Preliminary Draft Staff Report
Proposed Amended Rule 1148.2 – Notification and Reporting Requirements for Oil and Gas Wells and Chemical Suppliers

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EXECUTIVE SUMMARY
The South Coast Air Quality Management District (SCAQMD) staff is proposing to modify the chemical reporting requirements in Rule 1148.2 – Notification and Reporting Requirements for Oil and Gas Wells and Chemical Suppliers so they will be consistent with state law. The California Department of Conservation, through its Division of Oil, Gas, and Geothermal Resources (DOGGR), has adopted well stimulation treatment regulations in response to the passage of Senate Bill (SB) 4 [Title 14, Division 2, Chapter 4, Subchapter 2, Article 2, section 1761] (approved by the Governor on September 20, 2013). The regulations were finalized in December 2014 and become effective on July 1, 2015. However, DOGGR has implemented similar interim regulations that are in currently in effect. Proposed Amended Rule (PAR) 1148.2 will: 1) disaggregate the reporting of the trade name product from the chemical ingredients within the product; 2) no longer require the reporting of chemical mass maximum concentration within the trade name product, and instead require the maximum concentration in percent by mass within the total well drilling, well rework, and well completion fluid; and, 3) make all of the well stimulation information deemed not to be trade secret under SB 4 available to the public on the SCAQMD’s website. Additional minor changes to rule language have been made for clarity. The proposed amended rule will continue to require the reporting of specific information not required under SB 4 and DOGGR’s reporting structure.

INTRODUCTION
Rule 1148.2 was adopted on April 5, 2013 to establish requirements for owners or operators of oil and gas wells to notify the Executive Officer when conducting well drilling, well reworking, or well completion activities. In addition to production drilling, the rule is applicable to hydraulic fracturing, maintenance and matrix acidizing, acid fracturing and other advanced well stimulation activities. The rule also includes reporting requirements for well operators and chemical suppliers to report information on the chemical composition of additives used during the well event activity. Under the current rule, chemical suppliers have to provide well operators trade names of all additives, amount of each trade name product and purpose for each chemical ingredient used in well drilling, well completion, and well stimulation fluids; as well as chemical identities, CAS numbers, and maximum concentration for each chemical ingredient used in a trade name product. The current rule allows chemical suppliers to claim trade secret protection for chemical ingredients within the additive. For any trade secret claim, suppliers must provide operators with substitute information -- the chemical family name for each chemical ingredient.
for which a trade secret claim is asserted. Independent of trade secret claims, suppliers shall also inform operators whether each chemical ingredient is an air toxic.

On September 20, 2013, Governor Brown signed SB 4 – a bill establishing a regulatory structure for advanced well stimulation treatments – which are treatments of a well designed to enhance oil and gas production or recovery by increasing the permeability of the formation -- such as hydraulic fracturing and certain forms of acidizing. Among other things, SB 4 requires an operator to apply for a permit prior to performing a well stimulation treatment and to publically post specified information regarding the well stimulation fluid. As required by SB 4, DOGGR developed interim regulations that went into effect in California on January 1, 2014. The final DOOGR regulations were approved in December 2014, and will go into effect on July 1, 2015.

Under DOGGR’s SB 4 regulations, operators and suppliers shall report identities and concentrations of chemicals used in well stimulation treatments. Under DOGGR’s regulation, well stimulation treatments include hydraulic fracturing, acid fracturing, and acid matrix stimulation Treatment1. While implementing chemical reporting requirements, SB 4 also sets limits on information that can be claimed trade secret with respect to well stimulation treatment fluids. The law states that none of the following are protected as trade secret: (1) identities and CAS numbers of chemical ingredients of additives used in well stimulation treatments (2) concentrations of additives within well stimulation treatment fluids (3) any air or other pollution monitoring data (4) health and safety data associated with well stimulation treatment fluids and (5) the chemical composition of the flowback fluid. Table 1 compares the reporting requirements in SCAQMD Rule 1148.2 and DOGGR’s SB 4 regulations.

