EMERGENCY ORDER TO IMPLEMENT IMPROVED SECURITY MEASURES, TRANSPORT OIL RIG AND WELL-CONTROL EQUIPMENT AND MATERIALS TO RINCON ISLAND, INSTALL BRIDGE PLUGS ON CERTAIN WELLS, MONITOR AND TEST CERTAIN WELLS, AND PERFORM NECESSARY REMEDIAL WORK

NO. 1114

Dated: August 8, 2016

Operator: Rincon Island Limited Partnership

BY

Kenneth A. Harris Jr.

STATE OIL AND GAS SUPERVISOR
I. Introduction

Pursuant to Public Resources Code (PRC) section 3106, subdivision (a), the State’s Oil and Gas Supervisor ("Supervisor") is charged with supervising the operation and maintenance of oil and gas wells and facilities to prevent, as far as possible, damage to life, health, property and natural resources. This Emergency Order is issued by the Supervisor to prevent such damage potentially resulting from an uncontained release of hydrocarbon fluids or gases into the offshore environment from oil wells on Rincon Island in Ventura County.

Rincon Island is a manmade island situated in ocean waters under the jurisdiction of the State of California. The ocean waters and coastline surrounding the Island are "sensitive coastal resource area[s]" under the California Coastal Act. The Island is in close proximity to the Channel Islands National Marine Sanctuary, an area protected by federal law. The California Legislature has declared that protection of California’s coastal resources is of “paramount concern.” (Public Resources Code, section 30001.)

The Island is controlled by Rincon Island Limited Partnership ("RILP") through a lease from the California State Lands Commission ("SLC"). Certain wells on the Island (i.e., wells 8A, 50A, and possibly others) are under significant pressure from the underground hydrocarbon-bearing formations which the wells access. Pressure from the reservoir on oil and gas wells is controlled by well mechanical conditions and wellhead infrastructure (casing heads, tubing, gauges, seals, valves, etc.). The well mechanical conditions and wellhead infrastructure on the wells on Rincon Island are of doubtful and/or unknown integrity and, in some instances, inoperative. The wellhead infrastructure could fail, or be damaged, resulting in an uncontrolled pressurized release of hydrocarbon fluids on to the Island itself or into the surrounding marine environment. In fact, certain wells cannot even have the pressure checked or adequately monitored because the

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wellhead valves are inoperative. Wellhead infrastructure cannot be safely repaired, replaced or maintained without the use of an oil rig.

On February 23, 2016, Division staff inspected the Island and its oil and gas production facilities. One result of this inspection was the Supervisor’s issuance of Order No. 1112, which was limited in scope to above-ground well infrastructure and facilities. Order No. 1112 listed more than sixty violations visible to the naked eye regarding infrastructure situated on the surface of the Island, but Order No. 1112 did not address issues concerning the condition, integrity, or functionality of the wells or wellhead infrastructure or other “down-hole” aspects of the wells on the Island.

In Order No. 1112, the Supervisor ordered RILP to “remediate, repair, or replace the oil wells, tanks, or other attendant production facilities and infrastructure present on Rincon Island[.]” RILP timely appealed Order No. 1112 pursuant to the Division’s enabling statutes and the California Administrative Procedures Act. On June 3, 2016 RILP and the Division stipulated to effectively stay the administrative appeal processes for Order No. 1112, citing as the basis for the stipulation RILP’s progress towards remediating, repairing, or replacing wellhead infrastructure, and/or production facilities.

On June 14, 2016, Division inspectors re-inspected the Island based on RILP’s representations regarding its alleged progress with respect to addressing the violations cited in Order 1112. While certain “cosmetic” improvements had been made to some of facilities on the Island (minor amounts of rust removal, painting of valves and pipelines, covers placed over trip hazards, etc., as well as the replacement of minor infrastructure such as gauges), the inspectors found that there had been no meaningful remediation, repairs, or replacement to the wellhead infrastructure to the satisfaction of the Supervisor.

