DEPARTMENT OF FINANCE

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May 28, 2015

Ms. Emily Wimberger
Air Resources Board
1001 I Street
Sacramento, CA 95814

Dear Ms. Wimberger:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and the summary (Form DF-131) for the proposed regulations on reducing greenhouse gas emissions from crude oil and natural gas operations, as required in California Code of Regulations, title 1, section 2002(a)(1).

Based on the April 22, 2015 draft regulations, sources at oil and natural gas production, processing, and storage facilities would be required to reduce methane in support of AB 32—Global Warming Solutions Act of 2006. Affected facilities are expected to achieve compliance through installations of equipment by 2018. Other requirements such as periodic testing, reporting, and recordkeeping of methane and hydrocarbon emissions; and timely repair of leaking components would take effect by 2017. Requirements at each facility would depend on existing equipment and local air district requirements on the same sources. While local authorities would have some flexibility, these proposed regulations are an attempt to bring all facilities up to a minimum standard.

In addition to the health and environmental benefits to individuals, industries that supply control devices benefit when the regulated facilities purchase equipment to comply with the new standards. According to the SRIA, the annualized cost of the proposed regulations peaks at $18.8 million in 2017, assuming the affected facilities can amortize the costs. This, together with equipment spending, would result in an increase of $54.3 million in gross state product, thus meeting the major regulations threshold of $50 million a year. There would, however, be small reductions overall in growth rates of gross state product thereafter.

Finance, in general, concurs with the methodology used to assess the economic impact of the proposed regulation. The SRIA was particularly well constructed in relating the direct impacts of the proposed regulation to the overall impacts. However, it would helpful to include the magnitude of the unit and total costs of devices and the geographical distribution of the affected facilities. Since the majority of retrofit costs are expected to occur in 2018, the highest direct cost and economic impact should occur in 2018, not in 2017 as described in the SRIA. While the SRIA does comply with the requirement to discuss alternatives, it would be helpful to include the direct cost of each alternative in the SRIA, rather than just the overall impacts. Finally, ARB may want to discuss how an individual facility's characteristics, such as emission rates and existing control devices, may affect the calculation of direct costs, and thus economic impacts of the proposed regulations. These existing efforts also determine the amount of emissions reductions that would be achieved.

These comments are intended to provide sufficient guidance outlining revisions to the SRIA. The SRIA, a summary of Finance's comments, and any responses must be included in the rulemaking file that is available for public comment. Finance understands that the proposed regulations may change during the notice of proposed action, after the public comment period, and following the ARB Board hearing. If any significant changes to the proposed regulations result in economic impacts not discussed in the SRIA, please note that the revised economic impacts must be reflected on the Standard Form 399 for the rulemaking file submittal to the Office of Administrative Law. Please let us know if you have any questions regarding our comments.

Sincerely,

Irena Asmundson
Chief Economist

cc: Ms. Panorea Avdis, Governor's Office of Business and Economic Development
Ms. Debra Cornez, Office of Administrative Law
Ms. Trini Balcazar, Air Resources Board
Ms. Chantel Crane, Air Resources Board
Ms. Elizabeth Scheehle, Air Resources Board
Mr. Craig Segall, Air Resources Board