

UPDATED UNDERGROUND INJECTION CONTROL REGULATIONS

NOTICE OF PROPOSED RULEMAKING ACTION

REGARDING

TITLE 14. NATURAL RESOURCES DIVISION 2. DEPARTMENT OF CONSERVATION CHAPTER 4. DEVELOPMENT, REGULATION, AND CONSERVATION OF OIL AND GAS RESOURCES

Notice Published July 27, 2018

Office of Administrative Law Notice File Number: Z-2018-0717-06

NOTICE IS HEREBY GIVEN that the California Department of Conservation (Department) proposes to adopt the regulations described below after consideration of all comments, objections, and recommendations regarding the proposed action. With this rulemaking, the Department will propose permanent regulations after the consideration of all comments, objections, and recommendations.

WRITTEN COMMENT PERIOD AND PUBLIC COMMENT HEARINGS

Any person or their authorized representative may submit written statements, arguments, or comments relevant to the proposed regulatory action to the Department. Comments may be submitted by email to UIC.Regulations@conservation.ca.gov, by facsimile (Fax) to (916) 324-0948, or by mail to:

ATTN: Updated UIC Regulations
Department of Conservation
801 K Street, MS 24-02
Sacramento, CA 95814

The written comment period closes at 5:00pm on September 13, 2018. The Department will consider only comments received at the Department's offices by that date.

Any interested person or their authorized representative may present comments regarding the proposed action, either orally or in writing, at one of the public hearings to be held at the following times and places:

- Bakersfield – September 12, 2018 1:00pm – 4:00pm. Four Points by Sheraton Bakersfield, 5101 California Avenue, Bakersfield, CA 93309.
- Los Angeles – September 13, 2018 1:00pm – 4:00pm. Ronald Reagan State Building, 300 South Spring Street, Los Angeles, CA 90013.

Services such as translation between English and other languages may be provided upon request. To ensure availability of these services, please make your request no later than ten working days prior to the hearing by calling the staff person referenced in this notice.

Servicios como traducción de Inglés a otros idiomas pueden hacerse disponibles si usted los pide en avance. Para asegurar la disponibilidad de éstos servicios, por favor haga su petición al mínimo de diez días laborables antes de la reunion, llamando a la persona del personal mencionada en este aviso.

AUTHORITY AND REFERENCE

The Department is considering making changes to Subchapters 1 and 1.1 of Chapter 4 of Division 2 of Title 14 of the California Code of Regulations as follows: add sections 1720.1, 1724.7.1, 1724.7.2, 1724.8, 1724.10.1, 1724.10.2, 1724.10.3, 1724.11, 1724.12, 1724.13, and 1724.14; amend sections 1724.6, 1724.7, 1724.10, and 1748; and delete existing sections 1724.8, 1748.2, and 1748.3.

Public Resources Code sections 3013 and 3106 authorize the Department to adopt the proposed regulations. The proposed regulations will implement, interpret, make specific, or reference sections 3106 and 3236.5 of the Public Resources Code.

INFORMATIVE DIGEST / POLICY STATEMENT

Existing Law

Regulation of Underground Injection Wells Associated with Oil and Gas Production

The Division of Oil, Gas, and Geothermal Resources (Division), within the Department of Conservation (Department), supervises the drilling, operation, maintenance, and plugging and abandonment of onshore and offshore oil, gas, and geothermal wells. The Division carries out its regulatory authority under a dual legislative mandate to encourage the wise development of oil and gas resources, while preventing damage to life, health, property, and natural resources, including underground and surface waters suitable for domestic or irrigation purposes. (Pub. Resources Code, § 3106.) Wells that inject fluid for the purposes of enhancing oil or gas recovery, repressuring oil or gas reservoirs, or disposing of wastewater and other byproducts associated with oil and gas production are among the wells the Division regulates.

The Division's existing regulations specific to injection wells, often referred to as the underground injection control, or "UIC," regulations, are located in sections 1724.6 through 1724.10 of Title 14 of the California Code of Regulations. The existing regulations require written approval from the Division before injection associated with oil or gas production can begin, and set forth specific data requirements that an applicant must satisfy before the Division will approve an injection project. (Cal. Code Regs., tit. 14, §§ 1724.6, 1724.7.) Project data requirements include engineering studies (including reservoir characteristics and casing diagrams), geologic studies (including structural contour and isopach maps), and injection plans (including identification of the proposed maximum anticipated surface injection pressure and proposed monitoring system or methods to ensure no damage is occurring). (Cal. Code Regs., tit. 14, § 1724.7.)

