

Date of Hearing: September 12, 2025

ASSEMBLY COMMITTEE ON NATURAL RESOURCES

Isaac G. Bryan, Chair

SB 237(Grayson) – As Amended September 10, 2025

SENATE VOTE: 34-0 (not relevant)

SUBJECT: Oil spill prevention: gasoline specifications: suspension: California Environmental Quality Act: exemptions: County of Kern: transportation fuels assessment: coastal resources

SUMMARY: Makes various statutory changes related to oil and gas regulation including requiring increased safety standards for offshore oil and gas pipelines; authorizing the governor to suspend summer gas blend requirements; requiring state evaluation for the potential of regional fuel blends; authorizing permitting of oil in Kern County by deeming compliance with the California Environmental Quality Act sufficient; and, clarifying permitting pathways under the California Coastal Act for offshore oil and gas development.

EXISTING LAW:

- 1) Pursuant to Governor Newsom’s direction, requires the Air Resources Board (ARB) to evaluate how to phase out oil extraction by 2045 through the climate change scoping plan, the state’s comprehensive, multi-year regulatory and programmatic plan to achieve required reductions in greenhouse gas (GHG) emissions. (Executive Order N-79-20)
- 2) Pursuant to the Lempert-Keene-Seastrand Oil Spill Prevention and Response Act:
 - a) Requires the administrator for the Office of Spill Prevention and Response (OSPR), acting at the direction of the governor, to implement activities relating to oil spill response, including emergency drills and preparedness, and oil spill containment and cleanup. (Government Code (GC) 8670.1)
 - b) Bestows the administrator with primary authority to direct prevention, removal, abatement, response, containment, and cleanup efforts with regard to all aspects of any oil spill in the waters of the state as specified. (GC 8670.6 - 8670.14)
 - c) Prohibits the following unless the responsible party has received a copy of a certificate of financial responsibility (COFR) issued by the administrator: (GC 8670.37.51)
 - i) A tank vessel or vessel carrying oil as a secondary cargo from being used to transport oil across waters of the state;
 - ii) An operator of a marine terminal within the state from transferring oil to or from a tank vessel or vessel carrying oil as a secondary cargo; and,
 - iii) An operator of a marine terminal within the state from transferring oil to or from any vessel that is or is intended to be used for transporting oil as cargo to or from a second vessel.

- d) Requires an owner or operator of a facility where a spill could impact waters of the state to apply for and obtain a COFR issued by the administrator for the facility or the oil to be handled, stored, or transported by the facility. (GC 8670.37.51)
- 3) Pursuant to the Elder California Pipeline Safety Act of 1981:
- a) Requires the State Fire Marshal (SFM) to exercise safety regulatory jurisdiction over intrastate pipelines used for the transportation of hazardous or highly volatile liquid substances. (GC 51010)
 - b) Defines “hydrostatic testing” as the application of internal pressure above the normal or maximum operating pressure to a segment of pipeline, under no-flow conditions for a fixed period of time, utilizing a liquid test medium. (GC 51010.5)
 - c) Establishes specified testing requirements. (GC 51013.5)
 - d) Requires every newly constructed pipeline, existing pipeline, or part of a pipeline system that has been relocated or replaced, and every pipeline that transports a hazardous liquid substance or highly volatile liquid substance, to be tested in accordance with federal regulations and every pipeline more than 10 years of age and not provided with effective cathodic protection to be hydrostatically tested every three years, except for those on the State Fire Marshal's list of higher risk pipelines, which shall be hydrostatically tested annually. (GC 51013.5)
- 4) Pursuant to the California Environmental Quality Act (CEQA) (Public Resources Code (PRC) 21000 *et seq.*):
- e) Requires a lead agency, as defined, to prepare, or cause to be prepared, and certify the completion of an environmental impact report (EIR) on a project that it proposes to carry out or approve that may have a significant effect on the environment or to adopt a negative declaration if it finds that the project will not have that effect.
 - f) Requires a lead agency to prepare a mitigated negative declaration for a project that may have a significant effect on the environment if revisions in the project would avoid or mitigate that effect and there is no substantial evidence that the project, as revised, would have a significant effect on the environment.
- 5) Pursuant to the Coastal Act of 1976:
- a) Requires coastal-dependent industrial facilities to be encouraged to locate or expand within existing sites and be permitted reasonable long-term growth where consistent with the Coastal Act. Provides that, where new or expanded coastal-dependent industrial facilities cannot feasibly be accommodated consistent with other policies of the Coastal Act, they may nonetheless be permitted if specified following conditions are met. (PRC 30260)
 - b) Prohibits new or expanded oil and gas development from being considered a coastal-dependent industrial facility for the purposes of PRC 30260, and authorizes those developments to be permitted only if found to be consistent with all applicable provisions

