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

EMERGENCY ORDER TO
PERFORM REMEDIAL WORK

NO. 1143
Dated: January 18, 2019
Operator: MDR Hotels, LLC.
Field: Playa Del Rey
Well: DOW R.G.C. 10 (API 0403713798)

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

On the afternoon of January 11, 2019, well DOW R.G.C. 10 in Marina del Rey released fluids and gas. Despite the use of blow-out prevention equipment, an uncontrolled release of fluids, including gas, occurred spraying about 60 feet into the air.

DOW R.G.C. 10 was first drilled in 1931. It has not been used for production since it was plugged with cement in the 1950s. When the uncontrolled release occurred, the well was being brought into compliance with current standards for unused wells, a process called “re-abandonment” of the well. The operator was re-abandoning the well as part of a commercial construction project in a populated section of Marina del Rey.

The uncontrolled release suggests that the well’s pressure is higher than the Operator expected and causes the Division of Oil, Gas, and Geothermal Resources (Division) to question the structural integrity of the well. Immediate action is necessary to secure the well site and stabilize the well to prevent another uncontrolled release. The well is in a dense urban area on the coast and any such release threatens damage to life, health, property, and natural resources. The well must also be tested and evaluated. The entire well must be plugged and abandoned to current standards which will require sealing any conduit for pressurized fluids, including gas. The Operator must monitor air quality to protect public health and safety.

The State Oil and Gas Supervisor (Supervisor) has determined that an emergency exists, and that this order is necessary to prevent damage to life, health, property, and natural resources.

II. Factual and Procedural Summary

At all times relevant to this Order, MDR Hotels, LLC (Operator) was the “Operator,” as defined in PRC section 3009, of the herein identified “well,” as defined in PRC section 3008, subdivision (a), located in the Playa Del Rey Field, and was conducting “operations” as defined in Regulations section 1720, subdivision (f).

On or about June 5, 2018, the Operator received approval to re-abandon DOW R.G.C. 10. As part of its permit to re-abandon the well, the Operator was required to install and maintain blowout prevention equipment as defined by the Division’s publication No. MO7.

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On or about January 11, 2019, during well-abandonment activities, pressure built up within the well casing which caused an uncontrolled release of fluid, including gas, from the well thereby causing the Division to question the structural integrity of the well. The well must now be properly plugged and abandoned which includes the sealing of any conduit for pressurized gas to escape.

From January 11 through January 16, 2019, Division staff maintained 24-hour supervision of DOW R.G.C. 10, coordinated with state and local emergency responders, and instructed the Operator in regaining well control and planning to protect life, health, property, and natural resources. The Operator’s proposals for maintaining well control and proceeding with re-abandonment were determined to be insufficient to protect life, health, property, and natural resources. Because of the serious concerns about the structural integrity of the well and the sensitive location of the well, efforts to secure the site and properly plug and abandon the well must be undertaken without delay.

Acting through the State Oil and Gas Supervisor, and under the authority of the Public Resources Code (PRC) and California Code of Regulations, title 14 (Regulations), the California Department of Conservation, Division of Oil, Gas, and Geothermal Resources may determine that an emergency exists in connection with oilfield operations. In so determining, the Division may issue an order that directs the Operator to take any actions that the Supervisor deems necessary to protect life, health, property, or natural resources. (PRC, §§ 3013, 3106, 3224, 3226.)

For the reasons described in this Order, including the likely loss of the structural integrity of the well, the Supervisor determined that an emergency exists which poses an immediate danger to life, health, property, or natural resources. Therefore, according to PRC sections 3013, 3106, 3208.1, 3224, and 3226, and Regulations section 1722.5, among others, and as set forth below in Section VI and VII, the Supervisor is requiring the Operator to immediately and properly plug and abandon Well Dow R.G.C. 10 (API 0403713798) and all associated casing by sealing off any conduit for pressurized gas to escape and in a manner consistent with PRC sections 3208, 3219 and 3220.
The Supervisor further orders that the Operator prepare a report detailing the causal
factors that contributed to the uncontrolled release of fluids, including gas (Root Cause Analysis Report) which occurred on or about January 11, 2019, during the well reabandonment effort.
The Supervisor is required to supervise the drilling, operation, maintenance, and abandonment
of wells to prevent, as far as possible, damage to life, health, property, and natural resources
pursuant to PRC section 3106. The Operator and Supervisor must understand the causal factors
associated with the uncontrolled release to confirm the necessary steps to effectively remediate
the well and protect the public.

