

1 Department of Conservation, Division of Oil, Gas, and Geothermal Resources
2 STATE OIL AND GAS SUPERVISOR
3 801 K Street, MS 24-03 (Legal Office)
4 Sacramento, California 95814-3530
5 Telephone (916) 323-6733
6 Facsimile (916) 445-9916
7

8 **STATE OF CALIFORNIA**
9 **NATURAL RESOURCES AGENCY**
10 **DEPARTMENT OF CONSERVATION**
11 **DIVISION OF OIL, GAS, AND GEOTHERMAL RESOURCES**

12
13 **ORDER TO:**
14 **PAY CIVIL PENALTY**
15

16
17 **NO. 1125**

18 **Dated: July 17, 2018**

19 **Operator: ADDISON OIL & GAS, LLC (A0450)**
20
21
22

23
24 **BY**

25 **Kenneth A. Harris Jr.**

26 **STATE OIL AND GAS SUPERVISOR**
27
28

1 **I. Introduction**

2 The State Oil and Gas Supervisor (Supervisor), acting through the Division of Oil, Gas,
3 and Geothermal Resources (Division), and under the authority of the Public Resources Code
4 Division 3 (PRC; **commencing with PRC section 3000**) and the California Code of
5 Regulations, title 14 (Regulations), ensures, among other things, that an oil and gas operator has
6 the appropriate indemnity bond(s) and/or other appropriate financial mechanism (see **Pub.**
7 **Resources Code, §§ 3202, 3204, and 3205** [oil and gas well financial assurance mechanisms])
8 for its oil and gas well operations, including production facilities. (See **Pub. Resources Code, §**
9 **3008** [“well” defined]; **Cal. Code Regs., § 1720, subd. (f)** [“operations” defined] and **Cal.**
10 **Code Regs., § 1760, subd. (k)** [“production facilities” defined].) These statutorily-required
11 financial assurance mechanisms help protect the public health and ensures an “even playing
12 field” for oil and gas operators since it provides money for environmental cleanup and guards
13 against non-compliant operators. Under the law as it existed until December 31, 2017, when an
14 operator files these financial assurance mechanisms to drill/redrill a well, such mechanisms must
15 stay in place until the new well is “properly completed” (when it has been shown, to the
16 satisfaction of the supervisor, that the manner of producing oil or gas is satisfactory and that the
17 well has maintained production of oil or gas for a continuous six-month period). (See **Pub.**
18 **Resources Code, §§ 3207 and 3208**).

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

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1 Therefore, pursuant to **PRC sections 3013, 3106, 3202, 3204, 3205, 3207, 3208, and**
2 **3236.5**, and as set forth below, **the Supervisor is ordering Operator to pay a civil penalty of**
3 **\$21,554 (twenty-one thousand, five hundred and fifty-four dollars).**

4 **II. Definitions**

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

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

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

17 **III. State Oil and Gas Supervisor Authority**

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

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

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

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

1 deep” and a bond of “[f]orty thousand dollars (\$40,000) for each well that is 10,000 or more feet
2 deep.”

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

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

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

18 **PRC section 3236.5, subdivision (a)**, authorizes the Supervisor to impose a civil penalty
19 on a person who violates any provision in Chapter 1 of Division 3 of the PRC or any regulation
20 that implements Chapter 1.

21 **IV. Failure to File Bond for Wells**

22 A. On or about December 12, 2016, William Kelleher, an agent for Operator, and
23 Richard Field II, an agent for Golden Gate Oil Operations, LLC, delivered to the
24 Division, in person, a Notification of Well and Facility Disposition (OG30A) for a
25 transfer of rights to the wells. The Notification indicated that the final disposition and
26 date of possession concerning the wells was to be on January 1, 2017. In addition, the
27 Notification indicated that Operator “will submit [indemnity bonds] within 90 days.”
28

- 1 B. On or about January 5, 2017, the Division sent Mr. Kelleher a courtesy reminder that,
2 among other things, Operator needed to file the required bonding.
- 3 C. On January 18, 2017, the Division received additional information from Operator (via
4 letter dated January 13, 2017), and another promise to file bonds, but no bonds.
- 5 D. On or about August 11, 2017, the Division sent Operator a Notice of Violation
6 (revised) for Failure to Submit Bonding for Incomplete Wells, for three of the
7 wells: Tog/Adams 102 (083-22772), SMV 16-19L (083-22802), and SMV 16-20L
8 (083-22803) (see, also, Attachment A).
- 9 E. On or about November 15, 2017, the Division sent Operator's new agent, Mr. Craig
10 Krummrich, another courtesy reminder letter that Operator still did not file the
11 required bonds.
- 12 F. On November 16, 2017, the Division received an email response from Mr.
13 Krummrich indicating that he was in the process of securing bonding.
- 14 G. As of the date of this Order, Operator does not have the required indemnity bond(s),
15 and/or blanket indemnity bond amount on file with the Supervisor.