of the Coastal Act and if specified conditions are met. Authorizes repair and maintenance of an existing oil and gas facility to be permitted in accordance with PRC 30260 only if it does not result in expansion of capacity of the oil and gas facility, and if all applicable aforementioned specified conditions are met. (PRC 30262)

THIS BILL:

- 1) Requires, commencing January 15, 2026, and at least once every 10 years thereafter, the OSPR administrator to solicit public input regarding the appropriateness of the reasonable worst case spill volumes for facilities. Based on this feedback, requires the administrator to review and, as appropriate, revise the criteria and formulas for calculating reasonable worst case spill volumes to reflect the best available information.
- 2) Requires the administrator to publicly post on the OSPR website, within 7 days of receiving an application, a list of all applications for a COFR submitted by facility owners and operators and other specified information.
- 3) Requires, commencing January 15, 2027, and at least once every 10 years thereafter, the OSPR administrator to solicit public input regarding the appropriateness of the financial responsibility requirements for facilities. Based on this feedback, requires the administrator to review and, as appropriate, revise the criteria and formulas for calculating the financial assurances and setting the maximum amount of a COFR necessary to respond to an oil spill to reflect the best available information.
- 4) Prohibits an existing oil pipeline that is six inches or larger that has been idle, inactive, or out of service for five years or more from being restarted without passing a spike hydrostatic testing program. Requires the hydrostatic test to be at least 139% of the maximum operating pressure of the pipeline and to not exceed 80% of the specific minimum yield strength, as determined appropriate by the SFM.
- 5) Authorizes, at the operator's request, the minimum hydrostatic spike test pressure to be lower than 100% of the specified minimum yield strength if the maximum operating pressure of the pipeline is correspondingly reduced. Requires the hydrostatic spike test to be at least 139% of the reduced maximum operating pressure of the pipeline. Requires the hydrostatic spike test to be performed in segments to ensure every elevation point will be tested. If the specified minimum yield strength is unknown, the specified minimum yield strength is required to be determined pursuant to federal regulations before performing the hydrostatic spike test.
- 6) Specifies the timeframes for the testing, and requires the testing to be completed in segments for multielevation pipelines. Requires all tests to be performed by a qualified testing company.
- 7) Requires the SFM to promulgate regulations as necessary to implement these testing requirements.
- 8) Requires the SFM to post on its website information fully characterizing the parameters and results of each hydrostatic spike test performed, subject to any such information deemed confidential and proprietary, no less than 30 calendar days after each hydrostatic spike test is conducted.

