DEPARTMENT OF FINANCE
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Glen Baird
California Department of Conservation
715 P Street, MS 1907
Sacramento, CA 95814

January 19, 2024

Dear Mr. Baird:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and summary for the proposed Well Stimulation Treatment Permitting Phase-Out Regulations, as required in the California Code of Regulations, title 1, section (a)(1). Comments are based upon the SRIA and other publicly available information.

The proposed regulation would phase out permits to conduct well stimulation treatments (WST) such as hydraulic fracturing across California's oil and gas sector at some point in 2024. The end to WST permitting is expected to cause a direct cost impact to the oil and gas sectors due to foregone revenues associated with reduced oil and gas production as a result of the banning of WST permits. Costs are estimated to be $28 million in the first year following the ban. WST-induced production represented about 11 percent of total oil and gas production in California in 2021, and 12 different operators completed well stimulation treatments over the past decade. After the first year of implementation, both oil and natural gas production are estimated to be 99.1 percent of their respective baselines (projected production levels in the absence of the new regulation), and over the first ten years production is expected to fall to 96.1 percent of the baseline level as 1,442 fewer wells would be drilled. Direct benefits would total $20 million in the first year as a result of avoided costs or rather costs-not-incurred in the performance of WST. Other expected benefits that were not quantified include public health benefits, avoided worker injuries, and water input savings, along with psychological benefits to disproportionately impacted communities located near WST sites.

The estimated fiscal impact of the proposed regulation would reduce state and federal income tax revenues by an average of $53 million and $26 million per year, respectively, between 2024 and 2032. Kern County collects about $197 million in property tax from the oil and gas industry each year, and it is estimated that these properties' aggregate value will decline by at most 10 percent as a result of the regulation. There will also be total savings of between $11.6 million and $12.3 million to state agencies such as the Department of Conservation, the California Air Resources Board, and the State Water Resources Control Board due to a reduction and/or reallocation of positions related to WST permitting.

Finance generally concurs with the methodology, with the following exception. While the SRIA includes a comprehensive discussion of the regulation's impact on Kern County property tax revenue, it must include a dollar estimate of the revenue impact. In this case, multiplying the quoted $197 million figure for the county's property taxes by the estimated 10 percent upper bound for the reduction in property value would produce an annual impact of about $20 million.

This comment is intended to provide sufficient guidance outlining revisions to the impact assessment. If any significant changes to the proposed regulations during the rulemaking process 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,

SIGNATURE ON FILE

Somjita Mitra
Chief Economist

cc: Ms. Dee Dee Myers, Director, Governor's Office of Business and Economic Development
Mr. Kenneth Pogue, Director, Office of Administrative Law
Mr. David Shabazian, Director, Department of Conservation