

INTERIM VARIANCE ORDER NUMBER

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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 3

APCD Permit to Operate No. 00939

Hearing Board Case No. 878

ORDER
GRANTING
INTERIM VARIANCE

Granted: August 26, 2019

Effective to: November 22, 2019

On August 12, 2019, 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 District Rule 29.C, Conditions on Permits – Violation of Permit to Operate (PO) No. 00939, Condition 3.

Petitioner is requesting authorization to continue operating the permitted 18.0 million British Thermal Units per hour (MMBTU/hr) Waste Gas Flare with excess emissions. A regular variance hearing will be held on or before November 22, 2019. Notice of the application and hearing is not required for interim variances.

On August 26, 2019, a hearing on the petition for variance was held. The Ventura County Air Pollution Control District (District) was represented by Mr. Keith Macias, Compliance Manager, and Ms. Michelle Wood, Supervising Air Quality Specialist. The Petitioner was represented by Mr. Scott Price, President, Carbon, Mr. Luke Faith, Area Manager, Carbon, Ms. Jane Farkas, Director of Land & Regulatory Affairs, Carbon, and Mr. Rob Alfaro, Vice President, Sespe Consulting. All persons, including the public, were given the opportunity to give testimony or make comment.

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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 Clark and West Leases, Timber Canyon is located in a remote area north of the City of Santa Paula, Ventura County, California.
2. The subject equipment consists of a 18.0 MMBTU/hr Waste Gas Flare, authorized by District Permit to Operate number 00939.

BACKGROUND

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.

The emission source authorized by District PO number 00939 is one 18.0 MMBTU/hr Waste Gas Flare. The flare is used to manage produced gas attendant to oil-gas production operations. As opposed to "stacking" gas, which can impact the environment and present a safety hazard and is prohibited by District Rules. The flare provides an effective way to temporarily manage gas from operations attendant to oil-gas production, maintenance activities, and ancillary operating and processing when it cannot be sent via pipeline.

Carbon and California Resources Petroleum Corporation (CRC) are parties to a Gas Treating and Purchase Agreement dated September 19, 2002, where Carbon sends the natural gas produced to CRC for processing and sales to the Southern California Gas Company (SoCal Gas).

On June 26, 2019, CRC notified Carbon that, due to a SoCal Gas project that includes the relocation and repair to the main pipeline that CRC delivers gas to, SoCal Gas has significantly reduced the amount of gas that CRC can deliver into the existing pipeline. Due to this "force majeure" event, CRC indicated that it temporarily would not accept gas

from Carbon into the CRC pipeline system as of June 27, 2019. This limitation on Carbon's gas deliveries will continue until SoCal Gas has completed the relocation and repairs of the main pipeline or until CRC develops an alternative pipeline option. There are no current alternative sales gas lines available to Carbon. The event was unexpected and completely out of Carbon's control.

On June 27, 2019, CRC shut-in Carbon and stopped receiving natural gas from Carbon's pipelines. Since June 27, 2019, Carbon has flared its gas consistent with Carbon's allowed fuel consumption limit for the flare under District PO number 00939.

On July 2, 2019, Carbon informed the District that they believed the unexpected SoCal Gas event will eventually cause an exceedance of the permitted fuel consumption limit for the flare.

On August 12, 2019, Carbon filed an interim variance petition with the Clerk of the Board, as well as a regular variance petition. Carbon is seeking a variance because CRC's gas processing system, which is the only market for produced gas from Carbon's existing fields, is currently constrained. Carbon currently has no other feasible option than to flare the gas until the pipelines to CRC are available for processing. Carbon currently has no other alternative means to dispose of the produced gas. Additionally, there are no mitigation measures available.

Carbon intends to come into compliance by feeding natural gas back into the line to CRC as soon as CRC allows the produced gas back in. Carbon has also been in communication with CRC regarding the potential for tying into an alternative SoCal Gas sales line. CRC is currently in the process of permitting additional equipment with the District and Ventura County Planning that will enable Carbon to feed natural gas into the line to CRC in the near term and before the completion of the SoCal Gas project. CRC is working with the County of Ventura to ensure that this alternative be permitted as soon as possible. CRC notified Carbon that this alternative gas line may be available for Carbon to access as soon as October. In addition, CRC recently completed a project involving a high-pressure line that has facilitated Carbon's natural gas transmission into that line from the temporarily shut-in Sespe Field Leases and the flaring at that site associated with this unexpected event has already ceased.

RULE REQUIREMENTS AND VIOLATIONS

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

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District Rule 29.C, Conditions on Permits - Violation of Permit Conditions, requires permit holders to comply with the conditions on their permits. Carbon's PO No. 00939, Condition 3 states in part:

“Gas consumption for the emergency flare shall not exceed 11.8 million cubic feet (MMCF) of gas per year for any planned flaring events. There is no limit for emergency use. Emergency use is defined as disposal of process gasses in the event of unavoidable process upsets.... If a process upset (emergency use) cannot be rectified in a reasonable amount of time, the use of the flare may be determined to be a planned flaring event.”

If Carbon continues to operate the oil production equipment at the Clark and West Leases, Timber Canyon, natural gas will be produced and must be controlled through flaring. Continued operation of the Clark and West Leases will exceed PO Number 00939, Condition 3 flaring limit and Carbon will be in violation of District Rule 29.C until the pipelines to CRC are available for processing.

