

## Nguyen, Jessica

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**From:** Al Adler <aba@abaenergy.com>  
**Sent:** Monday, November 7, 2022 2:16 PM  
**To:** Sussman, Shelley  
**Cc:** Aleta Owens  
**Subject:** Insurance and Bonding Status  
**Attachments:** VC Insurance Letter 11-1-22.pdf; Bond Letter 11-1-22.pdf

**WARNING:** If you believe this message may be malicious use the Phish Alert Button to report it or forward the message to [Email.Security@ventura.org](mailto:Email.Security@ventura.org).

Hello Shelly. Please find the attached regarding our ability to meet the VC requirements being discussed including the upcoming meeting on Wednesday. As we have not been contacted regarding the format of the meeting nor been asked by anyone for input, I thought I would give you what our broker and underwriters have relayed to us regarding these matters. The attached are consistent with what we relayed to you in the last 2 meetings.

I do hope we get to discuss these.

Kind regards,



Al Adler  
President, ABA Energy Corporation

November 1, 2022

ABA Energy Corporation  
7612 Meany Avenue  
Bakersfield, Ca. 93308

Attn: Al Adler

RE: Oil and Gas Insurance Policy Limits.

Dear Al,

Per your request, we have approached our insurance markets regarding the policy limits requested by the County of Ventura via their proposed ordinance changes.

We have determined that a \$25 Million Excess/Umbrella policy for General Liability would not be obtainable, notwithstanding the fact that in 31 years of operating an oil and gas business, the totality of ABA's claims have been two (2), a chipped tooth and an operator passing out. Also notable is that due to the state of the California Insurance industry, ABA was only able to obtain this year its current \$10 million GL policy by amalgamating (3) tranches of GL coverage (\$1 million, \$4 Million, and \$5 Million).

Further, it is un-clear what the County desires for excess on the other policies as the verbiage is ambiguous and confusing in that they state they want "Excess (or umbrella) Liability Insurance: providing excess coverage for each of the perils insured by the preceding insurance policies with a minimum limit of \$25,000,000". The confusing issue we see is that Excess Liability is just that, excess on the GL policy only, however, the words "***each of the perils insured by the preceding insurance policies (plural)***" seems to infer that the County's ask may include \$25 Million over the top of not only the GL policy, but also Control of well Policy Environmental policy.

In any event, The limits required by the County are not obtainable for ABA.

Please let me know if you have any questions concerning the above.

Sincerely,



Andy Naworski  
Commercial Lines Executive Vice President

November 1, 2022

ABA Energy Corporation  
7612 Meany Avenue  
Bakersfield, Ca. 93308

Attn: Al Adler

RE: Bonding Capacity – Oil and Gas Bonds

Dear Al,

Per your request, we have approached all of our bond markets in order to provide you with the County of Ventura's requirements for a Site Restoration Bond (per well site) and an additional Oil and Gas Abandonment Bond (per well) over and above the State of California's Oil and Gas Well Bond.

The results have not been encouraging. First, of the eight markets that provide Energy sector Bonds, 6 have outright declined the Oil and Gas Bond requirement and 5 have declined the Site Restoration Bond. The remaining markets have all required 100% collateral for both the Oil and Gas Well Bonds and the Site Restoration Bond.

I believe that the County does not realize the current market environment for bonding of the Energy Sector, nor does it realize that Bond are not like Insurance, Bond claims are paid by the Bonding company and then the Principal is required to repay the Bonding company. Unlike Insurance where the Insured pays a premium for the coverage and any claim is paid by the Insurer with no obligation of the insured to repay the claim.

Please let me know if you have any questions concerning the above.

Sincerely



Andy Naworski  
Surety Department Manager



## VIA ELECTRONIC MAIL

November 8, 2022

Shelley Sussman & Dave Ward  
Planning Department of Ventura County  
800 South Victoria Avenue  
Ventura, CA 93009  
[Shelley.Sussman@ventura.org](mailto:Shelley.Sussman@ventura.org)

### Re: **Planning Commission Stakeholder Meeting**

Dear Members of the Ventura County Planning Department:

California Natural Resources Group, LLC (CalNRG) writes to address the ordinance amendments recommended to the Ventura County Board of Supervisors by the Planning Commission on August 18<sup>th</sup>, 2022. This letter seeks to explain why the bond policies recommended by the Planning Commission are unreasonable and likely impossible for CalNRG to achieve. It also outlines how CalNRG has managed idle well testing and elimination under the California Geologic Energy Management Division (CalGEM) to date. In doing so, CalNRG will show why the policies recommended by the Planning Commissioners must be reevaluated in their entirety due to their being excessive and redundant. CalNRG provided additional correspondences regarding these policies in letters to Planning Commission staff dated July 27, 2022 and August 16, 2022 which are attached. CalNRG adopts and incorporates herein by reference these prior letters and all prior written and spoken public comments at the July 28, 2022 and August 18, 2022 hearings.

- 1. The bond market does not provide products with the coverage recommended by the Planning Commission. However, even if the products are available, they require 100% collateral in the form of cash or letter of credit which CalNRG cannot provide.**

As an oil and gas producer in the State of California, CalNRG must maintain multiple bonds under State and Local law. Due to the stringent regulatory environment, political risks, and resulting operational uncertainties for producers in California, there is an almost non-existent market for these bonds. In the rare case that these bonds are available, they must be 100% collateralized in the form of cash or a letter of credit. For example, CalNRG's current bonds with CalGEM are millions of dollars and 100% cash collateralized. Thus, the policies recommended by the Planning Commission would require CalNRG to put an additional \$20 million cash aside to sit idle in an account.<sup>1</sup> This is

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<sup>1</sup> Under the recommended scheme, CalNRG will have to maintain the following: Surface Restoration Surety in the amount of \$10 million; Well Abandonment Surety in the amount of \$5 million; Long Term Idle Well Surety in the amount of \$5 million, totaling \$20 million fully collateralized bonds.



financially impossible for CalNRG. Moreover, every dollar that must be tied up in the recommended bonding scheme cannot be used by CalNRG to better its operations, eliminate idle wells, or contribute to the community. Thus, the outcomes of the policies have the opposite of the intended effects. Namely, wells that would otherwise be tested or eliminated with available operating cash flow cannot be tended to and must sit idle.

A second letter from CalNRG's bonding and insurance broker, Bart LeFevre, the Co-Founder, CEO, and President of INPower Global Insurance Services, LLC, is included herein as an attachment and explains the reality that CalNRG faces. Mr. LeFevre reiterates and emphasizes what CalNRG explained to the Planning Commission and staff in written and verbal comments in July and August: high dollar bonds coupled with onerous bonding language are beyond what oil and gas bonding companies are willing to provide in the state of California. The existing California regulatory environment has pushed bonding companies out of the market leaving no feasible options for local independent producers.

Thus, the bonds the Planning Commission has recommended will be impossible to obtain and would require CalNRG to put down 100% collateral in the form of cash or letter of credit to the tune of \$20 million, which is financially impossible.

## **2. CalNRG works closely with CalGEM under the Agency's 2019 Idle Well Management Program to manage its idle well inventory.**

CalNRG seeks to clarify the nature of its relationship with CalGEM as it pertains to its idle well management regulatory requirements. The concerns voiced by the Planning Commission that led to the policies at issue here are now out of date. CalGEM overhauled its idle well management program in 2019.<sup>2</sup> In accordance with this vast and complicated regulatory scheme, CalNRG has successfully created and begun to execute on its idle well management plan. Specifically, CalNRG has spent \$6.5 million in the last six months eliminating over 50 and testing over 40 idle wells in Ventura County. To CalNRG's knowledge, this is the largest mass well elimination in Ventura County history. In accordance with the plan, CalNRG is committed to spending \$50 million to eliminate and test over 600 wells throughout Ventura County in the next five years.

CalNRG has made a significant capital commitment under existing regulations to manage its idle well inventory and is already effectively doing so at a rate Ventura County has never seen. We cannot emphasize enough that every cent that must sit idle in an account collateralizing a surety bond cannot be deployed to meet these stringent idle well obligations in place under CalGEM's updated regulations.

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<sup>2</sup> "PRC section 3206.1 mandated CalGEM review, evaluate, and update its regulations pertaining to idle wells. Revised idle well regulations became effective April 1, 2019. These regulations implement new testing requirements for idle wells and provide specific parameters for testing. The regulations provide a 6-year compliance period for testing wells idle as of April 1, 2019 and a Testing Waiver Plan for those wells an operator commits to plugging and abandoning within eight years. Operators are also required to submit an idle well inventory and evaluation for each of their idle wells. The regulations also provide requirements for monitoring and mitigating inaccessible idle wells, a regulatory definition for partially plugging idle wells, and requirements for operators to submit a 15-Year Engineering Analysis for each idle well idle for 15 years or more." For Operators – Idle Well Management Program, California Geologic Energy Management Division, [https://www.conservation.ca.gov/calgem/idle\\_well/Pages/idle-well-operators.aspx](https://www.conservation.ca.gov/calgem/idle_well/Pages/idle-well-operators.aspx).



CalNRG asks that the Planning Commission staff continue to engage in a meaningful dialogue with essential energy producers who are impacted by these policies. Our extensive team of geologists, engineers, consultants, regulatory compliance specialists, and bonding and insurance brokers are available to answer any additional questions staff may have regarding these policies.

Sincerely,

Clif Simonson  
President & COO

**Attachment 1**  
**Bart LeFevre Letter**

November 7, 2022

CalNRG Operating, LLC  
Attn: Jeff Katersky, Chief Financial Officer  
1746-F South Victoria Ave, Suite 245  
Ventura, CA 93003

RE: Surety Capacity for Oil and Gas Lease Operators in California

Dear Jeff,

Pursuant to our discussions, INpower has approached surety underwriters who specialize in Oil and Gas bonds, with a request to consider a Site Restoration and Oil and Gas Abandonment Bond as proposed by the County of Ventura.

Our market capabilities analysis can be summarized as follows:

- Outright declinature- terms of obligation are too onerous
- Requirement for CalNRG to provide 100% collateral in the form of a full cash deposit or irrevocable Letter of Credit, plus payment of annual premium.

The challenges with this bond requirement are significant, and it is important to recognize that oil and gas surety companies are very conservative with their underwriting philosophy. Bonding obligations are backed by an agreement, whereby the surety company maintains full recourse against the lease operator, should there be a claim. This factor, coupled with the dollar amount and onerous nature of the bond language, falls outside of our energy surety markets' appetites.

In my 30 years of oil and gas bonding and insurance experience, the above-referenced bonds are not viable when set against traditional oil and gas bond underwriting thought processes.

Should you have any questions, please let us know.

Best regards,



Bart J. Le Fevre  
Chief Executive Officer & President

**Attachment 2**  
**August 17, 2022 Letter**



**VIA ELECTRONIC MAIL**

August 16, 2022

Planning Commission of Ventura County\  
c/o Shelley Sussman  
800 South Victoria Avenue  
Ventura, CA 93009  
[Shelley.Sussman@ventura.org](mailto:Shelley.Sussman@ventura.org)

**Re: Planning Commission Meeting (July 28, 2022) – Agenda Item No. 7 – Proposed Coastal and Non-Coastal Zoning Ordinance Amendments**

Dear Members of the Ventura County Planning Commission:

California Natural Resources Group, LLC (“CalNRG”) submits the attached comment letter on the Planning Commission’s proposed amendments to the Non-Coastal Zoning Ordinance (“NCZO”) section 8107-5 and Coastal Zoning Ordinance (“CZO”) section 8175-5 (collectively, “Zoning Amendments”). CalNRG previously submitted this comment letter before 3:30 pm on July 27, 2022, as required for submission of comments for the Planning Commission’s July 28 meeting. We later learned that this letter was never provided to the Commissioners for their review. We request that the Commissioners consider the attached letter seriously, particularly the descriptions of the significant impacts that will be inflicted on CalNRG’s operations by these Zoning Amendments.

Sincerely,

A handwritten signature in black ink, appearing to read "Clif Simonson", written over a horizontal line.

Clif Simonson  
President & COO

Attachments



**VIA ELECTRONIC MAIL**

July 27, 2022

Shelley Sussman  
Planning Commission of Ventura County  
800 South Victoria Avenue  
Ventura, CA 93009  
[Shelley.Sussman@ventura.org](mailto:Shelley.Sussman@ventura.org)

**Re: Planning Commission Meeting (July 28, 2022) – Agenda Item No. 7 – Proposed Coastal and Non-Coastal Zoning Ordinance Amendments**

Dear Members of the Ventura County Planning Commission:

California Natural Resources Group, LLC (“CalNRG”) writes to express its deep concern regarding the Planning Commission’s proposed amendments to the Non-Coastal Zoning Ordinance (“NCZO”) section 8107-5 and Coastal Zoning Ordinance (“CZO”) section 8175-5 (collectively, “Zoning Amendments”), which will unlawfully limit and render financially infeasible all oil and gas activities in the County. The proposed Zoning Amendments place a 15-year expiration limit on new and modified Conditional Use Permits (“CUPs”) and increase bonding and insurance requirements to levels that would make it impossible to operate in the County. Not only will the proposed Zoning Amendments shut down oil and gas operations in the County – which is undoubtedly the County’s end goal – they will also proliferate dependence on foreign oil and increase energy prices.<sup>1</sup>

Notably, in a clear effort to have a second bite at the proverbial apple, the proposed Zoning Amendments follow the recent results of the June 7, 2022 primary election where Ventura County residents voted to *repeal* the County’s adoption of previous amendments to the CZO and NCZO, which would have had similarly devastating impacts on local oil and gas production. Rather than listen to the will of the electorate, the Planning Commission turned a blind eye and immediately rushed back to the drawing board to renew their efforts to phase out oil and gas production in the County.

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<sup>1</sup> The County has made the goal of the proposed Zoning Amendments crystal clear – in fact, the Staff Report’s required findings cite an April 23, 2021 quote from Governor Newsom where he “requested that the California Air Resources Board (CARB) analyze pathways to *phase out oil extraction across the state by no later than 2045.*” (Staff Report at p. 23, emphasis added.)



And while the Planning Division apparently consulted behind closed doors with County Risk Management and various private consultants regarding the proposed Zoning Amendments (Staff Report at pp. 1, 7, 16), it failed to engage with the very stakeholders who will be impacted by these amendments – the local oil and gas industry. In fact, the Planning Commission held no workshop events, no stakeholder meetings, and absolutely no opportunities for the local industry to engage with the Commission regarding these unlawful amendments. The Planning Commission’s efforts to operate in secrecy is at odds with basic democratic principles and wildly out of touch with the will of the electorate, as expressed during the June 2022 election.

Moreover, the timing of these attacks on the oil and gas industry could not be worse. Inflation is skyrocketing, Californians are paying record prices at the pump, and international conflicts, like Russia’s invasion of Ukraine that has roiled energy markets, are highlighting the importance of energy independence. The County should play its part in alleviating these issues, rather than wasting taxpayer dollars on proposed Zoning Amendments that will threaten over 2,000 good-paying industry jobs, wipe out approximately \$56 million annually in state and local taxes, and increase dependence on foreign oil from countries with poor environmental and human rights standards.

