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BEFORE THE ENVIRONMENTAL APPEALS BOARD U.S. ENVIRONMENTAL PROTECTION AGENCY WASHINGTON, D.C.

ORAL ARGUMENT

IN THE MATTER OF: SHELL GULF OF MEXICO, INC. : OCS Appeal Nos. SHELL OFFSHORE, INC. : 10-01 through FRONTIER DISCOVERY : 10-04 DRILLING UNIT : OCS Permit No. R100CS/ PSD-AK-09-01 OCS Permit No. R100CS/ PSD-AK-2010-01 Thursday, October 7, 2010 Administrative Courtroom Room 1152 EPA East Building 1201 Constitution Avenue, NW Washington, DC The above-entitled matter came on for hearing, pursuant to notice, at 1:00 p.m. **BEFORE:** THE HONORABLE EDWARD E. REICH Environmental Appeals Judge THE HONORABLE KATHIE A. STEIN Environmental Appeals Judge THE HONORABLE ANNA L. WOLGAST

> Neal R. Gross & Co., Inc. 202-234-4433

Environmental Appeals Judge

APPEARANCES:

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Page 4 TABLE OF CONTENTS Witness Page REBUTTAL

1	P-R-O-C-E-E-D-I-N-G-S
2	1:00 p.m.
3	JUDGE WOLGAST: Good afternoon. We
4	are here today pursuant to the Board's order
5	of August 10, scheduling oral argument in this
6	case. And the petitions at issue here, Region
7	10, issuance of two Clean Air Act Outer
8	Continental Shelf Prevention of Significant
9	Deterioration permits for drilling exploration
10	and drilling activities in the Chukchi and
11	Beaufort Seas. The Board's previous order
12	directed the parties to address three issues.
13	The Region's determination as to
14	when the ship and its activities became an OCS
15	source.
16	Second the Region's determination
17	that best available control technology or BACT
18	was not required for the ship supporting the
19	Frontier Discoverer.
20	And third, the applicability, if
21	any, of the new one-hour NAAQS standard for
22	NO2 to the environmental justice analysis in

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1	this case. The Board's orders also set forth	
2	the timing for the parties' arguments.	
3	Fifteen minutes for Earthjustice et al, with	
4	up to three minutes for rebuttal. Twenty-five	
5	minutes for AEWC of which up to five minutes	
6	maybe reserved for rebuttal. Thirty minutes	
7	response from the Region and ten minutes	
8	response from Shell.	
9	And with that, please counsel will	
10	you state your name and who you represent as	
11	you begin your argument and we'll begin with	
12	counsel for Earthjustice et all petitioners,	
13	Mr. Grafe.	
14	MR. GRAFE: May it please the	
15	Board. My name is Eric Grafe and I represent	
16	NRDC petitioners. I would like to reserve	
17	three minutes for rebuttal. In its July 19	
18	order, the Board requested oral argument on	
19	three issues.	
20	I will address one issue and my	
21	colleague, Ms. Sanerib and Mr. Winter will	
22	address the two other issues. I would like to	

1	address NRDC's argument that Section 328
2	mandates the application of the complete sweep
3	of PDS requirements, including back to the
4	emissions of Shell's associated vessels.
5	Because the statute (1) unambiguously directs
6	EPA to control air pollution from OCS sources
7	under the PSD program and (2) specifically
8	defines OCS source emissions to include
9	emissions from associated vessels. Here
10	Region 10 has issued two PSD permits to Shell.
11	The PSD program is designed to keep clean air
12	sheds clean. It has two primary mechanisms
13	for doing so.
14	First, it requires emissions from
15	new sources to meet their quality standards.
16	Second, it requires the application of best
17	available control technology BACT to the
18	sources of emissions. The application ensures
19	that pollution levels generated by the source
20	will not only meet air quality standards but
21	will remain as low as possible. In the
22	offshore context Section 328(a)(1) directs EPA

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1	to apply PSD to air pollution from OCS	
2	sources. Section 328(a)(4) defines emissions	
3	from associated vessels to be direct emissions	
4	from the OCS source.	
5	JUDGE STEIN: Counsel is there a	
б	definition anywhere for what a direct emission	
7	is?	
8	MR. GRAFE: Uh no, Your Honor, an	
9	emission but BACT an emissions limitation and	
10	that's designed to reduce the, to achieve the	
11	maximum reduction of pollution emitted from a	
12	source. And in defining the emissions from an	
13	OCS source to specifically include emissions	
14	from an associated vessel Section 328	
15	unambiguously directs the application of the	
16	PSD program including BACT to those emissions.	
17		
18	JUDGE REICH: I think the question	
19	is does the word direct help us understand	
20	what's meant there. If they had not used the	
21	word direct, if it just said emissions would	
22	it have changed at all your analysis or do you	

1	think the word direct is just surplusage?
2	MR. GRAFE: I think if anything
3	direct the use of the word direct supports our
4	analysis because it makes clear that the
5	emissions from associated vessels should be
6	treated the same as emissions from the OCS
7	source. In other words they should be
8	regulated under the PSD program and the use of
9	the word direct would imply that all of the
10	PSD requirements that apply to the OCS, to
11	emissions from the OCS source also apply to
12	emissions from the OCS vessel because they are
13	the same. Emissions from the OCS, from the
14	associated vessels are emissions from the OCS
15	source.
16	JUDGE WOLGAST: Does that mean
17	that the emissions from the associated vessel
18	should be treated as emissions from a
19	stationary source?
20	MR. GRAFE: Yes they should be
21	regulated the same as the emissions from the
22	OCS source, the stationary source. That's

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1	what 328(a)(1) read with 328(a)(4)(c) directs.	
2	JUDGE STEIN: Is that because they	
3	are part of the stationary source or part of	
4	the OCS source?	
5	MR. GRAFE: It's because the	
6	emissions of, they are part of the emissions	
7	of the OCS source which is, which the statute	
8	directs EPA to apply BACT.	
9	JUDGE STEIN: But isn't it	
10	possible that what the statute was requiring	
11	that it be taken into account, for example,	
12	for purposes of potential to omit or air	
13	quality emissions but not necessarily for	
14	purposes of BACT. And I think that's why we	
15	are struggling with the word direct emissions	
16	and whether there is anywhere else in guidance	
17	or the regulations or the statute that would	
18	define that term because its not clear to me.	
19	Simply because the word direct emissions are	
20	there necessarily means that BACT applies to	
21	those emissions.	
22	MR. GRAFE: There isn't, in the	

legislative history of 328 the responsers of 1 2 the provision evidence that awareness of technological controls as a means of 3 controlling emissions, including associated 4 5 vessel emissions and referred to the need to 6 control associated vessel emissions, the same 7 as emissions from the facility, the OCS source 8 and the regulation that EPA has promulgated 9 implementing 328 defines the emissions from an OCS, from associated vessels as being included 10 in the potential to emit of the OCS source and 11 12 that ties in with the 52.21(j)(2) which is the 13 general PSD regulation that directs that any 14 new major source must apply BACT to all 15 regulated pollutants. It has the potential to 16 emit. There's no evidence anywhere that BACT 17 is any different than the other PSD 18 requirements that Region 10 admits apply to 19 associated vessels. 20 Can you have without JUDGE REICH: 21 limited it to the 328 context? I'm talking 22 about PSD generally. Can you have

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1 circumstances where the act requires 2 consideration of emissions for purposes of 3 demonstrating attainment in the maintenance of 4 ambient standards and yet does not require the 5 application of BACT?

6 MR. GRAFE: The only example that 7 Region 10 has provided for its notion that 8 emissions that trigger the PSD program that 9 are not regulated by the full sweep of the PSD program, including BACT, is an example not 10 11 applicable to our situation. It is an example 12 of de-bottlenecking and in that instance it's the modification of an existing source and the 13 14 regulations there carry forward the clear 15 congressional intent to treat existing sources 16 differently than new sources and to grandfather in some of the emissions. 17 18 So, yes that is an example that 19 EPA uses to say look, sometimes not all the 20 emissions that we consider in determining 21 whether PSD applies are regulated by the full 22 sweep of PSD requirements including BACT. But

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Page 13 it doesn't, it doesn't shed any light on how 1 2 to interpret 328. 3 JUDGE REICH: What about construction emissions? 4 5 MR. GRAFE: I'm not aware of any other example. 6 7 JUDGE REICH: Okay. 8 MR. GRAFE: Other than Region 10's example which is not applicable and Shell's 9 10 example. JUDGE REICH: Well if we found 11 12 that under the PSD regs, construction 13 emissions are required to be considered as 14 part of the ambient analysis but yet not 15 sdubject to the BACT analysis. Doesn't that 16 weaken what seems to be a presumption of yours 17 that the two necessarily go hand in hand in 18 saying that something is subject to PSD means 19 it must be subject to both prongs of the PSD 20 program, that is the air quality side and the 21 BACT side? 22 MR. GRAFE: Well I think Section

		Page	14
1	328 is both on its face clear that PSD applies		
2	to all the emissions.		
3	JUDGE REICH: We are not talking		
4	about whether okay. Which language in 328		
5	is clearest not just that PSD applies, but		
6	that all aspects of the PSD program		
7	necessarily apply?		
8	MR. GRAFE: I would say A(1) which		
9	directs the administrator to establish		
10	requirements to control air pollution for OCS		
11	sources, to comply with the provisions of PSD		
12	at Part C, Chapter 1.		
13	JUDGE REICH: Whatever they are.		
14	MR. GRAFE: Yes, but PSD's		
15	provisions include, in the regs and in the		
16	statute, include, they are emissions controls		
17	and they include compliance with the		
18	increments and NAAQS and the emissions control		
19	in BACT.		
20	JUDGE REICH: As we just said not		
21	necessarily. Typically yes they do but not		
22	invariably.		

		Page
1	MR. GRAFE: The only instance in	
2	which they don't that Region 10 has	
3	JUDGE REICH: I know, we've been	
4	through that. So we don't need to pursue that	
5	further. Thank you.	
6	MR. GRAFE: Thank you. And I	
7	would just add on that note, the congressional	
8	history of 328 supports the notion that	
9	associated vessel emissions are meant to be	
10	regulated including through technology and as	
11	the application of 328 here demonstrates the	
12	importance of applying BACT to associated	
13	vessel emissions. They, the associated	
14	vessels emissions, constitute the lion's share	
15	of the pollution from Shell's operations.	
16	Seventy-five to ninety-six percent	
17	of the total of each regulated pollutant comes	
18	from the associated vessels. Yet the manner	
19	in which Region 10 has applied the statute and	
20	the regulation here exempts all those	
21	emissions from the very PSD program control	
22	meant to keep emissions in clean airsheds as	

		Рa
1	low as possible. And as a result, the	
2	operations really fill up the allowable	
3	increments and come very close to NAAQS. They	
4	just squeak under and that is not, doesn't	
5	fulfill the purposes of the PSD program and we	
6	argue that it violates the clear mandate in	
7	328 that says go regulate those pollutions.	
8	JUDGE WOLGAST: And how in your	
9	view are we to harmonize the statutory	
10	provisions of 328 with the agency's regulation	
11	at 40 CFR 55.2? And again I know your focus	
12	here so I'm focused on the second part of	
13	that, that deals with other vessels physically	
14	attached to the OCS facility in which case	
15	only the stationary source aspects of the	
16	vessel would be regulated. So, thinking	
17	about, in this instance the icebreaker, for	
18	instance as part of the associated fleet, how	
19	in my mind this sort of gets back to this	
20	issue of direct emissions and what does that	
21	mean and what does that mean in the context of	
22	55.2?	

