



Benjamin Turner, Assistant Director for Governmental and Environmental Relations
California Department of Conservation
Office of Governmental and Environmental Relations
MS 24-02
801 K Street
Sacramento, CA 95814-3530

July 17, 2018

Dear Mr. Turner:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and the summary (Form DF-131) for the proposed Underground Injection Control regulations, as required in California Code of Regulations, title 1, section 2002(a)(1). As proposed regulations were not submitted with the SRIA, these comments are based on the SRIA and other publicly available information.

Proposed regulations create new requirements for California's oil and gas producers, with total direct costs of over \$200 million in the first year to reduce risks of spills and groundwater contamination at over 37,000 wells that use underground injection of fluids for enhanced oil recovery. Contaminated sites can cost over \$5 million to clean up, with government having to pay if the operator is no longer able to. Gross revenues of the 144 injection well operators in California were around \$9 billion in 2017, and a handful of firms were responsible for over 90 percent of production. The additional costs are assumed to reduce profits, and not be passed on to refiners or consumers. The SRIA assumes compliance costs are allocated proportionate to production, but acknowledges costs represent a more significant hardship for small operators. Short-term impacts may include reduced oil and gas production, loss of well operator profits, and exit of the industry by some small operators for which the cost of new requirements are unprofitable. Operators who shut down wells would also be subject to the proposed regulations on idle wells that the Department of Conservation is developing.

Finance generally concurs with the methodology used to estimate annual economic impact under the proposed regulations, and appreciates the advance consultation to decide how to model risk reductions and impacts on businesses. However, the SRIA should address how the increased industry costs could decrease California oil production, which has been declining over the last few decades. If imports have to increase, the carbon intensity of California fuel may increase, potentially making other emissions reductions necessary to meet state goals.

These comments are intended to provide sufficient guidance to outline prospective 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
Department of Finance

cc: Ms. Panorea Avdis, Director, Governor's Office on Business and Development
Ms. Debra Cornez, Director, Office of Administrative Law
Mr. Tim Shular, Regulations Manager, California Department of Conservation
Mr. Arnold Son, Economist, Office of Governmental and Environmental Relations, California
Department of Conservation