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

ORDER TO PAY A CIVIL PENALTY
NO. 1200

Operator: KB Oil & Gas, Inc. (K0075)

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I. Introduction

The State Oil and Gas Supervisor (**Supervisor**), acting through the Geologic Energy Management Division (**CalGEM**), 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 impose a civil penalty on a person who violates any statutory provision of the PRC, or any regulation that implements those statutory provisions. (PRC, § 3236.5)

Based on CalGEM's records, KB Oil & Gas, Inc. (**Operator**) is or was an "operator" (as defined in PRC, § 3009) and is responsible for 30 wells and associated production facilities at the Cymric and Midway-Sunset Oil Fields (**Facilities**). Attachment A, incorporated herein, contains a list of operator's 29 wells at the Cymric Oil Field and one well at the Midway-Sunset Oil Field. Under applicable provisions of Regulations section 1774.2, Operator was required to submit a copy of its pipeline management plan for all pipelines to CalGEM by October 1, 2019, and Operator has not done so. Operator's failure to timely submit the pipeline management plan constitutes a violation of Regulations section 1774.2. Therefore, pursuant to PRC sections 3013, 3106, 3224, 3236.5, 3270, 3270.5, and Regulations section 1774.2, the Supervisor is ordering Operator: (1) to submit a pipeline management plan for all pipelines, and; (2) to pay a civil penalty, totaling \$2,000, imposed for violation of the requirement to timely submit a pipeline management plan.

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."

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 including, but not limited to, tanks, flowlines,

1 headers, gathering lines, wellheads, heater treaters, pumps, valves, compressors, injection
2 equipment, and pipelines that are not under the jurisdiction of the State Fire Marshal pursuant
3 to Section 51010 of the Government Code." (See also Regulations, § 1760, subd. (r).)

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

5 **PRC section 3106** authorizes the Supervisor to supervise the drilling, operation,
6 maintenance, and abandonment of oil and gas wells to "prevent, as far as possible, damage
7 to life, health, property, and natural resources; damage to underground oil and gas deposits
8 from infiltrating water and other causes; loss of oil, gas, or reservoir energy, and damage to
9 underground and surface waters suitable for irrigation or domestic purposes by the infiltration
10 of, or the addition of, detrimental substances."

11 **PRC section 3224** mandates that the Supervisor "order such tests or remedial work as in
12 his judgment are necessary to prevent damage to life, health, property, and natural resources;
13 to protect oil and gas deposits from damage by underground water; or to prevent the escape
14 of water into underground formations, or to prevent the infiltration of detrimental substances
15 into underground or surface water suitable for irrigation or domestic purposes, to the best
16 interests of the neighboring property owners and the public."

17 **PRC section 3236.5** authorizes the Supervisor to impose a civil penalty on a person who
18 violates any statutory provision in Chapter 1 of Division 3 of the PRC (PRC sections 3000 through
19 3473), or any regulation that implements those statutory provisions. Subject to the Supervisor's
20 discretion, the penalty amount may be up to \$25,000 per violation, per day.

21 **PRC section 3270** mandates that CalGEM prescribe by regulation minimum facility
22 maintenance standards for all production facilities in the state.

23 **Regulations section 1774.2** provides that operators shall prepare a pipeline
24 management plan for all pipelines. Current operators as of October 1, 2018 shall submit a
25 copy of the plan to the Supervisor no later than October 1, 2019. The operator shall maintain
26 an up-to-date copy and provide it to the Supervisor upon request. The plan shall be updated
27 within 90 days whenever pipelines are acquired, installed, altered, or at the request of the
28 Supervisor.

1 **IV. Failure to Submit a Pipeline Management Plan**

2 CalGEM notified Operator that its pipeline management plan consistent with
3 Regulations section 1774.2 was past due on November 18, 2019 and provided a new date for
4 submission by December 18, 2019. Attachment B, incorporated herein, is a Notice of Violation
5 that CalGEM sent on November 18, 2019 with a deadline to submit the pipeline management
6 plan by December 18, 2019. To date, CalGEM has not received a pipeline management plan
7 from Operator.

8 **V. Civil Penalty**

9 Based on information, belief, and a review of CalGEM's records, Operator is the
10 current operator of the Facilities. Operator's failure to timely submit a pipeline management
11 plan for the Facilities by October 1, 2019 is a violation of Regulations section 1774.2. This failure
12 to submit the required pipeline management plan constitutes a single violation.

13 Because of this violation, and based on consideration of relevant circumstances,
14 consistent with PRC section 3236.5, by this order the Supervisor is imposing on Operator a civil
15 penalty totaling \$2,000. Following is an explanation of how the civil penalty amount was
16 determined.

17 For purposes of this order, the Supervisor considered relevant circumstances, including:
18 characterizing the violations as "major," "minor," or "well stimulation" (as defined in PRC
19 section 3236.5, subdivision (b)) and setting a penalty amount proportionate to the
20 circumstantial importance of all relevant factors, including the eight factors identified in PRC
21 section 3236.5, subdivision (a). (PRC, § 3236.5, subd. (a).)

