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

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 Idle Well Testing and Management 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 place new testing, monitoring, reporting and repair requirements for approximately 28,000 long-term idle oil and gas wells and 6,000 observation wells, with a direct cost of around $250 million in each of the first three years. Long-term idle wells pose greater risk of failure, and safely plugging idle wells can cost as much as half a million dollars. The proposed regulations aim to reduce liability for future remediation costs due to well failures, reduced costs to the State for management of deserted or orphaned wells, avoid impacts to groundwater and other natural resources, reduce methane emissions which impact climate change and air quality, and improve worker and public safety. The additional costs may induce owners of wells to exit the oil production business, as idle wells are not producing income to offset the costs. Some of the small operators are likely to be also subject to increased costs from the underground injection control proposed regulations also under development by the Department of Conservation. The SRIA assumes that state responsibility for idle well management does not increase, and that costs reduce profits but are not passed on to refineries or consumers.

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 discourage 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,

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