## **I. The County has Rejected the Will of the Electorate**

This is now the County’s *second attempt* to amend the CZO and NCZO as a pretense to phase out oil and gas production in the County along with thousands of good-paying jobs. On November 10, 2020, the County adopted amendments to the CZO and NCO, which would have required the issuance of a new CUP, or approval of a discretionary permit adjustment or modification, to authorize all new oil and gas development, including that proposed under long-term permits, unless the proposed development is already specifically described as being authorized under an existing CUP. New development triggering the need for discretionary approval would have included the installation of new wells, tanks and other oil field facilities, and the re-drilling or deepening of existing wells.

Numerous County residents, oil and gas operators, royalty owners, and industry groups opposed the County’s previous attempts to amend the CZO and NCZO, including because subjecting CUPs to discretionary approval would unlawfully impair the constitutionally protected vested property rights of the holders of such permits, and would subject the County to takings liability. The County also unlawfully determined that the amendments were exempt from review under the California Environmental Quality Act. Many residents and industry workers also expressed concern that the amendments would have devastating impacts on the oil and gas industry, which has created jobs and supported the local economy for decades. Indeed, the County *admitted* that this would be the precise consequence of its action: “[T]he proposed zoning amendments could slow and/or reduce the potential expansion of new local oil and gas development, which in turn could have a *negative economic impact on this economic sector and its employment base . . .*”



(Ventura County Resource Management Agency Letter to Board of Supervisors, Nov. 10, 2020, emphasis added.)

The County's adoption of the previous CZO and NCZO amendments was met with an onslaught of litigation. (See, e.g., *California Natural Resources Group, LLC v. County of Ventura, et al.*, Case No. 56-2020-00546189; *Western States Petroleum Association v. County of Ventura, et al.*, Case No. 56-2020-00547988; *Lloyd Properties v. County of Ventura, et al.*, Case No. 56-2020-00546196; *Carbon California Company, LLC, et al. v. County of Ventura, et al.*, Case No. 56-2020-00548181; *National Association of Royalty Owners-California, Inc., et al. v. County of Ventura, et al.*, Case No. 56-2021-005505588; *Aera Energy LLC v. County of Ventura, et al.*, Case No. 56-2020-00546180; *ABA Energy Corporation v. County of Ventura, et al.*, Case No. 56-2020-00548077.) The County is now exposing itself to the risk of even further litigation by wasting taxpayer dollars on proposing and potentially adopting these unlawful Zoning Amendments.

Ultimately, the County gave voters the opportunity to repeal the CZO and NCZO amendments through Local Measures A and B on the June 7, 2022 ballot:

A. Shall Ordinance No. 4567, an ordinance of the County of Ventura repealing and reenacting Division 8, Chapter 1.1, Sections 8175-5.7 of the Ventura County Ordinance Code, to amend the Coastal Zoning Ordinance regulating oil and gas exploration and production, be adopted?

B. Shall Ordinance No. 4568, an ordinance of the County of Ventura repealing and reenacting Division 8, Chapter 1.1, Sections 8107-5 of the Ventura County Ordinance Code, to amend the Non-Coastal Zoning Ordinance regulating oil and gas exploration and production, be adopted?

A majority of Ventura County residents voted against Measures A and B, thereby soundly rejecting the County's efforts to amend the CZO and NCZO to shut down existing oil and gas production.<sup>2</sup>

Nevertheless, despite the *clear message* sent by voters during the June 2022 election, the County has persisted in its affront on the oil and gas industry and brazenly turned its back on the will of the electorate. Not only has the County rejected the will of the electorate, its newly

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<sup>2</sup> Ventura County Clerk-Recorder-Registrar, June 7, 2022 Statewide Direct Primary Election, Election Night Reporting, <https://results.enr.clarityelections.com/CA/Ventura/114132/web.285569/#/summary> (as of July 20, 2022).



proposed Zoning Amendments are also unlawful and would render oil and gas production financially infeasible, as further discussed below.

## II. Limits on New Conditional Use Permits to 15 Years Lack Factual Support

The proposed Zoning Amendments limit new discretionary permits for oil and gas operations to 15-years. According to the Staff Report:

One consideration related to establishing CUP terms is the estimated amount of time it takes for an operator to recoup its investment in the permitted operation. This can be referred to as the amortization of capital investment (ACI). Although there are several accounting methods that can be used to calculate amortization, in general, ACI occurs when cumulative income from an investment is sufficient to offset the initial capital investment and to provide a return on that investment to the owner.

(Staff Report at p. 4.)

The Staff Report then cites the Baker & O'Brien study titled, *Capital Investment Amortization Study for the City of Culver City Portion of the Inglewood Oil Field*, which concludes that the simple payback period for wells drilled prior to 1977 in the **Inglewood Oil Field**, was about five years, and that for wells drilled after 1977, ACI has allegedly "been achieved within a short time." (*Id.* at p. 5.)

Based on this single study, for a *different* oil field in a *different* municipality (Culver City), the Staff Report concludes that "a duration of 15 years for new and renewed CUPs (even independent of the possibility of an operator obtaining additional 15-year renewal periods), is reasonable to realize ACI depending on the capital investment and the price of oil during the time period." (*Ibid.*)

However, there are numerous flaws in the County's *sole* "consideration" for establishing 15-year CUP terms, i.e., the purported amount of time it takes for an operator to recoup its investment in the permitted operation, which is *solely* premised on the fundamentally flawed Baker & O'Brien report.

First, the Baker & O'Brien report ignores the substantial plugging and abandonment costs associated with operations in Culver City, which the proposed Zoning Amendments will substantially increase through the proposed bonding and insurance requirements. Wells are plugged and abandoned at the end of life of a field based on environmental and other regulations. The plugging and abandonment costs represent a significant capital investment to be incurred in the future, and to ignore those capital investments renders Baker and O'Brien's study economically



unsupportable and unreasonable. (See *Review of the Baker & O'Brien Report* by Robert Lang of Alvarez & Marsal, dated August 13, 2020 (“Lang Report 2020”), Section 64, attached hereto as **Exhibit 1.**) The Staff Report estimates that plugging and abandonment costs can average approximately \$143,300 per well. (Staff Report at p. 14.) It is impossible to determine when ACI will occur without including the costs of plugging and abandoning wells in the County, which, again, will be exacerbated by the County’s proposed increases to bonding and insurance requirements.

Second, the Baker & O’Brien study is not (1) unique to any particular property on the Inglewood Oil Field and (2) is not based on any actual data about any specific operator’s investment in the Inglewood Oil Field. This is troublesome since ACI must be “commensurate” with the *specific operator’s* “investment.” (*Elysium Institute, Inc. v. County of Los Angeles* (1991) 232 Cal. App. 3d 408, 436.) The County compounds these errors by applying the already flawed Baker & O’Brien study to *different oil fields* operated by *different operators* and does not even attempt to analyze or consider those operators’ specific investments in their oil fields.

Third, and finally, the Baker & O’Brien report does not consider the variability of the price of oil to establish when ACI occurs.

For all these reasons, the County’s *sole* “consideration” for establishing 15-year CUP terms – the Baker & O’Brien study – is fundamentally flawed, inapplicable, and does not support these arbitrary proposed terms.

Finally, separate from the flawed and irrelevant Baker & O’Brien study, the County has not identified any public health or safety reason to support the 15-year limits on new discretionary permits for oil and gas operations. While zoning and other land use controls may be a legitimate subject for legislative consideration under the police power, they must be “reasonable in object and not arbitrary in operation.” (*La Mesa v. Tweed & Gambrell Planning Mill* (1956) 146 Cal.App.2d 762, 768.) Thus, the police power is not “illimitable and the marking and measuring of the extent of its exercise and application is determined by a consideration of the question of whether or not any invocation of that power . . . is reasonably necessary to promote the public health, safety, morals or general welfare of the people of a community.” (*Miller v. Board of Public Works* (1925) 195 Cal. 477, 484; *accord Griffin Dev. Co. v. City of Oxnard* (1985) 39 Cal.3d 256, 272.)

However, the proposed term limits are not “reasonably necessary” to promote public health, safety, and general welfare of residents in the County. Indeed, the Planning Commission has not cited any studies demonstrating any negative public health or safety effects that would be resolved by these term limits. Instead, the sole reason the Planning Commission has proposed these term limits is because the Board of Supervisors directed the Resource Management Agency in November 2020 to “return to the Board with draft amendments to the NCZO and CZO addressing . . . limit[ing] new discretionary permits for oil and gas operations to 15 years.” (Staff Report at p. 1.)



But the Board of Supervisors' directive was not tied to any public health or safety concern that would be resolved by these arbitrary limits.

### **III. Increased Surety and Insurance Requirements Will Phase Out Production**

The proposed Zoning Amendments also substantially increase oil and gas bonding and insurance requirements. The County proposes three types of increased bonding requirements. First, the proposed Zoning Amendments impose Surface Restoration Surety requirements ranging from \$100,000 - \$10,000,000 depending on the number of wells (exclusive of properly abandoned wells). Second, the County has recommended Well Abandonment Sureties to reflect the alleged likelihood that some wells will be orphaned and to address the alleged impacts of orphaned wells. The proposed surety amount is \$36,000 per well not to exceed \$5 million for any single operator. Third, the County has recommended that operators provide a supplemental bond of \$15,000 for each Long-term Idle Well (not to exceed \$5 million for any individual operator) that has been idle for 15 years or more. However, as discussed below, these requirements will render oil and gas operations financially infeasible within the County, lack factual support, and are preempted by state law.

In addition, the County has proposed significantly increased insurance requirements without even attempting to estimate the costs for these insurance premiums. Taken together, the costs associated with the bonding and insurance requirements will make it impossible to continue operations in the County.

#### **A. Surface Restoration Surety**

The County has increased surety amounts to levels that would render oil and gas operations in the County financially infeasible, such that operators would have no choice but to end their operations. Currently, both the NCZO and CZO (Sections 8107-5.6.5 and 8175-5.7.8(e), respectively), state that "...a bond or other security in the penal amount of not less than **\$10,000.00** for each well that is drilled or to be drilled. Any operator may, in lieu of filing such a security for each well drilled, redrilled, produced or maintained, file a security in the penal amount of not less than **\$10,000.00** to cover all operations conducted in the County of Ventura..." Now, the County has proposed significantly increased Surface Restoration Sureties based on the number of wells, excluding properly abandoned wells, as set forth below:



**Table 1 – Surface Restoration Surety Categories**

Total Number of Active/Idle Wells per Operator	Number of Operators	Proposed Surface Restoration Surety
1-5	8	\$100,000
6-10	4	\$185,000
11-20	4	\$300,000
21-50	5	\$500,000
51-100	1	\$1 million
101-200	0	\$3 million
201-400	0	\$5 million
≥401	3	\$10 million

Source: Staff Report at p. 9.

As discussed in the attached statement of Bart LeFevre, CalNRG would be required to pay the entire amount of the proposed \$10 million surety (along with another \$10 million for the well abandonment sureties) in collateral to the underwriting firm, which is prohibitively expensive and not financially feasible.

### **B. Well Abandonment Surety**

The County has also created a new Well Abandonment Surety to ensure that sufficient funds exist for the operators’ wells to be properly plugged and abandoned. According to the Staff Report, “staff is recommending a Well Abandonment Surety of \$36,000 per well, not to exceed \$5 million for any individual operator, which is approximately 25 percent of the estimated costs of closure per well (i.e., \$143,300 multiplied by 0.25).” (Staff Report at 15.) This new surety will compound the financial effects of the increased Surface Restoration Sureties.

Critically, the County’s justification for the proposed Well Abandonment Surety is devoid of factual support. For example, the County contends that this surety “reflect[s] the likelihood that some wells in unincorporated Ventura County will be orphaned and that the State will lack adequate resources to properly and timely plug and abandon them.” (Staff Report at p. 10.) Likewise, the County states that “staff is recommending this surety to address the negative impacts that orphaned wells pose to the environment, human health and safety, and the potential impairment of subsequent use or redevelopment of the affected land.” (*Ibid.*) And yet the County simultaneously concedes that “orphan wells must be formally identified by CalGEM, and ***none have yet been formally identified in the County.***” (*Id.* at p. 3.) Given that CalGEM has not identified a *single* orphaned well in the County, the Planning Commission has *zero* factual support for its contention that a Well Abandonment Surety is necessary to address alleged impacts associated with orphaned wells. Thus, the proposed Well Abandonment Surety is wholly unsupported by any evidence.



### **C. Long-Term Idle Well Abandonment Supplement Surety**

The Planning Commission is also recommending a requirement that operators provide a supplemental bond of \$15,000 for each Long-term Idle Well (not to exceed \$5 million for any individual operator) that has been idle for 15 years or more. Again, this new surety in combination with the Surface Restoration Surety and Well Abandonment Surety will significantly increase the cost of operating in Ventura County by millions of dollars such that it is no longer financially feasible to operate in the County. While the County claims that these various sureties are intended to address purported environmental risks posed by orphaned and idled wells, the County offers no evidence to support those contentions. Instead, the County's feigned concerns are just a pretense to penalize an industry that has contributed millions of dollars to the local and state tax base and phase out oil and gas production in the County solely due to political reasons. But the County's attempts to end production in the County through the proposed Zoning Amendments are not in touch with the will of the electorate, which soundly rejected the County's previously proposed Zoning Amendments.

### **D. Surety Requirements are Preempted**

The County's efforts to increase surety requirements are also preempted because they duplicate and enter an area that is fully occupied by state law, and they frustrate a statutory purpose of increasing the ultimate recovery of hydrocarbons.

Local legislation conflicts with state law where it "duplicates, contradicts, or enters an area fully occupied by general law, either expressly or by legislative implication." (*Sherwin-Williams Co. v. City of L.A.* (1993) 4 Cal.4th 893, 898.) Local legislation conflicts with state law where it "duplicates, contradicts, or enters an area fully occupied by general law, either expressly or by legislative implication." (*Id.* at 897.) Local legislation is "duplicative" when it is coextensive of state law. (*Ibid.*) In addition, legislation enters an area that is "fully occupied" by state law when the legislature expressly or impliedly manifested an intent to occupy the area. (*Ibid.*)

Here, state law already regulates areas of law that the proposed Zoning Amendments attempt to regulate. For example, with respect to the Surface Restoration Sureties, the restoration of oil and gas sites is thoroughly regulated and enforced by CalGEM through California Code of Regulations, title 14, section 1776. That state regulation requires well sites to be returned to as near a natural state as practicable within 60 days of plugging and abandonment of any oil well. Section 1776 also contains specific restoration requirements, including the plugging of any holes, removal of ground pipelines, debris, and other facilities and equipment, closing of sumps, and mitigation of slope conditions.