III. Definitions

The following definitions apply to the terms used in this Order:
PRC section 3008, subdivision (a) defines “Well” to mean, among other things, “any
well on lands producing or reasonably presumed to contain oil or gas[.]

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 Public Resources Code [i.e., the oil
and gas law, commencing with PRC section 3000].”

IV. Statutory and Related 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 3208 states that a well is properly abandoned when it has been shown, to
the satisfaction of the Supervisor, that all proper steps have been taken to isolate all oil-bearing
or gas-bearing strata encountered in the well, and to protect underground or surface water
suitable for irrigation or farm or domestic purposes from the infiltration or addition of any
detrimental substance and to prevent subsequent damage to life, health, property, and other
resources. For purposes of this subdivision, proper steps include the plugging of the well,
decommissioning the attendant production facilities of the well, or both, if determined necessary
by the Supervisor.

PRC section 3208.1 authorizes the Supervisor to order the reabandonment of any
previously abandoned well if the Supervisor or the district deputy has reason the question the
previous abandonment.

PRC section 3219 states that “any person engaged in operating any oil or gas well
wherein high pressure gas is known to exist, and any person drilling for oil or gas in any district
where the pressure of oil or gas is unknown shall equip the well with casings of sufficient
strength, and with such other safety devices as may be necessary, in accordance with methods
approved by the Supervisor, and shall use every effort and endeavor effectually to prevent
blowouts, explosions, and fires.”

PRC section 3220 states that “[t]he owner or Operator of any well on lands producing or
reasonably presumed to contain oil or gas shall properly case it with water-tight and adequate
casing, in accordance with methods approved by the Supervisor or the district deputy, and shall,
under his direction, shut off all water overlying and underlying oil-bearing or gas-bearing strata
and prevent any water from penetrating such strata. The owner or Operator shall also use every
effort and endeavor to prevent damage to life, health, property, and natural resources; to shut out
detrimental substances from strata containing water suitable for irrigation or domestic purposes
and from surface water suitable for such purposes; and to prevent the infiltration of detrimental
substances into such strata and into such surface water.”

PRC section 3222 provides: “The owner or Operator of any well shall, at the request of
the Supervisor, demonstrate that water from any well is not penetrating oil-bearing or gas-
bearing strata or that detrimental substances are not infiltrating into underground or surface
water suitable for irrigation or domestic purposes. The owner or Operator shall give the district

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deputy adequate notice of the time at which he will demonstrate the test for shutoff in the well.”

PRC section 3224 requires the Supervisor to “order such tests or remedial work as in his judgment are necessary to prevent damage to life, health, property, and natural resources[.]”

PRC section 3226 states: “[I]f 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 3357 authorizes the Supervisor with authority to require technical or monitoring reports.

Regulations section 1722, subdivision (a), requires Operator to conduct all operations “in accordance with good oilfield practice.”

Regulations section 1722.5 states that “[b]lowout prevention and related well control equipment shall be installed, tested, used, and maintained in a manner necessary to prevent an uncontrolled flow of fluid from a well. Division of Oil, Gas, and Geothermal Resources publication No. MO 7, “Blowout Prevention in California,” shall be used by Division personnel as a guide in establishing the blowout prevention equipment requirements specified in the Division's approval of proposed operations.”

Regulations section 1723 provides general requirements which apply to plugging and abandoning wells.

Regulations section 1723.1 applies to plugging of Oil or Gas Zones.