Approved injection projects are subject to additional filing, notification, and operating and testing requirements throughout their operational lifespan. (See Cal. Code Regs., tit. 14, § 1724.10.) Among other requirements, Division regulations provide that all piping, valves, and facilities shall meet or exceed design standards for the maximum anticipated injection pressure, and shall be maintained in a safe and leak-free condition. (Cal. Code Regs., tit. 14, § 1724.10, subd. (f).) Most injection wells other than those that inject steam, are required to be equipped with tubing and packer. (Cal. Code Regs., tit. 14, § 1724.10, subd. (g).) Accurate operating pressure gauges or recording devices must be available at all times, and wells must be equipped for installation and operation of such devices. (Cal. Code Regs., tit. 14, § 1724.10, subd. (e).) The operator must also perform tests to establish the maximum allowable surface injection pressure, perform tests to demonstrate ongoing mechanical integrity of the well, and maintain data to establish that no damage to life, health, property, or natural resources is occurring by reason of the injection project. (Cal. Code Regs., tit. 14, § 1724.10, subds. (h), (i) and (j).) A chemical analysis of the injection fluid must also be made and filed with the Division. (Cal. Code Regs., tit. 14, § 1724.10, subd. (d).)

Division Primacy to Enforce an Underground Injection Control Program Pursuant to the Federal Safe Drinking Water Act

In addition to implementing California statutory mandates such as those in Public Resources Code section 3106, the Division's UIC regulations also implement the federal Safe Drinking Water Act pursuant to a primacy delegation from the United States Environmental Protection Agency (US EPA). Enacted in 1974, the federal Safe Drinking Water Act directed US EPA to develop federal standards for the protection of the nation's public drinking water supply. Section 1425 of the Safe Drinking Water Act allows states to obtain primary enforcement responsibility (often referred to as "primacy") to regulate the underground injection of fluids associated with oil and gas production through their own state UIC programs. To obtain primacy, a state must demonstrate to US EPA's satisfaction that its UIC program meets certain minimum requirements set forth in the Safe Drinking Water Act and represents an effective program to prevent injection that endangers underground sources of drinking water. (See 42 U.S.C., § 300h-4(a).)

Once US EPA approves a state UIC program, the state has primary responsibility to regulate underground injection within its jurisdiction. In such cases, the state and US EPA enter into a Memorandum of Agreement (Primacy Agreement), which may include other terms, conditions, or agreements relevant to the administration and enforcement of the state's regulatory program. (See 40 C.F.R. § 145.25(a).) In primacy states, US EPA retains oversight and secondary enforcement authority, as well as the authority to revise or withdraw state primacy. (See 42 U.S.C. § 300h-2(a); see also 40 C.F.R. § 145.33.)

In 1981, pursuant to section 1425 of the Safe Drinking Water Act, the Division applied for primacy to implement a Class II UIC program for the State of California. (See Application for Primacy in the Regulation of Class II Injection Wells under section 1425 of the Safe Drinking Water Act¹). "Class II" is the classification US EPA's regulations give to wells that inject fluid associated with oil and gas production.² US EPA granted primacy to the Division through a Memorandum of Agreement between US EPA and the Division, dated September 29, 1982.³

While it is not a regulation, the Primacy Agreement describes the terms of the Division's UIC program as understood and approved by US EPA. The Primacy Agreement commits the Division to several regulatory objectives for underground injection wells. These objectives include two-part mechanical integrity testing for injection wells, evaluation of other wells within a specified "area of review" around injection wells prior to regulatory approval of injection projects, and protection of underground sources of drinking water (generally, groundwater aquifers with water containing less than 10,000 milligrams per liter total dissolved solids).