In addition, regardless of the Well Abandonment Surety and Idle Well Abandonment Supplement Surety, Public Resources Code section 3206.1 already mandated CalGEM to review, evaluate, and update its regulations pertaining to idle wells. These regulations implement new



testing requirements for idle wells and provide specific parameters for testing. (Cal. Code Regs., tit. 14 §§ 1772.1, 1772.1.4.) The regulations provide a 6-year compliance period for testing wells idle as of April 1, 2019 and a Testing Waiver Plan for those wells that an operator commits to plugging and abandoning within eight years. (*Id.*, § 1772.2.) Operators are also required to submit an idle well inventory and evaluation for each of their idle wells. (*Id.*, § 1772.) The regulations also provide requirements for monitoring and mitigating inaccessible idle wells, a regulatory definition for partially plugging idle wells, and requirements for operators to submit a 15-Year Engineering Analysis for each idle well idle for 15 years or more. (*Id.*, §§ 1772.1.2, 1772.4.)

These comprehensive requirements evidence a clear intent by the state to uniformly regulate the restoration of oil and gas sites, including the plugging and abandonment concerns addressed by the Well Abandonment Surety. The County’s attempt to regulate these activities enters an area fully occupied by state law and is therefore preempted. (*Sherwin-Williams, supra*, 4 Cal.4th at 989.)

Furthermore, these sureties are preempted because they “duplicate” “an area fully occupied by general law, either expressly or by legislative implication.” (*Sherwin-Williams, supra*, 4 Cal.4th at 897.) Indeed, the Staff Report notes that “[p]ursuant to Assembly Bill (AB) 2729 (2016), several new bonding and fee payment provisions were created to address the State’s liability to properly plug and abandon wells that are orphaned by operator bankruptcy or failure to act.” (Staff Report at p. 5.) For example, AB 2729 already requires:

1. Updated bond requirements for operators when they drill, re-drill, deepen, or permanently alter any well or any operator acquires a well.
2. Bonds intended to address the state’s liability to properly plug and abandon wells that are orphaned by operator bankruptcy or failure to act.
3. Operators must file a \$25,000 bond with CalGEM for a well less than 10,000 feet deep and \$40,000 for each well that is greater than or equal to 10,000 feet deep; alternatively, an operator can file a blanket indemnity bond based on the number of wells they own (ranging from \$200,000 for 50 or fewer wells and \$3 million for more than 10,000 wells).
4. Idle well fees, which increase based on the length of time a well is idle (ranging from \$150 for 3-7 years idle to \$1,500 for 20 or more years idle).
5. An operator of an idle well must pay an annual fee or file an Idle Well Management Plan, which outlines the operator’s plan to manage and eliminate (i.e., either plug and abandon or bring back into production) their idle wells. Idle well fees are paid into the Hazardous and



Idle-Deserted Well Abandonment Fund, which CalGEM uses to plug and abandon orphan wells and plug and/or decommission hazardous wells or production facilities.

In addition, AB 1057 (2019) authorizes CalGEM to require an operator filing an individual or blanket indemnity bond to provide an additional amount of security based on CalGEM's evaluation of various risks. The amount cannot exceed the lesser of CalGEM's estimate of the reasonable costs of properly plugging and abandoning all of the operator's wells and decommissioning any attendant production facilities, or \$30,000,000.

Furthermore, SB 84 (2021) revises and enhances the legislative reporting requirements of CalGEM's idle oil and gas well program. It also requires CalGEM's Supervisor to provide the Legislature with a report detailing the process used by the state to determine that the current operator of a deserted well does not have the financial resources to fully cover the cost of plugging and abandoning the well or the decommissioning of deserted production facilities.

In addition, the Ventura County Air Pollution Control District has extensive rules regarding the methane and other air quality concerns that the County purportedly seeks to address by its new surety requirements. (See, e.g., Ventura County APCD, Rules 71.1, 74.16.) "The Legislature has designated regional air pollution districts as the primary enforcers of air quality regulations." (*So. Cal. Gas Co. v. So. Coast Air Quality Mgmt. Dist.* (2012) 200 Cal.App.4th 251, 269.) And in fact, these rules are actively implemented and enforced by the APCD. The County lacks the statutory authority or justification to impose unnecessary surety requirements that are intended to address issues that the Legislature has already delegated to other agencies.

All of these statutory provisions demonstrate that the County's attempts to impose increased sureties are duplicative of bonding and related requirements already enacted by the Legislature. Accordingly, they are preempted as duplicative of state law. (*Sherwin-Williams, supra*, 4 Cal.4th at 897.) The Staff Report asserts, based on an unsupported citation to a "[p]ersonal communication" with the State Oil and Gas Supervisor, that these requirements are supported by CalGEM and within the County's jurisdictional authority. Even if these assertions were reasonable interpretations of whatever communication occurred (which seems unlikely), the jurisdictional authority of CalGEM to regulate oil and gas operations is set by statute, and cannot be disavowed by the agency. The Legislature has set in place a detailed statutory regime, as clarified by more detailed regulations adopted by CalGEM, and the County cannot impose duplicative requirements that lack any rational nexus to local concerns that are within the County's authority.

Finally, since these sureties will have the effect of phasing out oil and gas production in the County – which is an activity that a "statute or statutory scheme seeks to promote," they impermissibly "frustrate[] the statute's purpose" and are therefore preempted. (*Great W. Shows, Inc. v. Cnty. of L.A.* (2002) 27 Cal.4th 853, 867–870.) Indeed, California law vests complete authority in CalGEM to "supervise the drilling, operation, maintenance, and abandonment of wells ***so as to permit owners or operators of wells to utilize all methods and practices known to the oil***



*industry for the purpose of increasing the ultimate recovery of underground hydrocarbons and which, in the opinion of the supervisor, are suitable for this purpose in each proposed case.”* (Pub. Res. Code §3106, subd. (b).) Rather than “increase[e] the ultimate recovery of underground hydrocarbons,” the proposed sureties will have the opposite effect, and therefore frustrate the purpose of Public Resources Code section 3106. And by making continued oil operations prohibitively expensive in Ventura County, the County will only make it difficult or impossible for operators to continue the aggressive well abandonment schedule that has been effectively encouraged by CalGEM’s regulations.

### **E. Insurance Requirements**

The current versions of the NCZO and CZO (Section 8107- 5.6.12 and 8175-5.7.8(l), respectively), require that “the permittee shall maintain for the life of the permit, liability insurance of not less than \$500,000 for one person and \$1,000,000 for all persons and \$2,000,000 for property damage. This requirement does not preclude the permittee from being self-insured.” Now, the County has proposed increasing these requirements as follows:

- General Liability for Oil & Gas Businesses: General Liability, with at least \$2,000,000 each occurrence and \$4,000,000 general aggregate;
- Environmental Impairment: Pollution Liability Policy with coverage not less than \$10,000,000.
- Control of Well: (initial drill or well modification) coverage of a minimum of \$10,000,000 per occurrence.
- Excess (or umbrella) Liability Insurance: providing excess coverage for each of the perils insured by the preceding insurance policies with a minimum limit of \$25,000,000.

According to the County, these increases are “required to address potential operator liabilities and environmental damage arising from oil and gas operations.” (Staff Report at p. 6.) And yet the County does not cite any evidence to support its assumption that “operator liabilities” and “environmental damage” allegedly associated with operations have substantially changed such that increased insurance requirements are now warranted.

Moreover, the County incorrectly contends that it is within its police power to increase these insurance requirements because they “would not alter or otherwise impair an operator’s ability to produce oil and conduct its operations under its existing CUPs.” Not true. The increased insurance and bonding requirements will render oil and gas operations in the County financially infeasible such that operators like CalNRG can no longer “produce oil and conduct . . . operations” under existing CUPs. Quite tellingly, the County does not even attempt to analyze or consider the costs of



premiums associated with these increased insurance requirements; instead, the County erroneously contends that “it is not possible to provide accurate cost estimates for insurance premiums.”

These proposed amendments are grossly disproportionate to any practical need or justification. Accordingly, CalNRG requests that the Planning Commission withdraw its recommended actions that the Board of Supervisors adopt the proposed Zoning Amendments. To the extent that the County can identify an actual need to pursue these issues, CalNRG also requests that the Commission direct County staff to engage in a meaningful constructive dialogue with the local oil and gas industry and to return with provisions that have some legal and factual support. As currently written, not only are the proposed Zoning Amendments unlawful, they also contradict the will of the very people who elected the Board of Supervisors into office. The electorate spoke on the June 2022 ballot – the County should listen to its voters, not turn its back on them.

Sincerely,

A handwritten signature in black ink, appearing to read "Clif Simonson", written over a horizontal line.

Clif Simonson  
President & COO

# **ATTACHMENT**

**Statement by Bart LeFevre**

I am the Co-Founder, President and CEO of INpower Global Insurance Services, a specialty insurance brokerage & risk management firm, established in 2008. I have over 25 years of experience in the insurance brokerage industry, providing loss mitigation and risk management services to companies in the areas of commercial real estate, marine/energy, alternative energy, transportation and manufacturing.

I have reviewed the requirements for surety and insurance coverages that are proposed in the zoning amendments for consideration by the Ventura County Planning Commission on July 28, 2022. Based on my experience in procuring surety bonds and insurance policies for oil and gas companies throughout California, including in Ventura County, the required surety and insurance coverages will be prohibitively expensive for the majority of independent oil and gas companies currently operating in Ventura County.

The hostile political and regulatory environment in California has also made it more difficult to find carriers that would be willing to issue bonds and insurance products for oil development activities. As a result, we are also seeing unprecedented pricing increases and diminished capacity.

Even if an insurers' underwriting department approves a bond that would satisfy the proposed zoning amendments, the operator would likely need to provide 100% collateral in order to satisfy the underwriting requirements. This amount of collateral is not feasible for most operators in the County, especially independent operators.

The proposed amendments also do not specify whether a surety bond can be cancellable. When a surety bond is not cancellable, underwriters are extremely reluctant to issue a bond.

Sincerely,



Bart LeFevre  
Chief Executive Officer

# **EXHIBIT 1**



## REVIEW OF THE BAKER & O'BRIEN REPORT

BY ROBERT LANG

August 13, 2020

*R+L*

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## INTRODUCTION

1. I was retained by Sentinel Peak Resources LLC, on behalf of Sentinel Peak Resources California LLC (“SPR”) to review and provide opinions regarding the Baker & O’Brien report dated May 29, 2020 and titled Capital Investment Amortization Study for the City of Culver City Portion of the Inglewood Oil Field (“B&O Report” or “B&O”).
2. The analyses upon which I have based my opinions, as outlined in this report, have been performed by me or by individuals working under my direction and supervision.
3. Founded in 1983, Alvarez & Marsal (“A&M”) is a global professional services firm that helps clients in the corporate and public sectors solve financial and related problems. A&M has 53 offices located in 24 countries and 65 offices with more than 4,500 professionals. I am a Managing Director at A&M. I am experienced in financial, economic damage, and accounting matters related to the scope of my work on this matter. For more than 25 years, I have helped clients analyze complex commercial disputes and measure the financial impact of external events, operational changes, and other market factors.
4. I received a B.B.A. from Baylor University and am a CFA (Chartered Financial Analyst) charterholder. I am a frequent guest lecturer in the Graduate Accounting program at Baylor University, where I also serve on the Advisory Board for the Accounting and Business Law department.
5. I have assisted companies across a wide variety of industries and have a particular expertise in the energy industry, dealing with matters throughout the product life cycle. I have assisted oilfield services, exploration and production (E&P), midstream, and downstream entities with valuation issues, transaction support/analysis, business interruptions, royalty disputes and many other matters.
6. Many of my cases also involve the measurement of value and quantifying the creation or destruction of value. I have analyzed the value of entities and assets ranging from oil & gas operations to steel mills to complex securities to the world’s largest cancer tumor bank. I have performed these assignments for clients in the US, Canada, Mexico, South America, the Middle East and Asia.
7. My resume at Attachment A provides a summary of my experience and credentials.

## INFORMATION CONSIDERED

8. Attachment B provides a list of the documents and information I have considered in preparing my report and supporting analyses. I may supplement and amend the opinions in this report in response to additional information received including the actual income models, supporting workpapers and document references cited by the B&O Report or to address issues raised later.

## LEGAL FRAMEWORK

9. This report is to be considered in conjunction with the legal framework set forth in the letter submitted simultaneously by Alston & Bird LLP dated August 13, 2020.
10. As described in that letter, an existing use to extract natural resources (diminishing asset) cannot be eliminated through an amortization period because vested rights for a diminishing asset include an expansion of the use. To the extent that some form of amortization could apply to a diminishing asset, the fair market value to be amortized would be required to consider the expanded use, among other factors.

## SUMMARY OF OPINIONS

- A. **The B&O Report does not establish fair market value for the use of a diminishing asset, including the life of the Inglewood Oil Field, and is therefore irrelevant to determine any amortization period.**
- B. **The concept of Amortization of Capital Investment used in the B&O Report is inappropriate and irrelevant in the context of this matter.**
- C. **Even if Amortization of Capital Investment was appropriate or relevant, both ACI calculations performed by B&O contain numerous errors and false/unsupported assumptions that render the conclusions completely unreliable.**

## INTERESTED PARTIES

11. Founded in 1917, the City of Culver City (the "City") is an incorporated city in Los Angeles County in California and is within a few miles of downtown Los Angeles and the Los Angeles International Airport.

12. In 2016, SPR acquired the rights to multiple leases that allows it the exclusive right to explore, drill, and produce oil and gas in the Inglewood Oil Field (“IOF”) which covers approximately 1,000 acres. This also includes acreage in the City limits (“City IOF”), which covers about 78 acres.
13. As noted, SPR does not actually own the IOF minerals, rather it leases the minerals from mineral owners. SPR pays royalty amounts to the property owners based on production value received. Tens of millions of dollars in royalty payments are paid to over 13,000 property owners of the IOF each year.<sup>1</sup>
14. In addition to paying royalties, SPR pays ad valorem taxes to Los Angeles County and fees to the City. In 2015, the IOF was a source of over \$12 million in ad valorem taxes paid to Los Angeles County.<sup>2</sup> SPR has paid fees of approximately \$340,000 to the City since 2018.

### **SUMMARY OF THE B&O REPORT**

15. B&O was hired by the City to prepare a study of the amortization of capital investment (“ACI”) for existing oil and gas production facilities located in the approximately 78-acre portion of the City IOF. The B&O Report states the information developed by its report will be considered by the City in its review of the possible termination of oil and gas operations within the City IOF.
16. A calculation of ACI first establishes the amount of capital investment as of a certain date and then projects cash flows forward from that date to determine when there have been sufficient cash flows to cover both the capital investment and a “reasonable” rate of return. B&O defines ACI as occurring when,

*“cumulative income from an investment is sufficient to offset the initial capital investment and to provide a return on that investment to the owner. The income model uses the Internal Rate of Return and Net Present Value as tests to determine when ACI would occur.”*

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<sup>1</sup> Future of the Inglewood Oil Field, available at <https://inglewoodoilfield.com/history-future/future-inglewood-oil-field/>

<sup>2</sup> Future of the Inglewood Oil Field, available at <https://inglewoodoilfield.com/history-future/future-inglewood-oil-field/>

Thus, in calculating the time to ACI, B&O is considering the initial investment and an IRR or required rate of return.