As shown in Table 1, the differences between the two reporting structures are:

Well Activities Covered by Reporting Requirements
SCAQMD Rule 1148.2 covers all advanced well stimulation techniques as well as drilling, gravel packing, and more routine types of acidizing, while SB 4 regulations focus on advanced well stimulation activities such as hydraulic fracturing, acid fracturing and matrix acidizing.

Trade secret protection
As adopted, SCAQMD Rule 1148.2 allows suppliers to claim trade secret protection for chemical identities and CAS numbers of chemicals contained in well stimulation treatment additives, while SB 4 disallows these claims.

Rather than stating what can be protected as trade secret, SB 4 states what information cannot be protected as trade secret. Thus, state law does not explicitly prohibit an operator or chemical supplier from claiming trade secret protection for the chemical ingredient mass concentration within the trade name additive. While SCAQMD Rule 1148.2 does not specifically require this information, it does require that the total mass of the trade name product and maximum percent concentration by mass of each chemical ingredient within each trade name product or additive be reported.

1 Under DOGGR’s SB 4 regulation, acidizing must exceed the “acid volume threshold” to be applicable under the regulation. This is a metric that characterizes the total volume of acid used for a given well bore dimension.
Therefore, in order to align Rule 1148.2 with state law, SCAQMD staff is proposing changes to chemical reporting requirements in Rule 1148.2. The SCAQMD staff is proposing that Rule 1148.2 reporting requirements be restructured in order to disallow trade secret claims for the information specified in SB 4 as not protectable for those well stimulation treatments defined under the DOGGR’s SB 4 Well Simulation Treatment Regulations (Title 14, Division 2, Chapter 4, Subchapter 2, Article 2, section 1761).

**Table 1**

Comparison between SCAQMD Rule 1148.2 and DOGGR’s SB 4 Regulations Reporting Requirements.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Rule 1148.2</th>
<th>SB4/DOGGR</th>
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| Well Events Where Chemical Reporting is Required | • Hydraulic Fracturing  
• Acid Fracturing  
• Acid Matrix Stimulation Treatment  
• Maintenance Acidizing  
• Gravel Packing  
• Drilling | • Same  
• Same  
• Similar (above acid volume threshold)  
• No requirement  
• No requirement  
• No requirement |
| Well Stimulation Fluid Reporting | • List of chemicals  
• Reported after well event activity | • Same  
• Reported prior to and after well event activity |
| Reporting Chemical Ingredient within Trade Name Product | • Report the Trade Name Product  
• Report the chemical ingredients within a Trade Name Product | • Report the Trade Name Product  
• Report the chemical ingredients with no correlation to Trade Name Product |
| Reporting Requirements for Well Stimulation Chemical Ingredients³ | • Chemical names  
• CAS#  
• Maximum mass concentrations of chemical ingredient within trade name product  
• Mass of trade name product  
• Identify if chemical is an air toxic  
• Purpose of Chemical Ingredient | • Same  
• Same  
• Maximum mass concentration of chemical ingredient within total well stimulation fluid  
• Mass concentration of trade name product within total fluid  
• No requirement  
• Purpose of Trade Name Product |

² Under DOGGR’s SB 4 regulations, any type of acidizing must exceed the “acid volume threshold” to be applicable under the regulation. This is a metric that characterizes the total volume of acid used for a given well bore dimension.

³ Only a partial list of what is required to be reported under SB 4 and DOGGR’s regulation is shown.
<table>
<thead>
<tr>
<th>Topic</th>
<th>Rule 1148.2</th>
<th>SB4/DOGGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is Trade Secret allowed?</td>
<td>• Yes, except for chemical family name and whether chemical is an air toxic</td>
<td>• Yes, except for chemical identities, including CAS#, mass concentration of additives within fluid, health and safety data, and flowback fluid composition</td>
</tr>
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**PROPOSED AMENDMENTS TO RULE 1148.2**

Proposed Amended Rule 1148.2 proposes to revise the reporting requirements for drilling, well rework, and well completion chemicals and trade name products in order to make the rule consistent with SB 4 and DOGGR’s reporting structure, while still requiring the reporting of additional chemical information not covered by SB 4. PAR 1148.2 will: 1) disaggregate the reporting of the trade name product from the chemical ingredients within the product; 2) no longer require the reporting of chemical mass concentration of the chemical within the trade name product, and instead require the maximum concentration in percent by mass within the total well drilling, well rework, and well completion fluid; and 3) make all the SB 4 related well stimulation information deemed not to be trade secret under SB 4 provisions, available to the public on the SCAQMD’s website. Additional minor changes to rule language also will be made for clarity, as well as keeping one provision from the current rule that sunsets in April 2015 which requires the total volume of well treatment fluids to be reported.

