STATE OF CALIFORNIA
NATURAL RESOURCES AGENCY
DEPARTMENT OF CONSERVATION
DIVISION OF OIL, GAS, AND GEOTHERMAL RESOURCES

ORDER TO:
PAY CIVIL PENALTY

NO. 1125
Dated: July 17, 2018
Operator: ADDISON OIL & GAS, LLC (A0450)

BY
Kenneth A. Harris Jr.
STATE OIL AND GAS SUPERVISOR
I. Introduction

The State Oil and Gas Supervisor (Supervisor), acting through the Division of Oil, Gas, and Geothermal Resources (Division), and under the authority of the Public Resources Code Division 3 (PRC; commencing with PRC section 3000) and the California Code of Regulations, title 14 (Regulations), ensures, among other things, that an oil and gas operator has the appropriate indemnity bond(s) and/or other appropriate financial mechanism (see Pub. Resources Code, §§ 3202, 3204, and 3205 [oil and gas well financial assurance mechanisms]) for its oil and gas well operations, including production facilities. (See Pub. Resources Code, § 3008 [“well” defined]; Cal. Code Regs., § 1720, subd. (f) [“operations” defined] and Cal. Code Regs., § 1760, subd. (k) [“production facilities” defined].) These statutorily-required financial assurance mechanisms help protect the public health and ensures an “even playing field” for oil and gas operators since it provides money for environmental cleanup and guards against non-compliant operators. Under the law as it existed until December 31, 2017, when an operator files these financial assurance mechanisms to drill/redrill a well, such mechanisms must stay in place until the new well is “properly completed” (when it has been shown, to the satisfaction of the supervisor, that the manner of producing oil or gas is satisfactory and that the well has maintained production of oil or gas for a continuous six-month period). (See Pub. Resources Code, §§ 3207 and 3208).

Based on the Division’s records, at all times relevant to this order, Addison Oil & Gas, LLC (Operator) was an oil and gas operator (as defined in PRC section 3009) responsible for maintaining the appropriate financial assurance mechanism(s) for its wells and operations. In addition, at no time when it was the oil and gas operator, did Operator have the required indemnity bond(s), and/or blanket indemnity bond amount on file with the Supervisor for the wells on the attached list, which is incorporated herein (Attachment A). In addition, based on its failure to comply with the applicable indemnity bond provisions, the Supervisor is imposing a civil penalty under PRC section 3236.5.

ORDER TO: PAY CIVIL PENALTY; NO. 1125
Therefore, pursuant to PRC sections 3013, 3106, 3202, 3204, 3205, 3207, 3208, and 3236.5, and as set forth below, the Supervisor is ordering Operator to pay a civil penalty of $21,554 (twenty-one thousand, five hundred and fifty-four dollars).

II. Definitions

PRC section 3008 defines a “Well” to mean “any oil or gas well or well for the discovery of oil or gas; any well on lands producing or reasonably presumed to contain oil or gas; any well drilled for the purpose of injecting fluids or gas for stimulating oil or gas recovery, repressuring or pressure maintenance of oil or gas reservoirs, or disposing of waste fluids from an oil or gas field; any well used to inject or withdraw gas from an underground storage facility; or any well drilled within or adjacent to an oil or gas pool for the purpose of obtaining water to be used in production stimulation or repressuring operations.

PRC section 3009 defines “Operator” to mean “a person who, by virtue of ownership, or under the authority of a lease or any other agreement, has the right to drill, operate, maintain, or control a well or production facility.”

Regulations section 1720, subdivision (f), defines “Operations” to mean “any one or all of the activities of an operator covered by Division 3 of the [PRC].”

III. State Oil and Gas Supervisor Authority

PRC section 3013 states that the oil and gas law (Division 3 of the PRC, commencing with section 3000) “shall be liberally construed to meet its purposes” and grants the Supervisor “all powers” that may be necessary to carry out those purposes.

PRC section 3106, subdivision (a), authorizes the Supervisor to “supervise the drilling, operation, maintenance, and abandonment of wells and the operation, maintenance, and removal or abandonment of tanks and facilities attendant to oil and gas production … so as to prevent, as far as possible, damage to life, health, property, and natural resources[.]”

PRC section 3202 requires, upon transfer of a well, “[a]n indemnity bond for each well as required under Section 3204 or 3205.”