V. Alleged Acts/Omissions

Upon information and belief, Operator experienced serious well control issues which led to a degradation of the well’s mechanical integrity resulting in a loss of well control and an uncontrolled release of fluid, including gas, on or about January 11, 2019. Operator’s subsequent actions to the uncontrolled release of January 11, 2019, have not been consistent with the actions required to properly control the well and protect life, health, property, and natural resources.

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VI. Operator’s Required Actions (Emergency)

Based on information and belief arising from the above referenced facts, and in accord with the legal authorities described in this Order, the Supervisor has determined that an emergency exists and immediate action is necessary to protect life, health, property, or natural resources. Therefore, **IT IS HEREBY ORDERED**, pursuant to PRC sections 3013, 3106, 3222, 3224, and 3226, and Regulations section 1722.5, among others, that Operator shall perform the work and acts identified below:

1. Immediately initiate and maintain continuous ("24/7") well control operations until the anomalous gas zone(s) that contributed to the January 11, 2019 event (described above) are permanently isolated from the wellbore.

2. If not already completed, within twelve hours, establish a safety perimeter to limit public access to the well site and surrounding area. The safety perimeter shall be sufficient to prevent public persons from exposure to hazards associated with well control and plugging and abandonment operations.

3. If not already completed, within twelve hours, begin monitoring and recording of well pressure, and report well pressure to the Division daily. Monitoring and recording shall be done continuously.

4. If not already completed, within twelve hours, acquire adequate blowout prevention equipment and achieve well control to protect natural resources and public health and safety until the well is properly plugged and abandoned.

5. If not already completed, within twelve hours, and every twelve hours thereafter, conduct inspections of the well site, construction site, harbor, and surrounding area for signs of gas or other fluids surfacing. Inspections should include thermal imaging and/or other technologies designed to detect methane gas emissions. Utilize air monitoring equipment capable of detecting methane concentrations of 1% of the lower explosive limit (LEL) or less. Report inspection results to the Division daily.
6. Within twelve hours, develop and submit to the Division a plan presenting
Operator’s rationale and actions to:

a. Establish the safety perimeter;

b. Monitor air quality at the well site, within and outside the safety perimeter to
   ensure public safety;

c. Monitor well pressure, fluid level, and other well conditions.

7. Within twenty-four hours, develop and submit to the Southern District office,
   for review and approval by the Supervisor, a well-control and well-abandonment
   program which will include the following:

   a. Stabilization of the well;

   b. Removing all debris, as practical, from inside the production casing of the
      well,

   c. Diagnostic testing to determine lithology and gas migration pathways
      within and immediately outside the well to include but not limited to a
      gamma ray, temperature, and noise log;

   d. Evaluating casing and cement integrity. This will include, but is not
      limited to, an ultrasonic cement evaluation log and appropriate magnetic
      flux casing inspection;

   e. Identifying anomalous gas-bearing zones behind casing;

   f. A detailed chemical evaluation of any fluids released, including but not
      limited to natural gas; and

   g. Any other actions deemed necessary to eliminate the threat of gas
      migration and properly abandon the well.

8. Preserve and secure all records and evidence acquired by the operator and/or
   any third-party contractors related to the plugging and abandonment work
   associated with the well, which includes but is not limited to the blow out
   prevention equipment.
VII. Operator's Required Actions (Non-Emergency)

Based on information and belief arising from the above referenced facts, and in accord with the legal authorities described in this Order, the Supervisor has determined that remedial work is necessary to prevent damage to life, health, property and natural resources. Therefore, IT IS HEREBY ORDERED, pursuant to PRC sections 3013, 3106, 3222, 3224, and 3357(b)(1), and Regulations section 1722.5, among others, that Operator shall perform the work and acts identified below:

