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**SUBJECT: COMMENTS ON PROPOSED RULE SUBPART "K"
PROPOSED OIL AND GAS PRODUCTION REQUIREMENTS
REFER TO - RIN 1010-AD12**

Please accept the following comments on the proposed rule subpart "K published in the in Federal Register Vol. 72, No. 43, dated Tuesday, March 6, 2007 from Shell Exploration and Production Company (SEPCO) submitted on behalf of Shell Offshore Incorporated (SOI). SEPCO is a leading producer of oil and gas and a large leaseholder in the Gulf of Mexico. As such, we are quite interested in providing comments on the Minerals Management Service (MMS) proposed rule on oil and gas production requirements.

We support the MMS' use of plain-language format in this proposed rule as well as future rulemaking and also support the efforts to clarify requirements for documents that operators must submit to MMS, as well as the timing of those submissions.

SEPCO has also participated in and hereby adopts the comments prepared and submitted by the Offshore Operators Committee (OOC) and the American Petroleum Institute's (API) Committee on Production Measurement and Allocation ongoing work on the Manual of Petroleum Measurement Standards. In addition to the OOC'S comments and API's ongoing work, we submit the following comments on the key issues of the proposed regulation which should be considered when revising the proposed regulations.

1. In the past, production facilities in the Gulf of Mexico Outer Continental Shelf (OCSG) were allowed to calculate gas volumes due to flaring/venting without the requirements for meters. Retrofitting meters on these locations, managing their ongoing maintenance, repair and calibration, along with additional volume reporting and recordkeeping would result in a significant initial burden and recurring costs.
 - a. It is believed that those combined costs would be in excess of the \$77,000 per facility quoted in the Proposed Rule. Retrofitting and installing the meters would involve significant resources as described below:
 - i. Design engineering resources – existing facilities must be retrofitted to install meters in flare/vent piping systems not considered in the original design.
 - ii. Safety engineering resources - Safety reviews (HAZOP's/HAZID's) would be necessary prior to doing this type of design change.
 - iii. Delayed production – due to the facility shut-in's necessary to carry out the field installation.
 - iv. Construction resources – due to the actual fabrication and installation.
 - b. The meter/equipment procurement alone could easily exceed the proposed 120 days granted to comply with the proposed rule.
 - c. The MMS District's approval process for facility changes of this nature is not untypical to take 30 days.
2. Given the extreme flow and pressure range needed for flare/vent meters, it is doubtful that the proposed meter accuracy threshold (+/- 2%) is reasonable or attainable.
 - a. No single meter or flow analyzer technology is capable of achieving the necessary turndown ratios required to measure all possible gas flow rates within this range of uncertainty.
 - b. Typical orifice plate metering technology could not handle the extreme conditions of this application. Further, there exists a significant safety issue regarding the installation of an orifice plate in a relief line designed to handle emergency blowdowns. It is SEPCO's opinion it is ill advised to install any restrictions in lines of this nature other than the necessary flame arrestors.
 - c. Ultrasonic metering could handle the wide flow range, but will not produce overall +/- 2 % accuracy desired.
3. Having a 2000 BOPD or greater volume threshold as a basis to imply this rule results in the majority of SEPCO locations being impacted. SEPCO would like to understand how the 2000 bbl/day threshold was established.
4. SEPCO assumes internal consultations have occurred between the MMS' Technical Measurement Section and the Rate Control Section specific to the metering aspect for this proposed rulemaking. SEPCO feels these meters should not be subject to the requirements in Subpart L.