**Disaggregate the reporting of the trade name product from the chemical ingredients within the product**

Under the current version of Rule 1148.2, a supplier providing trade name product and chemicals to an operator shall provide information on each trade name product. The information provided shall contain the identity of the trade name product and its total mass. Additionally, under paragraph (e)(2)(B)-(D) of the current version of Rule 1148.2, for all trade name products a supplier shall also provide the chemical ingredients’ identity, chemical abstract service number, the maximum concentration by mass of each chemical within the trade name product, the purpose of the chemical ingredient, and whether the chemical ingredient is an air toxic. Under the current Rule 1148.2 reporting structure, each trade name product and its chemical ingredients are linked together.

SB 4 Regulations (Title 14, Division 2, Chapter 4, Subchapter 2, Article 4, section 1788) require disclosure of the trade name and purpose for all trade name products used in well stimulation as well as the chemical identities, CAS numbers and concentrations of each chemical within the well stimulation fluids. Under the DOGGR’s SB 4 regulations reporting structure, trade names of additives and their chemical ingredients are reported and publically listed separately. This structure prevents matching chemical ingredients of trade name products with the actual trade name of the additive, therefore limiting the ability to determine their exact formulation. Based on SCAQMD’s discussions with industry representatives, disaggregation of the chemical ingredients from the trade name products or additives, potentially reduces the need for suppliers to claim trade secret protection for their products. Further discussion with DOGGR’s staff...
Proposed Amended Rule 1148.2

indicated that to date DOGGR has not received any trade secret claims for the chemical information submitted under the SB 4 interim regulations.

The current version of Rule 1148.2 (e)(3), allows the suppliers of chemicals to claim trade secret protection for exact chemical identities, CAS numbers and concentrations of chemicals within each trade name product. The SCAQMD staff believes that some portion of trade secret claims is invoked due to the fact that Rule 1148.2 links trade name products to their chemical ingredients. Therefore, suppliers elect to claim trade secret protection in order to protect the exact formulation of their additives. By disaggregating trade names from chemical ingredients, the SB 4 reporting scheme provides for the complete disclosure of the identity of chemical ingredients while protecting the exact formulation of each trade name product and therefore greatly reducing trade secret claims.

Therefore, in order to maintain the highest level of public disclosure, SCAQMD staff is modifying the structure of chemical reporting for Rule 1148.2 in a way that disaggregates the products’ trade names and their chemical ingredients. Specifically, the PAR 1148.2 Reporting Portal forms will be modified to introduce separate sections for the reporting of trade name products and chemical ingredients. Under this modified reporting structure, for each well activity type, all trade name products, their purpose and their supplier names will be reported in a separate section from; the chemical name, CAS number, the maximum concentration in percent by mass within the total well drilling, well rework, and well completion fluid and air toxic identifier for all chemical ingredients of all trade name products identified by the supplier.

Replace requirement for the reporting of chemical concentration within the trade name product with requirement for reporting the maximum concentration in percent by mass within the total well drilling, well rework, and well completion fluid

The chemical reporting requirements in the current version of Rule 1148.2 (e)(2)(D) require the supplier to provide to the operator the maximum concentration of each chemical ingredient (in percent, by mass) for each chemical ingredient within the trade name product. DOGGR’s SB 4 Regulations (Title 14, Division 2, Chapter 4, Subchapter 2, Article 4, section 1783.1) require the disclosure of a the maximum chemical concentration (in percent, by mass) within the total well stimulation fluids for each chemical constituent.