Proposed Regulations (Including Objectives and Anticipated Benefits)

Several of the key objectives outlined in the Primacy Agreement were never fully actualized in the Division's UIC regulations. Instead, the Division's existing UIC regulations, which have been updated only sparsely since the primacy delegation 35 years ago, require considerable interpretive "gap-filling" to identify applicable requirements. This has led to a general lack of transparency and inconsistent application of requirements, and, in some cases, aging regulatory constructs that have not kept pace with changing oil production methods and advancements in the understanding of threats to health, safety, and the environment. The present rulemaking would update the Division's UIC regulations with improved, more transparent standards that better align with modern industry practices, and better implement the commitments expressed in the

¹ Available at:

http://www.conservation.ca.gov/dog/general_information/Documents/Application%20for%20Primacy.pdf.

² For more information on "Class II" injection wells, and other classes of injection wells not regulated by the Division, see

http://www.conservation.ca.gov/dog/general_information/Pages/class_injection_wells.aspx.

³ Available at:

http://www.conservation.ca.gov/dog/general_information/Documents/MOA_DOG_USEPA_UIC.PDF.

Primacy Agreement. The effects and the broad objectives of the proposed regulations are to establish:

- Greater regulatory consistency and clarity with definitions of key terms.
- Greater consistency and transparency in the form, function, and terms and conditions of injection project approval documents.
- Improved project data requirements to ensure underground injection project performance and operating conditions are supported by higher quality engineering, geologic, and other relevant data.
- Minimum standards for information needed to properly evaluate other wells within the area of review for injection projects, and more explicit standards for such evaluations.
- Greater consistency and transparency regarding injection fluid and reservoir fluid analyses.
- Greater consistency and transparency regarding acceptable parameters for testing requirements such as step rate tests to determine formation fracture gradients, and casing pressure tests, radioactive tracer surveys, temperature surveys, and noise logs to demonstrate mechanical integrity of injection wells.
- Requirements for operators of certain injection wells to annually report information about treatment and additives to injection fluid.
- Requirements for continuous injection pressure recording at all injection wells.
- Greater transparency in the calculation of maximum allowable surface injection pressures.
- Consistency of application of existing mechanical integrity testing requirements to all injection wells, including cyclic steam injection wells.
- Requirements for operators of cyclic steam injection wells to maintain records of the number, duration, and volume of fluid injected of all injection cycles performed on each cyclic steam injection well.
- Requirements to minimize threats posed by surface expressions to health, safety, property, and the environment.
- Requirements to automatically cease injection upon specified occurrences, thereby strengthening incentives for compliance and avoiding threats to health, safety, property, and the environment.
- Requirements for operators of disposal injection wells to monitor and report on seismic activity.

The proposed requirements would modernize, clarify, and augment the regulatory standards applicable to underground injection operations associated with oil and gas development in California. The proposed requirements would implement the Primacy Agreement and the Division's state law mandate to regulate oil and gas operations so as to prevent damage to life, health, property, and natural resources.

Consistency with Comparable Federal Regulation or Statute

In California, the Division implements the mandates of the federal Safe Drinking Water Act with respect to underground injection wells associated with oil and gas production under the Primacy Agreement with US EPA. In essence, the Division's UIC regulations displace any comparable federal regulations that address underground injection associated with oil and gas production. (See 40 C.F.R. § 147.250 [the program for such wells in California "is the program administered by the [Division]"].) US EPA has adopted regulations that apply to other categories of injection wells not associated with oil and gas production, and to injection wells in states that have not been delegated primacy. Again, however, US EPA's regulations do not apply to California injection wells associated with oil and gas production.

In any event, the proposed regulations are generally consistent with US EPA's requirements for injection wells. Examples of consistency between the proposed regulations and US EPA's regulations include comparable definition of the term "underground source of drinking water" (40 C.F.R. § 144.3), comparable definition and application of "area of review" analysis (40 C.F.R. §§ 144.3, 146.6), comparable project data requirements (40 C.F.R. § 146.24), comparable prohibition of the movement of fluid outside the approved injection zone (40 C.F.R. § 144.12), comparable prohibition of unauthorized injection (40 C.F.R. § 144.11), and comparable requirements to demonstrate ongoing mechanical integrity of injection wells (40 C.F.R. § 146.8). The general consistency between US EPA's regulations and the Division's regulatory program is to be expected because US EPA approved the Division's program, and the Division confers regularly with US EPA to review the Division's implementation of the Primacy Agreement. Discussion of contemplated changes in statutory or regulatory authority with the potential to affect implementation of the Primacy Agreement is a routine component of implementation-related dialogue between the Division and US EPA. (See 40 C.F.R. § 145.32 [addressing procedures for revision of state UIC programs].) In that context, the Division has conferred with US EPA regarding the proposed regulations and will continue to do so.