- 9) Requires the governor to suspend the regulatory control periods for summer blend fuel if the governor, in consultation with the California Energy Commission (CEC) and ARB, determines the average retail gasoline price increased substantially or is projected to increase substantially within any 30-day period and a suspension is necessary to protect consumers in the state from extraordinary gasoline price increases and determines that suspension is prudent and unlikely to yield unintended consequences. Requires the Governor to consider the air quality effects and options to mitigate those effects, if necessary and subject to available resources.
- 10) Deems the Kern County Second Supplemental Recirculated Environmental Impact Report and all appendices (SSREIR) sufficient for full compliance with CEQA for purposes of consideration and adoption of amended Revisions to Title 19 - Kern County Zoning Ordinance Code 2025 (A), Focused on Oil and Gas Local Permitting by the County of Kern (Kern County Ordinance), and:
- a) Provides that no further environmental review is required under CEQA for the consideration and adoption of the Kern County Ordinance, as enacted as of January 1, 2026.
 - b) Provides that projects that satisfy the requirements of revisions to the Kern County Ordinance are deemed sufficient for full compliance with CEQA.
 - c) Provides that the statutory recognition of the SSREIR applies prospectively to any approvals by Kern County with respect to the permitting of oil and gas production operations under any adopted local ordinance and associated development and also applies prospectively and retroactively to any causes of action and claims that are pending as of the effective date of this section, and for which no final nonappealable judgment has been entered before that date.
 - d) Provides that the Legislature's determination that the SSREIR March 2025 is sufficient for full compliance with CEQA and shall be final and conclusive for purposes of reliance on that report for its use by any responsible agencies. Requires reliance on use of that report by any responsible agency to fully satisfy the responsible agency's obligations under CEQA and to not be subject to challenge.
 - e) Prohibits any approval from being granted by Kern County or the Geologic Energy Management Division (CalGEM) in reliance on the SSREIR, with respect to any operation located in a health protection zone, regardless of whether SB 1137 (Gonzales), Chapter 365, Statutes of 2022 is enforceable or independently prohibits that approval.
 - f) Requires CalGEM to be the lead agency under CEQA for projects in Kern County that include approval of a notice of intention (NOI) to drill or rework an oil gas well within 3,200 feet of a residence, educational facility, youth center, health care facility, live-in housing, or any building housing a business that is open to the public, to the extent those projects may be authorized by law.
 - g) Prohibits CalGEM from approving more than 2,000 NOIs annually to drill new wells in reliance on the SSEIR as a responsible agency under this bill, unless the CEC makes a

formal finding that additional permit issuance is necessary for in-state crude oil production to supply 25% of in-state refinery feedstock demand, and that the production would likely help reduce costs for retail consumers of gasoline in the state.

- h) Requires further environmental review to satisfy the lead agency's obligations under CEQA for any Kern County ordinance on oil and gas permitting enacted on or after January 1, 2026.
 - i) Sunsets this section on January 1, 2036.
- 11) Requires, in the next triennial transportation fuels assessment report to the Legislature, the CEC to:
- a) Evaluate the cost and supply impacts of allowing the sale of gasoline with alternative regulatory specifications to support a reliable and affordable supply of transportation fuels in California. Provides that if the evaluation finds that allowing the sale of gasoline with alternative specifications is likely to support a reliable and affordable supply of transportation fuels in California, the CEC, in coordination with ARB, shall recommend a strategy to facilitate the sale of gasoline with those alternative specifications that, at a minimum, considers (i) a trigger mechanism for when the gasoline with those alternative specifications may be sold based on the conditions of the transportation fuels market, (ii) the existing variance process under current law, and (iii) the use of a fee associated with the sale of gasoline with those alternative specifications to mitigate for any increase in emissions;
 - b) Evaluate the development of a westwide gasoline specification that could be used in a western region to include California and areas outside of the state as an alternative to the California-specific specification to stabilize the petroleum market and petroleum prices in the western region, including California. Requires outreach to the western states; and,
 - c) Assess the costs and benefits of each alternative specification, including economic impacts to the state and to consumers, labor impacts, public health impacts, and environmental impacts.
- 12) Requires the CEC, on or before March 31, 2026, to submit an assessment to the Legislature and to the governor that evaluates the recommendations and strategies put forward by the vice chair of the CEC in the June 27, 2025, letter to Governor Newsom. Requires the assessment to offer recommendations to the Legislature and the governor on potential changes to working group authorities or structures, including on permitting changes and reforms, which may include one-stop-shop permitting, to support the state's reliable, equitable, safe, and affordable transition away from petroleum fuels.
- 13) Clarifies in the Coastal Act that oil onshore is transported by pipeline that uses the best available technology, as specified.
- 14) Expands the Coastal Act definition of "expanded oil extraction" to include the reactivation of a facility idled, inactive, or out of service for more than five years, or an increase in oil extraction from the use of hydraulic fracturing, extended reach drilling, acidization, or other

unconventional technologies, as provided. Prohibits the transport of oil over land by other methods, as provided.