17. B&O prepared two different approaches to estimate the time to ACI. The first approach estimates the capital investment made by SPR in 2016 and then projects SPR's cash flows from that date forward to develop a time to ACI ("SPR ACI Model"). The second approach utilizes historical transaction data relating to all owners dating back to 1977 and attempts to estimate time to ACI related to those historical capital investments ("All Owners ACI Model"). B&O additionally performs a sensitivity analysis related to the SPR ACI Model.

#### **A. SPR ACI Model**

18. Because the City IOF is a relatively small piece of SPR's total acquisition of the Inglewood Oil Field, B&O estimated the amount of SPR's capital investment specific to the City IOF. B&O attempted to back into the amount of that capital investment by performing a valuation of the City IOF utilizing three valuation methods (Section 6 of the B&O Report). B&O then developed a ten-year cash flow projection spanning mid-year 2017 through 2026. B&O utilized this cash flow analysis to determine when SPR would achieve ACI. B&O determined ACI was achieved in 2020 (Section 6 of the B&O Report). As will be described in more detail later in this report, not only is this approach inappropriate in its entirety, even if this approach was appropriate, both B&O's estimate of capital investment and projection of cash flows are fatally flawed and rife with inaccuracies and false assumptions.

#### **B. All Owners ACI Model**

19. B&O performed a second calculation of ACI to determine how long it would take the various oil and gas operators that drilled and completed wells within the City IOF since 1977 to achieve ACI (Section 7 of the B&O Report). B&O did this by using historical production data related to previous operators of the City IOF to determine the amount of capital investment. B&O utilizes a similar income model as previously described in order to estimate how long it took the prior owners to achieve ACI.
20. The B&O Report determined that the string of investors drilling and completing wells since 1977 achieved ACI "well before 2016." It also appears that B&O is concluding that all wells drilled

prior to 1977 achieved ACI by 1976. The All Owners ACI Model is similarly flawed to the SPR ACI Model and should be likewise disregarded.

## ANALYSIS AND OPINIONS

### **The B&O Report does not establish fair market value of a diminishing asset, nor does it establish a fair market value for the City IOF.**

21. The B&O report calculates a time to ACI for the City IOF and does not develop a fair market value for the value of a diminishing asset or other measure for the value of the City IOF. The California State Board of Equalization (“CSB”) defines fair market value as:

“the price at which a property, if exposed for sale in the open market with a reasonable time for the seller to find a purchaser, would transfer for cash or its equivalent under prevailing market conditions between parties who have knowledge of the uses to which the property may be put, both seeking to maximize their gains and neither being in a position to take advantage of the exigencies of the other.”<sup>3</sup>

22. The CSB Handbook also identifies the three acceptable methods on how to calculate fair market value; the market approach, the cost approach, and the income approach. In the oil and gas exploration industry, all three approaches are considered, but the first two methods have inherent limitations. Therefore, the oil gas industry heavily relies on the income approach.

23. The fair market value of an oil field at any given time, such as the IOF and City IOF, is related to the amount of oil and gas that can be expected to be recovered over the life of the oil field. There are three categories of reserves; proved reserves, probable reserves, and possible reserves. While each of the categories have value, proved reserves are the most certain and most valuable, for which I will focus on in this section.

24. To determine fair market value of proved reserves, reserve reports are developed to determine how much oil and gas production can be reasonably extracted and at what cost and when cash flow will go out and cash flow will come in. Based on the reservoir characteristics and other factors, engineers will determine how many wells need to be drilled and when/where/how they

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<sup>3</sup> California State Board of Equalization, Assessor’s Handbook Section 566 Assessment of Petroleum Properties, August 1996, (“CSB Handbook”), page I-21.

should be drilled. The reserve report is typically based on a discounted cash flow calculation (income model). Inputs into discounted cash flow model estimates include:

- Expected product in the ground that can be produced, along with what price it may receive (revenue) and when
- Expected development costs to drill wells and get them ready to produce (initial capital investment)
- Sustaining capital investments required to maintain production capacity
- Operating expenses
- Income taxes
- Royalties due
- Abandonment costs
- Discount rate to estimate a current value of a future cash flow stream based on the above estimated data inputs

25. The status of proved reserves also have subcategories including:

- Proved, developed and producing (“PDPs”) – Wells and facilities that are in place and producing at the time of an estimate
- Proved, developed, but not producing (“PDNPs”) – Wells and facilities that are in place, but are not producing at the time of an estimate (i.e., idle wells). The well or zone is currently not producing, but requires little or no investment to be brought to production
- Proved, but undeveloped (“PUDs”) – Wells that have been proved but would require significant capital expenditure for the well to come on to production.

26. Over time, reserve reports are adjusted as new data is learned, such as the amount of oil and gas actually being produced, new technology, current pricing conditions that may make it more or less economic to drill new wells that were previously scheduled to be drilled, or to idle wells that have already been drilled because they are uneconomic at current sale prices. In fact, some wells that were idle may be turned to active wells if prices increase that make it profitable. In addition, existing wells that were idle can be re-drilled with new technology that make them profitable once again. Companies will continue to allow wells to produce if it makes economic sense, even if the production volumes are minimal.

27. When companies sell oil & gas assets, the fair market value is based not only on what existing wells and equipment are currently in place, but also the future value to be derived through the life of the oil field as represented in the various categories of proved reserves, probable reserves, and possible reserves.
28. B&O has not performed an analysis of the current fair market value of the reserves and operations of the City IOF. Instead, they have attempted to back in to SPR's initial capital investment and then determine how long it would take for SPR to recover its sunk costs plus a reasonable rate of return. B&O refers to this as ACI. B&O's ACI is unrelated to and entirely divorced from fair market value of a diminishing asset or the IOF or City IOF.
29. One of the reasons B&O's ACI is unrelated to fair market value is that it ignores everything but the PDPs. Because it is only interested in determining the sunk capital costs and how long it would take to recover those costs, B&O's ACI ignores the consideration given and value of the other categories of reserves such as PDNPs and PUDs, or probable or possible reserves. This serves to significantly understate the value of the City IOF and the diminishing asset.
30. To demonstrate the magnitude of error, SPR's website states since the inception of the IOF in 1924, which covers about 1,000 surface acres, approximately 1,600 wells have been drilled, producing more than 400 million barrels of oil. Production over the last 10 years has averaged between 2.5-3.1 million barrels a year.<sup>4</sup> With technological advances in the oil and gas industry, engineers estimate that as much as 50% of the field's oil resources remain in place in producing zones and can be readily accessed through drilling and production activities.<sup>5</sup> Considering there is possibly 400 million barrels of oil still in the ground, which would include reserves within the City IOF, SPR would certainly consider drilling new wells and/or work over current wells to continue production in the City IOF. As a result, the B&O Report does not calculate a fair market value of the City IOF.

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<sup>4</sup> Future of the Inglewood Oil Field, available at <https://inglewoodoilfield.com/history-future/future-inglewood-oil-field/>

<sup>5</sup> Future of the Inglewood Oil Field, available at <https://inglewoodoilfield.com/history-future/future-inglewood-oil-field/>

**The concept of amortization is inappropriate and irrelevant in the context of a diminishing asset and the City IOF.**

31. Amortization has been referenced by the Supreme Court of California in a decision involving extractive industries, for which the oil and gas exploration and production industry would be included. However, that same court case stated that the state of California recognizes the “diminishing asset doctrine” as it relates to extractive industries.<sup>6</sup>
32. I understand the diminishing asset doctrine protects owners’ rights to value in a property even if city ordinances or zoning laws change the allowed use of that property. For operations that were not yet built, the owner has the vested right to continue and expand operations if it had objectively manifested the intent to expand its operations into those areas as of the rezoning dates.<sup>7</sup>
33. In other words, the California Supreme Court has concluded that extractive industries, such as the oil and gas industry, have the right to normal expansion of its operations in the aggregate. The diminishing asset doctrine protects explicit value associated with the continued development and exploration in an oil field and this value must be taken into account.
34. On SPR’s website, it states since the inception of the IOF in 1924, which covers about 1,000 surface acres, approximately 1,600 wells have been drilled, producing more than 400 million barrels of oil.<sup>8</sup> Production over the last 10 years has averaged between 2.5-3.1 million barrels a year.<sup>9</sup> With technological advances in the oil and gas industry, engineers estimate that as much as 50% of the field’s oil resources remain in place in producing zones and can be readily accessed through drilling and production activities.<sup>10</sup> Considering there are possibly 400 million barrels of oil still in the ground, SPR would certainly consider drilling new wells and/or work over current wells to continue production. This has been publicly stated on SPR’s website for all the world to see.

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<sup>6</sup> Hansen Brothers Enterprises, Inc. v. Board of Supervisors (1996)

<sup>7</sup> Hansen Brothers Enterprises, Inc. v. Board of Supervisors (1996)

<sup>8</sup> History of the Inglewood Oilfield, available at <https://inglewoodoilfield.com/history-future/history-inglewood-oilfield/>

<sup>9</sup> Future of the Inglewood Oil Field, available at <https://inglewoodoilfield.com/history-future/future-inglewood-oil-field/>

<sup>10</sup> Future of the Inglewood Oil Field, available at <https://inglewoodoilfield.com/history-future/future-inglewood-oil-field/>

35. In addition, both the previous operator and SPR have provided annual reports to the Baldwin Hills Community Standards District (“CSD”) related to its drilling operations for the upcoming year. I noted in these annual reports the following:
- The 2017 Plan prepared by Freeport McMoRan and filed with and approved by the CSD stated it intended to drill/re-drill 53 wells in 2017.
  - The 2018 Plan prepared by SPR and filed with and approved by the CSD stated it intended to drill/re-drill 10 wells in 2018. Based on discussions with SPR, it did not perform all of these activities due to then current oil and gas prices.
  - The 2019 Plan prepared by SPR and filed with and approved by the CSD stated it intended to drill/re-drill 10 wells in 2019. Based on discussions with SPR, it did not perform all of these activities due to then current oil and gas prices.
  - The 2020 Plan prepared by SPR and filed with and approved by the CSD stated it intended to drill/re-drill 10 wells in 2020. Based on discussions with SPR, it does not expect to drill/re-drill these wells due to current oil and gas prices.
36. Excluding bonus wells, the 2020 Plan shows that only 127 wells have been drilled, leaving an additional 373 wells that SPR could drill under the settlement agreement, which permits drilling activity through October 1, 2028 or during the remaining life of the CDS, *whichever is later*. Based on discussions with SPR, it has not expressed an intent to abandon its rights to drill these additional wells within the County IOF or City IOF, rather it has delayed drilling due to continued suppressed oil and gas prices.
37. The B&O Report did note that SPR had not drilled the wells it planned in 2017-2020. However, B&O has not expressed an opinion that this lack of drilling as scheduled allows the City to claim SPR has lost its vested right. It is my understanding that SPR does not lose its vested right to drill any future wells because it didn’t drill the wells in the year it planned. B&O’s Report has no justification to ignore the value of the City IOF protected by the diminishing asset doctrine. The ACI as developed by B&O is incapable of measuring this value that should be considered.
38. On a side note, Section 4.2 of the B&O Report states that SPR has not provided any drilling plans for the City IOF that present information about historical production, planned drilling of new wells, or planned abandonment of wells not issued any drilling plans for the City IOF. B&O ultimately concludes that it appears unlikely that SPR will drill new wells within the City IOF or

plan to plug and abandon wells that are currently idle or shut in. First, as noted by the City itself, the City regulations do not require SPR to make such reports to the City.<sup>11</sup> Second, SPR has not abandoned any rights to drill/redrill within the City IOF, it just postponed any drilling/redrilling activities due to suppressed pricing.

**Even if amortization was appropriate or relevant (which it is not), the SPR ACI Model contains so many errors and false/unsupported assumptions as to render the analysis completely unreliable.**

39. As previously described, ACI is not equivalent to fair market value for a diminishing asset, the IOF or City IOF, or oil & gas operations generally.
40. B&O has not provided all the data and supporting schedules supporting its conclusions, but even without that information, it is clear that in addition to being inappropriate and irrelevant, the B&O model is riddled with data input errors and/or false/unsupported assumptions. Following is a listing of the errors I have identified to date.

#### **A. Errors Related to B&O's Determination of SPR's Initial Capital Investment**

41. In order to calculate SPR's initial capital investment, B&O looked at three "indications of value" the income indication of value, the cost indication of value, and the market indication of value. These three approaches are traditionally considered when determining the fair market value of an asset. However, B&O made numerous errors in assessing each indication of value, and then inappropriately averaged the three indications instead of using them as a guide to determine the best indication of value. As a result, B&O severely underestimated the fair market value that SPR paid for the City IOF.
42. B&O's own sensitivity tests in section 8 of the B&O Report show as the acquisition cost or initial capital investment increases, the time to ACI increases as well. B&O identifies changes to the initial capital investment as having a "moderate" impact on the time to achieve ACI. Thus, this

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<sup>11</sup> Comparison of Proposed Culver City Drilling Regulations to Existing City Regulations and Approved County Community Standards District (CSD) and Settlement Agreement, dated 10/5/2017 from City of Culver City website, available at <https://www.culvercity.org/home/showdocument?id=9884>

inappropriate underestimation in the value of the initial capital investment has a meaningful impact in decreasing the time frame that SPR could achieve ACI.

- i. B&O inappropriately calculated the Income Indication of Value Related to the Initial Capital Investment in the City IOF.

43. Section 6.1.1 of the B&O Report states it prepared a discounted cash flow model based on future income and expenses from the City IOF which resulted in a fair market value of the City IOF of \$5.34 million as of January 1, 2017. As discussed on page 15 of its report, B&O only considered wells that existed as of SPR's acquisition date in 2016 for which it identified only 41 production and injection wells that existed as of 2016 (as noted on Exhibit E to its report). As a result, B&O makes no consideration of PDNPs, PUDs, probable reserves, or possible reserves. By ignoring reserves, B&O's determination of the fair market value of the City IOF using the income method is understated and cannot be relied upon.

44. Further, B&O calculated cash flows for ten years from the date of purchase to estimate the income indication of value. However, all of these wells have lifespans greater than a ten-year period. In actuality, wells identified in Exhibit E of the B&O Report have been in existence for an average of 58 years in the case of operating wells and 41 years in the case of injection wells (as seen in Exhibit 1). B&O provides no support to only value 10 or more years of remaining production, which is in contrast to the long history of the operating wells identified.

