

BEFORE THE HEARING BOARD
OF THE
VENTURA COUNTY AIR POLLUTION CONTROL DISTRICT
STATE OF CALIFORNIA

In the matter of the application of:

Carbon California Operating Company
270 Quail Ct, Suite B
Santa Paula, CA 93060

For a variance from:

Rule 29.C, Conditions on Permits –
Violation of Condition 4

APCD Permit to Operate No. 990

Hearing Board Case No. 892

ORDER
GRANTING
INTERIM VARIANCE

Granted: May 7, 2024

Effective to: August 5, 2024

On April 25, 2024, PETITIONER CARBON CALIFORNIA OPERATING COMPANY (Carbon), filed with this Hearing Board petitions for Interim and Regular Variances pursuant to California Health and Safety Code Section 42350(a). The petitioner requested that the Hearing Board grant an interim variance from Air Pollution Control District (hereinafter "APCD" or the "District") Rule 29.C, Conditions on Permits – Violation of Permit to Operate (PO) No. 990, Condition 4, flare gas consumption totals.

Petitioner requested authorization to continue operating the permitted 262.5 MMBTU/hr Mactronic Waste Gas flare at the Sespe Compressor Plant with excess emissions until a Regular Variance Hearing can be held on or before August 5, 2024, or compliance is achieved, whichever occurs first. Notice of the application and hearing for interim variances is not required to be published in the newspaper. However, a regular variance hearing must be held within 90 days of the interim hearing date. Reasonable notice was given to the Hearing Board Members, Petitioner, and APCD.

On May 7, 2024, a hearing on the petition for interim variance was held. The Ventura County Air Pollution Control District (District) was represented by Mr. Keith Macias, Compliance Manager. The Petitioner was represented by Mr. Scott Price, President, Carbon, Mr. Luke Faith, Area Manager, Carbon, and Mr. Rob Alfaro, Vice President, Sespe Consulting.

All persons, including the public, were given the opportunity to give testimony or make comments.

The Hearing Board heard testimony on the "good cause" issue set forth in Section 42351(b) of the California Health and Safety Code. Section 42351(b) states in part: "An interim variance may be granted for good causes stated in the order granting such a variance."

The Hearing Board declared the hearing closed after receiving testimony and took the matter under submission for decision. The Hearing Board made the following findings of fact.

EQUIPMENT AND LOCATION

1. Petitioner is in the business of producing and separating crude oil and natural gas. Carbon's Sespe Field Leases are located north of the city of Fillmore in Ventura County, California.
2. The subject equipment consists of a 262.5 MMBTU/hr Mactronic Waste Gas flare at the Sespe Compressor Plant. The Operations at the Sespe Leases are authorized by PO No. 990. The total permitted flaring limits include emergency use of the flares. Emergency use is defined as disposal of process gases in the event of unavoidable process upsets.

BACKGROUND

Carbon California operates the Sespe oil field, which is north of the city of Fillmore in Ventura County. Oil and natural gas are produced from oil and gas wells on-site and is shipped to the market via pipeline. There are two natural gas compressors that ship the gas through the pipeline. This pipeline runs down from the Sespe mountains and through the city of Fillmore.

Natural gas is a byproduct of crude oil production. Gas may be collected from oil wells and storage tanks, compressed, and sent to sales via a pipeline. When it is not possible to sell the natural gas, due to sales pipeline problems or electrical failure, the produced gas must be flared, or the entire facility must be shut down.

During June of 2023, one of the compressors sustained a major mechanical failure. From June 2023 until March 2024 the facility had one compressor operating. The Petitioner was able to sell approximately 65% of the field gas and was forced to flare the remainder. The Petitioner was confident that repairs of the non-operational compressor would be completed prior to reaching the permitted flaring limits in PO No. 990, Condition No. 4.

The Petitioner completed the repair in March 2024, without exceeding the permitted flaring limits.

On March 29, 2024, the Petitioner's gas pipeline sustained major damage due to a landslide caused by flooding from the prolific rainfall that occurred in the area in the first few months of 2024. The Petitioner's pipeline was immediately shut down due to the damage and the Petitioner was forced to flare the entirety of the field gas until repairs could be completed.

On April 4, 2024, Petitioner reported a breakdown to the District due to the damage sustained to the pipeline to the Sespe oils fields from a landslide. The damaged pipeline services the entire oil field. It was shut down for safety and repairs to be performed. At that time the only option was to flare all of the field gas produced. This unavoidable process upset caused an exceedance of the permit limits.

On April 11, 2024, Carbon was granted an Emergency Variance from District Rule 29.C, PO No. 990, Condition No. 4, gas consumption limits by the Chairman of this Hearing Board (Order Granting Emergency Variance No. 891 is enclosed). This Emergency Variance order is in effect until Carbon is in compliance with the Rule and permitted gas consumption limit or May 10, 2024, whichever occurs first.

