



April 25, 2016

Christine Baker  
Department of Industrial Relations  
1515 Clay Street  
Oakland, CA 94612

Dear Ms. Baker:

Thank you for submitting the joint standardized regulatory impact assessment (SRIA) and the summary (Form DF-131) for the proposed regulations for refinery safety, as required in California Code of Regulations, title 1, section 2002(a)(1). The refinery safety proposed regulations encompass both Process Safety Management (PSM), promulgated by the Department of Industrial Relations, and the California Accidental Release Prevention Program, promulgated by the Office of Emergency Services. The comments are based on the understanding that the proposed regulations will be similar in all material respects to the discussion drafts released to the public on September 14, 2015 and September 24, 2015, respectively.

The proposed regulations outline the ways in which refiners must change their processes and behaviors to decrease the risks inherent in refinery processes. The main impacts stem from the prevention of major refinery incidents, where accidental release of substances could occur. Refiners would be required to invest both in new equipment and to implement new plans to involve more employees in the safety culture, as well as have plans in place should an incident occur. The initial year costs of this are estimated to be between \$20 million to \$183 million, with a best estimate of around \$58 million. As no fiscal impacts for the Department of Industrial Relations or the Office of Emergency Services are discussed, the proposed regulations are assumed to fit within the existing budget framework for the departments. However, local residents, consumers, and the refiners themselves would benefit from fewer incidents, that adversely affect health, consumer prices, and profits. With the overall costs of an incident around \$800 million, a reduction in risk probability of 7.3 percent would fully cover an initial year cost of \$58 million.

Finance generally concurs with the methodology used to estimate annual impacts under the proposed regulation. The efforts of the Department of Industrial Relations and the Office of Emergency Services in jointly writing a SRIA that clearly lays out the economic issues in an accessible manner are much appreciated. In particular, the discussion of how California requirements on gasoline blends mean that refinery incidents can cause consumer prices to spike given lower supply is a good example of how the impacts of the proposed regulations interact with current regulations. While RAND Corporation researchers wrote the addendum, their analysis would not have been possible without extensive consultation with department staff. In addition, it is clear that there was extensive stakeholder consultation throughout the SRIA writing process, and the impacts on various groups are well articulated.

The analysis of alternatives could be expanded to more clearly outline why the proposed regulations was the best alternative. For example, the second alternative would be to have a safety case approach to refinery safety. There the refiners would be required to have extensive

plans in place for addressing any incidents if they occurred. The SRIA notes that this would result in much greater fiscal costs, as it would be very labor-intensive to implement, with additional inspectors and government staff needed. On the other hand, the benefits could be substantial. As this approach has been taken in the United Kingdom and Norway, the potential reduction in incidents should be known. This type of information should be provided to the reader in the analysis.

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 rulemaking process. 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  
Mr. David Lanier, Labor and Workforce Development Agency  
Mr. Mark Ghilarducci, Governor's Office of Emergency Services  
Ms. Amy Coombe, Department of Industrial Relations