GOOD CAUSE

The SoCal Gas line shut down and “force majeure” event was unexpected and completely out of Carbon's control. Carbon has no control of the pipeline and both CRC and SoCal Gas' schedule is beyond Carbon's control. Carbon must wait for the pipeline to go back into service before Carbon can resume sale to CRC through the pipelines. Carbon currently has no other alternative means to dispose of the produced gas.

An interim variance is required for Carbon to maintain its existing operations, which include other wells in the Ojai Field Leases that are also affected by the SoCal Gas project, and to ensure that Carbon meets its financial obligations, including lease payments and remaining in business. If Carbon is not granted an interim variance, it will have to shut-in all the well casings to prevent further flaring of the produced gas until such time that permit authorizations allow further flaring (i.e., when higher months of flared gas drop off from the rolling 12-months), which will cause approximately \$100,000 in daily economic loss for Carbon for all of the affected fields as well as lost time for operations staff and contractors.

The Timber Canyon field produces approximately \$300,000 in revenue each month. This is approximately 12-percent of Carbon's total revenue for California productions. Combined with the shut-in of the Ojai Field Leases (that are also under force majeure) shutting in the wells would be detrimental to Carbon's business. If this variance (along with the Ojai variance petition) is not granted, 90-percent of Carbon's active wells would be shut in, which would put Carbon out of business because it would not be able to fulfill its financial obligations.

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Furthermore, there are currently 11 Carbon field employees who work in the Ojai/Timber Canyon fields that would be laid-off if Carbon's pending interim variance petitions are not granted. Carbon operations also include approximately 15 support companies that provide services to the Ojai/Timber Canyon field operations.

The overall cost of continued shut-in would result in \$3 million per month loss for Carbon. This would be detrimental to its business, force employee layoffs and risk potential closure. Requiring immediate compliance would result in an unreasonable taking of property or the practical closing of a lawful business. Requiring immediate compliance would result in an unreasonable taking of property or the practical closing of a lawful business.

Carbon has given consideration to curtailing operations in lieu of obtaining a variance but for the following reasons it has been unable to do so: (1) the only option to flaring in this case is to shut-in the producing wells, (2) shutting in the producing wells, even temporarily, 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, (3) the cost to correct each aforementioned issue can range from \$20,000 - \$40,000 per well and (4) there would also be additional exhaust emissions attendant to the servicing equipment that would be necessary to address.

Flaring is the only feasible solution that will reduce excess emissions to the maximum extent feasible during the variance period pursuant to District Rule 71.1.C, Crude Oil Production and Separation, Requirements - Produced Gas, which requires that emissions of produced gas shall be controlled at all times using a properly maintained and operated system that directs all produced gas, except gas used in a tank battery vapor recovery system, to one of the following: a fuel or sales gas system, a flare that combusts reactive organic compounds, or a device with an ROC destruction or removal efficiency of at least 90 percent by weight.

Carbon will continue monitoring of the flared gas via a Total Flow meter and quantify the emissions via emission factors for a flare. Carbon will submit flaring data to the District with weekly reports.

The flare at issue in this variance petition is located in a remote area north of the City of Santa Paula in Ventura County. The southern boundary of the oilfield is approximately 3 miles from the city. The closest residence to the flare has been reported to be 1.2 miles away and the closest school 2.85 miles away. A nuisance as specified in Rule 51 is not expected to occur during this flaring event. Continued operation is not likely to create an immediate 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 hearing that will be scheduled on or before November 22, 2019.

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 3 for its Clark and West Leases 18.0 MMBTU/hr Waste Gas Flare. This order will remain in effect until the Hearing Board holds a regular variance hearing and either

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grants or denies the matter in Petition Number 879, or until compliance is demonstrated, whichever is sooner. A regular variance hearing will be scheduled on or before November 22, 2019. This variance is subject to the following conditions:

THE PETITIONER SHALL:

A. Increments of Progress

1. Carbon will continue monitoring of the flared gas via a Total Flow meter and quantify the emissions via emission factors for a flare. Carbon will submit flaring data to the District with weekly reports.
2. Carbon will provide weekly progress reports on the progress of CRC allowing Carbon's natural gas production back into the pipelines; the first report will be due by September 2, 2019.
3. Carbon will curtail gas production to the maximum extent feasible and notify the District which wells have been curtailed. Carbon will include details in weekly reports.
4. Carbon will attend a regular variance hearing on or before November 22, 2019.

B. Reporting Requirements

2. Carbon will monitor natural gas consumption during the variance and report this data to the District by December 9, 2019. Excess emissions and excess emission fees will be based on the data submitted in this report.
3. 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.
4. All submittals and notifications to the District pursuant to this Variance Order shall be made to Ms. Michelle Wood, Ventura County Air Pollution Control District, 669 County Square Drive, 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,

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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.

Stephen Craig Hurlock AYE

Daniel Joseph Murphy AYE

Michael David Stubblefield, Chair AYE



VENTURA COUNTY AIR POLLUTION CONTROL DISTRICT
MICHAEL DAVID STUBBLEFIELD, HEARING BOARD CHAIR

 8/30/2019

DATE