Proposed Amended Rule 1148.2 proposes to disaggregate reporting of trade name products and their chemical ingredients, deeming reporting of concentration of chemical ingredient within an trade name product unnecessary. Therefore, SCAQMD staff is proposing to replace the requirement for the reporting of maximum concentration in percent by mass of the chemical ingredient within the trade name product with the requirement to report the maximum concentration in percent by mass within the total well drilling, well rework, and well completion fluid.

Additionally, based on a review of all the chemical data submitted since the adoption of the rule, SCAQMD staff has determined that in 99% of cases, operators and suppliers submit the mass of trade name product rather than providing the volume and density\(^4\). Therefore, requiring an

\(^4\) The total mass of the trade name product may be calculated using the product of the volume and density.
operator to report the mass rather than providing the option of reporting the mass or the volume and density will streamline the reporting process. The preceding changes in reporting requirements will still maintain the disclosure of the amounts of chemicals and additives used in well activities without eliminating any vital information.

**Make chemical identity information that SB 4 deems cannot be protected as trade secret available to the public on the SCAQMD’s website**

The current version of Rule 1148.2 (e)(3) allows a chemical supplier to assert a trade secret protection claim for chemicals used in any of well activities covered by the rule. The following information can be claimed as trade secret: chemical identity of some or all ingredients of a trade name product; CAS number of the chemical ingredient; and maximum concentration of a chemical ingredient within a trade name product. SB 4, however, states that identities of chemicals and their CAS numbers shall not be protected as trade secret.

Proposed amended Rule 1148.2 will introduce reporting requirements disallowing trade secret claims for chemical identities and CAS numbers of chemicals used in well stimulation activities falling under SB 4 jurisdiction. The part of the R1148.2 reporting portal for the reporting of trade secret chemicals will be redesigned to differentiate between trade secret claims for chemicals and CAS numbers used in well activities that are covered by the SB 4 and those that are not. Suppliers can no longer assert trade secret claims for identity and CAS numbers of chemicals used in well stimulation activities that fall under SB 4 Regulations, therefore making identities of all chemicals used in well activities that fall under SB 4 available to the public on the SCAQMD website.

**Other changes**

**Trade Name Product Volume**

Existing Rule 1148.2 (e)(1)(E)(i) contains a requirement that the operator report the volume of well rework and completion fluids used in the well event activity. Effective April 5, 2015, the information reported under paragraph (e)(1) of the rule is no longer required due to a sunset provision placed in the language during its original adoption. The SCAQMD staff has determined that this information is still pertinent to our monitoring and evaluation of the rule because it provides a basis for the overall magnitude of the fluids injected into the well. As such, PAR 1148.2 will still maintain the requirement for the supplier and operator to report the total well rework and completion fluids used during the well event activity.

**Other Administrative Changes**

The SCAQMD staff is also proposing the following minor changes/additions to Rule 1148.2:

- Existing subparagraph(d)(2)(B) is proposed to be modified in order to clarify that when multiple revisions to an original Rule 1148.2 Notification Form are submitted, the basis for determining the timeframe for submittal would be the start date from the previously submitted form (not the original form).
AFFECTED SOURCES
SCAQMD Rule 222 - Filing Requirements for Specific Emission Sources Not Requiring a Written Permit Pursuant to Regulation II, currently requires owners and operators of oil and gas wells to register each well group (consisting of no more than four well pumps at a crude oil production and handling facility) subject to Rule 1148.1 – Oil and Gas Production Wells. Rule 1148.1, applies to onshore oil producing wells, well cellars and produced gas handling activities at onshore facilities where oil and gas are produced, gathered, separated, processed and stored. The equipment registration requirement for oil wells in Rule 222 is a streamlined alternative to the standard air quality permitting process.

Based on an evaluation of records associated with the Rule 222 filing requirements for the “Oil Production Well Group” category, there are 273 facilities operating approximately 4,614 onshore oil and gas wells in the District. Due to the geography of the region, the affected facilities are often located in urban areas, and sometimes located within close proximity to residential and other sensitive receptors. Based on well records from DOGGR’s database, there are approximately 6,136 oil, gas, and geothermal wells that are active or idle in the Los Angeles, Riverside, San Bernardino, and Orange County regions. The discrepancy between the number of wells accounted for by Rule 222 versus DOGGR’s database is mainly because DOGGR’s program includes geothermal and injection wells and the Rule 222 database does not.

