Department of Conservation, Division of Oil, Gas, and Geothermal Resources
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STATE OF CALIFORNIA

NATURAL RESOURCES AGENCY

DEPARTMENT OF CONSERVATION

DIVISION OF OIL, GAS, AND GEOTHERMAL RESOURCES

ORDER TO PERFORM REMEDIAL WORK, NO. 1162

Operator: AllenCo Energy, Inc. (A1240)

Field: Las Cienegas

Wells:

"St. James" 1 (037-20383
"St. James" 2 (037-20356)
"St. James" 3 (037-06333)
"St. James" 4 (037-20439)
"St. James" 5 (037-20475)
"St. James" 6 (037-20275)
"St. James" 7 (037-20476)
"St. James" 8 (037-20564)
"St. James" 9 (037-20502)
"St. James" 10 (037-20455)
"St. James" 11 (037-05177);
"St. James" 12 (037-20511);
"St. James" 13 (037-20372);
"St. James" 14 (037-20609);
"St. James" 15-1 (037-20194);
"St. James" 16 (037-20203);
"St. James" 17 (037-20191);
"St. James" 18 (037-20308);
"St. James" 19 (037-20165);
"St. James" 20 (037-20125);
"St. James" 21 (037-20628)

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 Division 3 of the Public Resources Code (PRC; commencing with PRC section 3000) and title 14 of the California Code of Regulations (Regulations), may order tests and remedial work concerning oil and natural gas field operations which, in his judgment, are necessary to prevent damage to life, health, property, and natural resources (See PRC sections 3106 and 3224). At all times relevant to this Order, AllenCo Energy, Inc. has been identified as the "operator" (Operator), as defined in PRC section 3009, of the "well(s)" as defined in PRC section 3008, subdivision (a), and is conducting "operations" as defined in Regulations section 1720, subdivision (f).

II. Definitions

PRC section 3008, subdivision (a), defines "Well" to mean, among other things, "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," and "any well drilled for the purpose of injecting fluids or gas for stimulating oil or gas recovery[.]"

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."

PRC section 3010 defines production facility to mean "any equipment attendant to oil and gas production or injection operations[.]"

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."

III. Statutory and Related Authority

PRC section 3013 states that the oil and gas conservation laws (Division 3 of the PRC, commencing with § 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; damage to underground oil and gas deposits from infiltrating water and other causes; losses of oil, gas, or reservoir energy, and damage to underground and surface waters suitable for irrigation or domestic purposes by the infiltration of, or the addition of, detrimental substances."

PRC section 3270 requires the Division, by regulation, to prescribe minimum facility maintenance standards for all product facilities in the state. The regulations shall include "other facility or equipment maintenance that the supervisor deems important for the proper operation of production facilities and that the supervisor determines are necessary to prevent damage to life, health, property, and natural resources[.]"

PRC section 3224 authorizes the Supervisor to order "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 3226 also allows the Supervisor, based the Supervisor's final or affirmed order, to appoint agents to enter the premises and perform necessary remedial work if the operator did not complete the remedial work as ordered. Any amount the Supervisor expends to complete the necessary remedial work constitutes a lien against the operator's real or personal property according to PRC section 3423.

Regulations section 1714 states: "[T]emporary approval to commence . . . operations may be granted by the Supervisor or a representative of the Supervisor when such operations are necessary to avert a threat to life, health, property, or natural resources."

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

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Regulations section 1724.10, subdivision (f), requires all injection piping, valves, and facilities shall meet or exceed design standards for the maximum allowable injection pressure or the maximum pressure the equipment will be subjected to, and shall be maintained in a safe and leak-free condition.

Regulations section 1772.1 requires Operators to test each of their idle wells as follows:

(1) Within 24 months of a well becoming an idle well, the operator shall conduct a fluid-level test for all idle wells using acoustical, mechanical, or other reliable methods, or other diagnostic tests approved by the Supervisor to determine whether the fluid is above the base of a USDW. The operator shall repeat testing at least once every 24 months for as long as the well is an idle well, unless the operator demonstrates that the wellbore does not penetrate a USDW, in which case fluid-level testing under this section is not required. If the operator has not demonstrated the location of the base of the USDW, then it shall be presumed that the fluid is above the base of a USDW. After April 1, 2025, the operator shall conduct testing as described in subdivision (a)(2) within 90 days of the first time that a fluid-level test indicates that the fluid level in the well is, or is presumed to be, above the base of a USDW. A well that became an idle well on or before April 1, 2019, is not required to have a fluid-level test under this section until April 1, 2021.