In order to come into compliance with the flaring limit the Petitioner will take action by replacing and rerouting a section of the damaged pipeline. Petitioner estimates this will take about 2 to 3 months. All crude oil production has been stopped, but the wells will not be shut-in to avoid putting back pressure on the reservoir and causing further damage to equipment and causing a safety issue. In the meantime, gas is still being produced and excess gas will have to be flared.

Petitioner requests an interim variance to allow continued flaring operation of the gas while the facility repairs the pipeline and brings the facility back into compliance with District Rules and Permit Conditions.

RULE REQUIREMENTS AND VIOLATIONS

The operations at the facility are subject to California statutes and District Rules and Regulations. The following District Rule and Permit Condition is applicable to this Interim Variance:

1. District Rule 29.C.2 – Violations of Permit Conditions - Any violation of the conditions of an Authority to Construct or a Permit to Operate issued pursuant to these Rules shall constitute a violation of these Rules. Any such violation is subject to the penalties provided for in Part 4 of Division 26 of the California Health and Safety Code.

2. PO No. 990, Condition No. 4 states: “Gas consumption at the 262.5 MMBTU/hr Mactronic Waste Gas flare at the Sespe Compressor Plant shall not exceed 234.0 million cubic feet per year. In order to demonstrate compliance with this condition, the permittee shall maintain monthly records of flare gas consumption. The monthly flare gas consumption shall be summed for the previous 12 months. Flare gas consumption totals for any of these 12-month periods in excess of the specified limit shall be considered a violation of this condition.”
3. If Carbon continues to operate the oil production equipment at the Sespe Field Leases, natural gas will be produced and must be controlled through flaring. Continued shutdown of the damaged pipeline for the facility has resulted in violations of the gas consumption limit in Permit Condition No. 4.

GOOD CAUSE

The Sespe Field Leases pipeline damage and “force majeure” event was unexpected and completely out of Carbon’s control and has resulted in gas consumption exceedance. The condition is the result of a large landslide that has irreparably damaged a section of the Sespe gas pipeline. The landslide and subsequent damage were caused by flooding that occurred county-wide over the last several months. Therefore this unexpected force majeure event meets the requirements to support “good cause” and constitutes a breakdown as defined in Rule 32.

On April 11, 2024, Carbon determined that the shutdown of the only pipeline available for the Sespe lease caused the Petitioner to exceed the gas consumption limit at the Sespe Compressor Plant and applied for an emergency variance which was granted by the Chairman of this Board on April 11, 2024, and is in place until May 10, 2024. Carbon must repair the pipeline before they can resume sale through the pipeline. Continuous compliance with the gas consumption limits in PO No. 990, Permit Condition No. 4 is not possible while the pipeline is shutdown. Carbon currently has no other alternative means to dispose of the produced gas.

The Sespe gas pipeline will need a major repair, possibly relocation. Carbon is currently in the process of planning and taking bids to conduct this repair and/or relocation. Carbon has no other alternative means to dispose of the produced gas and is hopeful that this repair and/or relocation will be completed in 2-3 months.

Shipping gas via the pipeline cannot resume until repairs are completed. The field gas must be flared because shutting down well level field gas will result in significant reservoir pressure, over pressure of system safety devices and unsafe conditions.

If immediate compliance with the rule was required approximately \$1.5 million in monthly revenue would be lost which is approximately 50% of the Petitioners total monthly revenue. This could potentially result in business closure and/or a layoff of 12 company personnel and 15 contract personnel. An interim variance is required for Carbon to maintain its existing operations and to ensure that Carbon meets its financial obligations, including lease payments and remaining in business. If Carbon is not granted a variance and has to shut in all the well casings to prevent further flaring of the produced gas until such time that the higher months of flared gas drop off from the rolling 12-months, it will cause approximately \$60,000 in daily economic loss for all of the affected fields as well as lost time for operations staff and contractors.

Petitioner is unable to curtail operations in lieu of obtaining an interim variance because that would result in possible irreversible damage to well bores field wide. Closing in the field would result in unsafe conditions due to increased pressure in field equipment and safety devices. In addition, shutting in the producing wells can result in a buildup of corrosion, scale, and, when the well is brought back online, there is a high risk of sand entering the well bore, which can cause mechanical problems with the pump. The cost to correct each aforementioned well issue can range from \$30,000 - \$50,000 per well. There would also be additional exhaust emissions attendant to the servicing equipment that would be necessary to address these well issues.

All efforts will be made to minimize field gas from select high producing gas wells during the period of the variance to ensure excess emissions are reduced to the maximum extent feasible.