Page 17 55.2 is consistent 1 MR. GRAFE: 2 with Section 328. It's the Region's 3 application of the regulation that is at issue 4 here. 55.2 says that associated vessel 5 emissions of an associate vessel is not 6 attached within 25 miles of the drill ship 7 shall be considered as part of the potential 8 to emit of the OCS source. That language, the 9 potential to emit, links in with the existing PSD regulations at 52.2(1)(j)(2) which directs 10 11 that new major sources must apply BACT to 12 regulated pollutants that the source has the 13 potential to emit. So, if anything, the 14 regulation suggests that BACT should apply. 15 It links into the regs that say apply BACT to 16 the pollution that the source has the 17 potential to emit. It is not contrary in any 18 way to the statute. 19 And just so I JUDGE WOLGAST: 20 understand your argument, so getting back to 21 the question we had before about does this 22 make this part of the OCS source and a

		Pa
1	stationary source. As I understand what you	
2	are saying that the 328 applies to activities	
3	within the 25 mile range and shall be included	
4	as direct emissions, direct meaning in the	
5	context of 55.2 that they are direct (i.e.	
6	stationary source emissions) not indirect	
7	(i.e. mobile source emissions).	
8	MR. GRAFE: That's right. They	
9	are to be considered emissions from the OCS	
10	source, direct emissions from the OCS source,	
11	from the stationary source and regulated as	
12	such. And Region 10 is doing that. They are	
13	regulating, they are applying Title I	
14	regulations, the PSD program. They are	
15	applying some elements to the associated	
16	vessels. They've just, the only thing they've	
17	exempted the associated vessels from is BACT.	
18	They are applying increment requirements and	
19	NAAQS requirements. They are even applying	
20	some technology requirements to the vessels.	
21	They just did not subject them to the BACT	
22	analysis.	

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1	If there are no further questions		
2	I would like to reserve my time for rebuttal.		
3	Thank you very much.		
4	MS. SANERIB: Good afternoon. May		
5	it please the board. My name is Tanya		
6	Sanerib. I am here today representing AEWC		
7	and ICAS. I am joined my co-counsel,		
8	Christopher Winter. I will discuss the airs		
9	with how Region 10 define the OCS source for		
10	these permits as well as appropriate relief in		
11	this case. And Mr. Winter will discuss our		
12	environmental justice claim. I intend to		
13	spend about 15 minutes of our time discussing		
14	the OCS issue and relief. And we would like		
15	to reserve five minutes of our time for		
16	rebuttal.		
17	The definition of OCS source that		
18	Region 10 applied to Shell's permits is		
19	contrary both to the plain language of the		
20	regulatory definition as well as the statutory		
21	definition. Region 10 erred first by adding		
22	requirements to the regulatory definition of		

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OCS source. It required that the drill ship 1 2 be secure and stable and ready to drill before it became an OCS source. The net result of 3 4 this application of the regulatory definition 5 is a failure to apply BACT to the propulsion 6 engine on the drill ship. Now the regulatory 7 definition says that a vessel becomes an OCS 8 source when it is attached to the seabed, 9 erected thereon and used for the purpose of 10 exploring for resources. When it comes to a 11 drill ship, when a drill ship leaves harbor, 12 it is erected, it is ready to drill. It need 13 only attach to the seabed to become an OCS 14 This is in contrast to other kinds of source. 15 equipment that's used for drilling on the OCS, 16 such as the jackup rig. 17 JUDGE REICH: Is there something 18 that explains what was intended by the word 19 erected? 20 MS. SANERIB: There is an 21 explanation in the final preamble to the 22 regulatory definition. What EPA said in the

		Page 21
1	final preamble is they looked to a provision	
2	in OCSLA, Section 1333 of OCSLA, and said that	
3	provision applies federal law on the OCS, when	
4	a thing has been erected on the OCS. So	
5	whether its an island, a production facility,	
6	something of that nature. And we think that	
7	is a significant error in EPA's understanding	
8	of OCSLA when they created the regulatory	
9	definition of OCS source.	
10	Because if you look at OCSLA as a	
11	whole, Section 1333, which is sited to by EPA	
12	in no way defines the Department of Interior's	
13	authority under OCSLA. If you look at the	
14	definitions in Section 1331 of the statute,	
15	they provide very broad definitions for what	
16	exploration is, what production is, what	
17	development is, which are all the events that	
18	occur on the OCS. And for example, the	
19	Department of Interior has authority to	
20	regulate seismic exploration, which is simply	
21	ships going out to the OCS to explore the	
22	seabed floor. But what EPA did is it looked to	

		Page	22
1	a provision that defines not the Department of		
2	Interior's jurisdiction under OCSLA but a		
3	section that was meant to apply federal law		
4	because they were dealing with an issue of		
5	entities coming from other countries and		
6	setting up jackup rigs or production, oil and		
7	gas facilities out on our OCS and Congress		
8	wanted to ensure that those things were		
9	regulated by our custom's laws.		
10	JUDGE REICH: Is your argument		
11	that Region 10 erred relative to what the EPA		
12	regulations are or relative to what you think		
13	the EPA regulations should have been.		
14	MS. SANERIB: Relative to what the		
15	EPA regulations are.		
16	JUDGE REICH: So we can take as a		
17	starting point, EPA's regulations however		
18	flawed you may think they are.		
19	MS. SANERIB: Yes, yes. And our		
20	first argument is that if you look at the		
21	plain language of that regulation when it		
22	applies to a drill ship and in contrast to a		

		Page	23
1	jackup rig, which goes to the OCS, it attaches		
2	to the seabed floor and then several steps		
3	occur before its actually an entity that's		
4	erected on the OCS.		
5	JUDGE STEIN: But where would we		
6	look besides your argument here for support		
7	for that proposition that in the context of		
8	this particular circumstance, the ship is		
9	already erected.		
10	MR. SANERIB: You can look to the		
11	first statement of basis that was issued for		
12	the Chukchi permit back in August 2009. In		
13	that permit EPA took the position that once		
14	the drill ship was at the lease block and		
15	dropped a single anchor it was an OCS source.		
16	And that was the position that EPA also took		
17	in the previous case before the Board dealing		
18	with the permits for the Kulluk. And of course		
19	EPA		
20	JUDGE STEIN: Was that by silence		
21	or did in any way, shape or form before it re-		
22	proposed the permit, did it provide any		

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1	analysis of what erected thereon means?	
2	MS. SANERIB: What EPA did between	
3	the first Chukchi permit and the second	
4	Chukchi permit is it created two options for	
5	when the drill ship became an OCS source. And	
6	the second option is the option it ended up	
7	adopting, which was the Shell proposal, that	
8	it had to be secure and stable. And in the	
9	process of issuing the statements of bases for	
10	these permits and the response to comments EPA	
11	failed to provide a reasonable explanation for	
12	the additional requirements it added on to the	
13	permits. And you've been asking me about the	
14	term erected thereon. If you go back and look	
15	through the statement of basis and the	
16	response to comments, at times EPA says that	
17	they are construing what use for the purpose	
18	of exploring for resources means. At times	
19	they are construing what erected thereon	
20	means. But they never provide a consistent	
21	reasonable explanation for why these	
22	additional requirements were imposed to be	

		Page	25
1	able to define the OCS source in these		
2	permits. And that is the other critical error		
3	with the definition of the OCS source.		
4	JUDGE REICH: Can I clarify		
5	something you said just a little bit ago?		
б	When they initially talked about the single		
7	act anchor was that in the context of erected		
8	or is that in the context of attached?		
9	MS. SANERIB: They didn't provide		
10	any explanation. If you go back and look at		
11	the original Chukchi statement of basis it		
12	just says the drill ship becomes an OCS source		
13	once it drops a single anchor at the lease		
14	block site. And that's the end of the story.		
15	There is no further analysis.		
16	JUDGE REICH: I had thought when		
17	you had started you were implying that it was		
18	erected even before that.		
19	MS. SANERIB: That's been our		
20	position in these proceedings that yes, a		
21	drill ship, when it leaves harbor it is		
22	erected.		

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1	JUDGE REICH: Okay. So we are		
2	still searching for something that explains		
3	why that's right.		
4	MS. SANERIB: And I think the		
5	other thing that's, the other discussion in		
6	the final preamble to the regulatory		
7	definition talks about the distinctions		
8	between the different kinds of drilling		
9	mechanisms. And I think the jackup rig		
10	provides an explanation for you that you are		
11	looking for in terms of what does erected mean		
12	because the jackup rig when it reaches the		
13	lease block site, when it reaches the well		
14	site, is not assembled. It is not erected.		
15	It has to be put together and various		
16	different ships have to come to that site in		
17	order to erect the actual drilling mechanisms.		
18	So that to me and if you look at the final		
19	preamble, that's what EPA had in mind when		
20	they added erected thereon. They didn't want		
21	to say for a jackup rig, okay the second		
22	something gets out to the drill site and		

attaches to the seabed floor which happens 1 2 rather quickly from that moment on because the original definition did not include erected 3 It said it was attached to the 4 thereon. 5 seabed used for the purpose of exploring. We 6 want to ensure for a jackup rig that its only 7 once it actually becomes a jackup rig that it 8 is regulated under the Clean Air Act. Now T 9 think that might be inconsistent with the 10 notion of preconstruction activities being 11 covered under the PSD program as a whole and 12 its one of the concerns we have with the 13 regulatory definition of OCS source but for 14 the purposes of how the regulatory definition 15 was applied to these permits, EPA went beyond 16 even what the regulation said and added in 17 these extra requirements. So instead of 18 saying the drill ship is used for the purpose 19 of exploring, EPA said it has to be ready to 20 drill. 21 That example that JUDGE REICH: 22 you just gave is that something that EPA

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1	itself articulated or is that a way in which	
2	you can make the distinction. I mean, has EPA	
3	said that or is it just the way you can see	
4	that those two concepts are different?	
5	MS. SANERIB: It's a way I can see	
б	those two concepts are different but the EPA	
7	does reference jackup rigs in the final	
8	preamble. It doesn't articulate that	
9	explanation quite as clearly as I did but I	
10	think its clear the agency had in mind all	
11	these different kinds of mechanisms for	
12	drilling on the OCS and wanted to make sure	
13	they had a definition that took that into	
14	account, that we have drill ship exploration	
15	but we also have these other mechanisms for	
16	drilling. And for that reason they needed a	
17	regulatory definition that made sure to sort	
18	of apply evenly to those different mechanisms.	
19	JUDGE WOLGAST: And is your	
20	argument that I'm looking at the parts that	
21	the Region cited in support of their argument	
22	to the preamble to the Part 55 regulations.	

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1	When they refer to a source permanently or		
2	temporarily attached to the seabed and being		
3	used for the purpose of exploring, developing,		
4	producing resources therefrom, and sort of		
5	conspicuously absent from that		
6	MS. SANERIB: Erected thereon.		
7	JUDGE WOLGAST: erected		
8	thereon.		
9	MS. SANERIB: That's right,		
10	because the draft regulation in the first		
11	preamble did not contain that terminology		
12	erected thereon. And so EPA cites that		
13	preamble for support but we think it actually		
14	supports the position that EPA had held before		
15	these permits in the position that we put		
16	before the Board today, which for a drill ship		
17	is once it is on the OCS, once it drops its		
18	anchor, and is attached to the seabed floor,		
19	it is erected and its used for the purpose of		
20	exploring. And so requiring that it be secure		
21	and stable and ready to drill only further		
22	narrows that regulatory definition.		