A. Within 60 days following receipt of this Order, complete a root cause analysis detailing the causal factors which led to loss of well control and the release of fluids, including gas, which occurred on or about January 11, 2019 during the Operator’s reabandonment efforts of DOW R.G.C. 10.
   a. The Analysis must be facilitated by an independent third party acceptable to the Supervisor and must document the decision-making process and all factors contributing to the uncontrolled release, including geology and reservoir characterization.
   b. The report must include findings and any lessons learned.
   c. Within 10 days of receipt of this Order, develop and submit the protocol for the analysis, for review, and approval by the Supervisor.
   d. Prior to beginning any testing, provide the Southern District Office with the scheduled date, time, and location of the testing to allow for a Division representative to witness any testing.
   e. Ensure the contractor performing the root cause analysis distributes all reports, whether final or draft, in their entirety to the Supervisor at the same time they are made available to Operator.

VIII. Operator's Appeal Rights

The Operator may appeal this Order by filing a written notice of appeal with the Director of Conservation as described in PRC section 3350. Failing to file a notice of appeal within the
timeframe prescribed in PRC section 3350, subdivision (a), waives Operator’s right to challenge
this Order and makes the Order final.

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

The filing of an appeal of this Order will not operate as a stay of any remedial actions
which are issued pursuant to the Supervisor’s emergency order authority according to PRC
section 3226. (PRC, § 3350, subd. (b)(1).) Therefore, regardless of whether Operator timely
files a notice of appeal of the “Operator’s Required Actions (Emergency)” in section VI
above, Operator must immediately perform the work described herein. If the work is not
immediately commenced and continued to completion, the Supervisor may appoint necessary
agents to enter the premises and perform the work. Any amount the Supervisor expends will
constitute a lien against Operator’s real and/or personal property. (PRC, § 3226.) If Operator
believes that it will be irretrievably injured by performing the work required by this Order
pending the appeal’s outcome, Operator may seek an order from the appropriate superior court
restraining the Division from enforcing the Order pending the outcome of the appeal. (PRC, §
3350, subd. (b)(4).)

IX. Other Potential Actions to Enforce This Order

Failing to comply with Sections VI or VII (Operator’s Required Actions – Emergency
and Non-Emergency) of this Order could subject Operator to further enforcement action.

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 a civil penalty based on the facts and
omissions underlying this emergency order.

Further, PRC section 3236 makes it a misdemeanor for any person to violate, fail,
neglect, or refuse to comply with any of the provisions of the oil and gas law. The misdemeanor
is punishable by a fine of not less than one hundred dollars ($100) nor more than one thousand
dollars ($1,000), or by imprisonment not exceeding six months, or by both the fine and
imprisonment for each separate offense. 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.)

DATED: January 18, 2019

[Signature]

Kenneth A. Harris, Jr.
State Oil and Gas Supervisor

See attached PROOF OF SERVICE for distribution list
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 January 18, 2019, I served the following document(s):

EMERGENCY ORDER PERFORM REMEDIAL WORK and ORDER NO. 1143

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:

<table>
<thead>
<tr>
<th>Anthony Santo</th>
<th>Don Geisinger</th>
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<tbody>
<tr>
<td>MDR Hotels, LLC</td>
<td>County of Los Angeles</td>
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<tr>
<td>Hardage Hospitality</td>
<td>13837 Fiji Way</td>
</tr>
<tr>
<td>12555 High Bluff Drive, Suite 330</td>
<td>Marina del Rey, CA 90292</td>
</tr>
<tr>
<td>San Diego, CA 92130</td>
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<th>Wu Tan</th>
<th>Interact (contractor):</th>
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<tr>
<td>Los Angeles County</td>
<td>Val Lerma</td>
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<tr>
<td>Department of Regional Planning</td>
<td>Interact PMTI</td>
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<tr>
<td>900 Fremont Avenue</td>
<td>260 Maple Court Suite 210</td>
</tr>
<tr>
<td>Alhambra, CA 91808</td>
<td>Ventura, CA 93003</td>
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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 January 18, 2019, at Sacramento, CA.

[Signature]

Rachael Tadlock