- ii. B&O provided no support for its Cost Indication of Value Related to the Initial Capital Investment in the City IOF.

45. Section 6.1.2 of the B&O Report states that it determined the functional replacement value ("FRV") for the oil and gas production wells within the City IOF in 2017 was \$15.1 million and the deferred replacement value ("DRV") was \$3.00 million. It used the DRV as one of the three indicators of value for the fair market value of the City IOF as of January 1, 2017. While B&O does provide a short description of deferred replacement cost, it did not provide a description of what it considers functional replacement value. In addition, it provided no support on how it calculated either FRV or DRV or why it chose DRV as its cost indication of value. B&O further stated it has not visited the site to determine the condition of the wells. In short, B&O has provided no support on its calculation of the cost indication of fair market value.

46. In addition to providing no support for the FRV and DRV values it calculated there is no indication that B&O placed a value on PUDS, probable reserves and possible reserves or equipment serving the City IOF that is in the County IOF.

iii. The Market Indication of Value of the City IOF Prepared By B&O is grossly oversimplified and unreliable.

47. As noted by B&O, the market approach uses similar transactions to try to infer a fair market value for a subject property such as the City IOF. B&O stated they found a small number of potential transactions, but there was insufficient public information available to make suitable adjustments to derive a supportable market indication of value.

48. As a result, B&O attempted to use the SPR/Freeport-McMoRan ("FCX") transaction in 2016 that involved numerous different and differentiating properties to estimate the City IOF fair market value. In B&O's attempt to create a market indication of fair market value for the City IOF, they determined the total sales price of the SPR/FCX transaction was \$742 million (per Exhibit I of their report). B&O states that the total production from all of the properties that SPR purchased produced 28,000 barrels of crude oil per day ("BPD") in 2017 and the City IOF crude production (apparently based on the 41 City IOF wells it identified) was only 211 BPD. Utilizing nothing more than rudimentary math, B&O determined that  $211 \text{ BPD} / 28,000 \text{ BPD} = .75\%$ . As a result, B&O assumed the City IOF purchase price was .75% of the \$742 million purchase price (and resulting fair market value), or \$5.59 million.

49. There are several items inherently wrong with B&O's market value method. There is not enough public information to ensure that it a reasonable market value indicator. For instance, B&O cannot make any adjustments for the size of the reservoirs that SPR purchased in multiple locations, the condition of the equipment, the quality of the crude, transportation costs and ultimate netback pricing or operating costs nor any of the other relevant data points as noted in paragraph 24 of my report. As noted in FCX's 2015 10-K, there are significant differences in the quality and cost of the crude as noted below:

*"Onshore California.* FM O&G's onshore properties are located in the Los Angeles Basin and San Joaquin Basin. FM O&G holds a 100 percent working interest in the majority of its onshore positions including the Inglewood, Las Cienegas, Montebello, Packard and San Vicente fields in the Los Angeles Basin, and the Cymric, Midway Sunset, South Belridge, and North Belridge fields in the San Joaquin Basin. The Los Angeles Basin properties are characterized by light crude

oil (21 to 32 degree American Petroleum Institute (API) gravity), have well depths ranging from 2,000 feet to over 10,000 feet and include both primary production and secondary recovery using waterflood methods (whereby water is injected into the reservoir formation to displace residual oil), where producing wells have a high ratio of water produced compared to total liquids produced (high water cuts). The San Joaquin Basin properties are characterized by heavier oil (12 to 16 degree API gravity) and shallow wells (generally less than 2,000 feet) that require enhanced oil recovery techniques, including steam injection.”<sup>12</sup>

50. Therefore, B&O’s analysis using the market indication of value is unreliable. Additionally, it only addressed PDPs and did not address PDNPs, PUDs, probable reserves and possible reserves and these related costs. As a result, even if allocating the SPR/FCX production volumes was a reasonable methodology, it severely understates the number of wells and equipment, which understates the fair market value.

iv. B&O provides no support for why it averaged three different methods of calculating fair market value.

51. On page 25 of its report, B&O weighted the three methods of determining the fair market value of the IOF giving each method equal weighting of 1/3 to determine the fair market value of the City IOF as of January 1, 2017 without providing any explanation. In fact, the CSB specifically states not to use the simple mathematical average to reach a conclusion.<sup>13</sup> Typically in fair market valuation calculations, one will choose one method over another. This approach of just averaging the three methods to determine the value is inappropriate and unusual.

52. Further, by averaging the three methods B&O significantly depresses their assumed investment as the cost indication of value calculated an indication of value over 44% lower than the other two measurements of value. This greatly depresses B&O’s initial indication of value of SPR’s investment, and as previously stated, decreased the time to ACI.

## **B. Errors Related to B&O’s Determination of SPR’s Cash Flows**

53. B&O estimated SPR’s expected cash flow from January 1, 2017 forward by multiplying estimated production volumes from the City IOF wells that existed as of January 1, 2017 times B&O’s estimate of expected sales prices. B&O then estimates the costs associated with the ongoing

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<sup>12</sup> Freeport-McMoRan 2015 Form 10-K, page 43.

<sup>13</sup> CSB Handbook, page 5-3.

expenditures of the City IOF such as sustaining capital, operating costs, and taxes. For every one of these revenue and expense categories, B&O utilized faulty and erroneous assumptions and failed to include categories that must be considered.

i. Production Volumes (Oil and Gas)

54. Per Section 5.4.1 of the B&O report, to determine the production volumes from January 1, 2017 forward, B&O estimated the total production for 41 wells within the City IOF as of 2016 using a proprietary software package. I have not seen the production volume estimates; therefore, I cannot comment on the calculation. However, due to the diminishing asset doctrine, B&O should have looked at reserve reports and expected drilling plans, among other factors, to estimate production from future wells, which apparently it did not do. As a result, the B&O Report underestimates expected future production volumes (and capital expenditures), which severely underestimated the time that SPR could achieve ACI.

ii. Production Pricing (Netback Crude Oil Prices)

55. In Section 5.4.6, the B&O Report provides a description in bits and pieces on how it determined netback crude oil prices including using Brent crude pricing as the starting point plus adjustments for crude quality and transportation costs. The B&O Report states the netback crude oil prices that it estimates SPR received is shown on Exhibit G. Exhibit G is only a graph, so it is hard to determine the exact prices it used. However, it appears that B&O used approximately \$58/barrel for 2017, over \$70 per barrel for 2018, about \$75 for 2019, and over \$75 for 2020. B&O states that it used data available up until January 2020.

56. In addition, B&O states it used data through January 1, 2020. The actual Brent daily price average for 2017 was \$54.12, for 2018 was \$71.34 and for 2019 was \$64.30. This does not comport with B&O's own Exhibit G, as Brent Crude decreased in 2019 relative to the prior year.<sup>14</sup>

57. This difference in actual netback crude oil prices received versus what B&O projected significantly overstates the amount of cash SPR has received, which significantly decreases the time in which SPR would be able to achieve ACI.

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<sup>14</sup> Average Daily price of Brent Spot Price FOB available from the U.S. Energy Information Administration, at <https://www.eia.gov/dnav/pet/hist/RBRTED.htm>.

58. In addition, the FCX 2017 10-K indicates that SPR took over various financial derivatives that would put a cap on how much SPR could receive for its crude oil production after actual sales prices were received. FCX's 2017 10-K states:

“As part of the terms of the agreement to sell the onshore California oil and gas properties, FM O&G entered into derivative contracts during October 2016 to hedge (i) approximately 72 percent of its forecasted crude oil sales through 2020 with fixed-rate swaps for 19.4 million barrels from November 2016 through December 2020 at a price of \$56.04 per barrel and costless collars for 5.2 million barrels from January 2018 through December 2020 at a put price of \$50.00 per barrel and a call price of \$63.69 per barrel, and (ii) approximately 48 percent of its forecasted natural gas purchases through 2020 with fixed-rate swaps for 28.9 million British thermal units (MMBtu) from November 2016 through December 2020 at a price of \$3.1445 per MMBtu related to these onshore California properties. Sentinel assumed these contracts at the time of the sale in December 2016.”

59. It does not appear that B&O considered the financial derivatives that limited the actual cash SPR would ultimately receive, which severely decreases the time ACI would be achieved.

iii. Production Pricing (Netback Natural Gas Prices)

60. In Section 5.4.7, the B&O Report describes how it estimated future natural gas prices that SPR would receive based on Henry Hub prices published in the AEO 2019, which it listed on Exhibit G to its report. Exhibit G is expressed in price/barrel. Therefore, I am not exactly sure what price B&O is projecting for natural gas. Looking at B&O's glossary, assuming it used an industry standard 6:1 conversion rate to calculate barrels of oil equivalent, then B&O's projected price is about \$3.33 per mcf.

iv. Sustaining Capital

61. The B&O Report states that it included sustaining capital for workovers during the projection period related to 1) return idle wells to oil and gas production, and 2) renovation of operating production wells at seven-year period interval basically at a cost of \$180,000 per well. B&O has not provided any information on how it determined that a seven-year interval of \$180,000 per well or \$180,000 per well was reasonable. Without further detail, I cannot comment on the reasonableness of their assumption on how often a workover would be needed or the reasonableness of the cost estimate.

62. Additionally, B&O makes no consideration for maintenance capital required to sustain facilities and offices that support the City IOF. The regulations by both the City and LA County regarding maintenance would result in sustaining capital costs of the operation that should be considered by B&O but are not.

v. Operating Costs

63. B&O has underestimated operating costs. In Section 5.4.1, B&O states it used operating cost information related to fields owned by CRC and later describes in Section 5.4.9 that CRC has similar operating costs as SPR. However, while CRC provides information relating to water-flood fields like those contained within the City IOF, B&O fails to make any adjustment for differences between the relevant fields that would have an impact on the costs associated with drilling the fields. For example, the wells at the Mt. Poso fields referenced by CRC are much more shallow than the IOF oil fields.<sup>15</sup> Further, the majority of CRC fields are not in heavily urbanized metro areas like the IOF meaning costs associated with development of the fields are lower due to the lack of having to work around existing city infrastructure.<sup>16</sup> Additionally, the CRC fields may have access to an aquifer that supplies the necessary pressure rather than having to inject water to provide the necessary pressure, decreasing costs.

vi. Plug and Abandonment Costs

64. B&O stated it did not include plug and abandonment costs in its income model. There is an assumed \$100 million liability included in SPR's purchase price for plug and abandonment costs, which is not considered in the B&O Report. Without further detail on why B&O excluded these costs, I cannot comment on this assumption.

vii. General and Administrative Costs

65. Further, B&O makes no estimates or consideration regarding general and administrative costs relating to the operation that should be included in their model.

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<sup>15</sup> "California Oil & Gas Fields Volume 1 – Central California," California Department of Conservation Division of Oil, Gas, and Geothermal Resources, pages 293-300. See also California Oil & Gas Fields Volume 2 – Southern, Central Coastal, and Offshore California Oil and Gas Fields," California Department of Conservation Division of Oil, Gas, and Geothermal Resources, pages 192-194.

<sup>16</sup> Value-Driven November Corporate Presentation, California Resources Corp., Nov 2018, page 7.

viii. Income Taxes

66. B&O has assumed a 35% corporate federal tax rate prior to 2018 and 21% in 2018 onward and a California state corporate income tax rate of 9%, respectively the highest corporate tax rates. However, as a limited liability company (“LLC”) SPR does not realize corporate tax rates. LLCs are pass through entities where the profits and losses are passed on to the owners and these amounts are then taxed on the individuals. Profits realized from SPR would experience individual tax rates which are as high as 37% in 2020 and even higher in years prior to 2020 for individuals at the federal level.<sup>17</sup> California state income taxes reach as high as 13.3% in 2020 for individuals and were as high as 12.3% in years prior.<sup>18</sup> As a result, B&O has significantly underestimated tax rates.

**C. Errors Related to B&O’s Determination of SPR’s Discount Rate (Reasonable Rate of Return)**

67. The discount rate is the interest rate used to calculate the present value of future cash flows from a project or investment. An appropriate discount rate will take into consideration the risks and requirements specific to the project and the investor. In B&O’s ACI calculation, the discount rate serves as the reasonable rate of return previously described in this report. Recall that B&O defines ACI as the time it takes for cash flows to amortize, or cover, the initial capital investment plus a reasonable rate of return. Therefore, the time to ACI is significantly affected by the selection of the discount rate.

68. In Section 5.4.11, B&O states it used an industry rate of return by evaluating the weighted average cost of capital for exploration and production companies. B&O references a New York University publication. Based on B&O’s evaluation of this website data, it determined it would use an 8% discount rate (reasonable rate of return) to apply to the cash flows. B&O states this is above the average of companies engaged in oil and operations from 2016 through 2019.

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<sup>17</sup> “IRS provides tax inflation adjustments for tax year 2020,” available at <https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2020>.

<sup>18</sup> H&R Block California Tax Rates 2020, available at <https://www.hrblock.com/tax-center/filing/states/california-tax-rates/>. “Standard deductions, exemption amounts, tax rates, and doing business thresholds updated for 2019,” available at <https://www.ftb.ca.gov/about-ftb/newsroom/tax-news/december-2019/standard-deductions-exemption-amounts-tax-rates-and-doing-business-thresholds-updated-for-2019.html>

69. While I generally agree that an industry rate of return using the weighted average cost of capital is an adequate starting point, many adjustments must be considered. In B&O's definition and description of ACI, the discount rate must reflect the risks and profile of the specific investment and investor—in this case SPR and the City IOF. Following is a non-exhaustive list of project specific risk factors that would require upward adjustments to the discount rate:

- Regulatory costs and risks associated with being located in an urban area, specifically Los Angeles County, California and specifically in the City and being subject to over 20 regulatory entities.
- Potential political risks (such as the case with the City of Culver City initiating this study and its desire to stop production completely within the City IOF).
- Development risk associated with developing in a heavily urbanized area.
- Environmental related costs associated with running complex water flood wells.
- Risks associated with the company size of SPR on the cost of capital commonly referred to as the size premium.
- Risks dealing with a lack of marketability as SPR is a privately held company.

70. B&O fails to adjust their discount rate for project specific factors in order to determine an appropriate discount rate for the County IOF or City IOF. Further, as the reasonable rate of return should be specific to SPR, there should be consideration given that private equity owned companies generally require a rate of return in excess of 20% to reflect the risk inherent in their investments.

**Even if amortization was appropriate or relevant, the All Owners ACI Model contains so many errors and false/unsupported assumptions as to render the analysis completely unreliable.**

71. Based on my review of Section 7 of the B&O Report, the All Owners ACI Model not only tries to analyze wells that were drilled since 1977, but also attempts to analyze wells that were drilled from 1925 through 1976 and conclude, in the aggregate, that all wells drilled prior to 1976 achieved ACI within a few years. Based on my review of the description of the analysis B&O performed, I find the opinion completely unreliable.