Now I want to point out one other 1 2 inconsistency in EPA's position in applying the regulation to the definition of OCS 3 4 source. EPA said consistently throughout its 5 response to comments that the Discoverer 6 doesn't have to have all eight anchors in 7 place to be considered an OCS source. It also 8 rejected comments that said it should be 9 actually engaged in drilling before it becomes 10 an OCS source. But by adopting Shell's proposition that the drill ship be secure and 11 stable and ready to drill, if you look back to 12 the center reply brief, if you look back to 13 14 Shell's application, that declaration is only 15 made once all eight anchors are in place and 16 once Shell determines that the drill ship is 17 secure and stable and ready to drill. So EPA 18 has taken inconsistent positions by adding 19 these criteria onto the regulatory definition. 20 It created a more onerous definition of OCS 21 source which it says itself shouldn't occur 22 because it says the drill ship can drill

without eight anchors on the OCS, or eight 1 2 anchors on the seabed floor. And yet that's 3 exactly what the agency is requiring for the Now we 4 drill ship to become an OCS source. 5 think that you mentioned in your order the 6 intersection between the regulatory definition 7 and the statutory definition. And I think if 8 you look to the statutory definition and you 9 look at what EPA did here in terms of how to 10 apply this regulation, you can see that the 11 agency took an already very narrow regulatory 12 definition and further narrowed it. And I think its helpful to look at the statute first 13 14 which says anything regulated or authorized under OCSLA should be the OCS source. 15 And I'm 16 just looking at one of the terms If you look 17 at the regulation it says "a vessel that's 18 used for the purpose of exploring for 19 resources should be an OCS source." And if 20 you look at what EPA did in these permits, 21 they said it has to be ready to drill for it 22 to be an OCS source. If you look at the

		Page 32
1	intersection of the statute, the regulation,	
2	what was done in these permits, its clear the	
3	agency committed a clear error. It is far too	
4	narrow a definition for these permits.	
5	JUDGE STEIN: I have a couple of	
6	questions for you.	
7	MS. SANERIB: Okay.	
8	JUDGE STEIN: In 1978 my	
9	understanding as Congress amended Section	
10	4(a)(1) of the OCSLA Act of 53 and replaced	
11	the term fixed structures with the attachment	
12	language, but didn't alter the erection	
13	language in the statute, to what extent if at	
14	all is what EPA is doing here in these permits	
15	with its interpretation of erection re-writing	
16	the fixed structure's language back into the	
17	statute?	
18	MS. SANERIB: I think that's a	
19	very good interpretation of what EPA has done	
20	here. I think that they really did look at	
21	the wrong provisions in OCSLA to take	
22	direction in trying to implement what Congress	

says in Section 328, which is anything that's 1 2 regulated or authorized under OCSLA can become 3 an OCS source if it has a potential to emit 4 and its on the OCS. And so there's a lot of 5 different ways you can get direction from 6 OCSLA in terms of what's regulated by the 7 Department of Interior but the one provision 8 that EPA chose and its regulations rely upon 9 says nothing about what the Department of Interior actually regulates. And again, if 10 you look at the definitions of exploration, of 11 12 development and of production, in OCSLA they are incredibly broad definitions of what it is 13 14 that Department of Interior has the authority 15 to regulate under that statute. And for 16 whatever reason EPA put on blinders to those 17 definitions and focused in on the very narrow definition of how federal customs law and how 18 19 other federal laws in other arenas would get 20 applied two things that were actually attached 21 to the seabed floor. But that's not at all 22 the limit at the Department of Interior's

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jurisdiction under OCSLA which is what 1 2 Congress said should be regulated under 3 Section 328. Anything authorized or regulated 4 under OCSLA was meant to be part of the OCS 5 source. 6 I think the other critical tension 7 between the regulation and the statute is 8 EPA's real failure to put forth an explanation 9 between --10 JUDGE WOLGAST: I'm just trying to check on the time because I think the time 11 12 that was put on was the total time. 13 MS. SANERIB: Was the total time? 14 Okay, all right. So if my colleague wishes to 15 speak I should skip over to him. 16 JUDGE WOLGAST: I just wanted to 17 alert you to that. 18 MS. SANERIB: No, thank you I 19 appreciate that. If you don't have any other 20 questions I will turn it over to Mr. Winter. 21 Thank you. 22 MR. WINTER: Good afternoon Your

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1	Honors. My name is Christopher Winter and I	
2	along with Ms. Sanerib represent petitioners,	
3	Alaska Eskimo Whaling Commission and the	
4	Inupiat Community of the Arctic Slope. By	
5	reserving our final five minutes for rebuttal	
6	I would like to take the remainder of our time	
7	to discuss briefly the environmental justice	
8	issues set forth in the petition.	
9	First Your Honors, I would like to	
10	make two points. The first point is that there	
11	is no dispute in this case about a key fact	
12	that underlies petitioners' concerns on the	
13	environmental justice analysis. And that fact	
14	is that the Inupiat people that live in the	
15	Arctic on the North Slope are uniquely	
16	vulnerable to the impacts of air pollution.	
17	Rates of chronic lung disease are dramatically	
18	higher than the general U.S. population. And	
19	in particular folks on the North Slopes suffer	
20	from increased rates of asthma, as well as	
21	lung cancer and cardiorespiratory mortality.	
22	The second fact which EPA admits	

in passing a short-term NO2 standard is that 1 2 the existing annual standard is inadequate to protect against risks from short-term 3 4 exposures. And in particular those risks 5 include airway response from asthmatics and 6 respiratory morbidity. So the very health 7 threats that triggered the short-term NO2 8 standard are the same health threats that are 9 experienced by people on the North Slope at disproportionately high levels. So despite 10 EPA's explicit findings set forth in the 11 12 record for the short-term NO2 standard, EPA 13 now takes the Region 10 now takes a directly 14 contrary position in this matter. And that position is that compliance with the annual 15 16 NO2 standard is adequate to protect against threats to human health. So neither EPA nor 17 18 Shell has provided a reasonable justification 19 or explanation for how these two directly 20 contrary positions can be reconciled. In its 21 response brief, EPA essentially ignored its 22 prior statements made in February of this year

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in a short-term NO2 standard when it was 1 2 passed in the federal register. Instead of footnote 36 Region 10 simply falls back on 3 compliance with the existing NAAQS at the 4 5 annual standard. So in effect what EPA is 6 asking for is a per se rule that in all 7 situations compliance with the NAAQS is 8 adequate to address environmental justice 9 concerns. And this per se rule that EPA is 10 asking for would essentially do away entirely with the environmental justice analysis in the 11 context of PSD permits because of course under 12 13 the Clean Air Act every PSD permit must comply 14 and result in compliance with ambient air 15 quality standards. So here EPA was required 16 to submit a reasonable explanation of whether 17 and how Shell's particular emissions will 18 cause a disproportionate adverse impact on a minority community. So in certain 19 20 circumstances NAAQS compliance is certainly a 21 relevant consideration. And that has been 22 born out before in previous Board decisions.

		Page	38
1	But never has the Board gone so far as to say		
2	that is in and of itself, the sole		
3	consideration as a legal matter that EPA needs		
4	to make.		
5	JUDGE REICH: What additional do		
6	you believe EPA should have done here?		
7	MR. WINTER: I believe in this		
8	situation, Your Honor, EPA should have looked		
9	at the emissions from Shell's operations and		
10	determined whether because of short-term		
11	exposure, those emissions would result in a		
12	potential adverse health impact and if so they		
13	should have also considered the demographics		
14	of the local community and put that together		
15	in an environmental justice analysis. I think		
16	that's what we would ask that the agency do.		
17	JUDGE REICH: If they had done an		
18	analysis relative to the 1 hour NO2 standard		
19	would that have been adequate or do you		
20	believe they would have to have gone beyond		
21	that?		
22	MR. WINTER: So Your Honor I think		

that is something that we would want to 1 2 address with the agency on remand. And I think on remand compliance with the short-term 3 standard is a relevant consideration and would 4 5 be one criteria. But I don't think that would 6 be the only criteria. I think the agency 7 would also have to consider all the other 8 relevant facts and then come up with a 9 reasonable analysis based on other relevant facts that would also be in the record. 10 11 JUDGE WOLGAST: And by other relevant facts, do you mean other facts within 12 the scientific realm that was the body 13 14 evidence that made up the NO2 standard or something beyond scientific body of evidence? 15 16 MR. WINTER: I think -- as an 17 example one of the unique types of situations 18 I think that can call for an analysis beyond the NAAQS is if a minority community is 19 20 located on a toxic hotspot. Something that is 21 not envisioned by EPA when it passes the 22 There are multiple sources of NAAOS.

Page 40 pollutants and toxics that are combining to 1 2 create a uniquely harmful situation for a local community and the proposed emission is 3 4 being laid over top of that already 5 potentially dangerous situation. So it is that 6 type of specific facts in the unique situation 7 that I think EPA Region 10 would have to 8 consider in addition to NAAOS' compliance. 9 And for instance, in Prudhoe Bay on the North Slope there are other existing sources of 10 emissions from the oil and gas industry. 11 And 12 its those types of site specific facts that we would ask that Region 10 consider in addition 13 14 to the short-term NAAQS on remand. 15 So I don't want to take up the 16 rest of my time. If anybody else has any 17 questions I would be happy to answer them. 18 JUDGE WOLGAST: Thank you. 19 MR. WINTER: Okay, thank you very 20 much. 21 Ms. Vergeront? JUDGE WOLGAST: 22 MS. VERGERONT: Good afternoon.

I'm Julie Vergeront with USEPA Region 10 in 1 2 In the Office of Regional Counsel Seattle. 3 with me are Julie Matthews, also of Region 10's Office of Regional Counsel and Kristi 4 5 Smith of the Office of General Counsel. T'm 6 going to first address the issue regarding 7 EPA's determination that the Discoverer 8 becomes a stationary, an OCS source when made 9 sufficiently secure and stable to commence 10 drilling operations. Now I would like to as 11 the Board acknowledged many of the arguments 12 the petitioner made just now and in their 13 briefs, in fact challenge the regulation at 14 And I think the Board is correct that issue. 15 we need to start with the regulation that EPA 16 promulgated. The regulation was already once 17 challenged. The time for challenging it has 18 passed. And this Board acknowledged in the 19 Kulluk decision that the Region is not free to 20 ignore the regulatory definition of OCS 21 So, I think all of the arguments that source. 22 have been made suggesting that its

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Page 42 inconsistent with the statute, I don't believe 1 2 those are appropriate considerations at this time. 3 4 JUDGE STEIN: But can we look to 5 the statute in defining what the terms of the 6 regulations might mean? 7 Yes, I think that MS. VERGERONT: 8 is appropriate to look at the statute to 9 interpret the regulations to the extent that they are not clear on its face. But here when 10 EPA promulgated the definition of OCS source, 11 12 EPA clarified that a vessel would be 13 considered an OCS source only when attached to 14 the seabed, erected thereon, and used for the 15 purpose of exploring or developing resources. 16 And they did look to the jurisdictional 17 provisions of OCSLA in coming up with these 18 criteria. 19 JUDGE REICH: Can you help us with 20 the issue we wrestled with before. Where is 21 the clearest expression of what the word 22 erected was intended to mean?

Page 43 MS. VERGERONT: And I don't have 1 2 anything to point the Board to other than it is used in OCSLA Section 4(a)(1). But it is 3 4 a separate criteria. They are separated by 5 ands and of course as the Board is aware that 6 when we initially proposed the permit, we 7 proposed that attachment by a single anchor 8 was sufficient. And when we got comments and 9 I would also like to point out we did not, our option two when we, the position that we 10 11 landed upon, sufficiently secure and stable to 12 commence exploratory operations, that was not 13 Shell's position. Shell's position was that 14 all eight anchors need to be in place before it would need an OCS source. 15 16 JUDGE REICH: But in practical terms is it different? 17 18 MS. VERGERONT: I think it is 19 different. 20 JUDGE REICH: If in the 21 implementation of the permit the person 22 designated by Shell determines that its eight

		Page	44
1	anchors, is there any basis under the permit		
2	under which you can challenge that		
3	determination?		
4	MS. VERGERONT: Well I guess if		
5	they make that determination I think it would		
6	be very difficult to do so but I think		
7	JUDGE REICH: To make the		
8	determination or to challenge the		
9	determination?		
10	MS. VERGERONT: To challenge the		
11	determination but I guess I would like to		
12	point out that this is a determination that		
13	Shell makes for operational purposes. This is		
14	not something that we created to implement		
15	this permit. This is something they make		
16	under that's made, its my understanding, by		
17	drill ships worldwide, the international		
18	association of drilling contractors. This is		
19	the determination.		
20	JUDGE WOLGAST: And what factors		
21	do you think would go into their determination		
22	on the ship?		

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1	MS. VERGERONT: I think that's	
2	perhaps a better question for Shell but	
3	JUDGE WOLGAST: This is an	
4	important question for you because you've	
5	abdicated the analysis to Shell.	
6	MS. VERGERONT: Again, we've taken	
7	a determination that they make for other	
8	purposes and we used that here. We think it	
9	appropriately signals based upon the	
10	information submitted to us when the vessel	
11	changes from being a vessel and when it is in	
12	the operational mode as a drilling rig. And	
13	I think in general my understanding is there	
14	will be eight anchors down when they are in	
15	that mode. But there are situations where	
16	they may take up some anchors to prepare to	
17	vacate but they will still be in that	
18	operational mode. I guess I would also like	
19	to say I think the financial incentives here	
20	are very much way in favor of Shell declaring	
21	itself to be ready and in a position	
22	sufficiently stable to drill as soon as	

possible because they want to be there for
exploration operations.