(2) Within 24 months of a well becoming an idle well, the operator shall conduct a casing pressure test from the surface to a depth that is 100 feet measured depth above the uppermost perforation, immediately above the casing shoe of the deepest cemented casing, or immediately above the top of the landed liner, whichever is highest. If the top of the landed liner is 100 feet or more above the cemented casing shoe, then the pressure test shall be to a depth specified by the Division on a case-by-case basis. The pressure test shall be conducted in accordance with the parameters specified in Section 1772.1.1. If for any reason a well cannot be safely and effectively tested as required, then the well shall be deemed to have failed the pressure test. For as long as the well is an idle well, the operator shall conduct subsequent testing of the well as follows:

(A) If the operator conducts a pressure test at 200 psi above surface pressure, then the operator shall repeat testing within 48 months.

(B) If the operator conducts a pressure test at 500 psi above surface pressure, then the operator shall repeat testing within 72 months.

(C) If the operator conducts a pressure test at 1,000 psi above surface pressure, then the operator shall repeat testing within 96 months.

(D) If the operator conducts testing as specified under Section 1772.1.1(b), (c), or (d), then the operator shall repeat testing within 48 months.

(3) Within eight years of a well becoming an idle well, the operator shall perform a clean out tag on the well to determine the ability to reach the current Division-approved depth of the well using either open-ended tubing or a gauge ring demonstrated to the Division to be of the minimum diameter of the tubing necessary to properly plug and abandon the well. The operator shall attempt to reach the Division-approved depth, but shall at least reach 25 feet below the uppermost perforation in the lowermost zone not abandoned under Sections 1723 and 1723.1. The operator shall repeat this testing once every 48 months for as long as the well is an idle well, or at a lesser frequency approved by the Division on a case-by-case basis based on the successful results of previous testing and consideration of the factors described in Section 1772.4. The Division may require more frequent clean outs if known field or geologic conditions indicate risk to the mechanical integrity of the well.

(b) In addition to any other penalty or remedial requirement imposed by the Division, within 12 months of failing to successfully complete testing under subdivisions (a)(2) or (3), or otherwise failing to comply with a requirement of this section, the operator shall do one of the following:

(1) Bring the well into compliance;

(2) Partially plug and abandon the well in accordance with Section 1752;

(3) Plug and abandon the well in accordance with Public Resources Code section 3208; or

(4) Schedule the well for plugging and abandonment under an approved Idle Well Management Plan or an approved Testing Waiver Plan.

(c) Before conducting any test required under this section, the operator shall give the appropriate district office 24 hours' notice, or a shorter notice acceptable to the district office, so that a Division inspector may witness the testing. All testing shall be documented and copies of test results shall be submitted to the Division in a digital format within 60 days of the date the test is conducted, except that when fluid-level testing indicates that fluid is, or is presumed to be, above the base of a USDW test results shall be submitted within 30 days.

(d) Subject to approval by the Division, the requirements of this section and Section 1772.1.2 do not apply to an idle well if the operator has made a diligent effort to locate and access the well, and the documentation of those efforts demonstrates that it is infeasible to physically access the well. (1) Within one year of the Division approving an operator's demonstration that a well is inaccessible, the operator shall submit a plan for the Division's review and approval to ensure that any hazards posed by the well are identified and addressed so as to prevent damage to life, health, property, and natural resources. The plan shall at a minimum address all of the following:

(A) Ongoing monitoring of the inaccessible well by such methods as periodic gas monitoring at the surface, monitoring of other wells in proximity, and groundwater monitoring;

(B) Response to any indication that the inaccessible well is discharging reservoir fluids to the surface or otherwise posing a threat;

(C) Planning and commitment to plug and abandon the well in accordance with Public Resource Code section 3208 as soon as possible should it ever become accessible; and

(D) Periodic reporting to the Division on the implementation of the plan.

(2) If the Division identifies any deficiencies in the plan submitted by the operator, then the Division will consult with the operator and identify an appropriate timeframe for correcting the deficiency.

(3) It is a violation of this subdivision if the operator fails to submit a plan under subdivision (d)(1) in a timely manner, fails to address deficiencies with the plan within the timeframe established under subdivision (d)(2), or fails to comply with the plan as approved by the Division. If the operator violates subdivision (d), then the Division will determine whether to discontinue the waiver from compliance with the other requirements of this section and Section 1772.1.2 based upon consideration of the extent of the operator's noncompliance with subdivision (d) and whether continuing the waiver will further the goal of ensuring that any hazards posed by the idle well are identified and addressed so as to prevent damage to life, health, property, and natural resources.

(e) If the operator demonstrates to the Division's satisfaction that no part of the wellbore is within one-half mile of a USDW, then for purposes of this section the well shall not be deemed an idle well until it has met the definition of "idle well" in Public Resources Code section 3008 for an additional two years.

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Regulations section 1772.1.1 provides pressure testing parameters and requires pressure testing conducted to satisfy the requirements of Sections 1752, 1772.1, or 1772.5 shall be conducted according to the following parameters:

(1) Pressure testing shall be conducted with a liquid unless the Division approves pressure testing with gas.