A release of hydrocarbon fluids resulting from failing wellhead infrastructure is typically controlled by an oil and gas rig and associated well-control equipment and

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materials, and none of this is present on the Island. In the event of an uncontrolled
pressurized release of hydrocarbon fluids on the Island, there may be no way to regain
control of the release without a rig and well control equipment and materials being
present, and one must be present in order to maximize the ability to prevent an
uncontrolled release of hydrocarbon fluids.

In addition to the danger presented by the unknown and questionable integrity of the
wellhead infrastructure for certain pressurized wells on the Island, basic security on the
Island is insufficient. Trespassers currently can and do access the Island by foot or vessel.
Without adequate security on the Island, either by conventional eye-witness observation
and inspection, electronic surveillance, electronic sensors or monitoring, or a
combination thereof, the risk of an uncontrolled release as a result of vandalism or
sabotage is increased. Without appropriate personnel, electronic surveillance, electronic
sensors or monitoring, no appropriately timely method exists to detect a release or other
hazardous situation.

Pursuant to Public Resources Code section 3224, the Supervisor may order oil and gas
operators in California to undertake efforts which in the Supervisor’s judgment are
necessary to prevent damage to life, health, property or natural resources. This Order
requires RILP to undertake immediate actions as described below. Based on the facts
and evidence described herein, the Supervisor in the exercise of his judgment is ordering
RILP to:

- immediately begin implementing improved security measures for Rincon Island
  (as further detailed below);

- arrange for an appropriate and fully functional oil and gas well rig and associated
equipment to be moved to the Island by vessel and remain present on the Island;
-install bridge plugs to either the top of a landed liner, the uppermost perforations, the casing cementing point, the water shut-off holes, or the oil and gas zone, whichever is highest in the well, for wells 8A and 50A, and verify casing integrity from the bridge plug to the surface, and bleed off wellbore pressure;

-immediately begin testing, including but not limited to fluid level tests, and monitoring of all other wells and wellhead infrastructure (excluding wells 8A and 50A) on the Island for the existence of pressure in any aspect of the Wells, and for the potential for any failure of integrity or functionality within any part of any well or wellhead infrastructure, in a manner satisfactory to the Supervisor; and

-immediately address all well integrity issues identified by the required testing and monitoring.

II. The Interested Parties
The Division of Oil, Gas and Geothermal Resources (DOGGR), a division of the California Department of Conservation, pursuant to Public Resources Code section 3106 and other legal authorities, regulates and permits the operation and maintenance of oil and gas wells, and facilities attendant to oil and gas production, so as to prevent damage to life, health, property and natural resources. The Supervisor is the chief executive of the Division.

Rincon Island Limited Partnership (RILP)\(^1\) (hereinafter at times referred to as

\(^1\) The Division's Operator Code for RILP is R2805.
“Operator”) is the “operator” (as defined in Public Resources Code section 3009) of the wells located on Rincon Island, situated in Ventura County, California. Rincon Island is under the custody and control of RILP as part of its lease of state lands from SLC, by way of lease PRC 1466.

Though not a party to this administrative enforcement proceeding, the State Lands Commission (SLC), pursuant to Public Resources Code sections 6216, 6301 and other legal authorities, leases state lands to oil and gas operators to provide for the extraction of minerals and oil and gas from such lands. SLC has separate regulatory and lease compliance enforcement authority over its lessees, including RILP.

III. Definitions

PRC section 3008, subdivision (a), defines “Well” to mean “any oil or gas well or well for the discovery of oil or gas; any wells 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, re-pressuring 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 or re-pressuring 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.”

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California Code of Regulations (hereinafter “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 Public Resources Code [i.e., the oil and gas statutes, commencing with PRC section 3000].”

“Idle well” means a well that has not produced oil or natural gas, or been used for injection, for six consecutive months during the last 5 (five) or more years. (Pub. Resources Code, § 3008, subd. (e).)

“Long-term idle well” means a well that has not produced oil or natural gas, or been used for injection, for six consecutive months during the last 10 (ten) or more years. (Pub. Resources Code, § 3008, subd. (e).)

