Order to Pay a Civil Penalty No. 1163

Operator: Chevron U.S.A. Inc.

Field: Cymric Oil Field, Kern County
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), has the authority to impose a civil penalty against an operator for the violation of oil and gas conservation laws. (PRC § 3236.5)

The Supervisor has determined that Chevron U.S.A. Inc. (Chevron or Operator) committed numerous violations of the PRC and its implementing regulations at the Cymric Oil Field (Cymric). On at least four occasions (May 10, June 8, June 23, and July 22, 2019), Operator allowed a series of surface expressions that are not low-energy seeps to occur at Cymric in violation of Regulations section 1722, subdivision (a), section 1724.11, subdivision (a), section 1724.12, subdivision (b), and section 1771. The Supervisor, through his Inland District Deputy, obtained photographs and issued notices to Operator concerning these surface expression violations to which Operator responded. Such responses included steam radius restrictions and root cause analyses. However, Operator’s initial responses appear to have contained but not prevented additional surface expressions. On July 21, 2019, the Division issued Remedial Order No. 1159 (Exhibit A) ordering Operator to take all measures to stop flow from the established surface expressions and to prevent any new surface expressions.

Pursuant to PRC sections 3013, 3106, 3236.5, and Regulations sections 1722, 1724.11, 1724.12, and 1771, the Supervisor hereby orders Chevron to pay a civil penalty of $2,732,991.

II. 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 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.”

Regulations section 1720, subdivision (h), defines “Low-energy seep” as “a surface expression for which the Operator has demonstrated all of the following to the Division:

1. The fluid coming to the surface is low-energy and low-temperature;
2. The fluid coming to the surface is not injected fluid; and
3. The fluid coming to the surface is contained and monitored in a manner that prevents damage to life, health, property, and natural resources.”

III. State Oil and Gas Supervisor and Division Authority

PRC section 3013 states that the oil and gas conservation laws (commencing with PRC 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 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, generally the oil and gas conservation laws, or any regulation that implements Chapter 1.

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

Regulations section 1724.11, subdivision (a), mandates that “[u]nderground injection projects shall not result in any surface expression.”

Regulations section 1724.12, subdivision (b), states that “[n]otwithstanding any efforts undertaken by the Operator to contain a surface expression or otherwise mitigate risks associated with a surface expression, the existence of a surface expression, other than a low-energy seep, is a violation of
the prohibition in Section 1724.11(a) against underground injection projects resulting in any surface
expression.”

**Regulations section 1771** prohibits Operator from using open unlined channels or ditches to
transport oil or water containing oil, “unless provisions are made so that they are not a hazard as
determined by the Supervisor.”

**Regulations section 1775** requires Operator to address oilfield wastes, harmful chemicals,
unused equipment, scrap and other trash so as not to cause damage to life, health, property, freshwater
aquifers or surface waters, other natural resources, or such that its operations become a public nuisance
or a menace to public safety.

### IV. Alleged Acts and Omissions

**A. Failure to Prevent a Surface Expression**

On at least four occasions (May 10, June 8, June 23, and July 22, 2019), Operator allowed a
series of surface expressions that are not low-energy seeps to occur at Cymric in violation of
Regulations section 1724.11, subdivision (a). The Division observed that the surface expressions
included steam and high volumes of oil coming to the surface for periods exceeding two to three
minutes, which are indications, among other things, that the expressions were not low-energy seeps.
Operator has not demonstrated otherwise.

On July 12, 2019, the Supervisor served Operator an Order to Perform Remedial Work, citing
violations of, at least, Regulations section 1774.11, subdivision (a).

Based on the above, and PRC section 3236.5, for Chevron’s failure to prevent a surface
expression, the Supervisor is imposing a civil penalty of \$900,000.

**B. Failure to Comply with Transport Requirements for Oil and to Conduct Operations in
Accord with Good Oilfield Practice**

For a 113-day period, beginning May 10, 2019 and continuing to at least August 31, 2019,
Operator allowed oil from the four surface expression areas on Operator’s property to travel downslope
across a wide area. The channel of oil flowing downslope from the surface expressions had a maximum
extent of 41,947 square feet on August 1, 2019. Division staff observed Operator on multiple occasions
using pumps, bins, and a vacuum truck to capture oil from the unlined channel and transport it for
processing. The transportation of oil through this channel is in violation of Regulations section 1771, which prohibits the transportation of oil and water containing oil through open unlined channels and ditches. The Division also considers Operator’s failure to contain the flow of oil through this channel to not be in accord with good oilfield practice in violation of Regulations section 1722, subdivision (a).

Based on the above, and PRC section 3236.5, for Chevron’s failure to comply with transport requirements for oil and to conduct operations in accord with good oilfield practice, the Supervisor is imposing a civil penalty of $1,832,991.

V. Civil Penalty Assessment

The Supervisor may impose a civil penalty on any person who fails to comply with oil and gas conservation laws, or any implementing regulations. (PRC, §3236.5, subd. (a).) In establishing a civil penalty amount, “the [S]upervisor shall consider, in addition to other relevant circumstances, all of the following: (1) The extent of harm caused by the violation; (2) The persistence of the violation; (3) The pervasiveness of the violation; (4) The number of prior violations by the same violator; (5) The degree of culpability of the violator; (6) Any economic benefit to the violator resulting from the violation; (7) The violator’s ability to pay the civil penalty amount, as determined based on information publicly available to the [D]ivision; and (8) The [S]upervisor’s prosecution costs.”