(2) If pressure testing will be conducted with a liquid that contains additives other than brine, corrosion inhibitors, or biocides, then the operator shall consult with the Division regarding the contents of the liquid prior to commencing testing.

(3) The wellbore shall be filled with a stable column of fluid that is free of excess gasses.

(4) Pressure tests shall be recorded and a calibrated gauge shall be used that can record a pressure with an accuracy within one percent of the test pressure. Pressure shall be recorded at least once per minute during testing. If an analog gauge is used, then the test pressure shall be within the mid-range scale of the gauge. The pressure test results shall be submitted to the Division in digital tabular format within 60 days of the date the test is conducted. The charts or digital recording of the pressures during testing shall be provided to the Division upon request.

(5) Pressure tests shall be conducted at an initial pressure of at least 200 psi above surface pressure.

(6) A pressure test is successful if the pressure gauge does not show more than a three percent change from the initial test pressure over a continuous 30-minute period, except that if the well is within the area of review for a cyclic steam injection well or a steamflood injection well, then an increase in pressure of as much as 10 percent is a successful test.

(7) The Division may modify the testing parameters specified in this subdivision on a case-by-case basis if, in the Division's judgement, the modification is necessary to ensure an effective test of the integrity of the casing.

(b) Inert Gas Depression Testing. The operator may conduct an inert gas depression test to satisfy the pressure testing requirements of Sections 1752, 1772.1, or 1772.5, unless the computed necessary pressure under subdivision (b)(1) is less than 500 psi. An inert gas depression test conducted to satisfy the requirements of Sections 1752, 1772.1, or 1772.5 shall be conducted according to the following parameters:

(1) Based on measurement of the fluid level in the well and an estimation of the specific gravity of the fluid, the operator shall compute the pressure and corresponding volume of gas necessary to displace the fluid level down to a depth that is within 100 feet measured depth above the uppermost perforation, immediately above the casing shoe of the deepest cemented casing, or immediately above the top of the landed liner, whichever is highest. If the top of the landed liner is 100 feet or more above the cemented casing shoe, then the depth shall be specified by the Division on a case-by-case basis. If the computed necessary pressure is less than 500 psi, then an inert gas depression test shall not be used to satisfy the pressure testing requirements of Sections 1752, 1772.1, or 1772.5.

(2) Inert gas shall be injected into the well in a volume as computed under subdivision (b)(1), and the fluid level shall be measured again to determine if fluid has been displaced to the correct depth. Inert gas shall be added or removed as needed to displace fluid to the correct depth.

(3) The test shall be recorded and a calibrated gauge shall be used that can record a pressure with an accuracy within one percent of the testing pressure, and pressure shall be recorded at least once per minute during testing. If an analog gauge is used, then the test pressure shall be within the mid-range scale of the gauge. The test results shall be submitted to the Division in a digital tabular format within 60 days, along with all fluid-level measurements taken, the estimation of the specific gravity of the fluid in the well, and the computation of pressure necessary to displace fluid to the correct depth. The charts or digital recording of the pressures during testing shall be provided to the Division upon request.

(4) For the test to be successful, the fluid level must be static and the pressure must stabilize at the calculated pressure with a change of no more than one percent over a continuous 60-minute period. A fluid level shall be taken at the end of the test to confirm that the correct depth was maintained.

(5) The Division may modify the testing parameters specified in this subdivision on a case-by-case basis if, in the Division's judgment, the modification is necessary to ensure an effective test of the integrity of the casing.

(c) Alternate Testing Methods. An alternate mechanical integrity testing method may be used to satisfy the pressure testing requirements of Sections 1752, 1772.1, or 1772.5 if the alternate testing method has been approved by the Division on a case-by-case basis as being at least as effective as pressure testing to demonstrate the integrity of the well. Examples of alternate testing methods that would be considered on

a case-by-case basis are a casing wall thickness inspection to estimate internal and external corrosion, employing such methods as magnetic flux or ultrasonic technologies; or a combination of an ultrasonic imaging tool and a cement evaluation log.

(d) Passive Testing. If a well is a low-priority idle well, then the operator may satisfy the pressure testing requirements of Sections 1752, 1772.1, or 1772.5 by conducting a caliper survey, provided the Division has approved the testing protocols as effective for evaluating well integrity.

(e) Before conducting any testing under this section, the operator shall give the appropriate district office 24 hours' notice, or a shorter notice acceptable to the district office, so that Division staff may witness the testing.

Regulations section 1774 requires Operator to maintain all pipelines "in accordance with good oil field practice and applicable standards[.]"

Regulations section 1777, subdivision (a), requires, among other things, that Operators maintain production facilities in good condition and in a manner to prevent leakage or corrosion and to safeguard life, health, property, and natural resources.