22 In determining the civil penalty amount for Operator's single violation, the Supervisor
23 determined the violation to be "minor." The statutory penalty range for a minor violation is
24 between \$0 and \$2,500. After consideration of all relevant factors, the Supervisor determined
25 that a civil penalty which is roughly proportionate to the cost of preparing a pipeline
26 management plan is a balanced and effective incentive for operator compliance. A careful
27 analysis of the eight factors identified in PRC section 3236.5, subdivision (a) did not affect the
28 Supervisor's finding that the cost of compliance is an effective civil penalty amount. Therefore,

the Supervisor determined that it is reasonable to impose a civil penalty which is proportionate to the cost of preparing a pipeline management plan. (PRC, § 3236.5, subd. (a).)

CalGEM estimated the cost to prepare a typical pipeline management plan is between \$500 and \$10,000 per oil or gas field, depending on the number of pipelines involved and information already gathered on each pipeline. This cost generally includes a base cost for the administrative task of assembling the plan, with design and location information Operator should already possess, and an additional amount for each pipeline. The number of pipelines owned by an operator is usually proportionate to the number of wells the operator has in a particular field; therefore, the estimated cost of preparing a pipeline management plan is based on the number of active or idle wells in each field. Working within the \$0 and \$2,500 statutory penalty range for a minor violation, CalGEM created a sliding scale to assess civil penalties for each operator based on the number of wells in their field, on a per-field basis. For operators with five or fewer active or idle wells, CalGEM estimated a cost of \$500. For an operator with 21 or more wells, CalGEM estimated a cost of \$1,500.

Based on the 11 active and 18 idle wells on Operator's property in the Cymric Oil Field and the one idle well on Operator's property in the Midway-Sunset Oil Field, CalGEM estimates that Operator gained an economic benefit of \$2,000 by not preparing a pipeline management plan. As such, based on the above allegations, and with appropriate consideration of relevant factors as described in PRC section 3236.5, the Supervisor hereby imposes a civil penalty of two thousand dollars (\$2,000).

VI. Operator's Required Actions

For the reasons stated herein, pursuant to PRC sections 3013, 3106, 3206, and 3236.5, **IT IS HEREBY ORDERED** that Operator:

- 1) Submit a current pipeline management plan, prepared as directed in Regulations section 1774.2; and
- 2) Pay a civil penalty in the amount of two thousand dollars (\$2,000).

Operator is required to submit a pipeline management plan and pay the civil penalty amount within **30 days** from the date this order is issued. A continuing failure to submit a

1 pipeline management plan or pay a civil penalty may subject Operator to additional civil
2 penalties even if this order is appealed.

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

5 Department of Conservation
6 CalGEM, Attn: PSU
7 801 K Street, MS 18-05
8 Sacramento, California 95814-3530

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

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

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

16 Department of Conservation
17 Director's Office of Appeals
18 801 K Street, MS 24-03 (Legal Office, Chief Counsel)
19 Sacramento, California 95814-3530

18 Or via electronic mail:

19 CalGEMAppeals@conservation.ca.gov
20

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

24 If Operator does not file a timely written notice of appeal, or if the order is affirmed
25 following an appeal, this order will become a final order and CalGEM may contract for
26 performance of the work, pursuant to PRC section 3226, if, within 30 days of this order,
27 Operator has not, in good faith, commenced the work ordered. Any costs incurred by
28 CalGEM to obtain compliance with this order (which may include penalties and interest) will

1 constitute a lien against Operator's real or personal property per PRC section 3423. (PRC, §
2 3356.)

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

4 Failure to comply with Section VIII (Operator's Required Actions) of this order could
5 subject Operator to further enforcement action. PRC section 3236 makes it a misdemeanor
6 for any person who violates, fails, neglects, or refuses to comply with any of the provisions of
7 the oil and gas conservation laws commencing at PRC section 3000. PRC section 3236.5
8 authorizes the Supervisor to impose a civil penalty on a person who violates any provision in
9 Chapter 1 of Division 3 of the PRC or any regulation that implements those statutes, and the
10 Supervisor may in the future impose further civil penalties based on the facts and omissions
11 underlying this order. PRC section 3237 authorizes the Supervisor to order the plugging and
12 abandonment of a well or the decommissioning of a production facility if an operator has
13 failed to comply with an order of the Supervisor within the time provided by the order or has
14 failed to challenge the order on a timely basis. PRC section 3359 makes it a misdemeanor to
15 fail or neglect to comply with an order of the Supervisor. Each day's further failure, refusal, or
16 neglect is a separate and distinct offense. (PRC, § 3359.)

17
18
19 DATED: June 11, 2021



Uduak-Joe Ntuk
State Oil and Gas Supervisor

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