PRC section 3204, subdivision (a), directs that an operator shall file with the Supervisor a bond of “[t]wenty-five thousand dollars ($25,000) for each well that is less than 10,000 feet

ORDER TO: PAY CIVIL PENALTY; NO. 1125
deep” and a bond of “[f]orty thousand dollars ($40,000) for each well that is 10,000 or more feet deep.”

**PRC section 3205, subdivision (a),** allows “[a]n operator who engages in the drilling, redrilling, deepening, or in any operation permanently altering the casing, of 20 or more wells at any time, may file with the supervisor one blanket indemnity bond to cover all the operations in any of its wells in the state in lieu of an individual indemnity bond for each operation as required by Section 3204.” The bond amount required depends on the number of wells it is intended to cover.

**PRC section 3207** (Before January 1, 2018) instructs that “[a]ny individual or blanket indemnity bond issued in compliance with this chapter may be terminated and canceled and the surety be relieved of all obligations thereunder when the well or wells covered by such bond have been properly completed or abandoned or another valid bond has been substituted therefor.”

**PRC section 3208** (Before January 1, 2018) instructs that “a well is properly completed when it has been shown, to the satisfaction of the supervisor, that the manner of producing oil or gas or injecting fluids into the well is satisfactory and that the well has maintained production of oil or gas or injection for a continuous six-month period.”

**PRC section 3236.5, subdivision (a),** 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 Chapter 1.

### IV. Failure to File Bond for Wells

A. On or about December 12, 2016, William Kelleher, an agent for Operator, and Richard Field II, an agent for Golden Gate Oil Operations, LLC, delivered to the Division, in person, a Notification of Well and Facility Disposition (OG30A) for a transfer of rights to the wells. The Notification indicated that the final disposition and date of possession concerning the wells was to be on January 1, 2017. In addition, the Notification indicated that Operator “will submit [indemnity bonds] within 90 days.”

ORDER TO: PAY CIVIL PENALTY; NO. 1125
B. On or about January 5, 2017, the Division sent Mr. Kelleher a courtesy reminder that, among other things, Operator needed to file the required bonding.

C. On January 18, 2017, the Division received additional information from Operator (via letter dated January 13, 2017), and another promise to file bonds, but no bonds.

D. On or about August 11, 2017, the Division sent Operator a Notice of Violation (revised) for Failure to Submit Bonding for Incomplete Wells, for three of the wells: Tog/Adams 102 (083-22772), SMV 16-19L (083-22802), and SMV 16-20L (083-22803) (see, also, Attachment A).

E. On or about November 15, 2017, the Division sent Operator’s new agent, Mr. Craig Krummrich, another courtesy reminder letter that Operator still did not file the required bonds.

F. On November 16, 2017, the Division received an email response from Mr. Krummrich indicating that he was in the process of securing bonding.

G. As of the date of this Order, Operator does not have the required indemnity bond(s), and/or blanket indemnity bond amount on file with the Supervisor.

V. Civil Penalty Assessment

When the Supervisor establishes a civil penalty amount, “the supervisor shall consider, in addition to other relevant circumstances, all of the following: (1) The extent of harm caused by the violation; (2) The persistence of the violation; (3) The pervasiveness of the violation; and (4) The number of prior violations by the same violator; (5) The degree of culpability of the violator; (6) Any economic benefit to the violator resulting from the violation; (7) The violator’s ability to pay the civil penalty amount, as determined based on information publicly available to the division; and (8) The supervisor’s prosecution costs.”

Upon consideration of the above factors, significantly, the persistence of the violation, the Operator’s culpability and the economic benefit to Operator, the Supervisor determined that the appropriate civil penalty amount is $21,554 (twenty-one thousand, five hundred and fifty-four dollars).

ORDER TO: PAY CIVIL PENALTY; NO. 1125
VI. Operator’s Required Actions

Based on the above, the Supervisor has determined that Operator violated the applicable PRC indemnity bond provisions. Therefore, pursuant to PRC sections 3013, 3106, 3202, 3204, 3205, 3207, 3208, and 3236.5, the Supervisor is ordering Operator to pay a civil penalty of $21,554 (twenty-one thousand, five hundred and fifty-four dollars).