Regulations section 1777, subdivision (c)(2), weeds and debris shall be removed from secondary containment areas or catch basins, and the integrity of all berms shall be inspected monthly. Fluids, including rainwater, shall be removed.

Regulations section 1779 authorizes the Supervisor in individual cases to set forth other requirements where justified or called for.

IV. Alleged Acts/Omissions

Operator failed to maintain adequate surveillance/testing to ensure integrity and prevent leaks. During inspections on or about September 13, 2019 and September 18, 2019, Division staff observed the following conditions during inspections at Operator's facility located in the Las Cienegas Field:

A. St. James 10 (API 037-20455)

   a. Gas leak observed on September 13, 2019 and September 18, 2019.

B. St. James 4 (API 037-20439)

   a. Gas leak observed on September 18, 2019.

C. St. James 8 (API 037-20564)

a. Gas leak observed on September 18, 2019.

The deteriorating condition of the wells as evidenced by multiple gas leaks at the St. James facility at pressures significantly below designed working pressures, along with sustained wellhead pressures indicates an immediate need to initiate well killing operations which require the Remedial Actions in section V below.

V. Required Remedial Actions

For the reasons described above in this Order, the Supervisor hereby determines that remedial work is necessary to prevent damage to life, health, property, and natural resources. Therefore, pursuant to PRC sections 3013, 3106, 3224, and 3226, and Regulations sections 1714, 1722, subdivision (a), 1724.10(f), 1772.1, 1772.2 and 1777, among others, **the Supervisor hereby orders Operator to:**

1. Provide DOGGR with a plan, within 5 days of the date of this order. The plan shall be provided to Mr. Chris McCullough at chris.mccullough@conservation.ca.gov. The plan is required to describe how Operator intends to safely depressurize all 21 wells and place suitable kill fluid in each well. The plan shall describe how Operator will safely circulate out all gasses and fluids for all wells from total depth to surface with appropriately weighted, corrosion inhibiting kill fluid designed to balance hydrocarbon formation pressures with the hydrostatic head of fluid in the wells, while rendering the wells' final surface pressure at zero. The plan shall also include a maintenance component which describes how Operator will maintain hydrostatic equilibrium with zero wellhead pressure until such time as the wells are returned to active status or plugged and abandoned.
2. Upon the District's approval of the plan, Operator shall immediately commence work to safely depressurize and circulate kill fluid in all 21 wells. This work shall continue unabated until all 21 wells are completed.
3. As soon as safe to do so, Operator shall repair all well and facility leaks.
4. Operator shall successfully pressure test all wells from the surface to at least 100' feet measured depth above the upper most perforation consistent with requirements of Regulations sections 1772.1 and 1772.1.1.

5. Operator shall immediately repair any well damage identified during pressure or any other diagnostic testing.

6. Contact the Southern District Office at (562) 637-4400 prior to commencing well depressurization and killing operations, to witness pressure testing of all wells, and to conduct a follow-up inspection immediately following completion of the work to assure full compliance with this Order.

If the work is not immediately commenced, continued to completion, or if the Supervisor observes that work is not occurring in an otherwise timely manner, the Supervisor may provide a three-day notice to Operator, unless it's an emergency, prior to appointing necessary agents to enter the premises and perform the work consistent with PRC section 3226. Any amount the Supervisor expends will constitute a lien against Operator's real and/or personal property. (PRC, § 3226.)

VI. Operator's Appeal Rights

Operator may appeal this Order by filing a written notice of appeal with the Director of Conservation as described in PRC section 3351, subdivision (c). If Operator timely files a notice of appeal in writing, 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.

VII. Court Order and Other Potential Actions to Enforce This Order

PRC section 3236 makes it a misdemeanor for any person who violates, fails, neglects, or refuses to comply with any of the provisions of the oil and gas conservation laws commencing at PRC section 3000. 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.)

Failure to comply with Section V (Required Remedial Actions) could result in additional enforcement orders and/or actions by the Division or other entities. For example, the Supervisor could deny approval of proposed well operations until compliance is achieved, order the plugging and

abandonment of the associated well, and/or assess a civil penalty. (PRC, §§ 3203, subd. (c), 3236.5, 3237, subd. (a)(3)(C).)

DATED: 9/26/19

Jason Marshall
Acting State Oil and Gas Supervisor

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 24-03, Sacramento, California 95814-3530. On September 26, 2019, I served the following document(s):

ORDER TO PERFORM REMEDIAL WORK, NO. 1162

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 addresses 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:

Mr. Timothy Parker, Agent AllenCo Energy, Inc. (A1240) 2109 Gundry Avenue Signal Hill, CA 90755-3517 Certified Mail Receipt Number: 7018 0680 0000 1243 3429	

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 September 26, 2019, at Sacramento, CA.

Kyle R. Chin