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Environment Department Reaches \$60.8 Million Settlement with DCP Midstream for Numerous Air Quality Violations

Settlement will Address Greenhouse Gas Emissions and other Air Pollution in Southeastern New Mexico

(Santa Fe, NM) The New Mexico Environment Department reached \$60.8 million settlement agreement with DCP Midstream, L.P., formerly Duke Energy Field Services, for numerous air quality violations at three of the company's natural gas plants in southeastern New Mexico.

The settlement, which includes cash penalties and environmental projects and facility upgrades, requires the reduction of air pollution, including sulfur dioxide and greenhouse gas emissions that address climate change.

The settlement amount, which is among the largest the department has negotiated, settles longstanding violations of air pollution laws at the company's plants at Linam Ranch, Artesia and Eunice. The violations involve the combustion of gases in flares that cause air pollution. The plants, which are in Eddy and Lea counties, process natural gas from the Permian basin.

"I commend Secretary Curry and his staff for their perseverance in negotiating this important settlement for the State of New Mexico," said Governor Bill Richardson. "This tough agreement will hold a company responsible for violations and will yield significant air quality improvements and greenhouse gas reductions in the Southeast part of our state."

"This is part of a departmental initiative to clean up gas plants that comprise a major portion of the industrial sector and are a major source of unhealthy air pollution and greenhouse gas emissions in New Mexico," said New Mexico Environment Department Secretary Ron Curry. "We want the people of New Mexico to breathe clean air and this settlement exemplifies our commitment to improve air quality in our state. We will monitor DCP's plants closely to make sure the company complies with requirements of the agreement including significantly reducing air pollution in southern New Mexico and installing the latest technological equipment to achieve that end."

The settlement requires DCP to pay cash penalties of \$1.8 million dollars, including \$1.2 million to the general fund and \$600,000 for supplemental environmental projects to address climate change. The department agreed to allow DCP to construct emissions reduction environmental projects totaling \$59 million.

Those environmental projects include improving electrical reliability and reducing emissions at the Eunice plant caused by power disruption; installing Acid Gas Injection equipment at Linam Ranch to reduce sulfur dioxide emissions by 1,630 tons per year, hydrogen sulfide emissions by 26 tons per year and carbon dioxide emissions by 73,100 tons per year; upgrading and replacing flares at the plants to reduce emissions created during flaring events. The company must also use the \$59 million to complete other projects to reduce emissions at the plants.

DCP must also complete corrective actions at Eunice and Artesia to bring plants into compliance with state and federal laws. The company completed corrective actions at Linam Ranch that bring that plant into compliance. The settlement also requires DCP to pay stipulated penalties for potential future flaring events that exceed air quality permit limits and conduct root cause analyses on each event to ensure the causes of excessive emissions are evaluated and that it takes appropriate actions to ensure those incidents do not recur.

“This case is the first among several that are pending with the department involving air pollution violations by natural gas plants,” Secretary Curry said.” The department wants those companies to use acid gas injection where it is viable, an advanced technology that injects pollutants underground and reduces sulfur compound and carbon dioxide emissions to the air. By reducing pollution at the front end of those facilities and injecting it underground, gas plants can greatly reduce air pollution.”

DCP will employ Acid Gas Injection technology at its Linam Ranch plant. The company, which had begun using that technology at its Artesia Plant, installed a sixth stage of enhanced compression at Artesia as part of negotiations with the department.

The department issued compliance orders to DCP in July 2006 listing several thousand air pollution violations at each plant over a five year period.

The department’s investigation of DCP reports showed 4,777 emission limit violations of the company’s air quality permits at the plants since January 2001. Those violations include the release into the air of more than 608,000 pounds of nitrous oxides, 20.7 million pounds of sulfur dioxide, 879,000 pounds of carbon monoxide, 367,000 pounds of volatile organic compounds and 347,000 pounds of hydrogen sulfide. The plants’ flares also contained visible emissions approximately 648 times in violation of federal and state regulations during the same five year period.

Those compliance orders required DCP to stop the combustion of gases in flares that cause visible emissions and exceed air quality permit limits. The orders also require the plants to install flares designed for smokeless operation and to use the flares only for emergency purposes.

The department, after other legal proceedings, reached an Agreement In Principle with DCP in June 2007 outlining the resolution of the compliance orders. The department’s Environmental Protection Division negotiated the settlement agreement based on elements of the agreement.

“I commend DCP for seeing this agreement through to resolution because it shows the company’s commitment to leading by example,” Secretary Curry said.

New Mexico is the location of 13 sour natural gas plants, including 12 in the southeast Permian basin and one in the San Juan Basin.

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