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8 **STATE OF CALIFORNIA**
9 **NATURAL RESOURCES AGENCY**
10 **DEPARTMENT OF CONSERVATION**
11 **GEOLOGIC ENERGY MANAGEMENT DIVISION**
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14 **ORDER TO PAY A CIVIL PENALTY AND PERFORM REMEDIAL WORK**
15 **NO. 1448**
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18 **Operator: SMG Oil, LLC (\$0255)**
19 **Eureka Canyon Oil Field**
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I. **Introduction**

The State Oil and Gas Supervisor (**Supervisor**), acting through the Geologic Energy Management Division (**CalGEM**), and under the authority of Division 3 of the Public Resources Code (**PRC**; commencing with PRC section 3000) and title 14 of the California Code of Regulations (**Regulations**), may impose a civil penalty on a person who violates any statutory provision of the PRC, or any regulation that implements those statutory provisions. (PRC, § 3236.5.)

Based on CalGEM's records, SMG Oil, LLC (**Operator**) is or was an "operator" (as defined in PRC, § 3009) and is responsible for the nine wells identified on **Attachment A**, incorporated herein (the **Wells**). Each of the Wells is or was an idle well, as defined in PRC section 3008, subdivision (d). Under applicable provisions of Regulations, Operator was required to perform idle well testing on the Wells, and Operator failed to successfully do so. (Regulations, §§ 1772.1; 1772.1.4.) The type of required idle well testing the Operator failed to successfully complete, the date that testing was due, and the date remediation was required are outlined on **Attachment A**. Under Regulations section 1772.1, within 12 months of failing to successfully complete that idle well testing, Operator was required to comply with idle well remediation requirements for the Wells, and Operator has not done so. Operator's failure to timely comply with idle well remediation requirements for the Wells constitutes violations of Regulations section 1772.1. Therefore, pursuant to PRC sections 3013, 3106, 3206.1, 3224, and 3236.5, and Regulations section 1772.1, the Supervisor is ordering Operator to bring the Wells into compliance with idle well remediation requirements and to pay a civil penalty for each violation.

Attachment B, incorporated herein, contains a list of definitions and authorities that are applicable to this order.

II. **Failure to Comply with Idle Well Remediation Requirements**

Operator was required to comply with idle well remediation requirements for the Wells, as required by Regulations section 1772.1, subdivision (b), after failing to successfully complete idle well testing. Operator failed to comply with the well remediation requirements for the

Wells. Regulations section 1772.1, subdivision (b), requires Operator to do one of the following within 12 months of failing to successfully complete testing on a well:

- 1) Bring the well into compliance by performing and passing a casing pressure test and performing and passing a clean out tag as required, as directed in Regulations section 1772.1, subdivision (a);
- 2) Partially plug and abandon the well in accordance with Regulations section 1752;
- 3) Plug and abandon the well in accordance with PRC section 3208; or
- 4) Schedule the well for plugging and abandonment under an approved Idle Well Management Plan or an approved Testing Waiver Plan.

CalGEM issued Notices of Violation to Operator on July 28, 2022, May 17, 2023, August 12, 2024, and August 27, 2024, regarding the failure to test and the failure to remediate after unsuccessful idle well testing. (**Attachments C, D, E, and F**, incorporated herein.) CalGEM considers a test which is not performed as an unsuccessful test in its enforcement of Regulations section 1772.1, subdivision (b). As of the date of this Order, Operator has not remedied the outstanding violations for the nine Wells which are overdue for remediation following unsuccessful idle well testing.

Pursuant to PRC section 3224, the Supervisor hereby orders Operator to complete remedial work to come into compliance with Regulations section 1772.1, subdivision (b), as outlined below in Operator's Required Actions.

III. Civil Penalty

Operator's failure to comply with idle well remediation requirements on the Wells following unsuccessful idle well testing is a violation of Regulations section 1772.1, subdivision (b). Operator's failure to complete the required idle well remediation on the Wells constitutes nine separate violations, one for each of the Wells Operator failed to remediate.

Because of these violations, and based on consideration of relevant circumstances, consistent with PRC section 3236.5, by this Order the Supervisor is imposing on Operator civil

penalties totaling \$22,500 for the nine separate violations. Following is an explanation of how the civil penalty amount was determined.

For purposes of this Order, the Supervisor considered relevant circumstances, including: characterizing the violations as "major," "minor," or "well stimulation" (as defined in PRC section 3236.5, subdivision (b)) and setting a penalty amount proportionate to the circumstantial importance of all relevant factors, including the eight factors identified in PRC section 3236.5, subdivision (a). (PRC, § 3236.5, subd. (a).) In determining the civil penalty amount for Operator's failure to complete the required idle well remediation on the Wells, the Supervisor determined each violation to be "minor." The statutory maximum for a minor violation is \$2,500.

After consideration of all relevant factors, the Supervisor determined that a civil penalty which is roughly proportionate to the most cost-effective method of performing the remediation required is a balanced and effective incentive for operator compliance. In determining the civil penalty amount, the Supervisor considered the potential risks associated with idle wells and the economic benefit from avoiding the cost of compliance to the primary considerations for determining an effective civil penalty amount. The required idle well testing is critical for determining if an idle well has integrity. Idle wells that lack integrity have the potential to harm air quality and groundwater. Similarly, by foregoing the required remediation of the Wells, Operator has received a substantial economic benefit.

