

## MAJOR REGULATIONS STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

DF-131 (NEW 11/13)

### STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

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1. Statement of the need for the proposed major regulation.

Assembly Bill 864 (Williams, Chapter 592, Statute of 2015) (AB 864), codified in California Government Code section 51013.1, established new statutory requirements for intrastate hazardous liquid pipelines based on a risk analysis conducted by the operator and directed the Office of the State Fire Marshal to adopt regulations necessary to implement the statute. Some of those statutory requirements include the potential for new, replacement, or existing pipelines to be equipped or retrofitted with best available technology, installation of leak detection technology, automatic shutoff systems, or remote controlled sectionalized block valves. The goal of the legislation and the proposed regulations is to protect environmentally and ecologically sensitive areas and state waters and wildlife in the coastal zone by reducing the volume of oil released in the event of a spill.

2. The categories of individuals and business enterprises who will be impacted by the proposed major regulation and the amount of the economic impact on each such category.

The primary categories that may be impacted by the proposed regulation are intrastate hazardous liquid pipeline operators. There are approximately 40 pipeline operators in California and roughly 457 pipelines that may be subject to the proposed regulation. Businesses that support pipeline operations such as, permitting, risk analysis, hardware and software suppliers, and field construction will likely see some impact from the proposed regulation. Because every pipeline is different it is difficult to estimate the economic impact to each business category and each operator. However, the estimated direct cost to pipeline operators, which incorporates the aforementioned business enterprises supporting pipeline operators, could be as high as \$220,000,000 within the first three years of implementation and negligible costs occurring thereafter. It is estimated that pipeline operators currently incur approximately \$1,137,500,000 per year on pipeline operations and maintenance for all 6,500 miles of pipeline in California. The direct cost increase will impact job creation and should result in cost savings through spill volume reduction and avoidance, among other economic benefits.

3. Description of all costs and all benefits due to the proposed regulatory change (calculated on an annual basis from estimated date of filing with the Secretary of State through 12 months after the estimated date the proposed major regulation will be fully implemented as estimated by the agency).

Looking holistically, the proposed regulation would likely result in a net benefit. As summarized above, direct costs will likely be imposed on pipeline operators with benefits to industry and supporting businesses. The degree to which a specific business realizes benefits or costs is highly variable depending upon the particular pipeline at issue. The benefits are primarily costs avoided through reduced spill frequency and size that correspond to economic and non-economic savings. The State, industry, and other unrelated businesses stand to benefit from the proposed regulations through increased sales, revenue, and jobs that are typically lost in the event of a spill. Likewise, the associated costs of cleanup, compensation for environmental damage, and litigation can be avoided or mitigated and therefore a benefit because it allows for a more efficient allocation of financial resources. The proposed regulation does not impose any direct costs on individuals. Importantly, Californians may benefit through continued access to natural resources, species, and recreational resources that close or suffer harm in the event of a spill. Implementation should result in the creation of 1885 jobs within the first three years.

4. Description of the 12-month period in which the agency estimates the economic impact of the proposed major regulation will exceed \$50 million.

The proposed regulatory adoption includes a variety of new requirements from pipeline operators directing compliance within 30 months of implementation. The economic impact during the first 12-month period is not anticipated to reach the \$50 million threshold. However, economic impacts in months 13 - 24 (January 2020 through December 2020) are anticipated to exceed the \$50 million threshold for a major regulation. The quantitative estimate for this 12-month period is approximately \$138 million. Months 25 - 30 (January 2021 to July 2021) are anticipated to incur the same economic impact. The economic impact estimates are derived from direct costs that industry may expend to meet compliance requirements. The model and data used to estimate the economic impact and direct costs was inclusive and likely over estimates the actual costs and impacts. Though it is unlikely that the economic impact and direct costs will reach the upper limit estimated, it was determined to include such data for a conservative approach.

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### 5. Description of the agency's baseline:

The baseline analysis assumes that operators will continue to comply with federal and State requirements and continue business-as-usual, while complying with orders issued by the OSFM prior to the enactment of the proposed regulations, and carry out any compliance related matters as required absent the proposed regulations. It is estimated that pipeline operators currently incur approximately \$1,137,500,000 per year on pipeline operations and maintenance for all 6,500 miles of pipeline in California. The Regional Input-Output Modeling System II (RIMS II) was used to estimate indirect costs and economic impacts to the California economy. RIMS II is a model developed by the United States Bureau of Economic Analysis (BEA) that generates year-by-year estimates based on total regional effects of a policy or set of policies and meets the requirements of Senate Bill 617 and the California Department of Finance.