Based on an evaluation of SCAQMD records collected since the start of reporting in June 2013, approximately 25 well operators have been submitting well activities notices and 18 chemical suppliers have been providing chemicals to the operators.

The proposed requirements in PAR 1148.2 to report the chemicals used during well drilling, completion, and reworks will affect the operators and suppliers of chemicals used during these processes. As with the current rule, the proposed requirements in PAR 1148.2 would require well operators and/or their chemical suppliers to submit to the SCAQMD a comprehensive listing of the chemicals contained in the drilling fluids, well completion fluids, and materials used during reworks. This information, excluding certain “trade secret” information, would then be made publicly available on the SCAQMD’s website. Proposed Amended Rule 1148.2 will only modify the type and manner in which information is reported, submitted and disclosed to the public on the SCAQMD’s Rule 1148.2 Public Information Portal and will not change the basic requirements or compliance process of the current rule.

IMPACT ASSESSMENT FOR PROPOSED AMENDED RULE 1148.2
Implementation of Proposed Amended Rule 1148.2 will not result in emission reductions as it is an administrative rule with no pollution control requirements or control measures. The purpose of PAR 1148.2 is to revise the current reporting requirements for drilling, well rework, and well completion chemicals and trade name products in order to be consistent with SB 4 and DOGGR’s reporting structure. Specifically for hydraulic fracturing and other well stimulation activities applicable under SB 4, PAR 1148.2 will: 1) disaggregate the reporting of the trade name product from the chemical ingredients within the product; 2) no longer require the reporting of chemical mass concentration within the trade name product, and instead require the maximum concentration in percent by mass within the total well drilling, well rework, and well completion fluid; and 3) make all the SB 4 related well stimulation information deemed not to be
A trade secret under SB 4 provisions, available to the public on the SCAQMD’s website. The proposed amended rule will require the reporting of the items specified in items one (1) and two (2) for non-SB 4 related activities as well. Additional minor changes to rule language have been also made for clarity.

SOCIOECONOMIC ANALYSIS
PAR 1148.2 would merely revise the current reporting requirements for drilling, well rework, and well completion chemicals and trade name products in order to be consistent with SB 4 and DOGGR’s reporting structure. Thus, implementation of PAR 1148.2 will not result in emission reductions or additional costs as it is an administrative in nature and does not have adverse socioeconomic impacts. The purpose of the proposed amended rule is to revise the current reporting requirements for drilling, well rework, and well completion chemicals and trade name products in order to be consistent with SB 4 and DOGGR’s reporting structure.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA)
SCAQMD staff has reviewed the proposed project pursuant to CEQA Guidelines §15002 (k) – General Concepts, the three-step process for deciding which document to prepare for a project subject to CEQA and CEQA Guidelines §15061 – Review for Exemption, procedures for determining if a project is exempt from CEQA. Because the SCAQMD is proposing to incorporate state regulatory requirements into Rule 1148.2 without exercising discretion, the project is considered to be ministerially exempt from CEQA pursuant to CEQA Guidelines §15268 – Ministerial Projects. Furthermore, the SCAQMD has determined that it can be seen with certainty that there is no possibility that the proposed project may have any significant effects on the environment, and is therefore, also exempt pursuant to CEQA Guidelines §15061 - Review for Exemption, paragraph (b)(3) – “general rule” exemption. A Notice of Exemption has been prepared pursuant to CEQA Guidelines §15062 - Notice of Exemption. If the proposed project is approved, the Notice of Exemption will be filed with the county clerks of Los Angeles, Orange, Riverside and San Bernardino counties.

FINDINGS UNDER CALIFORNIA HEALTH AND SAFETY CODE SECTION 40727
Requirements to Make Findings
California Health and Safety Code §40727 requires that prior to adopting, amending or repealing a rule or regulation, the SCAQMD Governing Board shall make findings of necessity, authority, clarity, consistency, non-duplication, and reference based on relevant information presented at the public hearing and in the staff report.

