

## SENATE THIRD READING

SB 237 (Grayson, et al.)

As Amended September 10, 2025

Majority vote

**SUMMARY**

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

**Major Provisions**

- 1) Requires, commencing January 15, 2026, and at least once every 10 years thereafter, the Office of Spill Prevention and Response (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 certificate of financial responsibility (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 State Fire Marshal (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 multielevational pipelines. Requires all tests to be performance 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 the Air Resources Board (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.

## COMMENTS

*California oil industry.* California produces more than 1.6 million barrels of oil per day. In 2024, California supplied more than 118 million barrels of oil to in-state refineries, representing about 23% of all oil sent to California refineries. The other 77% came from Alaska and foreign sources.

Two refineries have announced imminent closures; the immediate impact in California is the real potential for significant supply constraints and likely gas price increases. 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.

*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 June 27, 2025, CEC Vice Chair Gunda provided a letter with a list of strategies and recommendations, including the suggestion to provide sufficient confidence to invest in maintaining reliable and safe infrastructure operations to meet demand.

In mid-July, 2025, the administration circulated draft legislative language seeking to address that recommendation, 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.

*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.

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.

*SB 1137.* The law was enacted 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.

This bill prohibits any approval from being granted by Kern County or CalGEM in a health protection zone, regardless of whether SB 1137 (Gonzales) 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.

*Fuel blends.* The state has strict regulatory requirements for formulated gasoline needed to meet California's air quality standards. Those standards 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. 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.

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.

*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.

*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.

*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.

### **According to the Author**

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 answer this call for proactive management.

### **Arguments in Support**

The Western States Petroleum Association writes, "the Kern County SEIR and its codification into state law represent a balanced, scientifically sound, and legally robust approach to aligning California's energy needs with its environmental protection goals. This framework secures jobs, tax revenue, and energy reliability while maintaining the highest environmental standards."

### **Arguments in Opposition**

Environmental Defense Center opposes Sections 4 – 7 and 10 – 11, "which will increase oil

production in California and weaken the state's clean fuel standards. California must move away from fossil fuel development and consumption to combat climate change – which is already causing devastating impacts in the state – and ensure clean air and water and a healthy environment. Fortunately, oil demand in California continues to decline."

#### **FISCAL COMMENTS**

Unknown

#### **VOTES**

##### **SENATE FLOOR: 34-0-6**

**YES:** Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Choi, Cortese, Dahle, Durazo, Gonzalez, Grayson, Hurtado, Jones, Laird, Limón, McGuire, McNERNEY, Menjivar, Niello, Ochoa Bogh, Pérez, Richardson, Seyarto, Smallwood-Cuevas, Stern, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener

**ABS, ABST OR NV:** Alvarado-Gil, Cervantes, Grove, Padilla, Reyes, Rubio

##### **ASM NATURAL RESOURCES: 11-2-1**

**YES:** Bryan, Alanis, Ellis, Flora, Haney, Hoover, Kalra, Muratsuchi, Pellerin, Schultz, Wicks

**NO:** Connolly, Garcia

**ABS, ABST OR NV:** Zbur

#### **UPDATED**

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