



Joshua Cleaver
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Legal Services
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December 27, 2018

Dear Mr. Cleaver:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and summary (Form DF-131) for proposed regulations on Requirements for New, Replacement, or Existing Pipelines Near Environmentally and Ecologically Sensitive Areas in the Coastal Zone (EESA Regulations), as required in California Code of Regulations, title 1, section 2002(a)(1) for major regulations. Finance appreciates the opportunity to consult with you in advance of submitting this SRIA. Comments are based upon the SRIA, draft text of proposed regulations, the Initial Statement of Reasons and other publicly available information.

Proposed regulations require up to 40 pipeline operators in California to assess and upgrade safety mechanisms of existing and newly constructed pipelines carrying hazardous liquids in coastal environmentally sensitive areas of the state, with costs expected to reach up to \$100 million a year in 2020 and 2021. This will temporarily double the operating costs of the 600 miles of affected pipelines in these years, as risk assessments and mitigation plans are unique to the pipeline circumstances. The changes are expected to marginally increase fuel prices but reduce the risk of oil spills in these areas through remote sensing, automatic shutoffs, and additional planning and scrutiny. The costs of oil spills can be substantial: one coastal pipeline spill in 2015 resulted in costs over \$335 million. In addition, the greater resiliency of pipelines should benefit individuals and businesses by avoiding price spikes following supply disruptions and ensuring the continued stability of the state's ocean economy and related sectors and industries.

Finance generally concurs with the methodology used to estimate impacts of the proposed regulations, but suggests two areas for further discussion. First, the regulatory impact on smaller operators should be considered, as they may be less able to absorb the costs associated with completing the risk assessment and associated upgrades. Some of the smaller operators may choose to go out of business, which may have implications for the state's interconnected system of pipelines. Second, remote sensing and control technology may open up new vulnerabilities in pipelines from malicious hackers. Infrastructure sabotage has been identified as a serious risk, and risk mitigation plans should take cybersecurity into account.

These comments are intended to provide sufficient guidance in 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,

A handwritten signature in blue ink, appearing to read "Irena Asmundson".

Irena Asmundson
Chief Economist

cc: Ms. Panorea Avdis, Director, Governor's Office of Business and Economic Development
Ms. Debra Cornez, Director, Office of Administrative Law
Mr. Bryan Cash, Assistant Secretary for Administration and Finance, California Natural Resources Agency
Ms. Diane Arend, Office of the State Fire Marshal, CAL FIRE