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CERTIFIED MAIL - RETURN RECEIPT REQUESTED
RETURN RECEIPT NO: 7013 0600 0001 8698 0032

Matt Henderson, Environmental Manager
Hilcorp Energy Company
1111 Travis Street
Houston, TX 77002

Dear Mr. Henderson:

The New Mexico Environment Department (NMED) is issuing the enclosed Notice of Violation (NOV) to Hilcorp Energy Company (Hilcorp). NMED is issuing this NOV under NMSA § 74-2-12 and 12.1, and 20.2.78 NMAC, based on information described in detail below that represents specific violations of the Standards of Performance for Crude Oil and Natural Gas Facilities for which Construction, Modification or Reconstruction Commenced after September 18, 2015, 40 C.F.R. Part 60, Subpart OOOOa, that occurred at the San Jacinto 6E well identified in this NOV, located in San Juan County, New Mexico.

NMSA § 74-2-12 gives NMED several enforcement options to resolve these violations, including issuing an administrative compliance order, issuing a statutorily authorized penalty, or bringing a judicial civil action.

We are offering Hilcorp the opportunity to request a conference with NMED and EPA to discuss the violations identified in this NOV. A conference should be requested within ten (10) business days following receipt of this NOV. This conference will provide Hilcorp with an opportunity to present information on the identified violations, efforts it has taken to comply, and the steps it will take to prevent future violations.

The NMED contact in this matter is Shannon Duran, and she may be reached at (505) 476-4353, or Shannon.Duran@state.nm.us to request a conference. You may have your counsel contact Andrew Knight at (505) 222-9540, or Andrew.Knight@state.nm.us.

Sincerely,



Liz Bisbey-Kuehn
Bureau Chief
Air Quality Bureau
New Mexico Environment Department

cc: Steve Thompson, EPA Region 6

Enclosure: Notice of Violation (NOV)

NEW MEXICO ENVIRONMENT DEPARTMENT

IN THE MATTER OF:)
)
Hilcorp Energy Company) NOTICE OF VIOLATION
Houston, TX)

Proceedings Pursuant to)
the Air Quality Control Act)
NMSA § 74-2-12)

NOTICE OF VIOLATION: HIL-38900-1901

The New Mexico Environment Department (NMED) is providing this Notice of Violation (NOV) under NMSA § 74-2-12, 12.1, and 20.2.78 NMAC, to inform Hilcorp Energy Company (Hilcorp) of violations set forth in detail in the paragraphs that follow. NMED alleges that Hilcorp violated the Standards of Performance for Crude Oil and Natural Gas Facilities for which Construction, Modification or Reconstruction Commenced after September 18, 2015, 40 C.F.R. Part 60, Subpart OOOOa, at the San Jacinto 6E well affected facility identified below.

NMED is providing Hilcorp with the opportunity to request a conference with us to discuss the violation alleged in this NOV. This conference will provide Hilcorp with an opportunity to present information on the identified violation, efforts it has undertaken to comply, and the steps it will take to prevent future violations.

I. Hilcorp Energy Company

1. Hilcorp is an exploration and production company registered as a corporation in the State of New Mexico. Hilcorp's business includes the extraction and production of natural gas, and hydrocarbon liquids (e.g., natural gas condensate and oil) and completion operations at well affected facilities located in the San Juan Basin, in San Juan County, NM.
2. Hilcorp's headquarters is located at 1111 Travis Street, Houston, TX 77002.

3. Hilcorp is the owner and operator of the San Jacinto 6E well affected facility, a natural gas production facility (Facility) relevant to this NOV identified below.

<u>Facility Name</u>	<u>Facility ID#¹</u>	<u>Physical Location or Address</u>
San Jacinto 6E Well	30-045-24057	36.71584, -107.90070 San Juan County, NM

¹Facility Identification Number (ID#) is the United States Well Number.

4. On October 29, 2018, the Environmental Protection Agency (EPA) issued a CAA Section 114 information request to Hilcorp. Hilcorp provided the EPA with responses to the request on January 15, 2019. The EPA's and NMED's findings based on review of the information request responses are provided in Section V (Factual Background) and Section VI (Violations).