An economic analysis of the costs of performing the idle well remediation substantially exceeded the upper limit of the statutory penalty range for a minor violation. CalGEM estimated the cost to perform a casing pressure test and a clean out tag between \$2,871 and \$16,766 per well, depending on the location and condition of the well. CalGEM estimated the cost to complete a partial plugging of a well between \$53,400 and \$65,947 per well, and the cost to plug and abandon a well between \$70,000 and \$96,000. Avoidance or deferral of this cost is a significant economic benefit to Operator. A careful analysis of the eight factors identified in PRC section 3236.5, subdivision (a), did not affect the Supervisor's finding that the potential risks associated with the Wells and the economic benefit from avoiding the cost of

compliance are the primary considerations for determining an effective civil penalty amount. Therefore, the Supervisor determined that it is reasonable to impose a civil penalty of \$2,500 per well which is overdue for remediation. (PRC, § 3236.5, subd. (a).)

Based on Operator's nine idle wells which are overdue for remediation, and with appropriate consideration of relevant factors as described in PRC section 3236.5, the Supervisor hereby imposes civil penalties totaling twenty-two thousand five hundred dollars (\$22,500) for the nine violations for failing to remediate the Wells.

IV. Operator's Required Actions

For the reasons stated herein, pursuant to PRC sections 3013, 3106, 3206, 3206.1, 3224, and 3236.5, and Regulations section 1772.1, **IT IS HEREBY ORDERED** that Operator:

1) Pay civil penalties totaling twenty-two thousand five hundred dollars (\$22,500);

2) In accordance with 1772.1, subdivision (b), bring the Wells into compliance by doing one of the following:

- a. Bring the well into compliance by performing and passing a casing pressure test, and performing a clean out tag, as required, as directed in Regulations section 1772.1, subdivisions (a)(2) and (a)(3), respectively;**
- b. Partially plug and abandon the well in accordance with Regulations section 1752;**
- c. Plug and abandon the well in accordance with PRC section 3208; or**
- d. Schedule the well for plugging and abandonment under an approved Idle Well Management Plan or an approved Testing Waiver Plan.** For assistance submitting a Plan or for other questions about idle well compliance, please contact the Idle Wells Program at CalGEMidlewells@conservation.ca.gov.

A continuing failure to bring the Wells into compliance with Regulations section 1772.1, subdivision (b), may subject Operator to additional civil penalties.

To remit payment of the civil penalty online, please visit <https://www.govone.com/PAYCAL/Home/SelectAgency> and select "California Department

of Conservation Geologic Energy Management Division," then follow the instructions on the screen.

To remit payment of the civil penalty by mail, please send a check payable to "Department of Conservation" to the following address:

Department of Conservation
CalGEM, Attn: Operational Management Unit
715 P Street, MS 1803
Sacramento, California 95814

Please include the Operator name, Order number, and phrase "Oil and Gas Environmental Remediation Account" on the check itself.

V. Operator's Appeal Rights

Operator may appeal this Order by filing a timely written notice of appeal with the Director as described in Article 6 (Appeals and Review) of Division 3 of the PRC, commencing with PRC section 3350. (PRC, §§ 3225, subd. (d).) If this Order is mailed to you, the Director must receive the appeal within fifteen (15) days from the date the Supervisor mails the order. To file an appeal, a written notice of appeal may be sent via U.S. mail to:

Department of Conservation
Director's Office of Appeals
715 P Street, MS 19-06 (Legal Office, Chief Counsel)
Sacramento, California 95814

Or via electronic mail:

OfficeofAppeals@conservation.ca.gov

If Operator files a timely written notice of appeal, Operator will be informed of the appeal hearing date, time, and place. Following the hearing, Operator will receive a written decision that affirms, sets aside, or modifies the appealed Order.

If Operator does not file a timely written notice of appeal, or if the Order is affirmed following an appeal, this Order will become a final order and CalGEM may contract for

performance of the work, pursuant to PRC section 3226, if, within 30 days of this Order, Operator has not, in good faith, commenced the work ordered. Any costs incurred by CalGEM to obtain compliance with this Order (which may include penalties and interest) will constitute a lien against Operator's real or personal property per PRC section 3423. (PRC, § 3356.)

VI. Other Potential Actions to Enforce This Order

Failure to comply with Section IV (Operator's Required Actions) of this Order could subject Operator to further enforcement action. PRC section 3236 makes it a misdemeanor for any person who violates, fails, neglects, or refuses to comply with any of the provisions of the oil and gas conservation laws commencing at PRC section 3000. PRC sections 3236.2 and 3236.3 authorize the Supervisor to seek for civil penalties and injunctive relief for failure to comply with an order or for violations of any provision in Chapter 1 of Division 3 of the PRC or any regulation that implements those statutes. PRC section 3236.5 authorizes the Supervisor to impose a civil penalty on a person who violates any provision in Chapter 1 of Division 3 of the PRC or any regulation that implements those statutes, and the Supervisor may in the future impose further civil penalties based on the facts and omissions underlying this order. PRC section 3237 authorizes the Supervisor to order the plugging and abandonment of a well or the decommissioning of a production facility if an operator has failed to comply with an order of the Supervisor within the time provided by the order or has failed to challenge the order on a timely basis. PRC section 3359 makes it a misdemeanor to fail or neglect to comply with an order of the Supervisor. Each day's further failure, refusal, or neglect is a separate and distinct offense. (PRC, § 3359.) By issuance of this Order, the Supervisor does not waive the right to take further enforcement actions.

DATED: 10/2/2024

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Doug Ito
State Oil and Gas Supervisor