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March 5, 2007

Via Electronic Mail

Mr. Frank Gao
Air Quality Management Section
Delaware Department of Natural Resources
and Environmental Control
715 Grantham Lane
New Castle, DE 19720

Re: The Premcor Refining Group Inc.'s Comments on Proposed AQM Regulation 1142, Section 2

Dear Mr. Gao:

The Premcor Refining Group Inc., a subsidiary of Valero Energy Corporation ("Premcor"), and owner and operator the Valero Delaware City Refinery, respectfully submits the enclosed comments on proposed AQM Regulation 1142, Section 2: *Control of NOx Emissions from Industrial Boilers and Process Heaters at Petroleum Refineries*. Premcor continues appreciate the opportunity to work with the Delaware Department of Natural Resources and Environmental Control and other stakeholders to develop an equitable and feasible approach for achieving additional NOx emission reductions in the State of Delaware.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick Covert", written in a cursive style.

Patrick Covert
Director Environmental Health and Safety
Valero Delaware City Refinery

COMMENTS OF THE PREMCOR REFINING GROUP INC.
ON PROPOSED REGULATION 1142, DRAFT 4

Introduction

The Premcor Refining Group Inc., a subsidiary of Valero Energy Corporation (“Premcor”), owns and operates the Delaware City Refinery (“DCR”), the only facility affected by this proposed regulation. All sources identified by the Delaware Department of Natural Resources Environmental Control (“DNREC”) as “affected units” under draft Regulation 1142 are located at the Refinery. Premcor has participated extensively throughout DNREC’s regulatory development process, and has provided comments on DNREC’s regulatory approach and prior draft versions of Regulation 1142.

During the regulatory development process for Regulation 1142, DNREC has considered alternative NO_x emission limitations for the affected sources. Premcor agreed to provide DNREC with a detailed technical and economic analysis, evaluating the feasibility of achieving the NO_x limitations identified by DNREC within the third draft of Regulation 1142. On October 5, 2006, Premcor provided that analysis for specific sources at the Refinery. Subsequently, DNREC revised draft Regulation 1142 to include revised draft emission limits and effective dates for each affected unit at the DCR. DNREC published this fourth draft of Regulation 1142 in the Delaware Register on February 1, 2007, and requested that written comments be submitted on or before March 6, 2007, the date of a public hearing scheduled for the draft regulation. In accordance with that request, Premcor provides the following comments to Draft 4 of proposed Regulation 1142, as a supplement to the comments Premcor has provided throughout the regulatory development effort, including the stakeholder committee process.

Comments

1. The proposed NO_x emission limit for the SMR Heater of 0.07 lb/mmBTU, on a 24-hour rolling basis, reflects an incorrect application of the technical and economic data submitted by Premcor to DNREC.

Premcor’s October 5, 2006 detailed technical and economic analysis included a feasibility analysis of control technology options for the Steam Methane Reformer, heater 37-H-1 (the “SMR Heater”). The October 5, 2006 report clearly confirmed that there is no alternative, technically feasible emission control technology that could achieve reduced NO_x emission rates, relative to existing emission rates, on an economically feasible basis. That analysis identifies a NO_x baseline emission level of 0.071 lb/mmBTU for the SMR Heater. We believe that the NO_x emission rate for the SMR Heater included in the fourth draft of Regulation 1142 is intended to be consistent with this technical and economic feasibility analysis.

In particular, DNREC indicated during the public workshop that, based on Premcor’s analysis, Regulation 1142 would not require additional NO_x emission controls relative to existing NO_x emission rates. However, the October 5, 2006 analysis specifically identifies the baseline NO_x emission rate as the average emission rate of the SMR heater (based on CEMS data) over a time period extending for approximately 33 months, from January 2004 through

September 2006.¹ Because the 0.071 lb/MMBtu figure was based upon an average of data obtained over more than two years, it would be incorrect to conclude, based upon the October 5, 2006 report, that the SMR Heater can achieve a 0.07 lb/MMBtu NO_x emission rate on a 24-hour basis. Therefore, Section 2.3.2 of the latest draft of Regulation 1142 should be revised to impose a NO_x emission limitation for the SMR Heater of 0.07 lb/MMBtu as a 24 month rolling average.²

DNREC has previously expressed its preference to identify emission limitations within regulation 1142 over a 24-hour averaging period. In an effort to derive an appropriate 24-hour rolling average limit for the SMR Heater, Premcor has performed a statistical evaluation of actual NO_x emissions from that source over the period from January 1, 2004 through December 31, 2006. The statistical analysis is consistent with the approach endorsed by USEPA to analyze emissions data in support of “limit setting” for technology based standards, such as New Source Performance Standards and Maximum Achievable Control Technology emission limits.

In general, under this approach Premcor first screened out data that was not representative of normal operations (*i.e.*, malfunction and shutdown conditions) and then calculated the 24-hour rolling averages over the 36 month period. This process resulted in a total of 24,622 rolling 24-hour averages available for the statistical analysis. Using that data set, a copy of which is provided with this comment letter, Premcor then calculated an upper tolerance limit for a 24-hour rolling average period, employing, among other things, USEPA’s ProUCL (Version 3.0) software. Applying this methodology, Premcor calculated an upper tolerance NO_x emission rate limit for the SMR Heater of 0.11 lb/MMBtu for a 24-hour rolling average period.

Therefore, to the extent that DNREC prefers to establish a NO_x emission limitation for the SMR Heater as a 24-hour rolling average, then Premcor proposes that Section 2.3.2 of Regulation 1142 be revised to reflect a NO_x emission rate for the SMR Heater of 0.11 lb/mmbtu on a 24-hour rolling basis.