Consistency with Existing State Regulations

The Division has determined that the proposed regulations are not inconsistent or incompatible with existing state regulations. The Division is the only state agency with regulations specific to underground injection wells associated with oil and gas production. To the extent other state agencies may enforce health, safety, or environmental protection standards that could apply to underground injection projects because they are regulations

of general application affecting a wider range of industrial activities, those regulations are not expected to be inconsistent or incompatible with the regulations proposed here, because the Division is the only state agency with regulations specific to these underground injection operations.

Although the State Water Resources Control Board (Water Board) does not have regulations applicable to underground injection wells specifically, the Water Board is also charged with protecting the state's surface and groundwater resources. The Division and the Water Board have entered a Memorandum of Agreement to facilitate, to the extent possible, each agency's regulatory goals with respect to the regulation of underground injection wells. Accordingly, the Division consulted with the Water Board in the development of these proposed regulations.

PLAIN ENGLISH REQUIREMENT

Department staff prepared the proposed regulations pursuant to the standard of clarity provided in Government Code section 11349 and the plain English requirements of Government Code sections 11342.580 and 11346.2, subdivision (a)(1). The proposed regulations are written so as to be easily understood, to the extent possible given the technical subject matter, by the persons who will use them.

LOCAL MANDATE

This proposed action does not impose a mandate on local agencies or school districts.

COST TO LOCAL AGENCIES

This proposed action does not impose costs on any local agency or school district for which reimbursement would be required pursuant to Part 7 (commencing with Section 17500) of Division 4 of the Government Code. This proposal does not impose other nondiscretionary costs or savings on local agencies. This proposal does not result in any costs or savings in federal funding to the state.

COST OR SAVINGS TO STATE AGENCIES

Implementation of the requirements of the proposed action is not expected to require additional expenditures. Positions for the UIC program have already been approved through fiscal year 2018-19 by prior year Budget Change Proposals to address past concerns over inadequate staffing. In total, the Division added 88 positions to the UIC program since FY 2010-11. For FY 2018-19, the Division requested an additional 21 field

inspection staff positions to provide compliance monitoring across all Division regulations, including the UIC program.

Other state agencies should not incur any expenses related to the proposed action since the Division has primary jurisdiction over UIC projects. However, the Water Board has also added positions in prior year Budget Change Proposals to ensure that it is properly staffed to be actively engaged with the Division in the implementation of the UIC program.

EFFECT ON HOUSING COSTS

The proposed action will not have a significant effect on housing costs.

IMPACT ON BUSINESS

The proposed regulations will affect owners and operators of underground injection wells, and, indirectly, owners and operators of production wells whose operations rely on injection wells owned and operated by others. The regulations will also affect mineral rights owners who derive economic value from underground injection operations. The following reporting, recordkeeping, and compliance requirements will result from the proposed regulations:

- Requirements to develop, update, and maintain additional data and analyses to support underground injection projects.
- Requirements for operators of certain injection wells to annually report information about treatment and additives to injection fluid.
- Requirements for continuous injection pressure recording at all injection wells.
- Clarification that existing mechanical integrity testing requirements for injection wells apply to cyclic steam injection wells.
- Requirements for operators of cyclic steam injection wells to maintain records of the number, duration, and volume of fluid injected for all injection cycles performed on each cyclic steam injection well.
- Requirements for certain injection wells to minimize risks and monitor for indications of surface expressions.
- Requirements to cease injection near surface expressions, in the event they occur.
- Requirements for operators of water disposal injection wells to monitor and report seismic activity.

The Division made an initial determination that adoption of these regulations may have a significant, statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states. The Division has considered proposed alternatives that would lessen any adverse economic impact on business and is inviting the public to submit additional proposals. Submissions may include the following considerations:

- The establishment of differing compliance or reporting requirements or timetables that take into account the resources available to businesses.
- Consolidation or simplification of compliance and reporting requirements for businesses.
- The use of performance standards rather than prescriptive standards.
- Exemption or partial exemption from the regulatory requirements for businesses.

