

**UNITED STATES OF AMERICA
BEFORE THE
PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION**

Pipeline Safety: Protecting Unusually)
Sensitive Areas From Rural Onshore) Docket No. PHMSA-2003-15864
Hazardous Liquid Gathering Lines) (Notice 3)
and Low Stress Lines)

**COMMENTS OF THE
INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA**

Pursuant to the Notice of Proposed Rulemaking (“NPRM”) of the Pipeline and Hazardous Materials Safety Administration (“PHMSA”) published in the Federal Register on September 6, 2006, 71 FR 52504, the Independent Petroleum Association of America (“IPAA”) hereby submits these comments on the regulation of rural onshore hazardous liquid gathering lines and low stress lines.

I. COMMUNICATIONS

Communications concerning these comments should be addressed as follows, and the following should be included on the official service list in this proceeding:

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II. IDENTITY OF COMMENTER

IPAA is a national trade association representing the thousands of independent crude oil and natural gas explorer/producers in the United States and its offshore waters.¹ IPAA's members develop 90 percent of American oil and natural gas wells, produce 68 percent of the nation's domestic oil supply and 82 percent of America's natural gas. IPAA's membership ranges from large independent producers to small marginal well producers (15 barrels per day or less).

III. BACKGROUND

In its NPRM in this docket, PHMSA has proposed, among other things, to define "regulated rural onshore gathering lines" and "regulated rural onshore low-stress lines" and to require operators of such lines to comply with certain safety regulations. The

¹ IPAA's cooperating associations include the following: the California Independent Petroleum Association, Coalbed Methane Association of Alabama, Colorado Oil & Gas Association, Domestic Petroleum Council, East Texas Producers and Royalty Owners Association, Eastern Kansas Oil & Gas Association, Florida Independent Petroleum Association, Illinois Oil & Gas Association, Independent Oil & Gas Association of New York, Independent Oil & Gas Association of Pennsylvania, Independent Oil & Gas Association of West Virginia, Independent Oil Producers Association Tri-State, Independent Petroleum Association of Mountain States, Independent Petroleum Association of New Mexico, Indiana Oil & Gas Association, Kansas Independent Oil & Gas Association, Kentucky Oil & Gas Association, Louisiana Independent Oil & Gas Association, Michigan Oil & Gas Association, Mississippi Independent Producer & Royalty Association, Montana Petroleum Association, National Association of Royalty Owners, National Stripper Well Association, Nebraska Independent Oil & Gas Association, New Mexico Oil & Gas Association, New York State Oil Producers Association, North Dakota Petroleum Council, Northern Alliance of Independent Producers, Ohio Oil & Gas Association, Oklahoma Independent Petroleum Association, Panhandle Producers & Royalty Owners Association, Pennsylvania Oil & Gas Association, Permian Basin Petroleum Association, Petroleum Association of Wyoming, Petroleum Equipment Suppliers Association, Tennessee Oil & Gas Association, Texas Alliance of Energy Producers, Texas Independent Producers and Royalty Owners Association, Virginia Oil & Gas Association, and the Wyoming Independent Producers Association.

stated intent of the proposed regulations is to provide additional protection for unusually sensitive areas such as drinking water sources and ecological resources.

Under the proposed regulations, PHMSA proposes to assert jurisdiction only over those rural onshore lines (both gathering and low-stress) that are within ¼ mile of an “unusually sensitive area” as that term is defined in 49 C.F.R. § 195.6. Such lines that have a nominal diameter between 6 5/8 and 8 5/8 inches and operate at pressure (greater than 20 percent of the specified minimum yield strength) would be regulated as “gathering” lines, and lines that have a nominal diameter of 8 5/8 inches or more that do not operate at pressure (less than or equal to 20 percent of the specified minimum yield strength) would be regulated as “low-stress” lines. PHMSA proposes to require operators of regulated lines to establish and implement procedures to carry out the specified safety requirements of 49 C.F.R. Part 195.

IV. COMMENTS

IPAA appreciates the opportunity to comment on the important issue of pipeline safety regulation. IPAA supports PHMSA’s overall goal of improving pipeline safety and increasing protection to ecological resources. However, IPAA believes that in addition to the important public policy goals related to safety and environmental protection, there are also important public policy goals related to the continued economic vitality of the United States’ petroleum production sector. As important contributors in supplying our nation’s energy needs, IPAA is concerned about the economic impact the proposed regulations may have on American crude oil production. IPAA urges PHMSA, prior to issuance of a final rule in this proceeding, to understand better the extent to which production might be shut in as a result of the abandonment of gathering and low-

stress lines that cannot economically comply with the proposed regulations. Moreover, in keeping with this Administration's desires to promote American crude oil production, IPAA also urges PHMSA to balance carefully the impact of additional regulations with the impact on our members' ability to help meet our country's growing energy demands.

IPAA members use third-party gathering lines and low-stress pipelines to transport their crude oil production. With few exceptions, IPAA members do not directly own or operate such lines, and thus IPAA is not in a position to assess fully the impact of these proposed regulations on our member's production capabilities. We do know, however, that these mid-stream assets are a vital link for IPAA members to bring their product to market and we have received enough anecdotal information from our members about potential negative impacts on these mid-stream assets to raise alarm bells.

