

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: 04/26/2012
POSITION: Oppose

BILL NUMBER: AB 2267
AUTHOR: Hall, Isadore

BILL SUMMARY: Marine resources and preservation.

This bill would amend the California Marine Resources Legacy Act (Act), until January 1, 2017, to modify the definition of cost savings realized from converting decommissioned oil and gas platforms into artificial reefs rather than complete removal. The bill also would require the Ocean Protection Council (OPC) to consider air quality in determining whether partial removal would provide a net benefit to the marine environment.

FISCAL SUMMARY

The bill would have a fiscal impact on the state; however, the amount is unknown. The Act was enacted in 2010 but the program has not been implemented due to a lack of applications to decommission oil and gas platforms. To the extent that the bill results in a decreased calculation of savings for platform operators, the share of revenue allocated to the General Fund and other funds would decrease.

The State Air Resources Board indicates that the costs to provide consultation to the OPC would be minor and absorbable.

The OPC's estimate for its costs to consider the air quality factor would be up to \$25,000 per platform. The costs would be paid by the applicants, pursuant to existing law.

COMMENTS

The Department of Finance is opposed to the bill because it would alter the terms of the Act, which was just enacted in 2010 after extensive negotiations and has not yet begun implementation. In addition, the bill would result in lower payments to the General Fund and others.

According to the author's office, the proposed revision to the savings calculation would make it more economically attractive to operators to decommission their platforms. Currently, the calculation used to determine the cost savings does not include the state's startup costs paid by the first applicant, costs to provide an indemnity agreement, and costs to provide surety bonds to guarantee performance. The bill would allow these expenses to be included in the cost savings calculation for applicants who desire to partially remove an offshore oil platform instead of fully removing it.

The State Lands Commission advises that there are four platforms operating in state waters, none of which will be ready for decommissioning before January 1, 2017, when the bill would sunset. In addition, we note that existing law already provides an incentive for early participation in the Artificial Reef Program, in that oil companies can retain a greater portion of their savings if they apply for the oil rig conversion before specified dates.

The Act authorizes partial removal of a decommissioned offshore oil platform, as an alternative to full removal, if specified conditions are met, including but not limited to, a finding by the OPC that partial

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Hall, Isadore

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COMMENTS (continued)

removal would result in a net environmental benefit to the marine environment as compared to full removal. The Act also requires the cost savings to the applicant to be shared with the state and the local governments in accordance with the following allocations:

- 10 percent to the General Fund.
- 2 percent to the Fish and Game Preservation Fund.
- 85 percent to the California Endowment for Marine Preservation (to be established after the first decommission as a source of funding for coastal and ocean resources).
- 2 percent to the Coastal Act Services Fund.
- 1 percent to the board of supervisors of the local county immediately adjacent to the platform.

The bill would allow the following additional costs for partial platform removal to be used in the computation of the cost savings if the decommission application is submitted by January 1, 2017:

- Advanced funding that an applicant must supply to participate in the partial removal program.
- Cost to the applicant of providing indemnification by agreement, insurance policy, cash settlement, or other mechanism to the state.
- Extra startup costs that would be borne by the first applicant to the program.

Code/Department Agency or Revenue Type	SO LA CO RV	PROP 98 FC	(Fiscal Impact by Fiscal Year)			Fund Code
			(Dollars in Thousands)			
			2012-2013 FC	2013-2014 FC	2014-2015	
3760/Coast Consv	SO	No	----- To be paid by applicants. -----			0995
3900/Air Res Bd	SO	No	----- No/Minor Fiscal Impact -----			0044
1600/Misc Rev Tot	RV	No	----- Reduced by unknown amount but not in near future. - -----			0001
1600/Misc Rev Tot	RV	No	----- Reduced by unknown amount but not in near future. - -----			0200
1600/Misc Rev Tot	RV	No	----- Reduced by unknown amount but not in near future. - -----			3123
<u>Fund Code</u>	<u>Title</u>					
0001	General Fund					
0044	Motor Vehicle Account, STF					
0200	Fish and Game Preservation Fund					
0995	Reimbursements					
3123	Coastal Act Services Fund					