RESULTS OF THE STANDARDIZED REGULATORY IMPACT ASSESSMENT

The Division has determined that this rulemaking action is a major regulation and has completed a Standardized Regulatory Impact Assessment (SRIA) for this rulemaking, which has been provided to the Department of Finance (DOF) for review and comment. The SRIA, DOF's comments on the SRIA, and the Division's response to DOF's comments are attached to the Initial Statement or Reasons for this rulemaking action.

The SRIA found that, given the economic context of underground injection control operations, the added economic impacts associated with compliance with the proposed regulations will not deter operators from performing future operations and/or construction. For these reasons, the Division made the following determinations:

- The proposed regulations will affect the creation or elimination of jobs within the State of California.
- The proposed regulations may affect the creation of new businesses but not the elimination of existing businesses within the State of California.
- The proposed regulations will likely result in additional work for oil and gas service businesses that provide well testing and remediation services currently doing business in the State of California.
- The proposed regulations will most likely not affect the ability of businesses within California to compete with businesses in other states.

- The proposed regulations will likely affect both the competitive advantages and disadvantages for businesses currently doing business in the State of California.
- The proposed regulations will likely not affect the increase or decrease of investment in the State of California.
- The proposed regulations will likely affect incentives for innovation in products, materials, or processes.

Further, the Division determined that the proposed regulations will result in nonmonetary benefits such as protection of public health and safety, environmental safety, and transparency in government and business. Specifically, the benefits are:

- Robust standards will modernize, clarify, and augment existing regulations to better protect underground sources of water and other natural resources.
- Significant enhancements will be made to improve worker safety, including language that forbids surface expressions resulting from underground injection projects.
- New employment as a result of increased testing and regulatory requirements.

COST IMPACTS ON A REPRESENTATIVE PRIVATE PERSON OR BUSINESS

While the regulatory requirements will impose costs on owners or operators of underground injection projects, the results of the SRIA concluded that the proposed regulations will provide economic benefits to individuals, the public, communities, and both large and small businesses within the state by providing a robust market for professional services. Construction and service contracts to implement the requirements in the regulations will increase. Professional staff positions that will be required include injection well engineering, technical services, field work testing, surveying, groundwater sampling, and monitoring activities. Many of these activities are likely to be performed by contractors when operators are relatively small and do not have in-house equipment or staff available. Larger operators will likely use their own staff and equipment but may hire additional permanent, temporary, or contractual staff. Equipment operators for oil rigs and other specialized skilled workers will also be in higher demand to conduct the required testing.

Based on conservative assumptions that may overestimate costs, the average yearly statewide economic impact for the first five years of implementation of the proposed regulations is estimated to be \$184 million for direct costs with the first year incurring the highest expenditures in order to attain compliance with the proposed regulations. The total economic impact to gross output average of the first five years of implementation is

estimated to be \$283 million. These costs would be spread across all underground injection projects subject to the regulations and would impact both large and small operators. The economic impact for employment is estimated to add an average of 1,241 jobs per year, and the gross state product is approximately \$181 million per year during the first five years of implementation. As mentioned, these employment benefits would largely fall on oil and gas industry providers including services for contractors, testing, consulting, engineering, surveying, data submittal, assessments, and other sectors.

SUMMARY OF DOF COMMENTS ON STANDARDIZED REGULATORY IMPACT ASSESSMENT

The Department of Finance (DOF) generally concurred with the Division's SRIA for the proposed regulations and found that it meets the requirements for the SRIA, but added two critiques of the SRIA. DOF's comments on the SRIA and the Division's response are summarized as follows:

- *DOF Comment: The SRIA should address how the increased industry costs could decrease California oil production, which has been declining over the last few decades.*

Division Response: California's oil production has been steadily declining since the mid-1980s. The Division does not believe that the costs associated with the proposed regulations are a significant determinant in the State's decreased production. The main reason for the decline that predates the Division's pending proposed regulations is California's depletion of easily recoverable oil reserves. Throughout the 20th century, California has been a nationwide leader in oil production. The State's long history of oil extraction means that most of the easily accessible oil has already been recovered via primary and secondary methods of hydrocarbon production. In most fields, the State is now in the tertiary phase of oil recovery that requires more expensive and intensive methods of oil extraction. As a result, oil recovery has decreased over time, even in the absence of strong regulations. Even in the years where the average annual price of crude oil has increased, production has only increased marginally or remained constant compared to the prior year without being able to match production levels from prior decades.

