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STATE OF CALIFORNIA
NATURAL RESOURCES AGENCY
DEPARTMENT OF CONSERVATION
GEOLOGIC ENERGY MANAGEMENT DIVISION

ORDER TO PAY A CIVIL PENALTY AND PERFORM REMEDIAL WORK
NO. 1428

Operator: Pace Diversified Corporation (P0130)

1 **I. Introduction**

2 The State Oil and Gas Supervisor (**Supervisor**), acting through the Geologic Energy
3 Management Division (**CalGEM**), and under the authority of Division 3 of the Public Resources
4 Code (**PRC**; commencing with PRC section 3000) and title 14 of the California Code of
5 Regulations (**Regulations**), may impose a civil penalty on a person who violates any statutory
6 provision of the PRC, or any regulation that implements those statutory provisions. (PRC, §
7 3236.5.)

8 Based on CalGEM's records, Pace Diversified Corporation (**Operator**) is or was an
9 "operator" (as defined in PRC, § 3009) and is responsible for the four wells identified on
10 **Attachment A**, incorporated herein (the **Wells**). Each of the Wells is or was an idle well, as
11 defined in PRC section 3008, subdivision (d). Under applicable provisions of Regulations,
12 Operator was required to perform idle well testing on the Wells, and Operator failed to
13 successfully do so. (Regulations, §§ 1772.1.4; 1772.1.) The type of required idle well testing the
14 Operator failed to successfully complete, the date that testing was due, and the date
15 remediation was required are outlined on Attachment A. Under Regulations section 1772.1,
16 within 12 months of failing to successfully complete that idle well testing, Operator was
17 required to comply with idle well remediation requirements for the Wells, and Operator has not
18 done so. Operator's failure to timely comply with idle well remediation requirements for the
19 Wells constitutes violations of Regulations section 1772.1. Therefore, pursuant to PRC sections
20 3013, 3106, 3206.1, 3224, 3236.5, 3270, and Regulations section 1772.1, the Supervisor is ordering
21 Operator to bring the Wells into compliance with idle well remediation requirements and to
22 pay a civil penalty for each violation.

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

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

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

1 requires Operator to do one of the following within 12 months of failing to successfully
2 complete testing on a well:

- 3 1) Bring the well into compliance by performing and passing a casing pressure test
4 and performing and passing a clean out tag as required, as directed in
5 Regulations section 1772.1, subdivision (a);
- 6 2) Partially plug and abandon the well in accordance with Regulations section
7 1752;
- 8 3) Plug and abandon the well in accordance with PRC section 3208; or
- 9 4) Schedule the well for plugging and abandonment under an approved Idle Well
10 Management Plan or an approved Testing Waiver Plan.

11 CalGEM issued a Notice of Violation to Operator on May 17, 2023, regarding the failure
12 to remediate after unsuccessful idle well testing. (**Attachment C**, incorporated herein.) CalGEM
13 considers a test which is not performed as an unsuccessful test in its enforcement of
14 Regulations section 1772.1, subdivision (b). As of the date of this Order, Operator has not
15 remedied the outstanding violations for the four Wells which are overdue for remediation
16 following unsuccessful idle well testing.

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

20 III. Civil Penalty

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

25 Because of these violations, and based on consideration of relevant circumstances,
26 consistent with PRC section 3236.5, by this Order the Supervisor is imposing on Operator civil
27 penalties totaling \$10,000 for the four separate violations. Following is an explanation of how
28 the civil penalty amount was determined.

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

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

18 An economic analysis of the costs of performing the idle well remediation substantially
19 exceeded the upper limit of the statutory penalty range for a minor violation. CalGEM
20 estimated the cost to perform a casing pressure test and a clean out tag between \$2,871 and
21 \$16,766 per well, depending on the location and condition of the well. CalGEM estimated the
22 cost to complete a partial plugging of a well between \$53,400 and \$65,947 per well, and the
23 cost to plug and abandon a well between \$70,000 and \$96,000. Avoidance or deferral of this
24 cost is a significant economic benefit to Operator. A careful analysis of the eight factors
25 identified in PRC section 3236.5, subdivision (a), did not affect the Supervisor's finding that the
26 potential risks associated with the Wells and the economic benefit from avoiding the cost of
27 compliance are the primary considerations for determining an effective civil penalty amount.
28

1 Therefore, the Supervisor determined that it is reasonable to impose a civil penalty of \$2,500
2 per well which is overdue for remediation. (PRC, § 3236.5, subd. (a).)

