STATE INNOVATION GRANT PRE-PROPOSAL

Project Title:	Implementation of an Environment Results Program for Montana's Traditional Oil and Gas Well Industry
Applicant:	Montana Department of Environmental Quality
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Federal Involvement:	The project will not be executed in cooperation with or funded by another Federal program.
Regulatory Flexibility:	Implementation of an Environment Results Program (ERP) for traditional oil and gas wells will require approval of a change to Montana's State Implementation Plan.
Approval:	This proposal is endorsed by Richard Opper, Director of the Montana Department of Environmental Quality.

STATE INNOVATION GRANT PRE-PROPOSAL SUMMARY

The Montana Department of Environmental Quality (MT DEQ) is proposing to develop and implement an Environmental Results Program (ERP) for traditional oil and gas well facilities.

ISSUE

Montana is currently experiencing a significant increase in air quality permitting associated with energy development specifically, several large coal-fired power plants. The resources necessary to process these complex and controversial permit applications has strained MT DEQ's available air permitting resources. MT DEQ has also recently determined that there are approximately 900-1200 traditional oil and gas wells operating without required air quality permits. Montana air quality permits are required for all sources with a potential to emit over 25 tons per year. In addition to this permitting backlog, MT DEQ is also anticipating continued traditional oil and gas well development. This permitting backlog, in conjunction with the continued development, could overwhelm Montana's air permitting program. Current federal regulations applicable to traditional oil and gas wells include New Source Performance and MACT standards. Regulatory requirements for traditional oil and gas wells in other states vary. Some states require registration of all traditional oil and gas wells and establish emission controls through policy, some states only require permitting of major stationary sources.

Montana's proposed ERP for traditional oil and gas wells would consist of an integrated system of compliance assistance, self-certification, and statistically-based performance measurement and targeting of random unannounced inspections. The traditional oil and gas well ERP would be based on the design created by the Massachusetts Department of Environmental Protection. The ERP approach will replace facility-specific permits with industry-wide environmental performance standards and annual certifications of compliance. This will supplement MT DEQ's traditional compliance inspection and compliance assistance efforts. Compliance assistance will be conducted through outreach and preparation of a compliance workbook specifically addressing the operation of traditional oil and gas wells. These compliance workbooks will contain regulatory requirements as well as pollution prevention best practices. The workbooks would be accessible in an interactive web-based format. Montana's ERP proposal would also include a requirement for annual submittal of a self-certification of compliance. This requirement would be established through adoption of an administrative rule. Montana's proposed ERP would also include a statistically-based performance measurement methodology to track results, determine priorities, and establish strategic targeting of random inspections and future compliance assistance efforts. The Montana Board of Environmental Review (MT BER) is considering adoption of administrative rules adapted to include all of the conditions currently required in facility-specific permits.

Montana's traditional oil and gas well ERP project will consists of four initiatives:

- Development of a web-based compliance workbook;
- Enhancement of Montana's enterprise-wide environmental information database (CEDARS) to allow web-based submittal of compliance certifications and annual emission inventories;
- Development of a statistically-based performance measurement system integrated into CEDARS; and
- Development of a web-based registration and GIS-based tracking system integrated into CEDARS.

MT DEQ believes that ERPs would be an excellent method for maintaining and improving environmental protection in Montana. It would be MT DEQ's intent to use the traditional oil and gas well ERP project as a model for other industry groups in the state. Since the increase in energy development is a regional issue, not confined to Montana, it is MT DEQ's belief that a traditional oil and gas well ERP could serve as a model for all states and Indian lands with traditional oil and gas extraction industries.

PROJECT GOALS AND EXPECTED ENVIRONMENTAL OUTCOMES

The vision for Montana's proposed ERP program will be to efficiently target Montana's limited existing environmental management and regulatory resources toward maintaining and improving environmental protection in the most productive way. The ERP project goal is to focus regulatory efforts for the traditional oil and gas well industry toward compliance assistance and targeting of random inspections. MT DEQ believes that an ERP would be a regulatory scheme particularly well-suited for maintaining and improving environmental protection for this industry group. While there are a significant number of individual sources with a significant potential environmental impact when considered as a group, the implementation of an ERP system instead of facility-specific permitting, will be advantageous due to the homogeneous nature of the individual wells. Individual sections of the workbooks will address the different types of wells (oil vs. gas).

A secondary benefit will be to free up MT DEQ air quality permitting staff to focus on significant complex sources, such as large coal-fired electrical generating facilities that benefit from individual review. Since coal-fired electrical generating facilities are an industry group that EPA has targeted with several recent initiative such as the Clean Air Interstate Rule and the Clean Air Mercury Rule, MT DEQ believes this would further EPA's strategic goal of healthier outdoor air.

Performance goals would include increased compliance rates and reduced emissions. As stated before, MT DEQ believes traditional oil and gas wells currently have a significant rate of non-compliance with air quality permitting requirements. MT DEQ believes implementation of an ERP will provide a regulatory system that can be administered with less staff than would be required under a traditional facility-specific permitting program. Information obtained through the required annual certifications along with the statistical analysis will allow MT DEQ to more efficiently target compliance resources. This targeted resource allocation approach will enable MT DEQ to focus staff on identification of non-compliant wells. MT DEQ also believes implementation of an ERP will reduce the regulatory burden associated with permitting while increasing environmental protection through compliance assistance and pollution prevention. Reduction in regulatory burden should increase compliance rates.