The costs of compliance identified in the SRIA are eclipsed by the value of swings in oil prices observed over the last 15 years and are likely to have a minimal to insignificant impact on oil production in the short-term. The Division believes that the costs associated with the proposed regulations will likely decrease operator profits in the short-term as operators divert funding and resources to meet the

compliance requirements of the proposed regulations. However, the short-term impact of profits caused by the compliance costs of the proposed regulations are a small fraction of typical fluctuations in oil and gas prices in any given year. As such, the price of oil will have a far larger impact on operator decisions to invest in production than the cost of the regulations.

- *DOF Comment: If imports have to increase, the carbon intensity of California fuel may increase, potentially making other emissions reductions necessary to meet state goals.*

Division Response: It is possible that the increasing reliance on imported oil could increase the carbon intensity of fuel used in California. However, the carbon intensity of fuels is determined by a number of factors in addition to emissions produced during transportation. For example, in some cases, the carbon intensity of crude oil, including transportation emissions, could be lower from fields in other states or nations than crude produced in California. While, according to data from the California Air Resources Board's (CARB) Low Carbon Fuel Standard program, oil from California fields has an average carbon intensity of 7 (g/MJ), some of the State's largest producing fields have relatively high carbon intensity. For example, the State's largest producing oil fields, Midway-Sunset, Kern River, South Belridge, and Cymric have a carbon intensity of 25.05 (g/MJ), 9.63 (g/MJ), 14.84 (g/MJ), and 19.23 (g/MJ) respectively. California's current primary sources of imports are Saudi Arabia and Alaska. Alaska's carbon intensity is 12.91 (g/MJ) and Saudi Arabia ranges from 8.66 to 9.35 (g/MJ). As the Trans Mountain Pipeline is completed in Canada, California may consume more Canadian oil.

Regardless of where California's crude oil comes from, the transportation sector remains by far the largest source of carbon emissions at 41 percent. As a result, a reduction in oil production will have very little impact on overall greenhouse gas (GHG) emissions in the State compared to the actual consumption of fuel in transportation. In order to meet future GHG reduction goals, emissions reductions from the fuel sector will likely have to be driven by reducing both vehicle miles traveled as well as increasing the use of electric vehicles, biofuels, hydrogen fuel cells, and other alternative means of transportation. Even if oil production were to increase as prices rise, emissions from the fuel sector will eventually have to be reduced. The California Air Resources Board has broad authority to regulate transportation emissions and, along with the California Energy Commission provides several incentives for households and transportation companies to switch to lower emission transportation technologies. As we approach the recently enacted goal of reducing emissions 40 percent below 1990 levels by 2030, it is likely that transportation emissions will need to be cut well beyond any possible increase in fuel carbon intensity, if any, imposed by these proposed regulations.

CONSIDERATION OF ALTERNATIVES

In accordance with Government Code section 11346.5, subdivision (a)(13), the Division must determine that no reasonable alternative it considered, or that has otherwise been identified and brought to the Division's attention, would be more effective in carrying out the purpose for which the action is proposed, would be as effective and less burdensome to affected private persons than the proposed action, or would be more cost effective to affected private persons and equally effective in implementing the statutory policy or other provision of law.

The Division has engaged in substantial pre-rulemaking workshops and discussions, and the SRIA for the proposed regulations evaluates alternatives to the proposals. No alternative considered by the Division would be more effective in carrying out the purposes of the proposed regulations, or would be equally effective but less burdensome to affected private persons and small businesses than the proposed regulations. The proposed regulations will further the statutory mandates and regulatory goals for underground injection projects; reduce risks to health, safety and the environment; and promote transparent oversight and evaluation of injection projects.

Nevertheless, the Division invites interested persons to submit comments regarding alternatives to the proposed regulations during the written comment period, or to present any such comments regarding alternatives, either orally or in writing, at the hearing scheduled to receive comments relevant to the proposed action.

FINDING OF NECESSITY OF REPORTS

The Division has found that it is necessary for the health, safety, or welfare of the people of the State that this regulation which requires a report apply to businesses.