2. The Coker CO Boiler should be excluded from this regulation.

As DNREC knows, Premcor currently operates two carbon monoxide boilers (“CO Boilers”) at the DCR, one at the Fluid Catalytic Cracking Unit (“FCCU”) and one at the Fluid Coking Unit (“FCU”). These units are waste heat boilers that serve to control CO emissions from the FCCU and the FCU. As Premcor has noted in prior comments, these specialized boilers pose unique challenges with respect to NO_x control, including the possible application of unproven NO_x control technologies that may result in other environmental impacts. Further, DNREC executed a consent decree with EPA and the prior owner of the DCR, Motiva Enterprises LLC, governing installation of NO_x emission controls for the FCU and its CO Boiler. Premcor has completed installation of such controls and is establishing an appropriate NO_x emission rate for the FCU and its CO Boiler in accordance with procedures detailed in the

¹ Heather Chelpaty of Premcor reiterated during DNREC’s October 5, 2006 Public Workshop that the baseline emission rate was based upon actual data from 2004 through 2006 and confirmed the methodology used to derive this figure in an October 10, 2006 email to Frank F. Gao of DNREC.

² Although Premcor performed the technical and economic feasibility analysis for the SMR Heater based on an average emission rate over a thirty-three month period, Premcor would commit to satisfying that emission rate over the more restrictive twenty-four month averaging period.

consent decree executed by DNREC. Moreover, Premcor and DNREC have recently executed a separate agreement governing NOx emission controls for the FCCU and its CO Boiler. Accordingly, DNREC has separately secured commitments from Premcor to achieve NOx emission reductions from the CO Boilers to the extent technically and economically reasonable.

Throughout the regulatory development process for Regulation 1142, DNREC has recognized that the FCCU CO Boiler will be addressed under alternative means, and has excluded it from the regulatory standards. The fourth draft of Regulation 1142 continues to reflect this approach. Premcor has consistently commented that the identical approach is warranted for the FCU CO Boiler. As further support for this position, Premcor extended its technical and economic feasibility analysis to consider the FCU CO Boiler. The October 5, 2006 report demonstrates that no additional NOx controls are both technically and economically feasible for the further reduction of NOx emissions from the FCU CO Boiler.

In preparing the fourth draft of proposed Regulation 1142, DNREC appears to recognize that no additional control of NOx emissions from the FCU CO Boiler is warranted under the regulation. However, rather than clearly excluding the source from the regulation in the same manner as the FCCU CO Boiler, the current draft identifies the FCU CO Boiler as an affected source under Regulation 1142, but separately notes that the NOx emission limits for the FCU CO Boiler are “Reserved” under Section 2.3.1. Because further NOx emission controls from the FCU CO Boiler are not warranted, based on distinct emission control standards required under the consent decree/agreement and the technical/economic analysis for the source, Regulation 1142 should expressly exclude the FCU CO Boiler. There is no basis in the face of that information to identify the FCU CO Boiler as an affected source and merely “reserve” applicable emission limits. Further, Section 2.3.1 is improper to the extent that it provides for DNREC to prescribe a NOx emission limit for the FCU CO Boiler at a future date. Therefore, Premcor requests that Regulation 1142 be modified to eliminate identification of the FCU CO Boiler as an affected source.

3. The recordkeeping, compliance certification and excess emission reporting requirements impose duplicative, inconsistent and overly-burdensome requirements, and thereby re-direct resources away from pollution control efforts.

Draft 4 of proposed Regulation 1142 includes extensive interim reporting requirements that do not bear on Premcor’s ultimate compliance obligation under the regulation. Specifically, current draft condition 2.5.1 would require Premcor to develop and submit schedules and compliance methods associated with its plan to achieve ultimate compliance for the separate affected sources. These provisions merely pose additional recordkeeping and reporting obligations, and would re-direct resources away from effective emission control efforts. The regulation should not impose preliminary requirements to demonstrate, on a detailed basis, the manner by which Premcor would ultimately satisfy the regulation, but merely impose the ultimate compliance standard.

Similarly, draft condition 2.5.2 includes a certification provision that is not consistent with typical regulatory practice. Because the sole facility that would be subject to the draft regulation (i.e., the DCR) operates under a Title V air quality operating permit, Premcor’s compliance certification obligations under Regulation 1142 will be clearly identified and applied

through that permit. Accordingly, there is no basis to establish and impose an independent certification process specific to this regulation. "

Finally on this point, Section 2.5.3 of draft Regulation 1142 imposes excess emission reporting obligations upon the DCR specifically with respect to NOx emissions from units that are subject to the requirements of Regulation 1142. These excess emission reporting requirements are duplicative of, or at times inconsistent with, the general excess emission reporting requirements prescribed by Regulation 1203 ("Reporting of a Discharge of a Pollutant or Air Contaminant") and by Delaware's Title V program. Therefore, the separate excess emission reporting requirements that would be imposed under Section 2.5.3 of the fourth draft of Regulation 1142 are unnecessary and inappropriate.

Conclusion

Premcor continues to appreciate the opportunity to work with DNREC and other stakeholders to develop an equitable and feasible approach for achieving additional NOx emission reductions in the State of Delaware, and Premcor believes that much progress has been made through the stakeholder committee process. Premcor believes that Regulation 1142 can effectively and appropriately assist in accomplishing this objective if it is modified in accordance with the foregoing comments.