3 Based on Operator's four idle wells which are overdue for remediation, and with
4 appropriate consideration of relevant factors as described in PRC section 3236.5, the
5 Supervisor hereby imposes civil penalties totaling ten thousand dollars (\$10,000.00) for the four
6 violations for failing remediate the Wells.

7 **IV. Operator's Required Actions**

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

- 10 **1) Pay civil penalties totaling ten thousand dollars (\$10,000.00);**
11 **2) In accordance with 1772.1, subdivision (b), bring the Wells into compliance by**
12 **doing one of the following:**
- 13 **a. Bring the well into compliance by performing and passing a casing**
14 **pressure test, and performing a clean out tag, as required, as directed in**
15 **Regulations section 1772.1, subdivisions (a)(2) and (a)(3), respectively;**
 - 16 **b. Partially plug and abandon the well in accordance with Regulations**
17 **section 1752;**
 - 18 **c. Plug and abandon the well in accordance with PRC section 3208; or**
 - 19 **d. Schedule the well for plugging and abandonment under an approved Idle**
20 **Well Management Plan or an approved Testing Waiver Plan.** For assistance
21 submitting a Plan or for other questions about idle well compliance,
22 please contact the Idle Wells Program at
23 CalGEMidlewells@conservation.ca.gov.

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

26 To remit payment of the civil penalty online, please visit
27 <https://www.govone.com/PAYCAL/Home/SelectAgency> and select "California Department
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1 of Conservation Geologic Energy Management Division," then follow the instructions on the
2 screen.

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

5 Department of Conservation
6 CalGEM, Attn: Operational Management Unit
7 715 P Street, MS 1803
8 Sacramento, California 95814

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

11 **V. Operator's Appeal Rights**

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

16 To file an appeal, a written notice of appeal may be sent via U.S. mail to:

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

21 Or via electronic mail:

22 CalGEMAppeals@conservation.ca.gov

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

26 If Operator does not file a timely written notice of appeal, or if the Order is affirmed
27 following an appeal, this Order will become a final order and CalGEM may contract for
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1 performance of the work, pursuant to PRC section 3226, if, within 30 days of this Order,
2 Operator has not, in good faith, commenced the work ordered. Any costs incurred by
3 CalGEM to obtain compliance with this Order (which may include penalties and interest) will
4 constitute a lien against Operator's real or personal property per PRC section 3423. (PRC, §
5 3356.)

6 **VI. Other Potential Actions to Enforce This Order**

7 Failure to comply with Section IV (Operator's Required Actions) of this Order could
8 subject Operator to further enforcement action. PRC section 3236 makes it a misdemeanor for
9 any person who violates, fails, neglects, or refuses to comply with any of the provisions of the
10 oil and gas conservation laws commencing at PRC section 3000. PRC sections 3236.2 and
11 3236.3 authorize the Supervisor to seek for civil penalties and injunctive relief for failure to
12 comply with an order or for violations of any provision in Chapter 1 of Division 3 of the PRC or
13 any regulation that implements those statutes. PRC section 3236.5 authorizes the Supervisor to
14 impose a civil penalty on a person who violates any provision in Chapter 1 of Division 3 of the
15 PRC or any regulation that implements those statutes, and the Supervisor may in the future
16 impose further civil penalties based on the facts and omissions underlying this order. PRC
17 section 3237 authorizes the Supervisor to order the plugging and abandonment of a well or
18 the decommissioning of a production facility if an operator has failed to comply with an order
19 of the Supervisor within the time provided by the order or has failed to challenge the order on
20 a timely basis. PRC section 3359 makes it a misdemeanor to fail or neglect to comply with an
21 order of the Supervisor. Each day's further failure, refusal, or neglect is a separate and distinct
22 offense. (PRC, § 3359.) By issuance of this Order, the Supervisor does not waive the right to take
23 further enforcement actions.

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25
26 DATED: 8/22/2024

DocuSigned by:
Doug Ito
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Doug Ito
State Oil and Gas Supervisor