



**Sent via electronic mail to Howard.Elliot@dot.gov**

May 21, 2020

The Honorable Skip R. Elliot  
Administrator  
Pipeline and Hazardous Materials Safety Administration  
U.S. Department of Transportation  
1200 New Jersey Ave, S.E.  
Washington, D.C. 20590

**Re: Pipeline Safety: Safety of Gas Gathering Pipelines, RIN 2137-AF38**

Dear Administrator Elliot:

The midstream industry is facing unprecedented economic challenges as a result of ongoing turmoil in the international energy markets and the emergence of the COVID-19 pandemic. GPA Midstream Association (GPA Midstream) is submitting this letter to urge you to carefully consider these challenges as the Pipeline and Hazardous Materials Safety Administration (PHMSA) completes its long-running rulemaking proceeding for onshore gas gathering lines.<sup>1</sup>

GPA Midstream wants to emphasize that its members strongly support PHMSA's effort to conclude this rulemaking proceeding, which has been underway for almost a decade, despite the extraordinary economic circumstances confronting the industry. GPA Midstream also supports PHMSA's efforts to extend additional reporting requirements to gas gathering lines, whether regulated or not, and to establish new safety standards for high-stress gas gathering lines in rural areas that are greater than 12 inches in diameter.<sup>2</sup>

However, GPA Midstream remains strongly opposed to any effort by PHMSA to regulate small diameter, low-risk gas gathering lines in rural locations.<sup>3</sup> The data presented during the rulemaking process does not support that action, and the resulting compliance costs would have a

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<sup>1</sup> Pipeline Safety: Safety of Gas Transmission and Gathering Pipelines, 81 Fed. Reg. 20,722 (Apr. 8, 2016).

<sup>2</sup> GPA Midstream Association and American Petroleum Institute, Supplemental Comment of the GPA Midstream Association and American Petroleum Institute on "Pipeline Safety: Safety of Gas Gathering Pipelines," RIN 2137-AF38, June 2019 Gas Pipeline Advisory Committee Meeting at section II, IV(a)-(e) (Sept. 30, 2019).

<sup>3</sup> *Id.* at section II, IV(f).

devastating impact on the midstream industry, especially under current economic conditions. Accordingly, GPA Midstream is respectfully requesting that PHMSA issue the final rule as soon as possible, but that any new safety standards for rural gathering lines be limited to larger diameter, higher-risk pipelines.

## **I. The Midstream Industry is Facing Unprecedented Economic Conditions**

The midstream industry is experiencing unprecedented economic challenges as a result of ongoing turmoil in the energy markets and the emergence of the COVID-19 pandemic. The price of West Texas Intermediate (WTI) crude oil, the benchmark for the New York Mercantile Exchange (NYMEX) futures contract and many global energy transactions, recently fell into negative territory for the first time since trading began in 1983,<sup>4</sup> representing a decrease of nearly \$100 per barrel from prices at the beginning of the year.<sup>5</sup> The dramatic decrease in oil prices in the past four months has had a devastating negative impact on the economic viability of U.S. energy industry and the overall U.S. economy.<sup>6</sup> When adjusted for inflation, WTI prices have consistently remained at levels not seen since the Energy Information Administration (EIA) began tracking oil prices in 1985.<sup>7</sup>

A recently-resolved dispute between the Organization of the Petroleum Exporting Countries (OPEC) and certain non-OPEC countries led to unnecessary production increases that contributed significantly to the unprecedented deterioration in the oil markets.<sup>8</sup> Domestic and international storage is nearing capacity and historic changes in global demand have occurred as a result of COVID-related travel bans and deteriorating economic conditions.<sup>9</sup> The EIA recently reported that oil consumption reached the lowest levels since weekly reporting of that data began in the early 1990s.<sup>10</sup> The situation is so challenging that some state oil and gas commissions are considering measures to curtail production.<sup>11</sup>

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<sup>4</sup> Energy Info. Admin., Low Liquidity and Limited Available Storage Pushed WTI Crude Oil Futures Prices Below Zero (Apr. 27, 2020), <https://www.eia.gov/todayinenergy/detail.php?id=43495>.

<sup>5</sup> Energy Info. Admin., Petroleum & Other Liquids, Cushing, OK WTI Spot Price, <https://www.eia.gov/dnav/pet/hist/RWTCD.htm> (last visited May 18, 2020).

<sup>6</sup> Energy Info. Admin., EIA forecasts U.S. crude oil production to fall in 2020 and 2021 (May 14, 2020), <https://www.eia.gov/todayinenergy/detail.php?id=43735>.