“Production facility” means any equipment attendant to oil and gas production or injection operations. (Pub. Resources Code, § 3010.)

The term “wellhead infrastructure,” as used in this Emergency Order, means any and all components at the surface of an oil or gas well that provide the structural and pressure-containing interface for the safe drilling and production of an oil or gas well.

IV. Facts and Reasoning

Since 1996, RILP has been the operator of record for the wells within State lease PRC 1466. State lease PRC 1466 includes within its boundary Rincon Island, a manmade island situated close to shore off the California coastline in Ventura County, California. Rincon Island is situated within a “sensitive coastal resource area” within the meaning of Public Resources Code section 30116, as the area provides scenic and recreational values and opportunities to the people of the State of California. Rincon Island and its surrounding area is in close proximity (less than 20 miles) to Channel Islands National Park.
The Island is traditionally\(^2\) accessed by authorized persons by motor vehicles by way of a “causeway,” or pier, running from shore to the Island, and may be alternatively accessed by ocean-going vessels via a wharf constructed on the Island. Since 2007, the causeway has been restricted and/or precluded from use such that any heavy equipment, including an oil drilling or workover rig (and other necessary equipment) cannot be transported to the Island. Despite continuous discussions, admonitions, representations by RILP, applications for and modifications of Coastal Development Permits, and preparation of engineering plans and revisions to plans, RILP has still not repaired the causeway to allow for transport of an oil rig or other necessary equipment on to the Island. The wells on the Island are “idle wells” under state law, and RILP demonstrates no credible intent to return the wells to production.

SLC and Division staff have repeatedly raised with RILP the fact that certain wells on the Island are capable of natural flow of fluids to the surface from pressure within the underground formation. In response, RILP has represented to SLC (among other representations) that it would use its “best efforts” to repair all wellheads in need of appropriate and necessary maintenance in order to prevent a wellhead failure and the potential for an uncontrolled flow of hydrocarbon fluids to the surface. To the knowledge of the Division, no such repairs or maintenance have occurred.

In their current condition, certain wells on the island represent a threat to life, health, property, and natural resources and immediate action is necessary to mitigate the risks of well failure. As previously noted, certain wells are under significant pressure, and the

\(^2\) At this time, the Division is informed and believes that the island is not accessible by motor vehicle. RILP allowed the causeway’s weight certification to lapse, and substantial remedial work is necessary for recertification.

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wellhead infrastructure appears badly deteriorated. More importantly, the subsurface condition of the wells and/or wellhead infrastructure is entirely unknown and cannot be determined or addressed without the use of an oil rig and associated equipment. During the June 14, 2016 inspection, RILP representatives twice plainly stated to the Division’s inspectors that RILP “didn’t want to mess with” certain components of wellhead infrastructure for fear that RILP did not have the necessary equipment on the Island to address the possible failure of the wells or wellhead infrastructure.

Without a rig and related well-control equipment on the Island, the failure of a wellhead to control a pressurized well, whether due to mechanical failure, an act of vandalism, or otherwise, could possibly result in an uncontrolled release of hydrocarbon fluids on to the Island, in the atmosphere, or into the surrounding marine environment. The only current method for accessing the Island for well work is to move an oil rig and associated equipment by barge or other vessel, as the causeway is not functional for vehicular use and RILP refuses to repair the causeway.

Well or wellhead failure could result in an uncontrolled release of hydrocarbons and persist for several hours without anyone’s knowledge, and for days or weeks without any effective method of regaining control of the release. This is of particular concern because the wells are located in a sensitive coastal area where such a release could drastically affect marine resources, air quality, natural resources, scenic values, and recreational opportunities.

Exacerbating these risks, security measures on the Island are not objectively sufficient or satisfactory to the Supervisor. Trespassers have been noted on the Island on several occasions, and there have been no practical or serious efforts by RILP to prevent trespass onto the Island. Given the environmentally sensitive location and the questionable condition of certain wellheads, the possibility of careless or malicious conduct by such
trespassers also represents an immediate threat to life, health, property, and natural resources.