Nuisance, as defined in District Rule 51, is not expected to occur as a result of this variance.

The continued operation of the 262.5 MMBTU/hr Mactronic Waste Gas flare at the Sespe Compressor Plant during the variance is not likely to create an acute threat or hazard to public health or safety.

FINDINGS OF FACT

The Hearing Board found that there was good cause to grant an interim variance because pursuant to Health and Safety Code Section 42352, and District Rule 123, "Findings, Variance or Abatement Order," the following findings have been made:

1. The petitioner is, or will be, in violation of Health and Safety Code Section 41701 or District Rule 29.C.
2. The violation is due to conditions beyond the reasonable control of the petitioner.

3. Requiring immediate compliance would result in either an arbitrary or unreasonable taking of property or the practical closing of a lawful business.
4. The closing or taking would be without a corresponding benefit in reducing air contaminants.
5. Petitioner has given consideration to curtailing operations in lieu of obtaining a variance.
6. Petitioner will reduce excess emissions to the maximum extent feasible during the variance period.
7. Petitioner will monitor or otherwise quantify emission levels from the equipment during the variance period, if requested to do so by the District, and report these emission levels to the District pursuant to a schedule established by the District.
8. A nuisance as specified in Rule 51 is not expected to occur.
9. Continued operation is not likely to create an immediate threat or hazard to public health or safety.

Further evidence shall be provided by the petitioner regarding items 2 through 9 at the noticed Regular Variance Hearing that will be scheduled on or before August 5, 2024.

CONCLUSIONS AND ORDER

NOW, THEREFORE, the HEARING BOARD FINDS AND CONCLUDES THAT GOOD CAUSE HAS BEEN SHOWN AND ORDERS that Carbon is granted an Interim Variance from Rule 29, Conditions on Permits, Section C, Violation of Permit Condition 4 for its 262.5 MMBTU/hr Mactronic Waste Gas flare at the Sespe Compressor Plant. This order will remain in effect until the Hearing Board holds a regular variance hearing and either grants or denies the matter in Petition Number 893, or until compliance is demonstrated, whichever is sooner. A regular variance hearing will be scheduled on or before August 5, 2024. This variance is subject to the following conditions:

THE PETITIONER SHALL:

- A. Increments of Progress
 1. Provide documentation demonstrating that contractor(s) have been retained to complete repairs to the pipeline.

2. Provide an estimated timeline of events required to complete the pipeline repairs.
 3. Provide weekly reports to the District submitted each Friday until compliance is achieved or August 5, 2024, whichever comes first. Reports shall include: Current flaring totals, progress of the pipeline repair and an updated estimate of when the repair will be complete. The first report is due by May 10, 2024.
 4. Continue monitoring the flared gas via a total flow meter and quantify the emissions via emission factors for a flare.
 5. Perform a higher heating value analysis for the flare gas monthly and report the results to the District.
 6. Perform a sulfur analysis for the flare gas monthly and report the results to the District.
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7. Curtail gas production to the maximum extent feasible and notify the District which wells have been curtailed. Include these details in the weekly reports.
 8. Attend a regular variance hearing on or before August 5, 2024

B. Reporting Requirements

1. Carbon will monitor natural gas consumption during the variance and report this data to the District by September 5, 2024. Excess emissions and excess emission fees will be based on the data submitted in this report.
2. As required by District Rule 42.N, "Flaring Excess Emission Fee," payment of excess emission fees shall be submitted to the District no later than 60 days after receiving the bill.
3. All submittals and notifications to the District pursuant to this Variance Order shall be made to Mr. Keith A. Macias, Ventura County Air Pollution Control District, 4567 Telephone Road, 2nd Floor, Ventura, CA 93003.

C. General

1. Except as provided in this order, compliance with this Order shall not relieve Petitioner from liability under the District's Rules for any violation,

thereof, and shall not preclude the District from pursuing remedies in accordance with the Health and Safety Code in the event of any violation.

2. The failure to abide by any condition of this decision and Order shall subject Carbon to penalties set forth in Health and Safety Code Section 42402.
3. Each day during which a violation occurs is a separate offense.
4. Petitioner shall retain the obligation to comply with all other local, state and federal regulations not specifically referenced in this Variance Order.
5. Petitioner shall pay the Hearing Board fees specified in District Rule 41.

Valarie Grossman	<u>Yes</u>
Victor Kamhi	<u>Yes</u>
Dr. Lewis Kanter	<u>Yes</u>
Kathleen Paulson	<u>Absent</u>
Michael Stubblefield	<u>Yes</u>



VENTURA COUNTY AIR POLLUTION CONTROL DISTRICT
HEARING BOARD CHAIR

May 7, 2024
DATE