II. Clean Air Act

5. The CAA is designed to protect and enhance the quality of the nation's air resources so as to promote the public health and welfare and the productive capacity of its population. CAA Section 101(b)(1), 42 U.S.C. § 7401(b)(1).
6. In 1979, the EPA published a list of source categories which the EPA determined caused or contributed significantly to air pollution and which may reasonably be anticipated to endanger public health or welfare. See CAA Section 111(b), 42 U.S.C. § 7411(b)(1)(A); 44 FR 49222 (August 21, 1979) (Priority List and Additions to List of Categories of Stationary Sources). The EPA then issued "standards of performance" for new sources in such source categories. CAA Section 111(b)(1)(B), 42 U.S.C. § 7411(b)(1)(B). The Priority List included "crude oil and natural gas production." In June 1985, the EPA promulgated new source performance standards (NSPS) for the crude oil and natural gas production source category that addressed emissions of volatile organic compounds (VOCs) from leaking components at onshore natural gas processing plants. 50 FR 26122 (June 24, 1985); 40 C.F.R. Part 60, Subpart KKK. In October 1985, the EPA promulgated additional NSPS regulations for the crude oil and natural gas production source category that regulates sulfur dioxide (SO₂) emissions from onshore natural gas processing plants. 50 FR 40158 (October 1, 1985); 40 C.F.R. Part 60, Subpart LLL.
7. In 2012, pursuant to its authority under CAA Section 111(b)(1)(B) to review and, if appropriate, revise NSPS regulations, the EPA published the final rule, "Standards of Performance for Crude Oil and Natural Gas Production, Transmission and Distribution," found at 40 C.F.R. Part 60, Subpart OOOO. The rule updated the SO₂ standards for sweetening units and VOC standards for equipment leaks at onshore natural gas processing plants. In addition, the rule established VOC standards for several oil and natural gas- related operations that were not covered under by 40 C.F.R. Part 60, Subparts KKK and LLL, including gas well completions, centrifugal and reciprocating compressors, natural gas- operated pneumatic controllers and storage vessels. 40 C.F.R. §§ 60.5360-5430.

8. In 2013 and 2014, the EPA made amendments to the 2012 NSPS regulations with respect to standards for gas well completions and other changes, which are found at 40 C.F.R. Part 60, Subpart OOOOa.¹
9. Affected facilities that commence construction, modification or reconstruction after September 18, 2015 are subject to standards under 40 C.F.R. Part 60, Subpart OOOOa. 40 C.F.R. § 60.5360a. This subpart will be referred to hereinafter as “NSPS Subpart OOOOa”.
10. NSPS Subpart OOOOa, at 40 C.F.R. § 60.5430a, defines “Artificial Lift Equipment” as mechanical pumps including, but not limited to, rod pumps and electric submersible pumps used to flowback fluids from a well.
11. NSPS Subpart OOOOa, at 40 C.F.R. § 60.5430a, defines “Low Pressure Well” as a well that satisfies at least one of the following conditions:
 - 1) the static pressure at the wellhead following fracturing but prior to the onset of flowback is less than the flow line pressure at the sales meter;
 - 2) the pressure of flowback fluid immediately before it enters the flow line, as determined under §60.5432a, is less than the flow line pressure at the sales meter; or,
 - 3) flowback of the fracture fluids will not occur without the use of Artificial Lift Equipment.
12. The additional relevant definitions at 40 C.F.R. § 60.5430a and terminology from NSPS Subpart OOOOa are incorporated herein.
13. NSPS Subpart OOOOa, at 40 C.F.R. § 60.5375a(a)(1)(ii) requires, during the separation flowback stage, for recovered gas from well affected facilities to be routed from the separator into a gas flow line or collection system, re-injected into the well or another well, or used as an onsite fuel source or for another useful purpose that a purchased fuel or raw material would serve.
14. NSPS Subpart OOOOa, at 40 C.F.R. §60.5375a(a)(3) provides if it is infeasible to route the recovered gas as required in 40 C.F.R. § 60.5375a(a)(1)(ii), then recovered gas must be captured and directed to a completion combustion device, except in conditions that may result in fire, hazard or explosion, or where high heat emissions from a completion combustion device may negatively impact tundra, permafrost or waterways. Completion combustion devices must be equipped with a reliable continuous pilot flame.
15. NSPS Subpart OOOOa, at 40 C.F.R. §§ 60.5375a(a) and (f) provide an exception from the requirements of 40 C.F.R. § 60.5375a(a)(1)(ii), for well affected facilities that meet one of the three conditions described in the Low Pressure Well definition.

¹ On June 3, 2016, the EPA published a final rule that established NSPS regulations for greenhouse gas and VOC emissions from the oil and natural gas sector. 81 FR 35824 (June 3, 2016). New Mexico adopted those provisions by reference in April 28, 2017, and they became effective May 30, 2017. Following promulgation of the 2016 final rule, the EPA granted reconsideration of the fugitive emissions requirements at well sites and compressor stations, well-site pneumatic pump standards and the requirements for certification of closed vent systems by a professional engineer. 82 FR 25730 (June 5, 2017); see also 83 FR 52056 (October 15, 2018)(proposing amendments and clarifications to address these issues and technical clarification issues).