3 JUDGE WOLGAST: Actually I think 4 it maybe cuts the other way. I mean, I'm 5 imagining myself on the top of the Frontier 6 Discoverer as the manager in charge of the 7 ship. I know I'm sitting on top of a multi-8 million dollar investment and the potential 9 production from this exploration is God knows to tens of millions at a minimum and I can't 10 11 imagine that any prudent business person 12 wouldn't be extremely conservative in 13 determining anything that would put at risk 14 either the ship or that potential production 15 investment. So I really can't envision the 16 situation when a manager is going to say you 17 know, we've got six down, good enough. 18 MS. VERGERONT: So I don't think 19 that the criteria, that the relevant criteria 20 is how many anchors they have down but whether 21 they are in a position to be able to start 22 their exploration activity.

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Page 47 That's exactly 1 JUDGE WOLGAST: 2 though what happens when you count the emission so of course it matters how many 3 anchors are down from a Clean Air Act analysis 4 5 purpose and that's the agency's job to figure 6 out. 7 MS. VERGERONT: But again this is 8 a determination they make for other purposes. 9 It is for when the ship, for when the ship --But that is 10 JUDGE WOLGAST: exactly my point. 11 12 MS. VERGERONT: But they are not 13 going to be able to start what gets them the 14 money until they make this call. There is information in the record showing everyday out 15 16 there is, you know, in the millions and millions of dollars. 17 18 JUDGE WOLGAST: And we just saw in 19 the Gulf cutting things short can cost a whole 20 lot of money. 21 MS. VERGERONT: I don't think it's 22 the air permitting requirements that are going

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1	to drive that because I think the air		
2	JUDGE WOLGAST: That's also		
3	exactly my point. These are business		
4	decisions. They are being made for business		
5	purposes. They are not on top of a ship		
6	figuring out whether within the meaning of 328		
7	or the EPA's regulations, we checked all the		
8	boxes. This is a completely separate parallel		
9	analysis. It is the agency's job to figure		
10	out when those statutory and regulatory		
11	criteria have been met, not Shell's, which		
12	takes me to another question, which is there's		
13	a long line of cases on the fact that an		
14	agency cannot abdicate its regulatory		
15	responsibilities to a private entity. Why		
16	isn't that what's happened here?		
17	MS. VERGERONT: I guess we don't		
18	see this is as different than other kinds of		
19	self-monitoring that's done in the regulatory		
20	context. We rely all the time on company's		
21	JUDGE REICH: But this isn't self-		
22	monitoring. I mean this goes to the essence of		

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1	when it becomes subject to regulation, which
2	is a totally different concept than self-
3	monitoring.
4	MS. VERGERONT: When a company
5	commences construction, I mean that's not an
6	act that we have control over but that's for
7	PSD purposes.
8	JUDGE STEIN: But you have
9	objective criteria that apply. Here you've
10	basically put the regulated community in
11	charge of deciding when they are subject to
12	these regulations and you so narrowly define
13	the universe of what an OCS source, that the
14	vast bulk of the emissions aren't even
15	included.
16	MS. VERGERONT: The vast bulk of
17	the emissions from the operations are included
18	here. There's a period of approximately 18
19	hours at each well site between the time when
20	the first anchor is placed and the last anchor
21	is placed. So the vast majority
22	JUDGE WOLGAST: The record shows

Page 50 that could be up to 42 hours. 1 2 MS. VERGERONT: That would be 3 counting, I guess that's right, for putting 4 anchors down and up, you're right. I errored 5 there. But the vast majority of emissions are covered under the permit and the emissions 6 7 that are occurring during that anchoring 8 process are propulsion emissions. And EPA in 9 coming up with this approach --10 JUDGE WOLGAST: Propulsion emissions from the icebreaker. Is that wrong? 11 12 MS. VERGERONT: Propulsion 13 emissions from the drill ship and the 14 icebreaker. 15 JUDGE WOLGAST: But you don't even count the icebreaker emissions until its 16 17 secured not just working on the last anchor but secured the last anchor. 18 19 MS. VERGERONT: Until it 20 sufficiently secured and commenced operations. 21 And again we think that implements the 22 criteria as well as carrying out what was the

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1	clear intent as EPA expressed in their	
2	regulations.	
3	JUDGE WOLGAST: But if that's so	
4	clear then what happened? Why did you say it	
5	was attached and it was sufficient that one	
6	anchor down met the statutory and regulatory	
7	criteria in the first Chukchi proposal?	
8	MS. VERGERONT: That we, you know	
9	we started with that position and in response	
10	to comments. We got comments that said "you	
11	did not give meaning to the other criteria in	
12	there, erected and used for the purpose of	
13	drilling operations." And when the vessel is	
14	being transported on the ocean and getting	
15	into position it is a vessel at that point in	
16	time. Its only when it is sufficiently secure	
17	and stable that it is used for the purpose of	
18	drilling. Prior to that time	
19	JUDGE STEIN: But to be secure and	
20	stable to my understanding doesn't appear in	
21	the regulations. That's what EPA has come up	
22	with. It seems to me that if in your first	

1	analysis you didn't adequately look at what
2	the language erected thereon was, you could
3	have proposed comment rather than just option
4	two on what those words meant. Maybe they
5	don't need that much different than what
6	attachment refers to. Maybe they mean the
7	conservative position that you took here that
8	Shell decides but it seems to be there's not
9	really much of an analysis in the record of
10	what the words erected thereon mean. I mean
11	possibly it means what you said but you didn't
12	take comment on a range of options. You went
13	from over here to over here.
14	MS. VERGERONT: And the people
15	were free to comment on everything in between
16	and in fact they did. The petitioners
17	commented that there should be no attachment
18	requirement and several of the oil companies
19	said that every anchor needed to be attached.
20	So we
21	JUDGE REICH: Which is in essence
22	what you've agreed to. I mean you can frame

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		Page 53	
1	it however you want but you have essentially		
2	admitted that in most instances they are going		
3	to apply eight anchors. And so it is just an		
4	indirect way of largely reaching the same		
5	result, the effect of which is you have all of		
6	these emissions right literally at the site		
7	but we are ignoring them because until that		
8	eighth anchor is down, we don't even begin to		
9	start counting because its not an OCS source.		
10	MS. VERGERONT: Right. And we		
11	believe that was appropriate because to do		
12	otherwise would ignore the two other criteria		
13	in the regulation.		
14	JUDGE WOLGAST: What about the		
15	question that I was discussing with Ms.		
16	Sanerib which is that in support of not the		
17	first proposed permit but in the final you		
18	cite to the preamble of the Part 55		
19	regulations and specifically to the language		
20	that goes to permanently or temporarily		
21	attached and for the purpose of exploring,		
22	developing or producing not even mentioning		

Page 54 erected thereon and yet we jump from that to 1 2 an interpretation which in the real world 3 means that you are in a position to 4 immediately commence drilling operations which 5 appears absolutely nowhere. 6 MS. VERGERONT: There is this, the 7 preamble does state as you state but the 8 regulation controls here I would submit and 9 that does have the word erected in it. And we don't believe that we added criteria. 10 What we did was try to add clarity to the permit by 11 12 translating the criteria into enforceable permit conditions. Obviously had we just 13 14 included in the permit the requirements that it would be an OCS source when attached to the 15 16 seabed and erected thereon and used for the 17 purpose of, all the parties here would have different ideas of what that means. 18 19 JUDGE WOLGAST: That goes exactly 20 to Judge Reich's point when we started this 21 conversation which is that it's always going 22 to be eight anchors down. It is always going

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1	to be the minimal calculation of emissions.		
2	And you've admitted that it will be extremely		
3	hard to enforce anything else.		
4	MS. VERGERONT: We think that it		
5	would be hard to enforce something other than		
б			
7	JUDGE WOLGAST: Shell's		
8	determination at the site on that day.		
9	MS. VERGERONT: Yes and because		
10	Shell makes this determination for operational		
11	purposes, that have to do with when they can		
12	commence what brings them money, we think		
13	that's going to be a determination that they		
14	make about getting into position as soon as		
15	they can. So if the concern is that there are		
16	going to be waiting until the last possible		
17	moment to declare this to spare themselves		
18	penalties under the Clean Air Act, I think it		
19	works the other way. I think there are going		
20	to be declaring themselves in a position to		
21	drill, to begin exploratory activities sooner		
22	rather than later because		

		Page 56
1	JUDGE WOLGAST: Well what happened	
2	to the other record aspects that you cite	
3	which is the patent.	
4	MS. VERGERONT: The patent makes	
5	clear and that is why we didn't accept Shell's	
6	eight anchor approach is because the patent	
7	shows that there are conditions, the patent	
8	JUDGE WOLGAST: No, the patent	
9	says that is designed to be able to operate	
10	with four anchors down.	
11	MS. VERGERONT: And because of	
12	that we didn't believe it was appropriate to	
13	say they always had eight anchors down to be	
14	sufficiently secure and stable to drill.	
15	There was other information in the record	
16	available to us that suggested that that point	
17	could come earlier. We do	
18	JUDGE WOLGAST: So is the upshot	
19	of your argument that they are going to	
20	operate with less than eight anchors down for	
21	financial purposes? Is that the gist of the	
22	argument?	

Page 57 I think that they 1 MS. VERGERONT: 2 are going to operate in a way that they, I 3 would hope they would operate for reasons that 4 don't relate to air quality. I would hope 5 that they would relate/operate in a way that 6 they are in a safe mode before they make this 7 declaration. I mean we'll have to 8 JUDGE REICH: 9 ask Shell directly but I guess what I am struggling with is if Shell had said that they 10 11 needed the eight anchors down and that was 12 their comment. And I'm assuming that they 13 were saying that because that's when they felt 14 they would be in a stable position to do 15 drilling then why you would be suggesting that 16 to try to save money, they would be drilling 17 with fewer anchors down and they already went 18 on record in saying that they need to be 19 stable and secure. 20 MS. VERGERONT: I quess we wanted 21 to provide for the event that if they really 22 were beginning exploration.