VII. 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. (Pub. Resources Code, § 3225, subd. (d).) A written notice of appeal may be mailed to the following address:

Department of Conservation
Director’s Office of Appeals
801 K Street, MS 24-03 (Legal Office, Chief Counsel)
Sacramento, California 95814-3530

If Operator does not submit a timely, written, notice of appeal, Operator waives the right to challenge this Order and this Order will become a final order.

If Operator submits a timely, written notice of appeal, it, and interested parties, will receive notice 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.

VIII. Other Potential Actions to Enforce This Order

Failure to comply with Section VI (Operator’s Required Actions) of this Order could subject Operator to further enforcement action including the possibility that the Supervisor may deny approval of proposed well operations until Operator is in compliance with this Order (Pub. Resources Code, § 3203, subd. (c)), impose “life-of-well” bonding (Pub. Resources Code, § 3270.4), order wells plugged and abandoned (Pub. Resources Code, § 3237) and/or impose additional civil penalties under PRC section 3236.5.

In addition, the Supervisor may request prosecution of a criminal action under PRC sections 3236 and/or 3359, which makes failing, neglecting, or refusing to comply with

ORDER TO: PAY CIVIL PENALTY; NO. 1125
applicable provisions of the PRC and/or any Supervisor’s order, respectively, a misdemeanor
punishable by a fine of $100 (one hundred dollars) to $1,000 (one thousand dollars),
imprisonment of up to six (6) months, or both, with, possibly, “[e]ach day’s further failure,
refusal, or neglect” a “separate and distinct offense.”

DATED: July 17, 2018

Kenneth A. Harris Jr.
State Oil and Gas Supervisor

See attached PROOF OF SERVICE for distribution list

ORDER TO: PAY CIVIL PENALTY; NO. 1125
PROOF OF SERVICE BY CERTIFIED U.S. MAIL

I declare that I am employed in the County of Sacramento, California. I am over the age of 18 and not a party to the within captioned cause. My business address is 801 K Street, MS 18-05, Sacramento, California 95814. On July 17, 2018, I served the following document(s):

ORDER TO: PAY CIVIL PENALTY, ORDER NO. 1125
ADDISON OIL AND GAS, LLC (A0450)

by enclosing them in an envelope and placing the envelope for collection and mailing by certified U.S. mail on the date and at the below listed address(es) following our ordinary business practices. I am readily familiar with this business’s practice for collecting and processing correspondence for mailing. On the same day that correspondence is placed for collection and mailing, it is deposited in the ordinary course of business with the United States Postal Service in a sealed envelope with postage fully prepaid.

I served the documents on the person or persons below, as follows:

Craig Krummrich, Agent
590 Poli Street
Ventura, CA 93001
Cert. mail: 7014 2120 0000 5989 3607

Operator
Addison Oil and Gas, LLC
590 Poli Street
Ventura, CA 93001
Cert. mail: 7014 2120 0000 5989 3652

I declare under penalty of perjury of the laws of the State of California that the foregoing is true and correct, and that this declaration was executed on July 17, 2018, at Sacramento, CA.

Rachael Tadlock

PROOF OF SERVICE - CCP, § 1013; PRC, § 3350
1. Article Addressed to:

Craig Krummrich, Agent
590 Poli Street
Ventura, CA 93001

9590 9402 3981 8079 6970 65

2. Article Number (Transfer from service label)

7014 2120 0000 5989 3607

3. Service Type

☐ Adult Signature
☐ Adult Signature Restricted Delivery
☐ Certified Mail®
☐ Certified Mail® Restricted Delivery
☐ Collect on Delivery
☐ Collect on Delivery Restricted Delivery
☐ First Class Mail
☐ First Class Mail Restricted Delivery
☐ Priority Mail Express®
☐ Registered Mail™
☐ Registered Mail Restricted Delivery
☐ Return Receipt for Merchandise
☐ Signature Confirmation™
☐ Signature Confirmation
☐ Signature Confirmation
☐ Signature Confirmation

U.S. Postal Service™
CERTIFIED MAIL® RECEIPT
Domestic Mail Only

For delivery information, visit our website at www.usps.com®.

OFFICIAL USE

Postage $11.85
Certified Fee
Return Receipt Fee (Endorsement Required)
Restricted Delivery Fee (Endorsement Required)

Craig Krummrich, Agent
590 Poli Street
Ventura, CA 93001

PS Form 3811, July 2015 PSN 7530-02-000-9053
Domestic Return Receipt