- 15) Clarifies in the Coastal Act that the repair, reactivation, and maintenance of an oil and gas facility that has been idled, inactive, or out of service for five years or more is considered a new or expanded development requiring a new coastal development permit (CDP).
- 16) Clarifies in the Coastal Act that development associated with the repair, reactivation, or maintenance of an oil pipeline that has been idled, inactive, or out of service for five years or more requires a new CDP, as provided.
- 17) Requires the Coastal Commission or local government with a certified local coastal program to review and approve, modify, condition, or deny the CDP, as provided.

FISCAL EFFECT: Unknown

COMMENTS:

1) **Author's statement:**

California faces an affordability crisis on a number of fronts, most notably when it comes to the cost of fuel. This affects all of us—both directly and indirectly—whether it be at the gas pump, where Californians pay some of the prices in the country, or in the form of higher prices for goods and services, which are also affected by the higher costs of energy to produce and deliver. As was noted in a June 27, 2025 report by California Energy Commission Vice-Chair, Siva Gunda, “If a lack of proactive management during this phase of the transition leads to rising energy prices and less reliable fuel supplies, that instability could erode support for continued decarbonization.” SB 273 seeks to answers this call for proactive management.

- 2) **California oil industry.** Commercial oil production in California started in the middle of the 19th century. In 1929, at the peak of oil development in the Los Angeles Basin, California accounted for more than 22% of total world oil production. California’s oil production reached an all-time high of almost 400 million barrels in 1985 and has generally declined since then.

Recent production declines are approaching an annualized rate of ~15%, which is about 50% faster than gasoline demand declines in the CEC’s most aggressive Transportation Fuels Assessment case. According to a TESCII Study Report (June, 2024), SB 1137 (Gonzales), which prohibits permits for most new oil and gas wells being drilled within 3,200 feet of a sensitive receptor, will reduce future production and could impact up to 20% of current production. Further, in 2020, California Governor Newsom issued executive order M-79-20 to phase out the sale of new gasoline-powered cars and trucks by 2035 and directs the state to take further actions to reduce oil extraction and support workers and job creation during the transition away from fossil fuels.

This steadily decreasing production of crude in California is expected to continue as the state’s oil fields deplete. A University of California, Santa Barbara, report estimated that

under business-as-usual conditions, California oil field production would decrease to 97 million barrels in 2045.

California has 13 refineries producing more than 1.6 million barrels of oil per day. In 2024, California supplied 118 million barrels of oil to in-state refineries, representing about 23% of all oil sent to California refineries. The other 77% was imported from Alaska and foreign sources.

Two refineries have announced imminent closures – Valero in Benicia notified CEC its plans to cease operations by the end of April 2026, and Phillips 66 in Wilmington plans to close by the end of 2025. The immediate impact in California is the real potential for significant supply constraints and likely gas price increases.

According to the August 20, 2025, Assembly joint committee hearing on California's Transportation Fuels Transition background document, California's gasoline market is geographically and functionally isolated from other U.S. markets, with limited ability to import finished gasoline or substitute alternative fuels. This isolation, combined with a relatively small number of refineries, makes the system vulnerable to disruptions, as seen during the 2015 Torrance refinery outage, which sharply impacted supply and prices.

At present, California's petroleum refining capacity is comparable with its demand. However, with the loss of two refineries in 2025-2026, in-state demand will exceed supply.

- 3) **Need for stabilization.** The petroleum market will likely adjust to a refinery closure, but in the short term, the sudden loss of refining capacity and the need to import more fuel could create risks to price stability and supply reliability. To safeguard against this, the transition must be actively managed. California's policies must accelerate renewable and low-carbon technologies while ensuring existing petroleum infrastructure remains safe, reliable, and affordable until replaced.