Page 58 Right. Doesn't it, 1 JUDGE REICH: 2 I can call into question your assumption that 3 they would be drilling or declaring themselves 4 with less than eight anchors down if they've 5 already gone on record and said that's 6 basically what a stable configuration is? 7 MS. VERGERONT: Then our, the 8 regulation or the permit term that we can up 9 then will accommodate that if that's what they 10 need to do to operate in the safe drilling 11 mode, that's the declaration. 12 JUDGE REICH: Which is, I think, 13 why its fair for us to assume that you have in 14 fact accepted a definition that in reality is 15 going to lead, right and wrongly, is going to 16 lead to basically having all eight anchors down before you begin to consider this an OCS 17 18 source and begin to consider the emissions 19 associated with it. 20 And again we MS. VERGERONT: 21 looked at the distinction between when is it 22 operating as a vessel and when is it operating

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1	as a drilling, a stationary source and that's	
2	what we believe takes into consideration the	
3	elements of the regulation and EPA's expressed	
4	intent in making that distinction between	
5	vessel type emissions and stationary sources.	
6	JUDGE STEIN: Can I go back to a	
7	question that I asked earlier? And if I	
8	understand it, you said we could look to the	
9	statute in looking at the terms of the	
10	regulations. And when I look at the	
11	regulations in Part 55, and it is language on	
12	erected thereon, its different than what's in	
13	the statute. Because the statute seems to	
14	refer to two criteria, rather than three. And	
15	it talks about devices permanently or	
16	temporarily attached to the seabed, which may	
17	be erected thereon for the purpose of	
18	exploring for developing or producing	
19	resources therefrom. So when you are looking	
20	at what erected thereon means in the	
21	regulations, did you look at all to the	
22	statutory language and the change that EPA	

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		Page 60
1	made in the regulations as to whether that	
2	should inform how broadly or narrowly you are	
3	to interpret erected thereon at this time?	
4	MS. VERGERONT: Well because of	
5	how the regulation ended up with an and	
6	between all of those, I think that our	
7	regulation says that all three criteria have	
8	to be met. And so I don't think that the	
9	statute in that instance informs that. I'm	
10	not sure	
11	JUDGE STEIN: Then maybe what you	
12	ought to be doing is a narrower construction	
13	of erected thereon than the broadest possible	
14	construction. I mean obviously there are a	
15	range of ways clearly those words are in the	
16	regulation. You know, clearly some meaning	
17	needs to be ascribed to those words. But if	
18	I look at Kulluk 1 and I look at the first	
19	iteration of this permit. EPA had no focus	
20	whatsoever to my knowledge on the words	
21	erected thereon and now they've driven us to	
22	a place where not only are they the	

centerpiece, but they are so important that 1 2 EPA itself can't even decide what erected 3 thereon and has to give that responsibility to the regulated entity. And I'm very concerned 4 5 about that in light of this statutory 6 language. And I don't think that the 7 statutory language is irrelevant. 8 MS. VERGERONT: We did look at the 9 statute in interpreting the regulations here but we gave meaning to the word erected as 10 being sufficiently secure and stable to 11 12 commence operations because we were very cognizant of what EPA said when it promulgated 13 14 the regulations about the distinction between 15 when a ship was operating, as a drill ship was 16 operating as a vessel and when it was 17 operating as a stationary source. And until 18 it is really prepared to commence that 19 activity, it is our view that it is not 20 operating as a stationary source and that's 21 not an OCS source. 22 JUDGE STEIN: I know we have to

Page 62 move on to the other topics. 1 2 MS. VERGERONT: Yes. 3 JUDGE STEIN: But when Congress 4 passed Section 328, it is sort of hard for me 5 to imagine looking at the statute and 6 legislative history that all of this was about 7 the narrowist possible definition of OCS 8 source. And I'm concerned about it because 9 what I see in Congress is in the statute is a concern about the air emissions. And in order 10 to figure out which air emissions were first 11 12 covered by the OCS source and then a 13 stationary source. Don't we at some level have 14 to look at what Congress is intending to address? 15 16 MS. VERGERONT: I think we do but we have to do so within the confines of the 17 18 regulation and that's what Region 10 did here. 19 So I would like to next move to 20 the issue of EPA's determination that BACT 21 does not apply to support vessels. Here I 22 think both petitioners are making a facial

		Page 63
1	challenge to the statute. The Earthjustice	
2	petitioners try very hard to characterize it	
3	as Region 10's application of the statute but	
4	what was very interesting about the discussion	
5	today and large portions of the brief is that	
6	it really focuses on what the statute says.	
7	And EPA promulgated the Part 55 regulations	
8	and we think that does give meaning and that	
9	has to be a given meaning.	
10	JUDGE WOLGAST: In that regard	
11	what about the discussion that I was having	
12	with Mr. Grafe which is you say that's only to	
13	be attributed if its attached and we assume	
14	for instance the icebreaker will be attached.	
15	I read your briefs to say that the one anchor	
16	down actually is attachment but it doesn't	
17	satisfy the other prongs of your definition.	
18	MS. VERGERONT: So is your	
19	question why is one anchor down sufficient for	
20	attachment with respect to the vessel but not	
21	with respect	
22	JUDGE WOLGAST: No.	

Page 64 1 MS. VERGERONT: Okay. 2 No, because I'm JUDGE WOLGAST: 3 just looking at the regulatory definition of 4 the other fleets, speaking specifically as an 5 example, the icebreaker. 6 MS. VERGERONT: Yes. 7 JUDGE WOLGAST: It says that those 8 type vessels will be considered part of the OCS source in 55.2 if its attached and it will 9 be treated and the emissions will be those 10 11 emissions only allocated of stationary source. 12 MS. VERGERONT: So I'm not sure 13 that the question --14 JUDGE WOLGAST: Well I'm not 15 finished with my question. So I'm trying to 16 say it more directly. And the question though 17 that we discussed was at page 24 and 25 of your response, you say that the icebreaker 18 19 isn't part of the OCS source because the cable 20 line attaching it isn't good enough for 21 attachment. But, even if it were, the 22 emissions from the icebreaker are not

		Page	65
1	stationary source submissions. And the		
2	conversation we were having earlier is, well		
3	is that necessarily true when Congress said		
4	that the emissions from these associated		
5	vessels should be treated as direct (i.e.		
6	stationary source emissions) as opposed to		
7	indirect (i.e. mobile source emissions) which		
8	is your argument. That even if it were		
9	attached it moves around and ergo has to be a		
10	mobile source emission. I'm saying why don't		
11	you look back to the statute that says that no		
12	these are direct emissions.		
13	MS. VERGERONT: So in the Santa		
14	Barbara case I think the, well first of all we		
15	think the statute, Congress made a distinction		
16	between the OCS source and between emissions		
17	that would be attributable to the OCS source.		
18	JUDGE WOLGAST: We're just talking		
19	about OCS sources, because I'm talking about		
20	EPA's regulatory definition of OCS source.		
21	MS. VERGERONT: Yes, and what the		
22	Santa Barbara court said was that statute was		

Page 66 ambiguous and EPA was --1 2 JUDGE WOLGAST: The statute or the 3 reg? 4 MS. VERGERONT: The statute was 5 ambiguous and EPA, you know was within its 6 discretion to clarify that in the regulation 7 and what the regulation says is first of all 8 there has to be physical attachment for a 9 support vessel to be considered part of the OCS source and then its only the direct, its 10 11 only the, its not the propulsion emissions, 12 its only the stationary source aspects of 13 that, of any vessel that would be physically 14 attached. So --15 JUDGE WOLGAST: And so your 16 position is that the fact that Congress said that these emissions were direct emissions has 17 18 no bearing on the interpretation of the word stationary source in the EPA regulation? 19 20 No, we don't think MS. VERGERONT: 21 that calling them direct emissions makes them 22 stationary source emissions.

Page 67 What are direct 1 JUDGE WOLGAST: 2 emissions? 3 You know, its not MS. VERGERONT: defined that I know of. All I can think of is 4 5 that Congress was making a distinction between 6 secondary emissions and secondary emissions 7 aren't considered in the potential to emit but 8 they are considered in the air quality 9 analysis. And here Congress said clearly, and EPA said very clearly that these emissions 10 should be considered in the potential to emit. 11 It is very interesting where EPA put that, the 12 congressional directive. They put it in the 13 14 definition of potential to emit. So to apply 15 PSD to an OCS source under EPA's regulations, 16 first you determine what the OCS source is and 17 then you determine what are the potential 18 emissions of the OCS source. And there EPA 19 said you consider the emissions of the 20 associated fleet that aren't attached, aren't 21 physically attached because the physically 22 attached one are part of the OCS source. So

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you consider these support vessel emissions 1 2 and that's the potential to emit of the OCS 3 Then you go to the PSD regulations source. 4 and then the PSD regulations say that BACT 5 applies to major stationary sources. And EPA, 6 we think the structure is clear, that EPA did 7 not consider these associated fleet vessels to 8 be stationary sources or emissions of the 9 stationary source and we think its very clear 10 from the preamble where EPA said we regulate 11 the drill ship as a stationary source. We're 12 not regulating, directly regulating, these associated fleets because we don't think 13 14 Congress gave us authority to do so. So, we think the statute is clear on this issue of 15 whether BACT applies, that Congress made this 16 distinction. EPA carried out this distinction 17 18 in its regulations and we think when you apply 19 PSD, the BACT requirement to the stationary 20 source, you come up with a result that BACT 21 does not apply to the support vessels. Again, 22 _ _

Page 69 1 JUDGE STEIN: Where do you, I 2 mean, in Kulluk 1, we talked about their being 3 two stages. One, what is the OCS source and 4 two, what is the stationary source? And I 5 realize the issues were somewhat different 6 Where in this analysis do you get to there. 7 the second question? It seems like you've 8 just assumed that the OCS source and the 9 stationary source are one and the same. 10 MS. VERGERONT: Well again we 11 looked at the preamble for clarification there 12 where they said the drill ship is the stationary source. And so we taking that and 13 14 then looking at what the major stationary source was. Here we think it is the OCS 15 16 source. I mean it doesn't 17 JUDGE STEIN: 18 totally get to Judge Wolgast's question which 19 is the scope of the OCS source, but I'm not 20 convinced that even if you were to conclude 21 that the icebreaker is not part of the OCS 22 source, you don't have a second analysis that

		Page 7
1	hasn't been undertaken in this case.	
2	MS. VERGERONT: So, yes and we	
3	think looking at the regulations that once you	
4	determine what the potential to emit is of the	
5	OCS source, then you apply the PSD regulations	
6	and here the OCS source is	
7	JUDGE STEIN: Well isn't that	
8	inconsistent with what the Board said in	
9	Kulluk 1?	
10	MS. VERGERONT: No, I think it	
11	said, well once you determine the OCS source,	
12	you apply the program according to its terms.	
13	And here	
14	JUDGE STEIN: You have to look at	
15	what the stationary source is.	
16	MS. VERGERONT: Yes and I think by	
17	making the distinction in the statute and in	
18	our regulations between what the associated	
19	fleet is and what the other fleet is and	
20	looking at the preamble and EPA's regulations,	
21	I think we made that distinction that the	
22	support vessels were not considered part of	

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		Page 71
1	the stationary source. Otherwise, EPA would	
2	have said in the preamble, they would not have	
3	said we are not going to be regulating these	
4	as stationary sources. And that is stated in	
5	EPA's preamble. So to the extent that its not	
6	clear in the regulations, we think it is	
7	clarified by the preamble.	
8	JUDGE STEIN: Has EPA undertaken	
9	an analysis of where direct emissions is used	
10	in statute and in the regulations and in	
11	guidance as part of an effort to inform us of	
12	what the term direct emissions in the statute	
13	might have meant.	
14	MS. VERGERONT: I am not aware of	
15	where its used. I can go back and confer with	
16	my colleagues and we could submit supplemental	
17	briefing to the extent we, anyone else is	
18	aware of it in our discussion of this and we	
19	haven't come up with any place else where that	
20	term is used.	
21	JUDGE WOLGAST: Let's move to the,	
22	you are out of time but I do want to get your	

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1	views on the environmental justice analysis		
2	here. And particularly we would like you to		
3	focus on why in this context, in an		
4	environmental justice context it was		
5	appropriate for the agency to rely in meeting		
6	the executive order, on a body of evidence		
7	that the agency had already determined was not		
8	sufficient to protect public health?		
9	MS. VERGERONT: Yes and we are		
10	certainly sensitive to the concerns of the		
11	community and the Board with respect to the		
12	timing of the issuance of the NO2 standard and		
13	issuance of the permits and the statements		
14	made in that. In issuing these permits,		
15	Region 10 followed the approach that EPA has		
16	generally followed in analyzing and doing an		
17	environmental justice analysis in the PSD		
18	context by looking at the impact of the		
19	proposed permits on compliance with the NAAQS		
20	and affected at the time of permit issuance		
21	and that is an approach that the Board has		
22	endorsed.		