16 **V. Civil Penalty Assessment**

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

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

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1 **VI. Operator's Required Actions**

2 Based on the above, the Supervisor has determined that Operator violated the applicable
3 PRC indemnity bond provisions. **Therefore, pursuant to PRC sections 3013, 3106, 3202,**
4 **3204, 3205, 3207, 3208, and 3236.5, the Supervisor is ordering Operator to pay a civil**
5 **penalty of \$21,554 (twenty-one thousand, five hundred and fifty-four dollars).**

6 **VII. Operator's Appeal Rights**

7 Operator may appeal this Order by filing a timely, written, notice of appeal with the
8 Director as described in Article 6 (Appeals and Review) of Division 3 of the PRC, **commencing**
9 **with PRC section 3350. (Pub. Resources Code, § 3225, subd. (d).)** A written notice of
10 appeal may be mailed to the following address:

11
12 Department of Conservation
13 Director's Office of Appeals
14 801 K Street, MS 24-03 (Legal Office, Chief Counsel)
15 Sacramento, California 95814-3530

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

18 If Operator submits a timely, written notice of appeal, it, and interested parties, will
19 receive notice of the appeal hearing date, time, and place. Following the hearing, Operator will
20 receive a written decision that affirms, sets aside, or modifies the appealed order.

21 **VIII. Other Potential Actions to Enforce This Order**

22 Failure to comply with **Section VI** (Operator's Required Actions) of this Order could
23 subject Operator to further enforcement action including the possibility that the Supervisor may
24 deny approval of proposed well operations until Operator is in compliance with this Order (**Pub.**
25 **Resources Code, § 3203, subd. (c)**), impose "life-of-well" bonding (**Pub. Resources Code, §**
26 **3270.4**), order wells plugged and abandoned (**Pub. Resources Code, § 3237**) and/or impose
27 additional civil penalties under **PRC section 3236.5**.

28 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

1 applicable provisions of the PRC and/or any Supervisor's order, respectively, a misdemeanor
2 punishable by a fine of \$100 (one hundred dollars) to \$1,000 (one thousand dollars),
3 imprisonment of up to six (6) months, or both, with, possibly, "[e]ach day's further failure,
4 refusal, or neglect" a "separate and distinct offense."

5
6 **DATED: July 17, 2018**

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9 Kenneth A. Harris Jr.
10 State Oil and Gas Supervisor

11 See attached PROOF OF SERVICE for distribution list
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1 **PROOF OF SERVICE BY CERTIFIED U.S. MAIL**

2 I declare that I am employed in the County of Sacramento, California. I am over the age of 18
3 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):

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


6 by enclosing them in an envelope and placing the envelope for collection and mailing by certified U.S.
7 mail on the date and at the below listed address(es) following our ordinary business practices. I am
8 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.

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

10 Craig Krummrich, Agent
11 590 Poli Street
Ventura, CA 93001
12 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

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

15 
16 Rachael Tadlock

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Operator
 Addison Oil and Gas, LLC
 590 Poli Street
 Ventura, CA 93001



9590 9402 3981 8079 6970 58

2. Article Number (Transfer from service label)

7014 2120 0000 5989 3652

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X

- Agent
- Addressee

B. Received by (Printed Name)

C. Date of Delivery

D. Is delivery address different from item 1? Yes
 If YES, enter delivery address below: No

3. Service Type

- Adult Signature
- Adult Signature Restricted Delivery
- Certified Mail®
- Certified Mail Restricted Delivery
- Collect on Delivery
- Collect on Delivery Restricted Delivery
- Registered Mail Express®
- Registered Mail™
- Registered Mail Restricted Delivery
- Return Receipt for Merchandise
- Signature Confirmation™
- Signature Confirmation Restricted Delivery

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

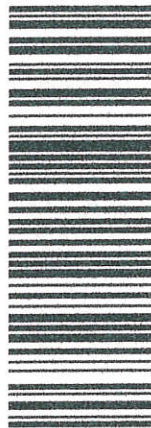
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PLACE STICKER AT TOP OF ENVELOPE TO THE RIGHT OF THE RETURN ADDRESS. FOLD AT DOTTED LINE

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 590 Poli Street
 Ventura, CA 93001

PS Form 3800, July 2014

See reverse for Instructions

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- Complete items 1, 2, and 3.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

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

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

COMPLETE THIS SECTION ON DELIVERY

A. Signature

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- Agent
- Addressee

B. Received by (Printed Name)

C. Date of Delivery

D. Is delivery address different from item 1? Yes
If YES, enter delivery address below: No

3. Service Type

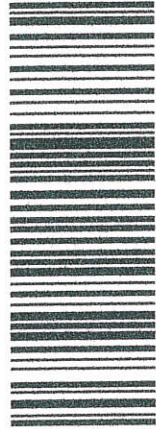
- Adult Signature
- Adult Signature Restricted Delivery
- Certified Mail®
- Certified Mail Restricted Delivery
- Collect on Delivery
- Collect on Delivery Restricted Delivery
- Registered Mail Express®
- Registered Mail™
- Registered Mail Restricted Delivery
- Return Receipt for Merchandise
- Signature Confirmation™
- Signature Confirmation Restricted Delivery

DUGGAR/HR

1011e page

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1125

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Craig Krummrich, Agent
590 Poli Street
Ventura, CA 93001

for Instructions