<sup>7</sup> *Id.*

<sup>8</sup> Energy Info. Admin., Short-Term Energy Outlook May 2020 at 15, [https://www.eia.gov/outlooks/steo/pdf/steo\\_text.pdf](https://www.eia.gov/outlooks/steo/pdf/steo_text.pdf) (hereinafter “May STEO”).

<sup>9</sup> *See, e.g., Id.* at 8; Energy Info. Admin., COVID-19 Mitigation Efforts Result in the Lowest U.S. Petroleum Consumption In Decades (Apr. 23, 2020), <https://www.eia.gov/todayinenergy/detail.php?id=43455>. The EIA reported that oil storage facilities in Cushing, Oklahoma, were 76% full as of April 7, 2020. *Id.*

<sup>10</sup> Energy Info. Admin., COVID-19 Mitigation Efforts Result in the Lowest U.S. Petroleum Consumption In Decades (Apr. 23, 2020), <https://www.eia.gov/todayinenergy/detail.php?id=43455>. The reduced oil consumption is mostly attributed to reduced motor oil demand. *Id.*

<sup>11</sup> Oklahoma Oil Regulators Set May 11 Hearing on Oil Cuts, Reuters (Apr. 14, 2020), <https://www.reuters.com/article/us-usa-oil-oklahoma-cuts/oklahoma-oil-regulators-set-may-11-hearing-on-oil-cuts-idUSKCN21W2Y4>; North Dakota sets May 20 hearing on O&G production cuts, (May 4, 2020), <https://www.kallanishenergy.com/2020/05/04/north-dakota-sets-may-20-hearing-on-og-production-cuts/>. *See also*

EIA projects that the U.S. oil production will fall to an average of 11.7 million barrels per day (bpd) in 2020, down 0.5 million bpd from 2019, and further declining by 0.8 million bpd in 2021 to 10.9 million bpd.<sup>12</sup> A recent analysis conducted by Rystad Energy found that U.S. oil and liquids production could fall by at least 2 million bpd in June 2020.<sup>13</sup> EIA reports that the forecasted decline by 0.8 million bpd in 2021 would be the largest annual decline in U.S. crude oil production on record.<sup>14</sup> EIA further reports that non-OPEC petroleum and other liquid fuel supply is expected to decline by 2.4 million bpd in 2020.<sup>15</sup>

The natural gas industry is experiencing similar economic damage due to the ongoing volatility in the oil markets and growing impact of the COVID-19 pandemic. Natural gas prices averaged \$1.73 per MMBtu in April 2020 due to reduced demand and fell to as low as \$1.50 per MMBtu in early April.<sup>16</sup> The last time that the natural gas prices reached comparable levels was in early 2016 and 1999.<sup>17</sup> As compared to 2019, EIA is projecting that the economic slowdown resulting from the COVID-19 pandemic will reduce total natural gas consumption by 3.9%, with industrial consumption falling by 7.1% due to reduced manufacturing activity.<sup>18</sup>

Natural gas production in the United States is also expected to decline significantly in the near term.<sup>19</sup> The EIA reports that natural gas production will reduce most in the Appalachian and Permian regions, primarily due to low gas and oil prices discouraging drilling in the Appalachian region and reducing gas output from oil-directed wells in the Permian region.<sup>20</sup> Due to the decline in natural gas production, some producers have announced plans to reduce capital spending and drilling and curtail production from existing wells.<sup>21</sup>

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Motion Requesting a Market Demand Hearing and Order by Pioneer Natural Resources USA Inc. and Parsley Energy Inc. (Mar. 30, 2020), <https://rrctx.force.com/s/ietrs-public-file-correspondence/a0yt0000001tVoz>. The Texas Railroad Commission recently denied this motion. Order Denying Motion for Hearing (May 6, 2020), <https://rrctx.force.com/s/ietrs-public-file-correspondence/a0yt0000001tEy>.

<sup>12</sup> May STEO at 2.

<sup>13</sup> Rystad Energy, Taps Closing! US shut-ins to reach at least 2 million bpd in June as oil producers walk the walk (May 13, 2020), <https://www.rystadenergy.com/newsevents/news/press-releases/taps-closing-us-shut-ins-to-reach-at-least-2-million-bpd-in-june-as-oil-producers-walk-the-walk/>.

<sup>14</sup> Energy Info. Admin., EIA forecasts U.S. crude oil production to fall in 2020 and 2021 (May 14, 2020), <https://www.eia.gov/todayinenergy/detail.php?id=43735>.