### 6. For each alternative that the agency considered (including those provided by the public or another governmental agency), please describe:

- a. All costs and all benefits of the alternative
- b. The reason for rejecting alternative

#### Alternative 1: Require Only Automatic Shutoff Valves

Alternative one assumes that all valves installed on pipelines would be automatic shutoff valves (ASV) to meet best available technology (BAT) requirements. This alternative represents a nominal increase in cost of \$880,000 with the added benefit of automatic shutoff under preprogrammed conditions. In some cases ASVs have been known to close when not commanded resulting in a pipeline shutdown and even contributed to a pipeline failure and release. This alternative was rejected primarily because it ignores unique pipeline design factors that should be evaluated on a case-by-case basis to determine if a valve represents BAT as applied to a particular pipeline.

#### Alternative 2: Require All Pipelines To Use RTTM

Alternative two focuses on leak detection systems (LDS) and would require all pipelines to be equipped with Real Time Transient Monitoring (RTTM). The cost impact to pipeline operators in this alternative would be significant, incurring an additional \$126,500,000. The benefits of this alternative include uniformity across industry with a highly effective and sensitive LDS. This alternative was dismissed primarily because requiring one specific form of leak detection may not represent BAT for all pipelines. In some cases, pipelines may already be equipped with an LDS that would meet or achieve BAT standards through retrofit of existing systems at significant cost savings. Additionally, shorter distance pipelines with a less complex pipeline profile may not need RTTM because an alternative LDS could meet BAT requirements. By mandating RTTM as a required form of technology, regardless of pipeline specific risks, the regulation could be counterproductive and result in poor application to specific pipelines.

### 7. A description of the methods by which the agency sought public input. (Please include documentation of that public outreach).

The OSFM conducted public workshops and meetings with stakeholders to discuss the regulatory objective and requirements of AB 864, solicit specific input on how to achieve the goals of AB 864, receive comments on potential economic impacts, as well as suggested alternative approaches to implementation. In June 2016, the OSFM presented the legislation to operators and provided a summary of the requirements of AB 864. The OSFM also convened a stakeholder working group comprised of industry, government, and non-governmental organizations with expertise in hazardous liquid pipelines in California as a resource for the proposed regulations. The stakeholder working group convened regularly with meetings held approximately every month with the final meeting held in September 2017. In January and February 2017, the OSFM conducted three public workshops, which were webcast and made available by teleconference. The proposed regulatory provisions, as proposed at that time, were presented and opened to public comment at those workshops. The three workshops were held in Sacramento (January 5, 2017), Santa Barbara (February 2, 2017), and Huntington Beach (February 16, 2017). Information the OSFM used at these workshops and associated materials are posted on the OSFM website and were distributed through a list of interested parties managed by the OSFM. The OSFM also presented the proposed regulations to various State and federal agencies at two quarterly meetings hosted by the United States Environmental Protection Agency (July 12, 2016 and January 10, 2017). The Pipeline Safety Advisory Committee, an advisory body (housed within OSFM) comprised of industry, local fire agencies and government, and members of the public tasked with reviewing proposed safety regulations for pipelines and operations was briefed and provided comment.

### 8. A description of the economic impact method and approach (including the underlying assumptions the agency used and the rationale and basis for those assumptions).

As noted above, the OSFM used the RIMS II model to estimate economic impacts resulting from the proposed regulations. To assess existing conditions, assumptions about existing pipeline design, operation, and profile were made to determine the number of potential pipelines captured by the proposed regulations. The anticipated costs for bringing a pipeline in to compliance was based on studies, research, internal and external expertise, and a case study (among other sources). The anticipated costs were applied to the California economy using the RIMS II model. Details regarding the specific pipeline profiles, current technologies utilized, and risks posed will not be fully known until required risk analyses are submitted and reviewed by OSFM. Every attempt was made to account for the substantial variation in costs that the OSFM believes will be associated with bringing a pipeline in to compliance with the proposed regulations. The method assumes that existing pipelines impacted by the regulations will be required to meet the compliance requirements regardless of when a pipeline was constructed or whether a pipeline may already be equipped with BAT. Because these pipelines were included in the impact estimates, it is likely that the results are an overestimate of the total cost of the regulations.

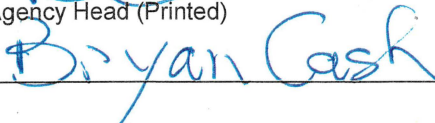
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