DEPARTMENT OF FINANCE

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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

January 29, 2017

Dear Mr. Turner:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and the summary (Form DF-131) for the proposed Underground Gas Storage (UGS) 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 solely based on the SRIA.

The proposed regulations require California's natural gas operators to adopt new construction, monitoring, testing, reporting and risk management standards for UGS facilities so that no single point of failure poses an immediate threat of loss of control of fluids beginning on January 1st, 2017. Following a five year investment plan, and at a yearly average investment cost of $236 million, by January 1st, 2022 all of California's 452 gas wells should be code compliant. These regulations are expected to decrease the possible occurrence of gas leaks, ensure the early detection of leaks, and decrease the release of greenhouse gases, volatile compounds, and other contaminants into the atmosphere, thereby promoting environmental safety and enhancing the public health of all Californians. Conservation assumes that additional costs will not be passed on to consumers, and thus in the state's economy, the five year well compliance plan is expected to improve the state's employment level by around 1,800 workers per year and increase the state's gross state product by $191 million per year. The plan will also decrease the economic cost of gas leakages, which recent history has shown are significant. For instance, since the 2016 Aliso Canyon gas leak, SoCal has allocated around $720 million to relocate the affected residents and to improve their UGS facilities.

Finance generally concurs with the methodology used to estimate the annual economic impact under the proposed regulation. The analysis meets the requirements with three exceptions. First, even though these regulations are imposing costly regulatory requirements to all gas operators, the SRIA assumes that these costs will not be passed down to consumers in the form of higher prices of gas and electricity, which may be a particular burden for businesses that are intensive users of natural gas. This assumption allows the SRIA to estimate an increase of the state's employment level and gross state product, which may not ultimately occur once energy prices increase.

Second, the SRIA fails to acknowledge that these regulations may have a fiscal impact on other local and state agencies. The analysis only takes into account that the enforcement of these regulations requires a permanent increase of Conservation's workforce (20 positions). But as the Aliso Canyon leakage event showed, the monitoring and the execution of the leak response protocols are all actions that require the coordinated response of multiple agencies. The analysis should discuss whether the enforcement of these regulations has a fiscal effect on other local and state level agencies, and estimate what these effects will be.

Third, these regulations require operators to develop and implement an inspection and leak detection protocol, but provide that once the California Air Resources Board (CARB) implements regulations which assume responsibility for these protocols, the Division's requirements will cease to apply. CARB's regulations are anticipated to be fully implemented in 2018. In the SRIA, the direct costs of ambient air monitoring associated with the Division's proposed regulations is set to zero in 2018. Finance's methodology for estimating costs requires that they be estimated relative to the currently existing regulatory environment – not relative to future anticipated (but uncertain) regulatory changes. Thus, the direct costs of ambient air monitoring must be included in the analysis throughout the full period (2017-2021).

We appreciate the efforts you made to contact affected stakeholders, and to explain the mechanisms by which the regulation will improve the safety of Californians. These efforts should aid the reader in understanding the regulatory impacts.

These comments are intended to provide sufficient guidance 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,

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
Ms. Blair Gollihur, Regulatory Analyst, Office of Governmental and Environmental Relations, California Department of Conservation