<sup>15</sup> May STEO at 5.

<sup>16</sup> Energy Info. Admin, Henry Hub Natural Gas Spot Price, <https://www.eia.gov/dnav/ng/hist/rngwhhdD.htm> (last visited May 18, 2020). *See also* May STEO at 2.

<sup>17</sup> Energy Info. Admin, Henry Hub Natural Gas Spot Price, <https://www.eia.gov/dnav/ng/hist/rngwhhdD.htm> (last visited May, 18, 2020). *See also* May STEO at 2.

<sup>18</sup> May STEO at 3.

<sup>19</sup> *Id.* *See also* Energy Info. Admin, EIA expects lower natural gas production in 2020 (May 15, 2020), <https://www.eia.gov/todayinenergy/detail.php?id=43755> (stating that EIA forecasts that U.S. natural gas production will decrease by 5% in 2020).

<sup>20</sup> May STEO at 3.

<sup>21</sup> Energy Info. Admin, EIA expects lower natural gas production in 2020 (May 15, 2020), <https://www.eia.gov/todayinenergy/detail.php?id=43755>.

## **II. Current Economic Conditions Exacerbate Prior Inadequacies in the Rulemaking Process**

PHMSA did not adequately evaluate the potential economic impact of the proposed changes to the gas gathering regulations during the earlier stages of the rulemaking process. PHMSA's Preliminary Regulatory Impact Analysis (PRIA) estimated that the costs of the proposed rules would exceed the benefits by approximately \$1 million over the initial 15-year compliance period. However, an independent economic analysis submitted by the American Petroleum Institute (API) showed that the costs would exceed the benefits by more than \$28 billion over that same period.<sup>22</sup> API's independent economic analysis further found that the proposed changes would have a disproportionate economic impact on small operators, leading to annual compliance costs that would consume about 90% of the revenue generated by small gathering companies.<sup>23</sup>

Despite the significant concerns identified in the API analysis and industry comments, the Gas Pipeline Advisory Committee (GPAC) did not review the PRIA or consider the economic impact of PHMSA's proposed changes to the gas gathering regulations as part of the federal advisory committee review process mandated under the Pipeline Safety Act.<sup>24</sup> Nor did the GPAC consider any of the potential economic impacts in recommending that PHMSA exercise jurisdiction over small diameter, low-risk gas gathering lines in rural locations. The unprecedented economic conditions currently facing the midstream industry have only magnified the effect of these prior deficiencies in the rulemaking process.

## **III. GPA Midstream Continues to Support Additional Reporting Requirements and Risk-Based Regulations for Gas Gathering Lines**

GPA Midstream continues to support PHMSA's proposal to extend incident and annual reporting requirements to all gas gathering lines, whether regulated or not. Collecting additional data will allow PHMSA to make more informed decisions in the future about the safety of gas gathering lines and potential need for further regulations.

GPA Midstream also continues to support establishing reasonable, risk-based safety standards for higher risk gas gathering lines in rural, Class 1 locations that are greater than 12 inches in diameter.<sup>25</sup> GPA Midstream notes that its position in that regard largely align with the provisions in a new industry safety standard published by API, API RP 1182, Construction, Operation, and Maintenance of Large Diameter Rural Gas Gathering Lines (1<sup>st</sup> Edition).

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<sup>22</sup> ICF International, Cost and Benefit Impact Analysis of the PHMSA Natural Gas Gathering and Transmission Safety Regulation Proposal, Prepared for American Petroleum Institute (Jul. 1, 2016).

<sup>23</sup> *Id.*

<sup>24</sup> 49 U.S.C. § 60115(c).

<sup>25</sup> *Id.* at section IV.c.

Finally, GPA Midstream is reiterating its support for creating a new subcommittee within the GPAC to evaluate the safety of gas gathering lines on a longer-term basis. Our members believe that a GPAC subcommittee can play an important role in analyzing the new data submitted by gathering line operators in incident and annual reports and evaluating the effectiveness of any new safety standards for larger diameter, high risk gathering lines in rural locations.

#### **IV. Conclusion**

GPA Midstream appreciates the opportunity to submit this letter on PHMSA's proposed rule for onshore gas gathering lines. If you have any questions or concerns please feel free to contact me directly at (202) 279-1664 or [mhite@gpamidstream.org](mailto:mhite@gpamidstream.org).

Sincerely,

A handwritten signature in black ink that reads "Matthew Hite". The signature is written in a cursive, flowing style.

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