The Supervisor determines whether a violation qualifies as a “Major” or “Minor” violation in accordance with PRC section 3236.5. A “major violation” is a violation that is not a well stimulation violation and that is one or more of the following: (i) A violation that results in harm to persons or property or presents a significant threat to human health or the environment; (ii) A knowing, willful, or intentional violation; (iii) A chronic violation or one that is committed by a recalcitrant violator. In determining whether a violation is chronic, or a violator is recalcitrant, the Supervisor shall consider whether there is evidence indicating that the violator has engaged in a pattern of neglect or disregard with respect to applicable requirements; (iv) A violation where the violator derived significant economic benefit, either by significantly reduced costs or a significant competitive advantage. The civil penalty amount for a major violation shall be not less than $2,500 per violation and not more than $25,000 per violation. A “minor violation” is a violation that is neither a well stimulation violation nor a major violation. The civil penalty amount for a minor violation shall not be more than $2,500 per violation.
At the Supervisor’s discretion, each day a major or minor violation continues or is not cured may be treated as a separate violation.

Based on the above allegations, at this time, the Supervisor hereby imposes a civil penalty of $2,732,991. This amount is based on a subset of violations which occurred between May 10, 2019 and August 31, 2019 and reflects Chevron’s failure to prevent and control surface expressions at Cymric as required by regulation and as ordered in Remedial Order No. 1159.

1. **The Extent of Harm Caused by the Violation**

   The Supervisor determined that the surface expressions present a significant threat of harm to human health and the environment. An oiled bird, a Lesser Nighthawk, was recovered from the site on August 14, 2019 and was taken to a wildlife care center where it had to be euthanized. The oil flowing at the site was at a high temperature, producing steam, and could cause burns or ground instability, making the area around the surface expressions unsafe for humans. Oil flowing through an unlined channel presents potential impacts to soil, surface water, and wildlife.

2. **The Persistence of the Violation**

   On four separate occasions, the Division witnessed surface expressions of bubbling oil in four separate and distinct areas on Operator’s Cymric property. The first occasion persisted for one day, the second and fourth for 11 days each, and the third for 13 days: a total of 36 days of surface expression activity.

3. **The Pervasiveness of the Violation**

   The surface expressions occurred in four localized areas that extend beyond the point source and affect a large area downslope from the release point. On August 1, 2019, oil traveling downslope encompassed a 41,947 square foot area in an open unlined channel.

4. **The Number of Prior Violations by the Same Violator**

   Operator has been cited for other surface expression violations in the past 12 months. The Division issued Notices of Violation for these incidents, but as the matters are still pending, they were not considered for the calculation of the civil penalty included in this Order.
5. **The Degree of Culpability of the Violator**

Operator stated to the Division that activities at its underground injection project at Cymric may have contributed to surface expressions at the site. Operator is responsible for any surface expressions resulting from its underground injection project, per Regulations section 1724.11.

6. **Any Economic Benefit to the Violator Resulting from the Violation**

The Governor’s Office of Emergency Services (CalOES) estimated that approximately 30 percent of fluid released at the surface expressions is oil. Operator is collecting and transporting this fluid to a processing facility for conversion into sales oil. As of August 1, 2019, CalOES reported that the surface expressions had released 31,685 barrels of oil and water. Accounting for shrinkage and separation during processing, the Division estimates Operator will produce 7,129.125 barrels of sales oil from the surface expressions at Cymric. This gives Operator an economic benefit of approximately $399,231 from this incident.

7. **The Violator’s Ability to Pay the Civil Penalty Amount**

Between 2005 and 2018, the average annual revenue for this Operator in the state of California was $3,344,021,603.

8. **The Supervisor’s Prosecution Costs**

The Supervisor incurred approximately 516 hours of staff time associated with inspections, monitoring, and compliance at Cymric in relation to the surface expressions, and in preparing the Supervisor’s Order to Perform Remedial Work and Order to Pay a Civil Penalty. The Supervisor’s prosecution costs for this matter are estimated at this time to be $49,981.

The civil penalty amount is based on a review of the factors in PRC section 3236.5 for major violations. The Supervisor reserves the right to modify the civil penalty amount to more accurately reflect the factors in PRC section 3236.5 including, among other things, prosecution costs and wildlife impacted by the surface expressions after August 31, 2019. The Supervisor also reserves the right to amend the civil penalty amount to reflect Operator’s additional recent surface expression violations in other areas of the state.
VI. **Operator’s Required Actions**

Based on the above, and pursuant to PRC sections 3013, 3106, 3236.5 and Regulations sections 1722, 1724.11, 1724.12, and 1771, the Supervisor hereby orders Chevron to pay a civil penalty of $2,732,991.

VII. **Operator’s Appeal Rights**

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

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

Or via electronic mail:

Appeals.DOGGR@conservation.ca.gov

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

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

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

Failure to comply with Section VI (Operator’s Required Actions) of this Order could subject Operator to further enforcement action. 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. 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: 10/2/19

Jason R. 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 18-05, Sacramento, California 95814. On October 2, 2019, I served the following document(s):

ORDER TO PAY CIVIL PENALTY, ORDER NUMBER 1163

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>Mr. Nadim Hosn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chevron USA Inc.</td>
</tr>
<tr>
<td>9525 Camino Media</td>
</tr>
<tr>
<td>Bakersfield, CA 93311</td>
</tr>
<tr>
<td>Certified Mail Receipt Number: 7013 2250 000 9010 0710</td>
</tr>
</tbody>
</table>

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 October 2, 2019, at Sacramento, CA.

Rachael A. Tadlock