas.gov/security/login.do>.

The webinar will cover a variety of topics, including:

- an overview of the structure and essential elements of the new Form R-32;
- an introduction to the online system — how to access the system and file an application;
- a demonstration of the online system; and
- an overview of additional phases to the online system currently in development.

For more information and to register, visit the RRC website at <https://rrc.texas.gov/oil-and-gas/workshops-and-conferences/statewide-32-exception-application-online-system-webinar/>.



EPA Announces Public Listening Sessions and Trainings on Upcoming Oil and Natural Gas Methane Rule

On May 14, 2021, the U.S. Environmental Protection Agency (EPA) announced that they are taking the first step to develop a proposed rule to reduce methane and other "harmful pollutants" from new and existing sources in the oil and natural gas industry, beginning with a public outreach effort to gather community and stakeholder input. These activities include holding training sessions on the rulemaking process and how to participate in it, convening listening sessions for stakeholders, and opening a public docket for pre-proposal comments. These steps are in response to President Biden's Executive Order 13990 (EO).

President Biden's EO titled "Protecting Public Health and the Environment and Restoring Science to Tackle the Climate Crisis" called on EPA to consider issuing a proposed rule by September 2021 to strengthen standards for methane emissions from new, reconstructed, and modified oil and natural gas sources and to address methane emissions from existing sources.

Planned outreach:

- **Training webinars:** On May 25, 26, and 27, 2021, EPA will hold training webinars for communities, Tribes and small businesses to provide an overview of the oil and natural gas industry and share information to help members of those groups effectively engage in the regulatory process. Each training will be held at 2 p.m. eastern time.
- **Public Listening Sessions:** EPA will hold virtual public listening sessions from noon to 9 p.m. eastern time June 15, 16, and 17, 2021. During the listening sessions, registered members of the public will have the chance to provide their views on the oil and natural gas industry as it relates to climate change, health and EPA's upcoming proposed rule. The agency also has opened a non-rulemaking docket for people who wish to provide their input and perspectives in writing.
- **Docket for public input:** Beginning today, members of the public may submit their perspectives and input to the docket in advance of the September proposed rulemaking. Instructions for submitting input are available on EPA's website, listed below.

For information on submitting input to the docket, or to register to attend a training or listening session,

visit <https://www.epa.gov/controlling-air-pollution-oil-and-natural-gas-industry/epa-announces-public-listening-sessions>. EPA will post additional outreach opportunities to this website as they are scheduled.