		Page
1	JUDGE REICH: Are you aware of any	
2	case where the board has taken that approach	
3	with an ambient standard for which a new	
4	ambient standard had already been adopted and	
5	was just pending the effective date?	
6	MS. VERGERONT: No I am not aware	
7	and it is an unusual situation that arose here	
8	but we believe that the same need for finality	
9	and timely completion of the permitting	
10	process that leads EPA to the conclusion that	
11	for PSD compliance purposes you look at the	
12	NAAQS and effect at the time of permit	
13	issuance. We think those same considerations	
14	here, even though they have consequences that	
15	are difficult	
16	JUDGE WOLGAST: But here you have	
17	as of July of 2009, almost a year before these	
18	permits were issued, you had the body of	
19	evidence that underlay the agency's proposal	
20	and you had the agency's determination that it	
21	wasn't sufficient to project public health	
22	subject to public comment. So all the data	

		Page	74
1	was available. It wasn't like you had to		
2	start analyzing in February.		
3	MS. VERGERONT: And prior to the		
4	proposal there were probably technical		
5	positions staked out there as well. The		
б	concern that we have with choosing a date		
7	7 other than the effective date is that it is		
8	essentially moves up the effective date of the		
9	standard.		
10	JUDGE STEIN: I'm not sure that it		
11	really does. I think the answer is		
12	potentially different for the effective date		
13	of the new standard kicking in from what it		
14	means in the context of an environmental		
15	justice analysis. And in the context of an		
16	environmental justice analysis historically		
17	the board has looked to compliance with NAAQS		
18	because it is a health based standard that we		
19	can look to saying well if this standard is		
20	met public health is protected. But when that		
21	data is 40 years old as it is in this case,		
22	the underlying data, and you have new data		

Page 75 that shows that the game has changed, why 1 2 would you not at least for purposes of the analysis of EJ look in addition to the NAAOS 3 4 whether or not there was an impact using the 5 potential numbers in the new standard. Why 6 would that have been so burdensome? 7 MS. VERGERONT: Well and I think 8 again it goes to the issue of what date do you use? Do you use the proposed rule date, the 9 date before that when the technical report was 10 at the agency, the final date? 11 12 JUDGE STEIN: The final was in 13 effect before you issued this permit. 14 MS. VERGERONT: But it was not --15 JUDGE STEIN: It had been 16 promulgated in the federal register as a final 17 agency action. So you knew at that point in 18 time that the science was set. 19 MS. VERGERONT: Yes. Yes, but 20 Judge Wolgast, also mentioned the time of the 21 proposal and that is the difficulty with this 22 and we think the interest of finality and

		Page
1	timely issuance are issues we have to raise.	
2	I guess I also want to emphasize that we don't	
3	believe that there was a clear legal or	
4	factual error here. We do recognize that its	
5	an important policy, issues are at stake and	
6	EPA is taking several steps to address the	
7	policy issues both at the regional level in	
8	connection with this project.	
9	JUDGE REICH: But let me go back.	
10	What we are talking about here is an analysis,	
11	okay. It is a different issue from whether	
12	the one hour standard applies or not. We are	
13	basically raising the question of as a minimum	
14	should you not have at the least done an	
15	analysis. You could have done an analysis and	
16	come to the conclusion that the health effects	
17	are such that it would be acceptable issuing	
18	a permit the way it was. The fact that you	
19	have to do an analysis doesn't dictate a	
20	particular result. But it appears from the	
21	record that basically you didn't want to do	
22	that for whatever reason. I agree that	

there's some question about when do you start 1 2 doing that but I think the Administrator going 3 on record in the proposal laying out the data 4 certainly seems to be one relevant point to 5 look at. And that was well before this permit 6 was that far along. And to be honest about 7 it, even relative to the existing ambient air 8 quality standard, I don't see much of an 9 analysis. I see a conclusory couple of 10 paragraphs and that's about it. So I'm not 11 even sure how much that really looks like an analysis to me. But certainly I think you 12 could have done far more than you did here 13 14 relative to the one hour standard without it 15 necessarily unduly delaying the permit. 16 JUDGE WOLGAST: And just to follow 17 up on Judge Reich's point, I think part of 18 what you are hearing is that this isn't a case where we are trying to figure out when someone 19 20 can sue on the final NO2 permit. This is an 21 environmental justice analysis that the agency 22 as of March 31 and April 9 had to determine

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1	whether there was a disproportional adverse
2	human health or environmental impact where the
3	comment had been squarely raised by
4	subsistence population in this case. And so
5	the question is so, as when you, when someone
6	is signing their name to this, what body of
7	evidence is it appropriate to look to. And
8	how could it be appropriate to look to a body
9	of evidence that the agency itself has already
10	determined is inadequate to protect public
11	health.
12	MS. VERGERONT: Well the executive
13	order talks about to the extent practicable.
14	And in this case given the timing, we would
15	contend following the approach that had been
16	followed in other cases, we determined that it
17	was appropriate to look to the NAAQS standard
18	in effect at the time of permit issuance. We
19	were very aware of the fact that the Title 5
20	permit for this source will require compliance
21	with the NO2 standards so that information
22	will be coming, that analysis is underway.

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1	Shell is in the process of collecting the			
2	necessary data and we are working with Shell			
3	to commence to work on the modeling and figure			
4	out how this kind of modeling inputs			
5	5 demonstration will be done. So that work is			
6	underway.			
7	JUDGE WOLGAST: How much time did			
8	it take you to do this environmental justice			
9	analysis? As Judge Reich points out its about			
10	a page and a half total?			
11	MS. VERGERONT: Well, it did in			
12	fact take quite a bit of time. We had a staff			
13	person who was devoted to working on it and we			
14	looked at the community that was out there and			
15	we did a lot of extensive outreach which is a			
16	key component of our environmental justice			
17	JUDGE WOLGAST: Right. There is a			
18	procedure and then there is the actual			
19	analysis of the public health threat.			
20	MS. VERGERONT: There is.			
21	JUDGE REICH: I don't have the			
22	executive order in front of me but you say it			

		Page
1	requires the analysis to the extent	
2	practicable. Am I not right that what it	
3	actually says is you are suppose to implement	
4	the order consistent with the extent permitted	
5	by existing law?	
6	MS. VERGERONT: To the extent	
7	practicable and permitted by law identify and	
8	address as appropriate disproportionately high	
9	and adverse human health and	
10	JUDGE REICH: Is that the standard	
11	for addressing or is that the standard for	
12	doing analysis?	
13	MS. VERGERONT: That's the	
14	standard for the extent to which we are to	
15	address it but I think that's also what we	
16	look at in analyzing it.	
17	JUDGE STEIN: If the board were to	
18	remand on one of the, at least one of the	
19	issues before us, if for example, we were to	
20	find clear error in the agency's approach to	
21	the OCS source definition. And a remand on	
22	that issue, what implications does that have,	

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1	timing-wise, for whether or not a different		
2	answer might be required for the EJ analysis		
3	or is it irrelevant or don't you know?		
4	MS. VERGERONT: Well I think it		
5	would really depend on what the remand issue		
б	was. And that's the same its true for the		
7	EJ analysis and also true for whatever other		
8	requirements that might come into effect. We		
9	really need to see the scope of the remand and		
10	figure out what portions of the permit it		
11	would affect and from there we would determine		
12	what parts and what aspects would be		
13	appropriate to reopen and look at again. So		
14	I don't think that's an answer, something that		
15	I can answer here. Again, with respect to the		
16	environmental justice, I would just like to		
17	say that we do recognize there are important		
18	policy considerations. Region 10 in this case		
19	is working with Shell to come up with the		
20	information and to gather the information and		
21	to do the analysis to demonstrate compliance		
22	with the new NO2 standard that will be		

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1	required in their Title 5 permit. The agency		
2	after these permits were issued, the EPA		
3	administrator issued interim guidance, talking		
4	about how it would address environmental		
5	issues in agency-wide actions and we also in		
6	July put forth to the national advisory		
7	committee on environmental justice solicited		
8	there input on how we should address		
9	environmental justice in the permitting		
10	process. So there are important policy issues		
11	at play. The agency is addressing those issues		
12	and we therefore think that in light of the		
13	record in this case, we believe that the Board		
14	should not grant review on this issue and		
15	should approve the permit.		
16	JUDGE REICH: Just out of		
17	curiosity and this doesn't go to whether there		
18	was error in this case or not but in doing		
19	this further analysis have you discussed the		
20	scope of what you are doing with for instance		
21	AEWC and making sure that the concerns that		
22	they might have are at least considered in the		

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1	scope of your analysis so that when you		
2	ultimately come up with an analysis it might		
3	be one that everybody can feel comfortable		
4	with?		
5	MS. VERGERONT: I don't believe		
б	we've been having conversations with them but		
7	that's certainly something we can consider.		
8	8 JUDGE WOLGAST: Thank you. Your		
9	time is expired.		
10	MR. SILER: Good afternoon. May it		
11	please the board. I am Duane Siler and I am		
12	here representing Shell Offshore Inc. and		
13	Shell Gulf of Mexico, Inc. With me at the		
14	counsel table is Sarah Bordelon and seated		
15	behind her is Mr. Lance Tolson from Shell's		
16	law department. Your Honor in the original		
17	scheduling order you invited the parties if		
18	they wished to discuss the path forward in		
19	terms of what the Board should do with these		
20	appeals. Nobody's addressed that but if I may		
21	I would like to just take a minute or two to		
22	reiterate that Shell more than ever seeks a		

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1	prompt decision on these petitions for review.		
2	Shell still has an urgent need, even more so,		
3	I think than when we were here four months ago		
4	and discussed this. Affirmance of these		
5	permits at least in the case of the Beaufort		
6	permit, because I think Your Honors know the		
7	Chukchi permit. The Chukchi project is for		
8	the time being on hold while a supplemental		
9	EIS is being prepared for the original lease		
10	sale that underlies that project. But with		
11	respect to the Beaufort project, affirmance of		
12	these permits will allow Shell to move forward		
13	with planning for the 2011 summer drilling		
14	season with some major certainties,		
15	uncertainties resolved. Similarly a remand on		
16	any of these issues that have been raised by		
17	petitioners which might necessitate further		
18	proceedings by the Region, it would be very		
19	beneficial if those could proceed sooner		
20	rather than later for the reasons we discussed		
21	in June. We don't want to have to back here		
22	in the Spring with these same issues being		

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1	presented to you for decision at that time		
2	because the Region didn't have time properly		
3	to consider them and any remanded proceedings		
4	on these permits or at least on the Beaufort		
5	permit. I would note that in its June 28		
6	filing with the Board seeking a postponement		
7	of the previous August 17 hearing date, EPA		
8	agreed that it would be appropriate for the		
9	Board to proceed and decide these three		
10	issues. There is really no good reason not to		
11	decide them. I know there were concerns		
12	expressed in June about what additional		
13	requirements might be imposed by the Bureau of		
14	Ocean Energy Management on these permits by		
15	the Department of the Interior pursuant to the		
16	suspension. That's been in effect for the		
17	2010 drilling season in the Arctic. There		
18	have in fact been a number of regulatory		
19	activities by the bureau but none of them has		
20	affected nor does it appear they will affect		
21	the emissions profile of this project.		
22	Yesterday by coincidence, Shell		

filed an application with DOE for permit to 1 2 drill, authorization for permission to drill 3 in the 2011 Summer season. One well in the 4 Beaufort Sea pursuant to the already approved 5 and judicially upheld exploration plan. There 6 is one minor modification which is that the 7 projects will go largely to zero discharge to 8 the waters and instead muds and cuttings and 9 waste water will be stockpiled and removed for 10 disposal on shore. But the point is that 11 Shell is planning to go forward. Shell has no 12 indication that the Bureau will not process this APD in as much as the suspension was only 13 for the 2011, the 2010 season in the Arctic 14 and Shell has complied with the ensuing NTL's 15 16 notices to lessees that have been issued by 17 DOE to provide additional information 18 including on Shell's worst case spill estimate 19 and the adequacy of Shell's response plan. 20 None of which has altered the emissions 21 profile of the project or would require 22 reopening this air permit. Shell wants to use

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this air permit that's before the Board in the 1 2 Beaufort Sea in 2011. It is important to 3 remember that in turning to the merits of 4 these issues that the burden obviously the 5 petitioners have here is to show that there 6 was clear legal error on the part of Region 10 7 in determining how to define OCS source in 8 this situation and determining whether BACT 9 would apply to the associated vessels that never attached to the seabed or to the 10 Frontier Discoverer. We submit that it was 11 not unreasonable for the Region to come out 12 where it did in terms of a workable definition 13 for when the Discoverer becomes an OCS source. 14 After all some line does have to drawn. 15 With 16 all due respect the argument that the Discoverer is an OCS source when it leaves 17 18 port because at that point it has been erected 19 and needs only to be attached apparently. 20 That's not a workable test. Region 10 had to 21 come up with a standard and they did that by 22 looking at Section 55.2 of the regulations

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1	which as the Board noted in the Kullik case
2	appropriately embodied the restrictions in
3	Section 328, which in turn referred back to
4	Section
5	JUDGE REICH: Putting aside the
6	legal issues involved, just from a technical
7	standpoint, what is Shell's view of the
8	stability of the ship for drilling purposes
9	with less than eight anchors down?
10	MR. SILER: Shell's position is
11	that the ship needs to be fully anchored to be
12	secured and ready to drill. That would
13	certainly be the general rule that Shell
14	operations people would follow. If I may Your
15	Honor, there's absolutely no incentive for
16	Shell to either shortcut this or extend it
17	because as was pointed out in the earlier
18	Kulluk, these operations are under intense
19	scrutiny. We have to operate safely. That's
20	the top priority. The vessel is not going to
21	be declared ready to drill and start drilling
22	prematurely. That would not be prudent.