Necessity
The SCAQMD Governing Board finds and determines that a need exists to adopt Proposed Amended Rule 1148.2 because the current trade secret provisions are inconsistent with Senate Bill (SB) 4. The regulations implementing SB 4 were finalized in December 2014 and the reporting requirements for applicable well stimulation treatment activities take effect on July 1, 2015. However, interim regulations which have similar requirements are already in effect throughout the state.
Authority
The SCAQMD Governing Board has authority to adopt Proposed Amended Rule 1148.2 pursuant to the California Health and Safety Code §§ 39002, 40000, 40701, 40702, 40725 through 40728, 41508, 41511, and 41700.

Clarity
The SCAQMD Governing Board finds and determines that Proposed Amended Rule 1148.2 is written or displayed so that its meaning can be easily understood by the persons directly affected by the rule. Proposed Amended Rule 1148.2 has gone through a public process to determine if there is sufficient clarity in the proposed rule language. This public process included reconvening the Rule 1148.2 Working Group established during the original rule adoption process, made of the oil and gas well production industry, environmental organizations, and the public at large. Significant input from the participating stakeholders ensures that the proposed amended rule is clear and written in a manner that it can easily be understood by the affected industry.

Consistency
The SCAQMD Governing Board finds and determines that PAR 1148.2 is in harmony with and not in conflict with or contradictory to, existing statutes, court decisions or state or federal regulations. Proposed Amended Rule 1148.2 revises the trade secret and reporting requirements for drilling, well rework and well completion chemicals and trade name products in order to be consistent with SB 4 and DOGGR’s implementing regulations.

Non-Duplication
The SCAQMD Governing Board has determined that Proposed Amended Rule 1148.2 will not impose the same requirements as any existing state or federal regulations. The pre-production activities applicable under Proposed Amended Rule 1148.2 are also regulated by the California Department of Conservation/Division of Oil, Gas, and Geothermal Resources (DOGGR) and the U.S. EPA. Under California Code of Regulations, Title 14, Division 2, Chapter 4, subchapter 2, DOGGR requires that operators conducting oil and gas well treatment stimulation submit detailed information about fluids used, and publically disclose this information on a Division website. Applicable well stimulation treatments under DOGGR’s SB 4 regulation include various hydraulic fracturing activities such as “fracking”, “acid fracking”, as well “matrix acidizing.”

Reporting requirements for chemical ingredients used in hydraulic fracturing, acid fracturing, and matrix acidizing fluids are also included in PAR 1148.2. While there is a partial overlap, PAR 1148.2 goes beyond DOGGR’s SB 4 regulations by requiring chemicals used in well drilling, gravel packing and maintenance acidizing activities not covered by DOGGR’s SB 4 regulations. Since initial rule implementation in June 2013, over ninety percent of the well activity events have been non-SB 4 related. This trend is expected to continue, so less than ten percent of the future well activity events will overlap with SB 4-related well activity events. Therefore, the proposed modifications to the reporting requirements of PAR 1148.2 are non-duplicative with DOGGR’s SB 4 regulations and provide a higher level of disclosure for routine operations that take place more often in the District then hydraulic fracturing-based operations. In addition, PAR 1148.2 requires reporting of total mass of the trade name products, the
maximum concentration in percent by mass within the total well drilling, well rework, and well completion fluid, and whether any of the chemical ingredients are classified as air toxics.

Reference
By adopting PAR 1148.2, the SCAQMD Governing Board references the following statutes which SCAQMD hereby implements, interprets or makes specific: California Health and Safety Code §§ 41700 (nuisance), 40460(c) (emission inventory, 40913(a)(5) (emission inventory), 41511 (determination of emissions from a source); and Federal Clean Air Act § 112 (Hazardous Air Pollutants).
REFERENCES


California Legislature, 2012. Senate Bill No. 4, Introduced by Senator Pavley. An act to amend Section 3213 of, and to add Article 3 (commencing with Section 3150) to Chapter 1 of Division 3 of, Public Resources Code, relating to oil and gas. Article 3 – Hydraulic Fracturing.

California Department of Conservation; Division of Oil, Gas, and Geothermal Resources, 2012.