72. As noted by B&O in Section 5.2 of its report, just as it needed in its first income model, it needs the following data to prepare a reasonable income model and resulting ACI:

- Capital Investments
- Sustaining capital investments required to maintain production activity
- Revenue (which means production volumes and price received)
- Changes in revenues due to market events
- Operating expenses
- Incomes taxes, ad valorem taxes
- Market rates of return

73. First, as noted in Section 7 of the B&O Report, B&O admits that the public data is “generally incomplete or unavailable” to develop baseline assumptions for an income model. Records date back to the first well drilled within the City IOF in 1925, nearly 100 years ago. However, B&O still made broad brushed assumptions for wells drilled from 1925-1976 based on only 6 wells drilled from 1977 to 2002.

74. Even in their Executive Summary on page 5, B&O noted there was significant variability among just these six wells, with only four wells achieving ACI and two wells not achieving ACI. B&O’s rationale to accept this variability was to analyze them in the aggregate.

75. While aggregating may give one the answer they are looking for, trying to use this data to apply it to other wells drilled in the previous 50 years is inappropriate and speculative. B&O does not have the data for the older wells and can only make broad brushed assumptions. As it noted in its own report, there were two world wars, increase in number of light vehicles, changes in technology, changes in environmental laws, oil embargos, etc. B&O has performed some various analytics to try and support their apparent conclusion that all wells, in the aggregate, have achieved ACI by 1976, but there are too many data inputs with very little support to reasonably conclude that this occurred.

76. In addition, other facts/factors may have occurred whereby the wells drilled within the City IOF did not achieve ACI in the aggregate. The City IOF is only 78 acres of the IOF which is approximately 1,000 acres. B&O has provided no data regarding the previous and/or expected volumes associated with the specific City IOF wells, instead they make broad brush assumptions assuming the City IOF wells achieved ACI based on sale of the full IOF.

77. Lastly, in my opinion, whether the City IOF wells from 1926-1975 achieved ACI is irrelevant. SPR purchased its interest in the City IOF in 2016 and the City had no laws regulating ACI. From a financial perspective, it is not reasonable to take away land for which SPR paid millions of dollars without legal justification.



**Robert Lang, CFA, ABV**  
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For the past 25 years, Robert has been trusted by attorneys and companies to analyze complex commercial disputes and measure the financial impact of external events, operational changes, and other market factors. He has served as an expert and testified in high profile cases involving hundreds of millions of dollars and has led large investigations into complex economic and accounting issues.

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#### **Certification**

Chartered Financial Analyst (CFA)

Accredited by AICPA in Business Valuation (ABV)

#### **Professional History**

Navigant Consulting  
(2010 – 2016)

UHY Advisors  
(2005 – 2010)

Arthur Andersen/FTI Consulting  
(1995-2005)

#### **Professional Affiliations**

CFA Society

CFA Society of Dallas

American Bar Association  
Commercial Litigation—  
Energy Committee

#### **Education**

Baylor University,  
BBA—Financial Services

Robert has assisted companies across a wide variety of industries and has a particular expertise in the energy industry, dealing with matters throughout the product life cycle. Robert has assisted oilfield services, E&P, midstream, and downstream entities with valuation issues, transaction support/analysis, business interruptions, royalty disputes and many other matters.

Many of Robert's cases involve the measurement of value and quantifying the creation or destruction of value. He has analyzed the value of entities and assets ranging from oil & gas operations to steel mills to complex securities to the world's largest cancer tumor bank. He has performed these assignments for clients in the US, Canada, Mexico, South America, the Middle East and Asia.

Robert serves as a guest lecturer in the Graduate Accounting program at Baylor University, where he also serves on the Advisory Board for the Accounting and Business Law department. He is a frequent speaker, author, and instructor on oil and natural gas issues, valuation, and financial analysis.

Representative practice areas and example engagements include:

#### **Energy Related Disputes**

- Conducted valuation analysis and testified as an expert for an energy industry client regarding the value of lost opportunities.
- Analyzed project economics and calculated damages on behalf of an oil field services company involved in converting natural gas into clean diesel. Analyzed the impact of several interruptions on the project.
- Performed several calculations of damages and testified at jury trial regarding contract losses and fraud damages suffered by an oilfield services company in the Fayetteville Shale.
- Calculated contract damages in a pricing dispute between a Marcellus natural gas fracking operator and an oilfield services company.
- Analyzed the impact of alleged negligence by a drilling operator on the

economics of a project in the Monterrey Shale. Testified as an expert on resulting cost increases and overall impact to the project.

- Analyzed damages and drafted expert report on over \$150mm of economic losses suffered by a refinery. Analysis included review of economic and operational issues leading to bankruptcy and determination of resulting losses.
- Assisted a major Barnett Shale natural gas producer faced with hundreds of royalty litigation cases regarding midstream deductions. Analyzed gathering costs including review of cost of service model used to determine cost. Evaluated reasonableness of terms, including targeted rate of return, negotiated with the midstream company after producer spun it out into a separate entity. Reviewed net wellhead prices and reasonableness of all deductions. Analyzed impact of trading operations on royalty payments.
- Assisted a litigation trust with financial advisory and litigation related to the bankruptcy of a coal producer. Reconstructed the accounting environment of the bankrupt entity, analyzed more than 50 entities and thousands of related party transactions, performed solvency and valuation analysis, and calculated damages.
- Calculated damages and provided expert testimony in a large claim on behalf of an offshore oil & gas operator in litigation over repair, rebuild, and pollution cleanup costs.
- Assisted a major oil and gas client in developing a “net-back pricing” model for litigation that tracked the delivery of and payment for product originating in 4,000 wells and covering five pricing pools over seven years.
- Conducted royalty audits and performed numerous damage calculations in royalty disputes on behalf of major oil and gas clients.
- Constructed a highly complex model and calculated damages in a dispute over appropriate reductions in calculating natural gas liquids royalties.
- Calculated lost business value and provided expert opinion regarding the construction of fueling stations for a major airline.
- Calculated damages and drafted expert report to determine the lost profits suffered by a refinery as a result of contractor negligence and the resulting inability to produce cyclohexane and paraxylene. Analysis included an estimation of “but for” market prices in the absence of the supply shock.

- Calculated lost profits and performed valuations in a dispute between a major oil and gas company and numerous franchised service stations.
- Assisted oilfield services company with complex database analysis to identify and characterize competing sales in an anti-trust matter.

### **Valuation, Forensic Accounting and Commercial Damages**

- Analyzed damages and testified as an expert regarding the lost business value suffered by a radiology management provider that resulted from an alleged faulty installation of Customer Relationship Management software.
- Determined lost research value suffered by medical school following a tropical storm. Testified as an expert on over \$100mm of losses when claim was litigated. Judge ultimately awarded the exact damage calculation.
- Analyzed damages and testified as an expert regarding lost business value in a dispute between former business partners of a consumer products company.
- Served as court-appointed auditor in an alleged real-estate investment Ponzi scheme. Traced funds, identified improper transfers, and analyzed distributions within over 100 investment and development funds.
- Performed analysis and testified at trial regarding an alleged Ponzi scheme involving 1031 exchange investments and alleged violations of the Texas Securities Act.
- Performed valuation analysis and testified in bench trial regarding the difference in standard and liquidated values.
- Calculated damages and testified regarding damages suffered by a warehouse equipment distributor due to an alleged breach of contract.
- Analyzed and investigating facts, documents, and damages in a False Claims Act matter.
- Calculated damages and investigated allegations in a healthcare quit am action.
- Analyzed lost profits suffered by a regional airline that resulted from non-performance of a software vendor that was engaged to install an ERP system.
- Developed damage analysis and drafted expert report regarding an

investment fund's participation in a regional shopping mall as compared with suitable alternative investments.

- Assisted a multibillion-dollar underwriter in litigation regarding the profitability of its automotive extended-warranty business and the causes of decreasing margins.
- Quantified damages for defendant in a breach of contract suit concerning the distributorship agreement of a large athletic shoe company.
- Performed analysis of tracking data collected from a website in a class action lawsuit alleging deceptive billing practices against a dating website.

### **Bankruptcy Litigation and Restructuring**

- Designated as an expert and performed valuation and solvency analysis in a dispute between a trustee and the previous owners of a multi-billion dollar telecommunications company.
- Calculated damages, rebutted opposing expert's calculation of lost business value, and analyzed solvency issues for a telecom company concerning a breach of contract with a developer of GPS technology who claimed the alleged breach forced bankruptcy.
- Analyzed debtors' plans for reorganization while working on behalf of creditors' committees in several bankruptcy matters.
- Advised a large manufacturer in restructuring various operations and financial structure.
- Developed damage model, refuted opposing expert's analysis, and drafted expert report for a utility industry client concerning the valuation of an acquired security alarm company and the impact of the software on the operations of the business.
- Analyzed transactions and calculated damages alleged by several municipalities against the investment bank that assisted in bond issuances.

### **Insurance and Construction Claims**

- Assisted numerous clients in preparing insurance claims and negotiating settlements for business interruption and property damage totaling nearly \$1 billion. Served as the National Practice Leader for the Business Insurance Claims practice of a large accounting firm. Clients have included oil and gas processing facilities and refineries, cogen facilities,

universities, hotels, hospitals, retailers, engine manufacturer, cement plant, power plant, steel plants, retailers, grocery stores, golf clubs, and numerous other manufacturers.

### **General Strategic and Business Advisory**

- Helped a textile manufacturer identify the causes of lagging profits, streamline operations, reduce throughput, determine which plants to close, and determine the impact to shareholder value of the recommendations.
- Assisted several start-up businesses in formulating business plans, building financial infrastructure and structuring the financing.
- Assisted several growing private companies in securing private placements of additional capital.

### **Publications**

- Low Crude Oil Price Impacts: Market Dynamics, Economic Implications, and Disputes, May 2015.
- The Shale Energy Revolution: A Lawyer's Guide, Chapter 3—Common Contractual Disputes-Royalty Disputes.
- Rising Tide: Litigation Wave from Low Oil Prices & Economic Implications, May 2015
- Gas Royalty Disputes on the Rise, NG Market Notes, April 2014
- Unconventional Oil & Gas Litigation Trends, A Geographical View, ABA Panel Moderator, July 2014
- Gas Royalty Disputes, Energy Law Advisor Volume 8 No. 3, July 2014
- Trends Emerging from Unconventional Oil & Gas Resources, ABA Energy Litigation Article, July 2014
- Capital Investment Decisions in Oil and Gas, April 2014
- Trends and Outlook for Shale Oil & Gas, New York County Lawyer's Association, February 2014
- Primer on Shale Oil & Gas, Industry Trends and Outlook, San Diego, California, September 2014



## **Attachment B Documents Considered**

### **Reports**

- Capital Investment Amortization Study for the City of Culver Portion of the Inglewood Oil Field, prepared by Baker & O'Brien Incorporated

### **Letters**

- Letter submitted simultaneously by Alston & Bird LLP dated August 13, 2020

### **Publicly Available Material**

- Daily Brent Crude Spot Price FOB, U.S. Energy Information Administration, available at <https://www.eia.gov/dnav/pet/hist/RBRTED.htm>
- California State Board of Equalization, Assessor's Handbook Section 566 Assessment of Petroleum Properties, August 1996
- "California Oil & Gas Fields Volume 1 – Central California," California Department of Conservation Division of Oil, Gas, and Geothermal Resources
- "California Oil & Gas Fields Volume 2 – Southern, Central Coastal, and Offshore California Oil and Gas Fields," California Department of Conservation Division of Oil, Gas, and Geothermal Resources
- Comparison of Proposed Culver City Drilling Regulations to Existing City Regulations and Approved County Community Standards District (CSD) and Settlement Agreement, dated 10/5/2017 from City of Culver City website, available at <https://www.culvercity.org/home/showdocument?id=9884>
- Freeport-McMoRan 2015 Form 10-K
- Freeport-McMoRan 2017 Form 10-K
- Freeport-McMoRan 2017 Drilling, Re-drilling, Well Abandonment and Well Pad Restoration Plan, Inglewood Oil Field, Filed November 2016
- Sentinel Peak Resources 2018 Drilling, Re-drilling, Well Abandonment and Well Pad Restoration Plan, Inglewood Oil Field, Filed November 2017
- Sentinel Peak Resources 2019 Drilling, Re-drilling, Well Abandonment and Well Pad Restoration Plan, Inglewood Oil Field, Filed November 2018
- Sentinel Peak Resources 2020 Drilling, Re-drilling, Well Abandonment and Well Pad Restoration Plan, Inglewood Oil Field, Filed November 2019
- Value-Driven November Corporate Presentation, California Resources Corp., Nov 2018



## Attachment B Documents Considered

### Website Articles

- History of the Inglewood Oilfield, available at <https://inglewoodoilfield.com/history-future/history-inglewood-oilfield/>
- Future of the Inglewood Oil Field, available at <https://inglewoodoilfield.com/history-future/future-inglewood-oil-field/>
- "IRS provides tax inflation adjustments for tax year 2020," available at <https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2020>
- H&R Block California Tax Rates 2020, available at <https://www.hrblock.com/tax-center/filing/states/california-tax-rates/>
- Standard deductions, exemption amounts, tax rates, and doing business thresholds updated for 2019," available at <https://www.ftb.ca.gov/about-ftb/newsroom/tax-news/december-2019/standard-deductions-exemption-amounts-tax-rates-and-doing-business-thresholds-updated-for-2019.html>

### Court Cases

- Hansen Brothers Enterprises, Inc. v. Board of Supervisors (1996)

**Review Of The Baker & O'Brien Report**  
**Average Number of Years Since Well Was Drilled**  
**Exhibit 1**

Model #	Drill Year	Status	Lease Name	Well #	Years Since Well was Drilled as of 2020
3700248	1966	Operating	TVIC	59	54
3700249	1966	Operating	TVIC	63	54
3707468	1947	Operating	Block	22	73
3707475	1961	Operating	Block	29	59
3707477	1964	Operating	Block	31	56
3707873	1941	Operating	Machado	3-A	79
3707881	1952	Operating	Machado	7-A	68
3708129	1954	Operating	VRU	105	66
3709082	1979	Operating	VRU	113-A	41
3709086	1953	Operating	VRU	116	67
3709113	1925	Operating	TVIC	25	95
3709118	1953	Operating	TVIC	30	67
3709139	1961	Operating	TVIC	55	59
3709140	1962	Operating	TVIC	56	58
3709145	1957	Operating	TVIC	62	63
3709149	1966	Operating	TVIC	74	54
3720069	1967	Operating	TVIC	54	53
3725342	2002	Operating	TVIC	100	18
3725375	2002	Operating	TVIC	101A	18
<b>Operating Wells Average Years Since Drilling</b>					<b>58</b>

Model #	Drill Year	Status	Lease Name	Well #	Years Since Well was Drilled as of 2020
3707876	1957	Injection	Machado	5	63
3709083	1977	Injection	VRU	114A	43
3709087	1954	Injection	VRU	117	66
3709088	1954	Injection	VRU	118	66
3720042	1967	Injection	TVIC	64	53
3722281	1980	Injection	TVIC	220	40
3725079	1998	Injection	TVIC	268	22
3725221	2000	Injection	VRU	284	20
3725222	2000	Injection	TVIC	271	20
3725256	2000	Injection	TVIC	272	20
<b>Injection Wells Average Years Since Drilling</b>					<b>41</b>

**Source:**  
B&O Report Exhibit E



November 8, 2022

Shelley Sussman  
Planning Manager, General Plan Implementation Section  
Ventura County RMA  
800 S. Victoria Ave., L#1740  
Ventura, CA 93009

Subject: VC Planning Division Webinar on Proposed Oil & Gas Ordinance Revisions, November 9, 2022

Dear Shelley,

Thank you for coordinating the meeting to discuss the proposed oil and gas ordinance revisions. These proposed ordinance revisions are a very important topic for Carbon California Operating Company, LLC (Carbon) because if they are implemented as proposed, would cripple our operations. Unfortunately, I have a conflict and will not be able to attend the November 9<sup>th</sup> webinar. Please add this letter to the record as Carbon's comments on the proposed revisions.