SMALL BUSINESS DETERMINATION

The Division has determined that the proposed regulations will not directly affect small businesses, because the requirements apply to operators of UIC projects. However, some small businesses may incur a detriment from the enforcement of the proposed regulations to the extent that not all of the higher-producing operators will absorb the compliance costs associated with the proposed regulations.

For the purposes of the economic assessment in the SRIA, the Division has determined that small businesses represent an estimated 70 percent of all statewide operators with injection wells. Ninety-four operators own only 1.2 percent of the injection well inventory and generated less than \$10 million each from both oil and gas production in 2017. In total, these 94 operators generated roughly \$90 million in 2017 or only 1.02 percent of

the \$8.9 billion gross revenue among all injection well owners. The Division considers these 94 operators as small businesses. On average, the direct costs for compliance make up 1.9 percent to 2.6 percent of the gross revenue for the small operators. Within the range of small operators, the higher-producing operators should be able to absorb most of the compliance costs.

Because these 94 operators own 1.2 percent of the State's injection wells, the Division expects these operators to take on roughly 1.2 percent of the State's compliance cost burden. The expected share of costs divided by their estimated total revenue represents their compliance burden. On average, the direct costs make up 1.9 to 2.6 percent of the gross revenue for the small operator. Within the range of small operators, the higher-producing operators should be able to absorb the compliance costs. However, approximately two-thirds of the small operators generate even less production and less revenue than the average small operator. These operators may be susceptible to financial hardship due to the cost of compliance with these proposed regulations.

Some business sectors may, however, benefit from new employment resulting from implementation of the proposed regulations. Businesses that support UIC operations are comprised of oil and gas industry contractors who include small independent operators and medium-to-large petroleum companies. These sectors will probably see an increase in demand for their services and are likely to benefit from the implementation of the proposed regulations.

CONTACT PERSONS

Inquiries concerning the proposed action may be directed to:

Mr. Tim Shular
Department of Conservation
801 K Street, MS 24-02
Sacramento, CA 95814
Phone: (916) 322-3080
Email: UIC.Regulations@conservation.ca.gov

The backup contact person for these inquiries is:

Ms. Blair Gollihur
Department of Conservation
801 K Street, MS 24-02
Sacramento, CA 95814
Phone: (916) 322-3080
Email: UIC.Regulations@conservation.ca.gov

To obtain copies of the text of the proposed regulations, the initial statement of reasons, or other information upon which this rulemaking is based, contact Mr. Tim Shular at the address and phone number provided above.

AVAILABILITY OF DOCUMENTS

The Department prepared an initial statement of reasons for the proposed action, has available all the information upon which its proposal is based and the express terms of the proposed action. The Department will have the entire rulemaking file available for inspection and copying throughout the rulemaking process at its office at the above address. As of the date this Notice is published in the Notice Register, the rulemaking file consists of this Notice, the proposed text of the regulations, the initial statement of reasons, the documents relied upon, the standardized regulatory impact assessment, and a standard form 399.

To obtain copies of these documents, contact Mr. Tim Shular at the address and phone number provided.

AVAILABILITY OF CHANGED OR MODIFIED TEXT

After the written comment period, and any hearing(s) that may be conducted by the Department to receive comments regarding the proposed regulations, the Department will consider all timely and relevant comments received. Thereafter, the Department may adopt the proposed regulations in substantially the same form as described in this notice.

If the Department makes any modifications to the text of the proposed regulations that are substantial but still sufficiently related to the original proposed text as described in this notice, the Department will make the modified text (with changes clearly indicated) available to the public for at least 15 days before adopting the proposed regulations as modified. The Department will accept written comments regarding modified regulations for 15 days after the date upon which they are made available to the public. To obtain copies of any modified regulations, contact Mr. Tim Shular at the address and phone number provided.

AVAILABILITY OF THE FINAL STATEMENT OF REASONS

Upon completion, copies of the Final Statement of Reasons may be obtained by contacting Mr. Tim Shular at the address and phone number provided.

AVAILABILITY OF DOCUMENTS ON THE INTERNET

Copies of the Notice of Proposed Action, the Initial Statement of Reasons, and the text of the regulations in underline and strikeout can be accessed through the Department's website at: <http://www.conservation.ca.gov>.

If you have any questions regarding the process for this proposed action, contact Mr. Tim Shular at the address and phone number provided.