V. Authority of the State Oil and Gas Supervisor

PRC section 3106 charges the Supervisor to supervise the drilling, operation, maintenance, and abandonment of oil and gas wells to “prevent, as far as possible, damage to life, health, property, and natural resources […]”

PRC section 3224 provides that the Supervisor shall order Operators to take action which, in his or her judgement, is necessary to prevent damage to life, health, property, and natural resources.

PRC section 3226 provides, in pertinent part, “Notwithstanding any other provisions of Section 3224, 3225, or 3237, if the supervisor determines that an emergency exists, the supervisor may order or undertake the actions he or she deems necessary to protect life, health, property, or natural resources.”

PRC section 3013 provides that Division 3 of the Public Resources Code (sections 3000 through 3865) pertinent to oil and gas, shall be construed to allow the Supervisor to have all powers necessary to carry out the purposes of the Division.

VI. Operator's Required Actions

For the reasons stated above, IT IS HEREBY ORDERED, pursuant to Public Resources Code sections 3106, 3224, and 3226 that RILP shall immediately:

A. implement security measures satisfactory to the Supervisor in order to eliminate and/or minimize the risk of:

1. trespassers gaining access to the Island, from land or sea; and
2. an occurrence of undetected damage to, or release from, any of the Island's facilities resulting in a release of hydrocarbon fluids or other hazardous or potentially hazardous substances;

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B. arrange for an oil rig and associated equipment to be brought to the Island via vessel such that the wells or wellhead infrastructure on the Island can be entered, reentered, maintained, repaired, replaced, or worked for any other purpose deemed necessary by the Supervisor;

C. install bridge plugs into wells 8A and 50A to either the top of a landed liner, the uppermost perforations, the casing cementing point, the water shut-off holes, or the oil and gas zone, whichever is highest in the well, for wells 8A and 50A, and verify casing integrity and bleed off wellbore pressure;

D. evaluate all other wells and associated wellhead infrastructure, in a manner satisfactory to the Supervisor, to determine:
   1. the integrity and/or functionality of all wellhead infrastructure and
   2. whether or not any other wells (i.e., any wells not referred to above in directive “C.”) are pressurized. If any are sufficiently pressurized to allow fluid flow to the surface, RILP shall install bridge plugs in those wells as soon as practically feasible at whichever of the following locations is highest in the well: the top of a landed liner, the uppermost perforations, the casing cement point, the water shut-off holes, or the oil and gas zone; and

E. address all well integrity issues identified by the required testing and monitoring.

VII. Operator's Right to Appeal

Operator may appeal this Order by filing a written notice of appeal with the Supervisor as described in Article 6 (Appeals and Review) of Division 3 of the Public Resources Code, commencing with PRC section 3350. (PRC, § 3225, subd. (d).)

However, this is an Emergency Order issued per Public Resources Code section

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3226 and, per Public Resources Code section 3350, subdivision (b), the filing of an appeal of this Emergency Order shall not operate as a stay of the Order. As such, Operator shall immediately commence the work ordered. If Operator has not, in good faith, commenced the work ordered, the Division may contract for performance of the work at RILP’s expense pursuant to Public Resources Code section 3226.

Any costs incurred by the Supervisor to obtain compliance with this order, plus a $2,010 (Two Thousand and Ten Dollar) service fee, shall constitute a lien against real or personal property of the operator per Public Resources Code section 3423.

If the operator does not submit a timely written appeal, this Emergency Order will become a final order. If the operator submits a timely written appeal, the operator will receive notice of the appeal hearing date, time, place, and scope of issues to be heard on appeal at the appeal hearing. The hearing will be held in the district in which the majority of the wells are located, unless the operator’s request for another location is granted. Following the hearing, the operator will receive a written decision that affirms, sets aside, or modifies the appealed order.

DATED: August 8, 2016

[Signature]

Kenneth A. Harris Jr.
State Oil and Gas Supervisor

Cert. mail. rec. no.: 70132250000090104329

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