Carbon does not support the County proposed bond and insurance increases. We participated in both the July 28, 2022 and August 18, 2022 Planning Commission meetings on this topic. We also submitted a letter from our Chief Financial Officer and bonding broker regarding how we cannot comply with the bonding increases described in the proposed changes to the ordinance (August 17, 2022 letter attached for reference).

The bonding market does not exist as described in the Planning Divisions Staff Report. There are no financial resources available that would allow Carbon to comply with the proposed increased bonding requirements. Bonds would require 100% cash collateral backing, not just a 2-3% annual fee. If the proposed oil and gas ordinance revisions go into play, the County would require Carbon to have over fifteen million dollars in bonds. There is nothing in Carbon's power that will allow us to comply with these proposed requirements. Please see attached letter from IMA, dated November 8<sup>th</sup>, that supports our statement.

Carbon is actively plugging and abandoning our long-term idle wells in compliance with our CalGEM approved Idle Well Management Plan. From January 2022 through October 2022, Carbon has spent over \$500,000 on well abandonments. We are on-track to have our long-term idle wells completely abandoned by 2030.

This type of legislation will defeat the very purpose of what it is trying to accomplish. If these proposed changes to the zoning ordinance are implemented, Carbon would not be able to comply with our approved Idle Well Management Plan as well as other operational and regulatory requirements. Our business needs working capital to meet our regulatory obligations and these proposed increases would cripple our business. Carbon is not "Big Oil", we are a mid-size company with thirty employees.

Shelley Sussman  
Ventura County RMA

November 8, 2022  
Carbon CA

We are willing to work with County Staff to discuss reasonable increases to bonding but cannot agree to the increases as proposed.

Respectfully Submitted,



Jane Farkas  
Vice President, Land & Regulatory Affairs  
Carbon California

Copy: Dave Ward, Planning Director  
Neal Maguire, Ferguson Case Orr Paterson LLP  
Scott Price, President - Carbon CA

Attachments: IMA letter, dated November 8, 2022  
Carbon CA letter, dated August 17, 2022



November 8, 2022

Erich Kirsch  
Carbon California Operating Company, LLC  
1700 Broadway, Suite 1170  
Denver, CO 80290

RE: Ventura County, CA oil and gas reclamation bond increase considerations

Mr. Kirsch,

There is a misconception that surety bonds are underwritten like insurance in that higher limits just translate into higher premiums. While it is true that you will pay more for a larger bond paying those higher premiums does not guarantee that you will be able to get a higher bond amount. Each company and bond request are underwritten separately and not all companies will qualify for additional capacity or have terms from the surety that just include premiums of 3% or lower. Some companies will need to fully secure the surety company with up to 100% cash or letter of credit collateral.

In the case of Carbon Energy Corporation there have been extensive marketing efforts with surety companies that specialize in providing bonds in the Energy space. The latest including 6 markets and all 6 of these markets either declined or would require substantial collateral up to 100% of the request bond amount.

Please let me know if you have any questions.

Thank you,

A handwritten signature in blue ink that reads "Desiree Westmoreland". The signature is fluid and cursive, with a long, sweeping tail that loops back under the name.

Desiree Westmoreland, AFSB  
Surety Department Manager



August 17, 2022

Dave Ward  
Planning Director – VC RMA  
800 South Victoria Ave., L#1740  
Ventura, CA 93009

Mr. Ward,

In connection with proposed additional surety requirements being considered by the Ventura County, I thought it would be helpful for you to understand the recent challenges that Carbon California Company, LLC (“Carbon”) and its affiliated companies are experiencing.

In January 2021, our current surety underwriter requested updated financial and oil and gas reserve information. These are typical requests in these relationships; however, what was not typical nor expected was the demand letter we received shortly thereafter notifying us that the underwriter would now be requiring 100% cash collateral of approximately \$3.3 million to be posted within 10 business days. This collateral was required in addition to the annual bonding fee of approximately 3% we were being charged historically.

Having negotiated our way through the immense challenges that the effects of the pandemic placed on the oil and gas industry in 2020 (historically low oil and gas prices and keeping our workforce safe to deliver critical commodities to our community as an essential business), this notice felt like a “sucker punch” while we were attempting to get our feet back under us.

Since our receipt of this cash collateral demand letter, we have worked tirelessly with our broker, IMA, in an attempt to place our required surety bonds with a different underwriter that would be willing to provide oil and gas surety bonds in the state of California. To date, our brokers have been unable to find an underwriter willing to place a surety bond without the requirement of 100% cash collateral. It is my understanding that recent changes to legislation in California affecting the oil and gas industry have created significant uncertainty for surety underwriters leading them to require 100% cash collateral, effectively ceasing to underwrite surety bonds in California.

I have included a letter from our broker, IMA, which supports my statements. As they note, it is not as simple as it was in the past whereby an operator could expect to pay an annual 3% or lower premium on surety bond amounts. 100% cash collateral is the current environment, which puts a significant-crippling financial burden on operators.

Sincerely,

A handwritten signature in blue ink, appearing to read "E. Kirsch", is positioned above the typed name.

Erich Kirsch  
Chief Financial Officer, Carbon Energy Corporation  
Secretary/Treasurer, Carbon California Company, LLC



August 4, 2022

Erich Kirsch  
Carbon California Operating Company, LLC  
1700 Broadway, Suite 1170  
Denver, CO 80290

RE: CA oil and gas reclamation bond increase considerations

Mr. Kirsch,

There is a misconception that surety bonds are underwritten like insurance in that higher limits just translate into higher premiums. While it is true that you will pay more for a larger bond paying those higher premiums does not guarantee that you will be able to get a higher bond amount. Each company and bond request are underwritten separately and not all companies will qualify for additional capacity or have terms from the surety that just include premiums of 3% or lower. Some companies will need to fully secure the surety company with up to 100% cash or letter of credit collateral.

In the case of Carbon Energy Corporation there have been extensive marketing efforts with surety companies that specialize in providing bonds in the Energy space. The latest including 6 markets and all 6 of these markets either declined or would require substantial collateral up to 100%.

Please let me know if you have any questions.

Thank you,

A handwritten signature in blue ink, appearing to read "Desiree Westmoreland", with a long, flowing tail that loops back to the right.

Desiree Westmoreland, AFSB  
Surety Department Manager

COMMENTS ON OIL SURETIES, INSURANCE, PERMIT TIME FRAMES, ETC.  
Todd Collart 11-10-22

The comments that follow address issues and remarks made during the November 9<sup>th</sup> public workshop held at the direction of the Planning Commission to gather feedback from interest groups. My comments echo those I made during the on-line webinar.

## **OVERRIDING CONCERNS**

My overriding concerns are:

1. Fossil fuel production (oil and gas) and its use is leading to catastrophic Climate Change NOW! Every effort should be made to ensure that continuing oil and gas operations are minimizing or eliminating Climate Change Impacts, such as emissions of methane, and other emissions leading to air pollution (e.g. flaring) and health impacts (e.g. benzene and other constituents in petroleum).
2. ALL the costs associated with the mitigation of impacts from oil and gas operations must be borne by the operators, not the public. Additionally, all the financial assurances (e.g. insurance, sureties, bonds, etc.) must ensure that the costs associated with any accidents, and failures to abandon operations and restore oil field sites must prevent these costs from being borne by the public. I particularly dislike the idea of my tax dollars funding CalGEM's well abandonment program and general oversight of the petroleum industry. All such costs should borne by the industry.
3. ALL costs for oversight and management of petroleum operations by public agencies must be borne by the operators and not the public. There must be adequate staffing in regulatory agencies to monitor petroleum operations and evaluate the adequacy of their financial assurances and well abandonment plans.

## **ISSUES**

### **PERMIT TIME FRAME**

This was one of the issues the Board of Supervisors directed the Planning Staff to address. The Staff recommended a 15-year time limit, and the Planning Commission approved this recommendation at both of its July and August hearings. The Commission did not direct the Planning Staff to include this issue in the follow-up public workshop, but it made it into the agenda any way to be re-argued by the Oil industry.

The most cogent argument made for a longer time-period was investment related. Shorter time frames on permits made the related oil exploration project less attractive to potential investors that are looking or a 20%-25% return on their investment according to an industry expert. Fewer investor would theoretically lead to less oil and gas production. There is a degree of logic to this argument, but I believe there are other factors besides a 15-year time limit that at play:

1. The Ventura County oil fields are in decline after nearly a century of production which would not be an investment enticement.

2. If investing in new wells were lucrative, why are the larger oil operators pulling out of the County? The “majors” left years ago, and the second tier operators are leaving now. Aera Energy (a combine of two majors – Shell and Exxon) just sold its interests to a German financial firm.
3. With thousands of acres of existing oil CUPs without time limits, or limits on the number of wells to be drilled; would these permits not be logical places for investments?
4. Given the industry’s concerns over insurance and bonding costs shorter permit time frames would reduce the liability window for bonding companies, and thus the surety costs by having the operations closed down sooner.
5. If this is a major issue it can be addressed on case by case basis during the permitting process. There precedent and common sense would likely result in short time limits on projects in more urban and sensitive areas and longer time frames in more remote well site locations. The past compliance record of an operator could also be a factor to consider.

### **Insurance**

The staff and consultants presumably investigated the coverage amounts and set them appropriately. The oil industry’s complaints were that they are too high and too costly. Whatever the amount of coverage required the insuring companies are the right ones to assess the risk and set premiums appropriately. This still leaves open the question of what should be the required minimum levels of insurance for different circumstances and who should bear the costs. Automobile owners in California must carry minimum amounts of insurance before they can drive a vehicle on public roads. If I cannot afford the insurance that is too bad and I cannot legally operate my car. If my insurance premiums are high that is a function of the risk my driving poses as determined by any given insurance company. The insurance coverage required for oil operations should operate similarly to what citizens deal with to drive on public roads.

I believe it is practical to set an appropriate initial floor in the amount of coverage required and then allow the operator to provide justifications for why the amounts should be lowered, such as:

1. If the insurance coverage of the property owner or mineral rights owner holds can be accessed to augment that provided by the operator.
2. If there is any other pool of insurance that can augment the operator’s policy, such as what CalGEM might require, re-insurance held by the oil industry as a whole to cover losses that exceed individual policies, coverage held by individual project investors to shield them personally, umbrella policies, etc.
3. If the operator has had little to no claims against his operation over extended periods, this suggests a prudent operator for which lower levels of coverage might be warranted.

### **Sureties – Cash, Bonds, etc.**

Industry related individuals remarked on how difficult it is to find companies that will issue performance bonds to ensure well abandonment and site restoration, and if such sureties were available, how expensive they were. I have no reason to doubt these comments, but they highlight how problem-prone petroleum operations are. My concerns as a taxpayer are warranted if the surety industry finds the oil industry so risky that few companies provide coverage, and only at significant cost.

Just because financial sureties are costly to operators is no reason to lower the levels of coverage the County is demanding. The public must be shielded from the costs if operators fail to formally abandon wells and restore drill sites. The industry suggested some ways to reduce their financial impacts of meeting surety requirements, but I have some objections with them:

1. It was suggested the value of the equipment and facilities on well sites have significant value that should be applied towards the required surety levels. This suggestion is problematic because:
  - A. Who sets the value of such items and can the appraised value be realized if the items are sold?
  - B. Managing the sale of such items cannot be done by County staff, so consultants would need to be found and hired to manage the disposal of the items; and
  - C. This is a time-consuming process when quick action may be required.

Such equipment should be offered as collateral to insurers and bond carriers, not the County.

2. Whatever surety is provided, it must be readily accessible so corrective measures can be taken promptly. The County should not have to wait to fit into CalGEM's state-wide abandonment schedule. Neither should the County have to auction off operator equipment to raise money to abandon wells, etc. No "bake sales" to fund cleanup projects. Even performance bonds may be difficult to access directly, since bonding companies will want to manage restoration work rather than surrender a bond for lack of performance by an operator. Cash is the most readily accessible surety and so offering discounts on surety amounts in cash might be warranted.
3. It was said by industry representatives that CalGEM has adequate financial resources to abandon wells and restore drill sites. All recent press reports suggest otherwise. However, it is possible that CalGEM could develop new programs or funding sources to for such needs. If this does happen and they can be applied to operators in Ventura County, then operators should have the opportunity to prove this point and minimize any County surety demands that lead to surety amounts totaling more than the estimated cost to do the required work. So, I suggest wording in the ordinance that allows operators to prove to the satisfaction of the County and its consultants that lower surety amounts are sufficient to insulate the public from shouldering operator costs.
4. It may be possible to demonstrate that the average cost for abandoning wells and restoring sites on which the County surety amounts are based is higher than individually evaluated cases. Site conditions and economies of scale might be lower than the standardized cost estimate. Operators should have the opportunity to prove this.

5. It was explained that CalGEM annually assesses operators in the state for un-funded costs associated with well abandonment and that this program could offset the need for the recommended County sureties. Perhaps CalGEM can float such expenses until the end of the year when it can collect from operators, but I do not believe the County should rely on this program until it is actually proven to exist and can be applied to operations in Ventura County on an on-demand basis rather than on CalGEM's schedule.
6. The program alluded to in #5 above should be evaluated for use locally, where the County could assess all operators in the County for the costs of well abandonment and site restoration, and any other costs that might otherwise fall to the public. Each operator would pay an apportioned share of the defined costs based on the number of wells each operator has in the County. Small operators would therefore be assessed less than the large ones. Having such a fallback to fund corrective measures could lower the presently recommended surety amounts for individual operators. Such a system cannot rely solely on after-the-fact assessments and promises to pay when bankruptcy filings allow operators to escape responsibility.
7. If surety costs are high, the best way to reduce them is if each operator promptly abandons its idle and non-productive wells so that the surety requirements for them cease to be a financial obligation.
8. Given record profits by the energy industry, complaints about high surety costs seem misplaced.