In particular, IPAA members are concerned that the imposition of costly compliance measures on gathering and low-stress lines may force such lines to be abandoned as uneconomic. Where such lines are abandoned, if production is to continue, producers will be required to use other forms of transportation, such as trucking, that may be more hazardous to the environment. Moreover, even though trucking is a theoretical alternative to pipeline transportation, trucking may not be a practical option in some instances. For example, the crude oil trucking industry in the Rocky Mountain region has very limited spare capacity. Even where trucking is available, it may not be an economically viable alternative to pipeline transportation as trucking charges typically

greatly exceed pipeline tariff rates.² Thus, even available trucking may be so cost prohibitive as to force the shut in of production in any event.

A significant proportion of American crude oil production comes from low-volume, marginal wells. Such wells, given their low daily volumes, cannot easily absorb increased costs, and are thus particularly susceptible to economic shut-in.

Notwithstanding their low volumes, these wells have the potential to continue to produce for a very long time and to make important contributions to our overall production capabilities. In addition, advanced technology and increased efficiency in crude oil production and transportation methods will allow for continued exploitation of these valuable American reserves. However, once shut in, these wells may become lost to the American supply portfolio. National energy policies should promote the increased development of American crude oil reserves.³

Accordingly, IPAA members have a direct and substantial interest in seeing that pipeline transportation will be available to move their product to market. However, in light of the fact that our members generally do not own and operate these vital gathering and transportation systems, IPAA does not have access to detailed, specific information regarding the amount of pipeline that may be abandoned as uneconomic as a result of the proposed regulations, and thus we are unable to ascertain definitively the number of wells or volumes of production upstream of those pipelines that might be potentially impacted by the proposed regulations. On the other hand, the record thus far provides little comfort. Apparently, no study has been undertaken to assess the impact of the proposed

² Trucking charges generally range from \$2.00 to \$4.00 per barrel per day as compared to 27 cents per barrel per day for pipeline transportation.

³ See National Energy Policy Report, ch. 5 (2001).

regulations on American production and thus, there is no solid basis to conclude that the proposed regulations will have no impact on American production.

On the contrary, compliance with the proposed regulations may be cost prohibitive. For example, low-stress lines are typically low volume and thus generate low revenues. A well producing 30 barrels per day may be served by a low-stress pipeline that charges 27 cents per barrel per day for the gathering service, creating an annual revenue stream of less than \$3,000. Under the proposed regulations, the pipeline operator would be required, among other things, to establish a program to assess the integrity of regulated pipeline segments using either in-line inspection tools, pressure testing, or similar technology.⁴ Assessing the integrity of low-stress lines by running in-line inspection (pigging) equipment may be impossible given the low pressures and volumes involved. Moreover, some low-stress lines are very short and may have fittings or other limitations that prevent the use of pigging equipment. Pressure testing may be equally cost prohibitive. The costs of renting a water truck (\$1,000 per day for two days), disposing of the water, and monitoring a single test could, by itself, exceed the pipeline's annual revenue (setting aside the cost of operations, personnel, depreciation, other safety requirements, regulatory fees, etc.).

Similarly, the proposed regulations require pipeline operators to establish a program to detect leaks on regulated pipeline segments.⁵ Establishing a leak detection system on low-stress lines may also be unworkable given the low volumes. Typical leak detection equipment may yield inaccurate results under low flow conditions. In addition, Supervisory Control And Data Acquisition (SCADA) equipment may be cost prohibitive.

⁴ Proposed section 195.12(b)(10).

⁵ Proposed section 195.12(b)(11).

In a like manner, the requirements for gathering line operators in the proposed regulations may be cost prohibitive as well. For example, hydrostatic pressure testing to establish the maximum operating pressure of the pipeline is costly.⁶ In addition, the corrosion control requirements (monitoring, cleaning, remediating, etc.) may impose substantial annual operating costs for gathering lines.⁷ Annual regulatory fees further contribute to the economic challenge of compliance.

IPAA urges PHMSA to consider the economic impact of these proposed regulations on American crude oil production. Prior to issuance of a final rule in this proceeding, PHMSA should obtain detailed information regarding the extent to which production might be shut in as a result of the abandonment of gathering and low-stress lines that cannot economically comply with the proposed regulations.

At a minimum, PHMSA should not increase the proposed buffer zones for determining which segments of rural gathering lines and rural low-stress lines become regulated. Under the proposed regulations, only those lines located in or within ¼ mile of an unusually sensitive area would be subject to regulation.⁸ Nothing in the record suggests that the buffer zone, as currently proposed, is insufficient to protect unusually sensitive areas.

Further, PHMSA should clarify its proposed regulations to ensure that production facilities do not become subject to regulation. In this regard, IPAA supports the October 18, 2006 comments of the Western States Petroleum Association in urging PHMSA to clarify that the proposed regulations would not apply to the piping systems that collect

⁶ Proposed section 195.11(b)(5).

⁷ Proposed section 195.11(b)(9).

⁸ Proposed sections 195.11(a)(2), 195.12(a)(2).

crude oil from the wellhead and deliver it to a production facility (dehydration facility) for separation and processing.

Finally, PHMSA should adopt a flexible approach to compliance that avoids the abandonment of gathering and low-stress lines and the shut-in of production. PHMSA should exercise discretion, where applicable, to allow pipeline operators to implement the safety requirements in a cost effective manner that allows such lines to remain in operation.

V. CONCLUSION

Wherefore, the Independent Petroleum Association of America respectfully requests that the Pipeline and Hazardous Materials Safety Administration proceed with caution in implementing any new rules and regulations in the exercise of its jurisdiction over safety matters impacting crude oil gathering and low-stress pipeline systems. In particular, IPAA urges PHMSA to study carefully the impact of any such rules and regulations on the continued, as well as the future, viability of our nation's American crude oil production.

Respectfully submitted,

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