STATE INNOVATION GRANT PROGRAM CRITERIA

5.2.1.1. Target National Priority Environmental Issues.

Montana's proposed project will address two of the topic areas contained in the State Innovation Grant Program Solicitation Notice; development and implementation of an Environmental Results Program, and streamlined or enhanced permitting through application of innovative IT systems. Montana's ERP proposal will further EPA's goals in both of these topic areas.

Environmental Results Program Model: Development of an ERP for the traditional oil and gas extraction industry would expand the application of the ERP model to a new business sector. Traditional oil & gas extraction, as part of the energy sector, is a priority environmental sector and the ERP tools developed by Montana in this proposal would be appropriate for use by other states in EPA Region VIII and throughout the western US. This would achieve EPA's desired result of supporting projects that lend themselves to State-to-State export of technical assistance and sharing of data and results.

Innovative IT Systems: Development of web-based registration, compliance certification and emission inventory data systems, and statistical compliance targeting subsystems integrated with will be consistent with EPA's goal of developing ERP data automation systems. Since Montana's data systems are developed in ORACLE, the data systems developed under this proposal would be easily transferable to other states.

Environmental Justice: Development of web-based registration, compliance certification and emission inventory data systems integrated into CEDARS, MT DEQ's existing spatially-enabled GIS-based environmental database, would increase MT DEQ's ability to identify and address Environmental Justice issues.

5.2.1.2. Building On Our Existing Knowledge Of Innovative Approaches And Expanding The Testing Of Priority Innovations.

This ERP project will be based on ERPs developed by other states for small businesses and area sources. MT DEQ has had informal discussions with environmental staff from other state agencies that have expressed willingness to collaborate, but MT DEQ has not yet established any formal collaboration partnerships.

5.2.1.3. Measured Improvement in Program Results from Project Implementation.

MT DEQ believes that there is currently a significant non-compliance rate among traditional oil and gas wells. This belief is based on MT DEQ's analysis showing that 900-1200 existing traditional oil and gas wells have potential emissions over 25 tons per year. MT DEQ has to this point received 375 permit applications. The implementation of an ERP will increase compliance rates as well as potentially reducing emissions of air pollutants through compliance assistance.

Baseline compliance data will be gathered in the interim prior to initiation of the ERP project. This baseline information will be compared to information gathered using web-based compliance certifications, random targeted inspections, and web-based emission inventories of Hazardous Air Pollutants (HAPS) and criteria air pollutants. This will provide ERP program performance measures in both percent compliance and pounds of emissions. This compliance information will also be made available on the web as part of this project

The implementation of Montana's ERP proposal will increase administrative efficiency through implementation of the web-based registration and reporting systems, and reduction of the labor-intensive facility-specific permitting of traditional oil and gas wells. Quantifiable outcomes include increases in compliance rates and long term reductions in emissions of HAPS and criteria air pollutants. Improvement in administrative efficiency will be measured by the increase in the number of regulated facilities operating in compliance without a commensurate increase in staff. Increased regulatory efficiency for the regulated community will be achieved through implementation of a web-based registration system instead of the facility-specific permitting process.

5.2.1.4. Transferring Innovation.

The Traditional Oil & Gas Well Compliance Workbook developed for this ERP project would be available to other states and Indian tribes, as well as regulated facilities, on MT DEQ's web site. Any other ERP tools created through this project would be made available on MT DEQ's web site. Since energy development is a high priority in the western US, MT DEQ believes there is a significant potential for use of the traditional oil and gas ERP model by other states and certainly by Indian tribes. As many as 10% of traditional oil and gas wells located in Montana are on Indian lands.

MT DEQ will provide performance data to EPA, other states, and tribes, through the MT DEQ web site. MT DEQ will provide consultation to these other agencies as our staff resources and time commitments allow and intends to present the results of our ERP project at an appropriate national forum.

MT DEQ envisions expanding the registration in lieu of permitting process to other appropriate industry groups and intends to use the traditional oil and gas well ERP where it may be appropriate as a model for other source categories within the state.

PROJECT TIMELINE

The proposed official ERP project start date would be July 1, 2007. Preliminary research, collaboration and development of requests for bid will commence as soon as budget authority is received from the Montana Legislature. The proposed completion date would be June 30, 2009.

Project Milestone	Anticipated Achievement Date
Receive notification of grant award	March 30, 2006
MT Board of Environmental Review final action on Registration Rule	June 2, 2006
Montana Legislature approves spending authority	April 30, 2007
Award compliance workbook and database development contracts	July 1, 2007
Implement ERP & registration system (Project Completion)	June 30, 2009

Implementation Timing Considerations: There are two factors that may potentially influence implementation of the ERP. Establishment of an ERP is predicated on adoption of administrative rules by the MT BER. The MT BER is an independent quasi-judicial board that has the authority to adopt all administrative rules implementing the Federal and Montana Clean Air Acts. MT DEQ cannot guarantee that the ERP Program will be approved by the MT BER. If an ERP program is adopted by the MT BER, the program cannot be implemented until a change to the Montana State Implementation Plan is approved by EPA's Region VIII. The EPA Region VIII staff have recently expressed significant concerns about exempting source categories from facility-specific permit requirements.

SUMMARY BUDGET INFORMATION

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