5. The proposed requirement to report the amount of gas flared and vented at each facility on a lease or unit basis is a redundant requirement.
 - a. The Oil and Gas Operations Report (OGOR – MMS Form 4054) reports these gas volumes on a lease unit basis as a combined volume number for flared and vented gas.
 - b. The SOI venting and flaring record required by 30CFR 250.1105 (d) reports these gas volumes on a facility/host basis with vented and flared volumes reported separately.
 - i. Should the proposed requirement be enacted it would require a substantial amount of software changes to the database that reports to the OGOR – Form 4054 and the offshore production report form that generates the Venting and Flaring record required by 30 CFR250.1105 (d).
 - a. SEPCO would incur costs and man-hours due to currently generating flare/vent records depicting the host producing facility only.
 - b. SEPCO's existing facilities handle production from different leases and different operators via many subsea fields and production handling agreements with other Gulf of Mexico operators.
 - c. The MMS comment to the aforementioned proposed requirement stating "This would enable MMS to directly compare volumes reported on Forms MMS-4054 with field records. This requirement would also reduce the burden on operators during royalty audits because operators would no longer have to reconstruct historical flare/vent allocations for MMS auditors."
 - i. This statement is not fully understood by SEPCO as we believe that the information reported via MMS Form 4054 (OGOR's) is easily accessed and readily available to the MMS.
7. In the supplementary information section explaining 250.1163 it states, if you flare or vent gas without the required approval, or if the MMS determines that you were negligent or could have avoided flaring or venting the gas, the hydrocarbons will be considered avoidably lost or wasted. Avoidably lost or wasted hydrocarbons require a payment of royalties according to part 202 of this title. The aforementioned statement is clear. However, it further explains that MMS would retain the authority to determine whether or not the loss was avoidable or due to negligence, even if approved by MMS. MMS would also be able to pursue civil penalties if MMS determines that the loss was avoidable or due to negligence.
 - a. SEPCO would like additional clarification of these statements. The term "negligence" is understood. However, the use of the term "avoidable" should be made more clearly understood in this context.
 - i. SEPCO does not understand how flared or vented volumes of gas could ever be classified as "unavoidably" lost. During an equipment malfunction, nearly all venting and flaring may be considered "avoidable" (excluding the initial blowdown of the malfunctioning equipment).

- ii. A shutdown of the total facility could be initiated until the malfunctioning equipment was repaired. Then the entire facility could be restarted.
 - (i) SEPCO believes to shut-in an entire host facility to avoid flaring/venting due to a temporary malfunction is not always the best course of action. Shutting in an entire host facility may actually increase flaring/venting volumes during the shutdown and restart.
 - b. SEPCO understands that if you flare or vent gas in excess of the proposed allowed time limits without the required approval, or the MMS determines that incorrect, insufficient or dishonest information was used to receive the required approvals, the hydrocarbons should be considered wasted. Thus royalty payment on the hydrocarbons wasted would be required according to part 202 and the pursuit of civil penalties would be justifiable.
8. SEPCO is concerned by the proposed rule 250.1160 (a) (6) (ii) limiting the time allowed to flare or vent gas well gas during the formation of a hydrate plug due to purely natural conditions i.e. not related to an equipment malfunction. SOI operates numerous deepwater sub-sea wells where hydrate formation, particularly on subsea gas wells, is a recognized occurrence and sometimes an unavoidable condition due to changes in well flowing characteristics. Hydrates form much easier and quicker in sub-sea flowlines, as opposed to the typical vertical access wells. Limiting the flaring or venting of gas-well gas to two hours and allowing 48 continuous hours for oil-well gas in this regard is not consistent with prior guidance and actions.
- a. Previous MMS guidance allowed SEPCO to understand that 48 cumulative hours of flaring/venting was allowed under 250.1105 (a) (3) without distinction between gas-well or oil-well gas if the plug formed naturally and not related to equipment failure.
 - b. Further, it was clearly understood that if the plug developed as result of equipment failure i.e. paraffin or hydrate inhibition pump failure, then the flaring or venting resulting from the root cause equipment failure was regulated under 250.1105 (a) (2).
 - c. To allow 48 continuous hours (with an ultimate 144 hour limit) for oil-well gas flaring when a hydrate or paraffin plug forms does not seem to reflect the spirit of 250.1105 (a) (2).
 - d. It is SEPCO's opinion that the proposed rule will be over burdensome for the operator and the MMS when flaring or venting gas well gas is unavoidable and necessary to return the well to a producing state.

SEPCO appreciates the opportunity to provide these comments. Should you have any questions, please feel free to contact me at (504) 728-4252 or our Mr. Bill Terrebonne at (504) 728-7281 (e-mail william.terrebonne@shell.com).

Yours very truly,

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