V. Factual Background

16. Hilcorp owned and/or operated the San Jacinto 6E well in February of 2018 (and continues to own and/or operate the San Jacinto 6E well), which is a well affected facility that was subject to the requirements of 40 C.F.R. § 60.5375a in February of 2018.
17. On February 19, 2018, at 15:00, following hydraulic fracturing or refracturing, flowback from the San Jacinto 6E well began. During the 74 hours of flowback, gas present in the initial flowback was vented directly to the atmosphere for 46 hours, and gas recovered from a separator during separation flowback was combusted in a completion combustion device for 28 hours. No gas recovered from the separator was routed from the separator into a gas flow line or collection system and then re-injected into the well or another well, or used as an onsite fuel source or for another useful purpose that a purchased fuel or raw material would serve during the separation flowback stage.
18. Hilcorp did not provide information in responses to the CAA 114 information request to show EPA, as provided in 40 C.F.R. § 60.5375a(a)(3), that it was technically infeasible during the separation flowback stage, for recovered gas from San Jacinto Well 6E to be routed from the separator into a gas flow line or collection system, re-injected into the well or another well, or used as an onsite fuel source or for another useful purpose that a purchased fuel or raw material would serve.
19. Hilcorp claims in the responses to the CAA 114 information request that the San Jacinto 6E well was exempted from the requirements of §60.5375a(a)(1) because Artificial Lift Equipment was used, thus satisfying condition (3) of the Low Pressure Well definition.
20. Hilcorp claims in the responses to the CAA 114 information request that the San Jacinto 6E well is a Low Pressure Well according to the definition at 40 C.F.R. § 60.5430a because mechanical equipment was used to pump nitrogen into the reservoir, to temporarily energize the well and act as a gas-lift/artificial lift technique during various phases of fracture stimulation, and because the well may have needed to be artificially lifted by injecting compressed air from the surface to help lift the liquids out of the well during post-frac wellbore cleanouts.
21. On February 23, 2018, at 14:30 the San Jacinto 6E well started production, or was shut in and the flowback equipment was permanently disconnected.

VI. Violations

22. On or around February 21, 2018, during the separation flowback stage at the San Jacinto 6E well, Hilcorp directed recovered gas to a completion combustion device for 28 hours, and violated 40 C.F.R. § 60.5375a(a)(1)(ii) by failing to rout the recovered gas from the separator into a gas flow line or collection system, and then re-inject the recovered gas into the well or another well, or use the recovered gas as an onsite fuel source or for another useful purpose that a purchased fuel or raw material would serve.

23. Hilcorp did not provide any information in the responses to the CAA 114 information request that indicates that the San Jacinto 6E well meets one of the three conditions identified in the Low Pressure Well definition to the EPA.
- a. Hilcorp's use of mechanical equipment to pump nitrogen or air into the reservoir or well is not considered to be use of Artificial Lift Equipment, because Hilcorp's mechanical equipment is not a mechanical pump used to flowback fluid from the well, and it is not, nor similar to, rod pumps or electric submersible pumps;
 - b. Hilcorp did not provide information that demonstrated that the static pressure at the wellhead following fracturing but prior to the onset of flowback is less than the flow line pressure at the sales meter; and
 - c. Hilcorp did not provide information that demonstrated that the pressure of flowback fluid immediately before it enters the flow line, as determined under §60.5432a, is less than the flow line pressure at the sales meter to the EPA.
24. For the foregoing reasons Hilcorp was obligated to comply with the requirements of 40 C.F.R. § 60.5375a(a)(1)(ii) as the San Jacinto 6E well did not qualify as a Low Pressure Well exempted from the requirements of 40 C.F.R. § 60.5375a(a)(1)(ii).

VII. Enforcement Provisions

25. NMED's investigation into this matter is continuing. The above information represents specific violations that NMED believes, at this point, are sufficiently supported by evidence to warrant the allegations in this NOV. NMED may find additional violations as the investigation continues.
26. NMSA § 74-2-12 and 12.1, provides NMED with several enforcement options to resolve these violations, including issuing an administrative compliance order, issuing a statutorily authorized penalty, or bringing a judicial civil action.
27. A person who violates a provision of the Air Quality Control Act or a regulation, including NSPS regulations, permit condition or emergency order adopted or issued pursuant to that act may be assessed a civil penalty not to exceed fifteen thousand dollars (\$15,000) for each day during any portion of which a violation occurs.
28. NMED may seek, and a United States district court may order, equitable remedies to further address these alleged violations. NMSA § 74-2-12.A(2).

3/14/19
Date



Liz Bisbey-Kuehn
Bureau Chief
Air Quality Bureau
New Mexico Environment Department