On April 21, 2025, following the Valero closure announcement, Governor Newsom sent a letter to CEC Vice Chair Gunda directing him "to redouble the State's efforts to work closely with refiners on short- and long-term planning...to ensure that Californians continue to have access to a safe, affordable, and reliable supply of transportation fuels, and that refiners continue to see the value in serving the California market." On June 27, 2025, Vice Chair Gunda responded with a list of strategies and recommendations summarized as three concurrent strategies, all equally needed, to ensure a more managed fuel transition:

1. Stabilize fuel supply through imports of refined fuels and maintaining in-state refining capacity.
2. Provide sufficient confidence to invest in maintaining reliable and safe infrastructure operations to meet demand.
3. Develop and execute a holistic transportation fuels transition strategy.

In mid-July, 2025, the administration circulated draft legislative language seeking to address strategy #2, specifically focused on stabilizing in-state crude oil production while advancing some environmental safeguards. This bill is the Legislature's response to the Administration's proposal.

- 4) **Kern County.** The Kern County Ordinance contains provisions for local permitting of oil and gas production, providing development standards for all future oil and gas exploration, extraction, operations, and production activities in the unincorporated Kern County. The project boundary of the Ordinance covers 3,110 square miles and generally includes the San Joaquin Valley Floor portion of Kern County up to an elevation of 2,000 feet.

Kern County first adopted an oil and gas ordinance in 2015 with the goal of streamlining permitting for oil and gas production. That ordinance was challenged in court on the basis that its CEQA review was deficient in how it analyzed impacts on the environment and the ordinance was ultimately rescinded.

Kern adopted a revised ordinance and supplemental recirculated EIR in March 2021 to address the deficiencies. However, environmental groups challenged this as still failing to comply with CEQA. That same year, the courts ordered Kern County has to stop issuing permits under the ordinance until the CEQA violations were fixed.

Kern prepared the SSREIR to address the issues the court found deficient, and as of August, no new legal challenges have been filed. The ordinance is still subject to final court review for the SSREIR.

Section 6 of this bill declares that the SSEIR is sufficient for compliance with CEQA for adoption of the ordinance and approval of oil and gas projects pursuant to the ordinance. This section applies prospectively and retroactively to any causes of action and claims that are pending as of its effective date, and for which no final nonappealable judgment has been entered.

- 5) **SB 1137.** The law was enacted in 2022 to prohibit permits for most new oil and gas wells being drilled in setback zones (“health protection zones”) – areas within 3,200 feet of a sensitive receptor, which includes schools, health care centers, businesses open to the public, and more.

A lawsuit has been filed by mineral rights owners to block SB 1137 claiming the law violates property rights and the state's economy, while proponents argue it is essential for public health and safety.

This bill prohibits any approval from being granted by Kern County or CalGEM in a health protection zone, regardless of whether SB 1137 is enforceable or independently prohibits that approval. It also requires CalGEM to be the lead agency under CEQA for projects in Kern County that include approval of a NOI in a health protection zone.

- 6) **Fuel blends.** The state has strict regulatory requirements for formulated gasoline needed to meet California’s air quality standards. Those regulations require a special summer blend of gasoline that is a specific, cleaner-burning fuel required by ARB to reduce smog-forming pollutants during warmer months, known as California Reformulated Gasoline. Its Reid Vapor Pressure is lowered to reduce evaporation and the formation of ground-level ozone. These quantified reductions are key for the United States Environmental Protection Agency’s evaluation of California’s State Implementation Plan under the federal Clean Air Act. The summer blend is more expensive due to the complex refining process and is sold for a longer

period than in other states, typically from April 1 to October 31, to account for California's warmer climate.

The governor has executive authority to shift the summer blend timing requirements to allow for an earlier transition to less expensive winter blend, and has done so before ahead of the traditional October 31 transition:

- Governor Jerry Brown directed ARB in 2012 to allow oil refineries to transition to winter blend in early October because gas prices were excessively high.
- Governor Newsom ordered ARB to allow the use of winter blend gasoline ahead of schedule in 2023.

This bill requires the governor to suspend the regulatory requirements for summer blend if she/he, in consultation with the CEC and ARB, determines the average retail gasoline price increased substantially or is projected to increase substantially within any 30-day period and a summer blend suspension is necessary to keep prices affordable.

The authors note that suspending the summer blend can save an estimated 10-15 cents per gallon of retail gasoline prices.