Page 89 JUDGE REICH: Given that comment, 1 2 would you say that it is unlikely then that financial considerations are going to drive 3 4 you to make the declaration of stability with 5 less than eight anchors down very often? 6 MR. SILER: I think financial 7 stability will not outweigh, assuming there's, 8 sorry, financial incentives will not outweigh 9 operating prudence in this case given the scrutiny that we are going to be under, 10 11 operating in the Arctic. The procedure is a 12 well recognized one. The anchors have to be 13 properly tension. Tension is measured. The 14 location is determined whether it is precisely 15 over the target. And at that point there is 16 a handoff, if you will from vessel status to 17 drilling status. People in charge of the 18 vessel yield to people who are in charge of 19 the drilling operation. It is a well 20 recognized process that's documented in the 21 IADC logs. It is not, Shell will have no 22 incentive to game this system for air

pollution reasons. There are far more 1 2 important considerations at stake here. 3 Namely safety. Now it is true that the 4 patent, that I believe Region 10 actually 5 discovered for this, does suggest it can drill 6 with fewer than four anchors. And one can 7 imagine that might be tauting this technology 8 a little bit of something that can be used 9 more quickly than an eight anchoring process would require. But Shell's position is that 10 11 there's a reason for the eight anchor pattern. 12 That is what renders the vessel ready to drill. 13 And we don't think its inappropriate 14 that while that process is occurring there will be anchors set and emissions will occur 15 from the icebreaker. The icebreaker is at 16 17 that point performing the function of a 18 It is pulling on loose lines. vessel. It is 19 not attached to the drill ship in any sense 20 that their relative motion is prevented in the 21 sense that when you lure something to another 22 vessel.

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1	JUDGE STEIN: Are there another		
2	set of laws that while it's a vessel would be		
3	controlling those emissions before its		
4	considered effectively a stationary source?		
5	MR. SILER: I don't believe so		
6	Your Honor because I think the recently		
7	adopted Title 2 standards for vessels would		
8	not apply to these vessels.		
9	JUDGE STEIN: If the agency would		
10	have decided to follow the patent and say that		
11	at or effectively follow the patent that at		
12	four anchors down, for example, they would		
13	consider that, you know it may not be perfect		
14	but it is a reasonable cut that could have		
15	been made. That doesn't compel Shell to start		
16	drilling at that point, does it? That would		
17	simply, if the agency decided that you are an		
18	OCS source with four anchors down, that would		
19	still enable Shell to do whatever it needed to		
20	do for purposes of its own safety and other		
21	operational checks. Am I correct?		
22	MR. SILER: I guess the question		

		Page
1	then would be whether the Discoverer at that	
2	point is still a vessel or is an OCS source.	
3	Shell does plan to operate the main engines of	
4	propulsion under the Discoverer in order to do	
5	safe anchoring. It is still a vessel while	
6	that is occurring. And that was one of the	
7	bases upon which the MMS expressed concern	
8	about the one anchor down option one	
9	definition.	
10	JUDGE WOLGAST: Well assume for	
11	purposes of Judge Stein's question that the	
12	agency determined that it was an OCS source	
13	and a stationary source at four anchors down	
14	looking to the permit. Then what is the	
15	upshot from your perspective of that?	
16	MR. SILER: The practical upshot	
17	Your Honor is that then arguably from that	
18	point in time onward, the Discoverer is an OCS	
19	source and is subject to BACT.	
20	JUDGE WOLGAST: And how would that	
21	affect your operations?	
22	MR. SILER: It would be very	

difficult to install, determine what is BACT 1 2 for those propulsion engines and install it. That is one of the reasons it matters to Shell 3 4 although we still believe that legally it is 5 the correct outcome under this bright line 6 test that needs to be drawn between vessel 7 The correct time is when versus OCS source. 8 it is attached, erected and in a position that 9 is secure and stable and ready to drill. Ι know Your Honors were concerned about the 10 11 meaning of erected here but clearly it means something. Its not surplusage. Attachment is 12 There is an additional 13 not sufficient. 14 requirement here and counsel for AEWC has 15 suggested that what this really means is it 16 only applies to jackup rigs because they are 17 in some sense lifted in the air once they are 18 brought to the site and seated on the bottom. 19 But any kind of offshore drilling, mobile 20 offshore drilling unit is going to require 21 something in addition to attachment before it 22 will be ready to be used for exploration.

Page 94 But why do you think 1 JUDGE STEIN: 2 when Congress changed the definition from 3 fixed structure to attachment, do you know why 4 they did that, what was driving them and why 5 they at the same time didn't focus on the 6 erected thereon language? 7 MR. SILER: Well I think that 8 there was in fact a concern that there was 9 going to be more offshore oil exploration and 10 that the fixed structure language was not 11 comprehensive enough. But they still adopted 12 again and presumably thereby reiterated and 13 intended to adopt the three criteria in OCSLA 14 that these facilities or vessels be attached, 15 that they be erected and that they be used for 16 exploration. 17 JUDGE STEIN: Is there any 18 regulatory history of what erected thereon 19 means? 20 MR. SILER: I'm not aware of any. 21 If I could just make, finish the point I was 22 going to make. If you think about any form of

		Page	95
1	drilling, operation offshore, if it's a jackup		
2	rig its at least two steps. It is floated		
3	there. It is probably anchored so it won't		
4	float away. Legs are extended down and its		
5	jacked up. So there's clearly attachment plus		
б	erection in that situation. There's		
7	attachment in something that probably is		
8	erection when you have a bottom founded unit		
9	which is taken out to the source to the		
10	location, anchored and then actually sunk so		
11	it sits on the bottom. It is erected in that		
12	sense in that it is ready to drill only when		
13	that happens. And similarly the Discoverer is		
14	erected only after its been attached and also		
15	has been stabilized so its ready to drill.		
16	JUDGE WOLGAST: And what part of		
17	imagining the Discoverer's operations, what		
18	part is attachment and what part is erected		
19	thereon?		
20	MR. SILER: Attachment is, the		
21	parties seem to read it attachment occurs when		
22	one anchor is down but that is not erection.		

		Page	96
1	Although I think one could argue, its not the		
2	position that the agency has taken I don't		
3	believe in the record but that really		
4	attachment doesn't occur until the vessel is		
5	fixed and situated. I think in the record,		
6	the rationale is that attachment occurs when		
7	one anchor is down.		
8	JUDGE WOLGAST: And I'm just		
9	trying to understand in your view, you know,		
10	as a practical matter in this instance, what		
11	is the difference on the ground between		
12	attachment and erected thereon?		
13	MR. SILER: Attachment does occur		
14	when anchoring occurs. But anchoring leaves		
15	a vessel free to move around, depending on how		
16	the anchoring occurs. If it is intended to		
17	completely stabilize and render it stationary		
18	that's one thing. But I think in common		
19	parlance a vessel is attached to the seabed by		
20	an anchor but it is by no means ready at that		
21	point to be used for exploration. And even if		
22	the Board reads erected and used as a single		

1	second component as opposed to those being
2	separate and I believe one of Your Honors was
3	pointing to the punctuation as leading to that
4	possible reading. Still there is that second
5	element and attachment plus something is
6	required. And given that the purpose of the
7	original OCS, the OCSLA jurisdictional
8	provisions was to capture activities that are
9	no longer vessel activities but stationary
10	activities on the OCS. That is the best
11	reading of erection and it's the one that the
12	Region used here in making the determination
13	with respect to the Discoverer.
14	JUDGE STEIN: If instead of doing
15	what the Region had done, they had decided
16	that attachment and erected thereon, those two
17	criteria were met, when eight anchors were
18	down as opposed to this recording in the log.
19	In your view had they done that, is that
20	problematic from Shell's perspective or from
21	a legal perspective? I'm asking that question
22	because obviously one of the areas of the

Board's concern is whether the Region has 1 2 inappropriately abdicated its regulatory 3 responsibilities to an outside third party. 4 I'm not sure there would be a practical 5 difference drilling-wise so I wanted to get 6 your view on that. 7 MR. SILER: It would provide a 8 bright line test that would not be problematic because that's what Shell intends to do. 9 In other words drop eight anchors before being 10 ready to drill. I think its really only the 11 wildcard patent that's in the record that is 12 creating this issue. 13 14 If Your Honors have no more 15 questions I'd like to speak just briefly about 16 BACT on the associated vessels. 17 First of all its perfectly clear 18 that associated vessels in the fleet that are 19 servicing the Discoverer cannot be part of the 20 OCS source unless one of two things is 21 fulfilled, well only one thing. They have to 22 be actually attached to the OCS source. But

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1	if they were themselves attached to the seabed		
2	then perhaps one could argue they are separate		
3	OCS sources. But we are talking about vessels		
4	that do not attach to the seabed. They are		
5	performing their functions while moving		
6	around. And they do not attach to the		
7	Frontier Discoverer when it is an OCS source.		
8	And I include in that of course, the		
9	icebreaker because I think its entirely		
10	reasonable as the agency concluded that		
11	pulling an anchor line is not an attachment.		
12	JUDGE WOLGAST: How does the		
13	service vessel attach?		
14	MR. SILER: I beg your pardon?		
15	JUDGE WOLGAST: How does the		
16	service vessel attach?		
17	MR. SILER: It ties up to the side		
18	of the Frontier Discoverer and delivers		
19	supplies. But what, so its clear that PSD		
20	review and BACT cannot apply to these vessels		
21	by virtue of them being OCS sources or		
22	stationary sources because that's, that		

Page 100 requires attachment as Your Honors determined 1 2 in Kulluk. So what the petitioners are asking here is that the board adopt the extraordinary 3 4 position of imposing direct regulation 5 including BACT on mobile sources which to my 6 knowledge is unprecedented under the Clean Air 7 Act and is contrary to the clear structure of 8 the act, under which mobile sources, including 9 vessels are regulated under Title 2. To be sure Section 328 directs that vessel emissions 10 considered to be direct emissions of the OCS 11 source. But that tells us a couple of things. 12 13 Number one, it tells us that they are not part 14 of the OCS source on this construction and the statute wouldn't be required. And it tells us 15 16 that they are to be attributed to the OCS 17 source for some purposes. EPA in its Part 55 18 regulations determined and everyone seems to agree today that those regulations are not 19 20 themselves under challenge, that the direct 21 emission, that the emissions from these 22 associated vessels when within 25 miles would

Page 101 be counted as potential to emit for purposes 1 2 of determining whether the OCS source is a major source and for determining air guality 3 4 compliance. I believe that the history of 5 enactment, Section 328, I think it is 6 instructive to look at where the situation, 7 vis a vis the regulation of mobile sources was 8 prior to the enactment of Section 328. Your 9 Honors know in the case of NRDV v. EPA the DC circuit was addressing whether EPA had 10 properly decided it did not have jurisdiction 11 12 to regulate emissions from mobile sources, 13 from vessels. And what had happened there was 14 in 1980, the agency had promulgated rules under which vessels which were tied up at a 15 port would have their emissions counted both 16 17 toward the potential emissions from that 18 facility onshore and for purposes of air 19 quality compliance and that vessels that were 20 going to and fro as the court characterized it 21 from that port would have their emissions 22 counted for air quality compliance purposes.