- 7) **Transportation Fuels Assessment.** The Transportation Fuels Assessment is a leading component of SB X1-2 (Skinner) Chapter 1, Statutes of 2023 to evaluate the price of transportation fuels, consider supply conditions, assess the impact of refinery closures, analyze impacts on production from refinery maintenance and turnarounds, evaluate the feasibility of alternative methods to maintain adequate supply of fuels, and propose solutions to mitigate impacts described elsewhere in the assessment.

The bill requires the CEC to include an evaluation of the cost and supply impacts of allowing the sale of gasoline with alternative regulatory specifications to support a reliable and affordable supply of transportation fuels in California, and requires the CEC, in coordination with ARB, to recommend when to allow those fuels to be sold and whether to allow them with an associated fee. Further, the bill directs the CEC to evaluate the development of a westwide gasoline specification for the western U.S. states.

- 8) **Safety protections.** According to the SFM, California is home to more than 5,600 miles of hazardous liquid pipelines that transport crude oil, refined products (e.g., gasoline, diesel, jet fuel) and highly volatile liquids around the state from production facilities to refineries and ultimately to market. These pipelines operate at high pressures. Should they fail, they would pose a threat to the residents of California, property, and the environment. To prevent accidents and spills, state and federal regulations require pipeline operators to conduct hydrostatic pressure tests to ensure the integrity of their pipelines.

Under current state law, operators are required to pressure test each hazardous liquid pipeline by an independent third-party approved by the SFM at least once every five years, once every two years for high risk, and once per year for buried pipelines without cathodic protection. According to the authors, increasing the pressure thresholds for hydrostatic testing will ensure any corrosion or leaks are easily detected.

Furthermore, because identifying the threat of an oil spill is never zero, OSPR issues COFRs to facilities, vessels, and pipelines that are required to have a California Oil Spill Contingency Plan, including proof that the applicant has the financial resources to cover the cost of response for a “worst-case scenario” spill.

There is no requirement that the regulations governing worst-case spills be regularly updated, and as such, they have not been. This bill requires, starting January 15, 2027, and at least once every 10 years thereafter, the OSPR administrator to review and revise the formulas for calculating reasonable worst-case spills and the financial assurances necessary to respond to an oil spill to reflect the best available information through a notice and comment rulemaking procedure. According to the authors, adding a public review period adds transparency to a largely internal procedure that determines what a “worst-case scenario” spill from an oil pipeline may be.

- 9) **Clarifying permitting pathways.** SB 704 (Min) Chapter 292, Statutes of 2023, revised the coastal-dependent industrial use policies under the Coastal Act to bar new or expanded oil and gas development and new or expanded refineries or petrochemical facilities from being considered a coastal-dependent industrial use, which is a loophole known as the “industrial override” for circumventing permitting requirements. SB 704 also allows repair and maintenance of existing refineries or petrochemical facilities to be permitted only if specified conditions are met.

This bill clarifies the regulatory pathways for which specified oil development, such as repair, reactivation, and maintenance of an oil and gas facility, including an oil pipeline, that has been idled, inactive, or out of service for five years or more can obtain a CDP.

REGISTERED SUPPORT / OPPOSITION:

Support

Associated Builders and Contractors of California
Berry Petroleum Company, LLC
California Conference of Carpenters
California Independent Petroleum Association
California Resources Corporation and Subsidiaries
California state Pipe Trades Council
California State Association of Electrical Workers
City of Bakersfield
Consumer Watchdog
County of Kern
State Building & Construction Trades Council of California
Western States Petroleum Association

Opposition

Asian Pacific Environmental Network Action
California Environmental Justice Alliance Action
California Environmental Voters
Campaign for a Safe and Healthy California

Center for Biological Diversity
Center on Race, Poverty & the Environment
Central California Environmental Justice Network
Clean Water Action
Climate First: Replacing Oil & Gas
Communities for a Better Environment
Earthjustice
Leadership Council for Justice and Accountability
Physicians for Social Responsibility - Los Angeles

Analysis Prepared by: Paige Brokaw / NAT. RES. /