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EPA took a second look at that based on the 1 2 1977 amendments, Section 110, where Congress 3 prohibited the agency from regulating mobile 4 sources in connection with permitting of 5 onshore stationary sources. They concluded 6 they didn't have authority to regulate vessels 7 and the DC circuit said that was correct with 8 respect to the vessels that were in transit or 9 moving around but the EPA had made a mistake in not considering, in concluding it didn't 10 11 have the authority to regulate vessels tied up at the port in terms of counting their 12 emissions in PTE. 13 So the situation then was 14 when Congress came to enact Section 328 in 15 1990 they were basically simply correcting part of what the DC circuit had said Section 16 In other words, Section 110 said no 17 110 did. 18 regulation of these sources in terms of 19 counting their emissions, DC circuit said 20 that's true for in transit vessels. Congress 21 evidently decided in 1990 that it wanted in 22 transit vessels or at least those within 25

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1	miles that are associated with these projects	
2	on the OCS to be counted as if they were	
3	direct emissions but what was at issue in 1977	
4	and in 1984 in the NRDC case and again in 1990	
5	was what emission, what was on the table was	
6	what emission should be attributed to the	
7	stationary source for purposes of determining	
8	whether it's a major source. There was never	
9	any suggestion that the mobile sources	
10	themselves for the first time should become	
11	subject to BACT. And its not surprising	
12	because when one considers the difficulties	
13	that would arise in determining what would be	
14	BACT for mobile sources, especially vessels	
15	that are owned by third parties or work on a	
16	variety of different projects from year to	
17	year will be involved in projects with totally	
18	different emissions profiles from year to	
19	year. And so we believe its clear that the	
20	model for the regulation of unattached vessels	
21	is mobile source regulation and there's	
22	nothing in Section 328 to suggest that was not	

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1	Congress' intent. Nor may I just add have
2	petitioners identified any instance where
3	mobile sources are subject to BACT.
4	JUDGE WOLGAST: Thank you.
5	JUDGE STEIN: I have one more
6	question relating to Section 328. Section 328
7	talks about equipment, activity or facility.
8	It does that both at what an OCS source
9	includes and later on after sub three it talks
10	again about activities. Can you tell, I know
11	a lot of our discussion is focused on the word
12	facility, but you can shed any light on what
13	Congress may have been after with the focus on
14	equipment and activity?
15	MR. SILER: I can only speculate
16	based on the overall structure of Section 328
17	which I've just discussed, which is that
18	Congress intended to capture all the emissions
19	units on an OCS source. But that doesn't tell
20	us what an OCS source is. And an OCS source
21	is clearly something that is attached, erected
22	and used for the purpose of exploration. May

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1	I just take a moment to talk about the
2	environmental justice issue Your Honor, unless
3	you have further questions on these topics?
4	JUDGE WOLGAST: One minute.
5	Please be very brief. We are over time.
6	MR. SILER: Shell respects that
7	this is something of a matter for the agency
8	but we would suggest that there is a prospect
9	here that if Your Honors depart from the way
10	we read Kulluk which is that the equivalency
11	or compliance with NAAQS that is applicable at
12	the time of permit is issued is by definition
13	environmental justice. If Your Honors depart
14	from that and begin to require some additional
15	inquiry based upon information, additional
16	information, certainly in the case it was a
17	rule. But there are all kinds of scientific
18	information in the universe. It will be
19	difficult if you depart from that rule to draw
20	a line as to how much, at what point the
21	agency is required to begin to take into
22	account opinions, studies and so forth that

		Page	106
1	might question the adequacy of a given NAAQS		
2	at a given point in time. So we would		
3	respectfully urge that the relevant standard		
4	here for purposes of environmental justice was		
5	the NO2 standard that was in effect when the		
6	permits were issued.		
7	JUDGE WOLGAST: Okay, thank you.		
8	Mr. Grafe, you have three minutes.		
9	MR. GRAFE: Thank you Your Honor.		
10	I would like to address three points. First,		
11	to be clear NRDC petitioners are not		
12	challenging the regulatory definition of OCS		
13	source. Whether an OCS source includes		
14	associated vessels in its definition or not,		
15	the statute and the regulation are clear that		
16	emissions from associated vessels are direct		
17	emissions from the OCS source. As such,		
18	emissions from associated vessels are		
19	emissions from the OCS source and must be		
20	regulated as such under the PSD program		
21	including the application of BACT.		
22	Second, Region 10 suggests that		

		Page 107
1	the regulations at 55.2 do not permit the	
2	regulation of associated vessel emissions as	
3	stationary source emissions but in its	
4	briefing at page 27, Region 10 admits that is	
5	in fact applying the PSD program to associated	
6	vessels and its permits do in fact do that.	
7	They apply operational controls and even	
8	technological controls. The only thing they	
9	exempt them from is BACT. This violates the	
10	statute and the regulations as they must be	
11	interpreted in light of the statutory mandate.	
12	The regulations define associated vessels	
13	potential to emit and these are associated	
14	vessels that never attach, that are within 25	
15	miles that are helping the icebreakers, that	
16	are the oil response vessels. They are out	
17	there. The statute says regulate them. Their	
18	emissions are direct emissions of the OCS	
19	source. The statute says, yes we are going to	
20	include those emissions as the potential to	
21	emit of the OCS source, the stationary source.	
22	And then applying the PSD regulations on their	

face as they apply regularly that means that according to 52.21(j)(2) which requires that a new major stationary source applied BACT to all the pollutants which has the potential to emit. That means that you apply BACT to the emissions from the associated vessels just as you do to the emissions from the OCS source. They are the same. The statute says that and the reg carries that through. With respect to, my final point is with respect to Shell's claim that somehow Congress in passing 328 didn't mean what it said that it was trying to correct something and it wasn't trying to regulate mobile It wasn't trying to subject their sources. emissions to PSD. They cite NRDC v. EPA which is a case that preceded Section 328. There's nothing in the legislative history. Shell doesn't point to it. There isn't anything that addresses NRDC, that case. And if

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anything the case which limited what could be regulated under stationary sources, supports

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	Page	e 109
1	the idea that in promulgating Section 328	
2	while it meant what it said. Apply PSD to	
3	emissions from OCS sources and include as	
4	direct emissions in those sources, emissions	
5	from associated vessels. There are statements	
6	in the legislative history confirm this and	
7	they are cited in our brief. One of the	
8	sponsors, the key sponsors of the bill	
9	expressed concern about uncontrolled	
10	operational missions from OCS platform and	
11	associated marine vessels can exceed 500 times	
12	of oxide, of nitrogen and 100 times reactive	
13	hydrocarbons annually. Existing pollution	
14	control technology can significantly reduce	
15	these pollution levels. To give meaning to	
16	328, our case dramatically demonstrates why	
17	BACT needs to apply to associated vessels.	
18	That's where the pollution is coming from. If	
19	we want to regulate as Congress did, pollution	
20	from OCS activities, then it needs to apply	
21	BACT to where that pollution is coming from.	
22	In this case, the associated vessels. Thank	

you very much.

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2	JUDGE WOLGAST: Thank you.
3	MS. SANERIB: Thank you. I am
4	going to touch upon a couple of the new
5	developments that Shell raised in their
6	comments and just provide petitioners' view on
7	those briefly before responding to a few
8	points. Counsel for Shell mentioned that the
9	company has submitted a permit to drill for
10	the Beaufort for 2011. I just want to stress
11	as we talked about in June of this year that
12	there are still several other permits that
13	Shell must obtain before it can go out to
14	drill and there are new regulatory
15	requirements. So while Shell may plan to go
16	forward in 2011 in the Beaufort, that does not
17	mean that will in fact occur. And if the
18	Board is contemplating a remand it is
19	essential to think about the facts that there
20	are many other ducks that need to get lined
21	up, including the air permits. In terms of
22	the

Page 111 JUDGE REICH: Can I ask if its 1 2 still AEWC's position that the Board should 3 stay issuing a decision on these issues or any other issues before it? 4 5 MS. SANERIB: Our position is that 6 these permits should be remanded in full to 7 the EPA and if the Board decides to rule on 8 any of the issues that were, these three 9 issues identified or any of the other issues 10 in the petition. We still request that full remand to EPA so they can deal with the 11 12 changed circumstances which we understand at least includes a new drill ship, that will 13 14 become part of these permitted activities. And we talked a lot about the OCS source 15 16 today, how that was defined for these permits. 17 We think adding in a second drill ship, that 18 will undoubtedly drop an anchor on the OCS is 19 a question that needs to be graffled with by 20 Region 10 in the first instance considered and 21 described and explained in terms of how that 22 changes the definition of OCS source. So we

	P
1	think a full remand of the permits is
2	warranted whether the board reaches any of
3	these legal issues or any of the other issues
4	raised in the petitions or not. We encourage
5	the Board to do that full remand and I think
6	one of the other reasons we encourage that is
7	we talked about in June is the fact that the
8	Department of Interior is considering
9	regulatory changes. We want EPA to be in a
10	position to also consider regulatory changes
11	outside of the context of these specific
12	permits. We feel like if the permits are sent
13	back to the agency in full it will be in the
14	best position to decide what it should do in
15	light of the information that they have
16	gathered from the Gulf of Mexico and the
17	catastrophe that's ongoing there. And I do
18	want to stress the fact that the Department of
19	Interior is contemplating regulatory changes.
20	We have a different view. We think that those
21	regulatory changes will in fact have
22	implications for air permitting. And I also

		Pa
1	want to stress that in addition to thinking	
2	about oil spills and how to respond to those	
3	events, the Secretary of Interior went to	
4	Alaska, had a panel discussion in Anchorage	
5	and went to the North Slope and heard concerns	
6	about drilling in the OCS in the Arctic.	
7	Those concerns are incredibly unique. The	
8	secretary indicated that he understood them	
9	full and clear and so we are also awaiting an	
10	outcome from that process that occurred in	
11	Alaska. And for that reason we think that a	
12	full remand is warranted.	
13	I want to touch on a few, just	
14	respond to a few points that were raised in	
15	terms of the environmental justice analysis.	
16	When the first Chukchi permit was issued in	
17	draft form in 2009, AEWC, ICAS and the North	
18	Slope are asked for an environmental justice	
19	analysis. That analysis was never provided.	
20	In terms of the definition of the	
21	OCS source, I can think of absolutely nothing	
22	in the record that demonstrates that Shell is	

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going to rush to declare the drill ship to be 1 2 secure, stable and ready to drill. And we've talked about that a lot today. I don't recall 3 4 there being a single thing in the record to 5 support what EPA has said to the Board today 6 on that score. 7 I also think its really important 8 in terms of the intersection of the Clean Air Act and OCSLA to look at the statutory language in Section 328, because Congress

9 10 defined as one of the three criteria for an 11 12 OCS source, activity, equipment or facility that are regulated or authorized under OCSLA. 13 14 It didn't say that it was covered by the OCSLA jurisdictional provision but said it was the 15 activities that are actually being regulated 16 or authorized under OCSLA. And it is our 17 18 position that language is far broader than the 19 language the EPA relied on in creating the 20 regulatory definition. 21 Now as I said earlier if the Board

finds for petitioners on any of the three

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1	issues, we ask for a full remand of these
2	permits. We think that's because these are
3	important issues to these permits. They have
4	the potential to ultimately change them. And
5	we also think that the changed factual
6	circumstances here warrant that.
7	And I have just one further point.
8	We talked a little bit about the hearing on
9	June 18 about the equities here and the fact
10	that if there is a full remand will Shell now
11	have to comply with new law, with the new
12	NAAQS for NOx, with the new PSD increments.
13	I just want to say that they should. They
14	absolutely should because the question before
15	the Board is should Shell have to comply with
16	the law as it stands if there is a full remand
17	or should the Inupiats, the Alaskan natives on
18	the North Slope bear the burden of the poor
19	air quality from Shell not complying with the
20	new law? And we think that they shouldn't.
21	Thank you.
22	JUDGE WOLGAST: Thank you. Thank

		Page 116
1	you all for arguments today. The case is now	
2	submitted. All rise. The session of the	
3	Environmental Appeals Board now stands	
4	adjourned.	
5	(Whereupon the above-entitled	
6	hearing was concluded at 3:05 p.m.)	
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