### **Timely Abandonment of Idle Wells**

This issue was not raised by the oil industry, so staff and Planning Commission recommendations should be adopted as is. Speeding up abandonment of idle wells is good for everyone, except operators that are running out the clock with plans to declare bankruptcy before fulfilling their obligations. Methane gas releases are reduced and surety amounts will be reduced.

## **FULL COST RECOVERY BY THE COUNTY**

The on-going oversight and tracking of oil industry operations and their required insurance and surety instruments will be VERY demanding. The costs for doing so MUST be borne by the industry whose activities, by their very nature, require constant oversight to protect the public health and safety. I suggest language be added in the ordinance that makes this position absolutely clear. Alternately, language could be added to the Board-adopted Annual Fee Schedule for Planning Division that includes line items for annual site inspections, abatement of confirmed violations, analysis of sureties and insurance coverage, etc. Costs should NOT be flat fees but based on current hourly charge rates.

## **PRICING CARBON**

In light of my concerns over Climate Change and the fossil fuel industry's central role in this looming disaster, I urge decision-makers to put a price on carbon at its source of generation. The new General Plan included this as a program to pursue. Taxing oil and gas production to fund mitigation measures for the inevitable climate change impacts is justified. But, why do we not have a price on emissions such as methane (a very potent green house gas)? When oil spills occur, the oil is captured and removed as best as possible, sometimes at public expense. When methane leaks from wells, or pipelines it is impossible to recover. If it was priced, damages could be readily collected based on the amount released. Similarly, flaring well-gas is better than venting it to the atmosphere where its methane constituent worsens Climate Change, but combusting well-gas leads to pollution that is damaging in other ways. If the energy industry had to start paying the full costs associated with its products, it might behave more pro-actively to abandon idle wells, and actually create its long-promised carbon capture and sequestration systems.

## Nguyen, Jessica

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**From:** Wayne Morgan <waynemorgan1@yahoo.com>  
**Sent:** Thursday, November 10, 2022 11:41 AM  
**To:** Sussman, Shelley  
**Cc:** Ward, Dave  
**Subject:** Proposed Amendments to Oil and Gas Regulations  
**Attachments:** Surety\_Comments\_20221110.docx

**WARNING:** If you believe this message may be malicious use the Phish Alert Button to report it or forward the message to [Email.Security@ventura.org](mailto:Email.Security@ventura.org).

Hello Shelley -

I wanted to speak at the Oil & Gas workshop last night, but I guess I was too late to make the cut. But here are some of the points I wanted to make.

As a Ventura resident, I am very concerned about the abandonment of wells and the possibility of bankruptcies in the near future leaving stranded wells and other assets without cleanup. Below are some of the reasons for my concern.

Energy Market Disruption leading to lower profits, bankruptcies, and stranded assets because:

1. Renewable energy is less costly now for many applications and is getting less expensive, so demand for oil will decline and be replaced by renewal sources.
2. A large supply of oil which would lead to lower prices doesn't favor the Ventura oil industry because the price of extraction in Ventura is relatively high and the quality of the oil doesn't demand top dollar.
3. The demand for oil will be greatly reduced when electric vehicles gain momentum. Many predict that EVs will be less costly to purchase by 2025 or sooner. This will accelerate the drop in oil demand and cause disruption in the oil and gas markets, sooner than many realize. (<https://www.fia.org/marketvoice/articles/ev-disruption> )
4. Environmental goals will necessarily reduce the demand for oil.
5. Carbon pricing will make demand lower and reduce profits leading to increased bankruptcies. The price of carbon in the carbon removal equivalent scenario will be \$294 per metric ton by 2030 according to Bloomberg (<https://www.bloomberg.com/professional/blog/carbon-offsets-price-may-rise-3000-by-2029-under-tighter-rules/>) . This corresponds to about \$126 (!) per barrel assuming the CO2 generated by a barrel of oil is .43 metric tons per barrel (<https://www.epa.gov/energy/greenhouse-gases-equivalencies-calculator-calculations-and-references>). This will make many oil operations unsustainable.

The other big concern for me is that many of the companies operating in Ventura are LLCs. I count 14, with AERA being the biggest, whose members are Shell, Exxon and Chevron. The LLCs are shielded from liability beyond their assets, so if an LLC abandons their operations, who will pay for restoration? Also, LLCs don't need to make public their financials, so we don't know when a company is in trouble.

For the above reasons, I support being sure that the oil and gas industry will be held responsible to properly cap their wells and restore their surroundings when they leave their operations. I also support the smaller CUP renewal interval because I believe the market will be fast changing in the next few years. 2040 isn't much more than 15 years away.

Oil is a local concern and I am not wanting to rely on CalGEM or the state to come to rescue any mess left behind. Look at the problem in holding parties responsible with the Santa Susana Lab clean up.

Thank you,

Wayne Morgan

Ventura

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Oil is a local concern and I am not wanting to rely on CalGEM or the state to come to rescue any mess left behind. Look at the problem in holding parties responsible with the Santa Susana Lab clean up.

Thank you,  
Wayne Morgan

Ventura

Mr. Marc Traut

Renaissance Petroleum, LLC

PO Box 20456

Bakersfield, CA 93309

11/7/22

Mr. Traut,

Greetings and Good Morning. I am providing you an update to your recent request for additional limits to your insurance program based on the Ventura County "New" Proposed Limits for Operators who are operating within Ventura Country.

As your insurance broker and the manager of your business insurance program, I would like to provide you insight into securing the proposed limits based on my discussions with Oil/Gas Underwriters.

You recently provided me with lofty insurance requirements that have been proposed by Ventura County to all Oil/Gas Companies who operate in Ventura County. Based on my conversations with the Oil/Gas Underwriters, here is where we currently stand.

- 1. General Liability.** From a standpoint of moving from a \$1M Occurrence/\$2M Aggregate to a \$2M Occurrence/\$4M Aggregate, this item can be met by using Excess Liability Limits to achieve these required limits. Since you currently carry a \$5M umbrella, you currently meet the \$2M Occurrence/\$4M Aggregate limit. With your current excess/umbrella liability your limits can be taken into consideration as \$6M Occurrence/\$7M Aggregate Limit. The primary issue is getting the Environmental Impairment: Pollution Liability to dovetail/extend over your current limits. (See Below)
- 2. Control of Well.** You currently carry a Control of Well limit of \$5M. The proposed new insurance requirements will require you to carry \$10M of Control of Well limits. This new proposed limit will drive up the cost of this coverage for your company on an annual basis. Many factors come into play regarding the annual premium cost. Those factors include, how many wells need to be covered, how deep are the wells and what type of safety program is in place. The estimated impact to achieve this limit will at the minimum double the annual premium that you currently carry. I would suspect that the annual premium to achieve this new limit would run additional annual premium between \$14k - \$19k. These figures are in addition to your current premium on the \$5M Control of Well you are currently paying on an annual basis.
- 3. Environmental Impairment: Pollution Liability Policy for not less than \$10M.** This requirement is where things get very complex. You currently carry Sudden and Accidental Pollution Liability with a limit of \$1M with a deductible of \$5k per claim. This requirement is requiring Oil/Gas Companies to move to a "Gradual Pollution" Policy. Gradual Pollution is a game changer regarding annual premium

cost. To achieve the limit of \$10M in gradual pollution limits, I have not had any positive outcomes to this point with any of the environmental underwriters that I conduct business with. We have approached several carriers only for the carriers to decline to quote the risk/exposure. I am still awaiting word from two carriers on their status to offer a quote. I am in a difficult position to even venture an educated guess at the annual premium impact because, I'm not even sure I can find the requested coverage to meet the new proposed insurance guidelines. In my opinion, the cost could be in upwards of over \$100k+ to meet this requirement and that is "if" a carrier can be found to write this line of coverage.

- 4. Excess/Umbrella \$25M.** This \$25M limit and what is being asked of this line of coverage/limit to cover is proving to be very difficult. Finding a carrier to offer a \$25M limit that also must go over underlying General Liability, Control of Well and Gradual Pollution is very difficult. "If" this is possible, there isn't just one carrier that would be affording coverage for this insurance request. One carrier alone would not want to take on all this risk/exposure alone. That means, in a perfect world, there would be 5 different carriers who each take on \$5M to achieve the \$25M insurance requirement. At this point, I have not been able to find one (1) carrier interested in offering or even entertaining this request for \$25M to go over all lines of coverage. Annual premium impact would be excessive "if" coverage can be found. This could run \$150k - \$200k annually for this line of coverage in addition to your current annual Excess/Umbrella Premium.

In conclusion, from an insurance perspective, the new proposed insurance requirements proposed by Ventura County will put small to medium sized owner/operators at a distinct disadvantage to large oil/gas operators. Financially, when looking at the additional cost of insurance to meet these proposed requirements by Ventura County, the small to medium lease operators will have to invest more dollars into their insurance programs to meet these new insurance requirements. That financial investment very well could be the demise to small to medium oil/gas lease operators and any other small to medium oilfield related businesses that will be required to meet these new requirements.

The last point is securing such proposed limits. I have yet to find **any** carriers that can provide a quote for these proposed coverages/limits. As stated above "IF" coverage can be found, the financial investment to meet the insurance requirements could be \$200k - \$300k or more in additional insurance annual costs for Renaissance Petroleum. This estimate is consistent with the estimate that I provided you back in July. In my professional opinion it seems as though the group that has established these proposed new limits has no sense of the financial impact these proposed requirements will have on medium and small operators conducting operations in Ventura County.

Please let me know if you or any representatives from Ventura County need any additional information.

Sincerely,

*Aaron Uribe*

**Aaron Uribe, CIC, AFIS** | Commercial Producer

**Walter Mortensen Insurance / INSURICA**

8500 Stockdale Highway, Suite 200  
Bakersfield, CA 93311

P 405.556.2324 | M 661.549.7867 | F 405.556.2332

[Aaron.Uribe@INSURICA.com](mailto:Aaron.Uribe@INSURICA.com)

CA Corporate License # 0D444

VENTURA CITIZENS FOR  
**ENERGY**  
**INDEPENDENCE**

November 9, 2022

To: Shelley Sussman, General Plan Implementation Manager - [Shelley.Sussman@ventura.org](mailto:Shelley.Sussman@ventura.org)  
CC: Dave Ward, Planning Director - [Dave.Ward@ventura.org](mailto:Dave.Ward@ventura.org)

From: Ventura Citizens for Energy Independence

**Re: Ventura County oil and gas industry reference packet submitted for the proposed amendments to the Coastal and Non-Coastal Zoning Ordinances**

Please accept and submit the following sourced documentation into the record for the November 9, 2022 Planning Commission Stakeholder meeting on proposed amendments to the Coastal and Non-Coastal Zoning Ordinances relating to permit terms and surety and insurance requirements for oil and gas operations.

- Economic and Fiscal Impacts Analysis from Brad Williams Capitol Matrix Consulting re: Ventura County Proposed Amendments Related to Oil and Gas Operations
- Comment Letter from Bart LeFevre, an Insurance/Surety Bond industry professional
- Comment Letter from Andy Naworski, an Insurance/Surety Bond industry professional re: Oil and Gas Bonds
- Comment Letter from Andy Naworski, an Insurance/Surety Bond industry professional re: Oil and Gas Insurance Policy Limits
- Comment Letter from Desiree Westmoreland, an Insurance/Surety Bond industry professional
- Fact Sheet - Idle Well Management in California
- Fact Sheet - Insurance Bonding for Oil and Gas Sites
- Governor's Budget Summary 2022-23 — Climate Change
- Legislative Analyst's Office Report — The 2022-23 Budget: Oil Well Abandonment and Remediation, January 2022
- 2022-23 CA State Budget - 3480 Department of Conservation Program Descriptions - Enacted on June 27, 2022
- Federal Orphan Well Program in California, April 27, 2022

These materials capture the current economic, legislative, and regulatory environment around the proposed policy changes. It is our sincere hope that going forward, decision-makers will utilize facts and data from subject matter experts, industry professionals, and federal/state government agencies in making important policy decisions effecting Ventura County.



## Ventura County Proposed Amendments Related to Oil and Gas Operations

On August 18, the Ventura County (“County”) Board of Supervisors will consider amendments to the Non-coastal Zoning Ordinance (PL21-0099) and Coastal Zoning Ordinance (PL21-0100) related to oil and gas operations. These amendments would:

- Limit new discretionary permits for oil and gas operations to 15 years.
- Increase surety and insurance requirements related to oil-well site restoration and compliance.
- Require a third-party study to identify idle wells that are likely candidates for permanent plugging and site restoration.

In this brief, we discuss some of the key economic and fiscal-related policy concerns that the proposed amendments raise. Our bottom-line conclusion is that the changes are unnecessary, will be expensive for both the County and oil producers, and are unlikely to produce any meaningful results beyond those realized from ambitious state-level efforts in this area. The amendments will also discourage oil production and make California even more vulnerable to supply disruptions and price increases for petroleum products. Our specific concerns are discussed below:

### **15-Year Cap on Discretionary Permits Will Discourage Investment**

Exploration, drilling, and completion of a group of wells represent major investments by operators – easily totaling in the tens of millions of dollars for a set of 5 or 10 wells. Unlike wells drilled in mid-continent regions of the U.S, wells in California’s depleted oil fields produce at low rates, but hopefully for a long time. All investments have risks, and some wells never produce enough oil to generate a positive return on investment. Others, however, can produce oil at profitable levels for decades.<sup>1</sup>

Operators need to balance both the risks and potential returns when making a decision to spend money on drilling and completion of new wells. An arbitrary 15-year cap will materially change that calculation by making all production after the first 15 years subject to regulatory as well as production risk. For many wells, a shutdown after 15 years would deny the operators recovery of one-half or more of total production that would otherwise be achievable. This leaves operators with

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<sup>1</sup> As one indication of the long-term nature of well production in California, a recent review of California well data found nearly 70 percent of “low-producing” wells in operation in 1996 were still in operation 20 years later in 2016. Moreover, over one-fourth of the wells were actually producing at higher levels in 2016 than in 1996 (likely due to recompletions or EOR).



all the risk but only a portion of the reward that would otherwise be available absent the cap. The result will be less investment and less production over time.

## **County Amendments Unnecessary in View of Comprehensive State Idle Well Program**

The California Geologic Energy Management Division (CalGEM) within the state Department of Conservation, manages a robust and well-funded idle well program to protect public safety and the environment from the potential threats posed by idle wells. The comprehensive program is the result of over a half-dozen measures enacted by the Legislature since 2016, which provide for environmental protections and place major incentives on the industry to reduce the number of idle wells in their portfolios. Chief among these measures is AB 2729 (Williams, 2016), which has the following key provisions:

- Blanket indemnity bonds starting at \$200,000 for operators with 20-50 wells, up to \$3 million for operators with more than 10,000 wells.
- New idle well fees starting at \$150 for each well that is idle for 3 years, up to \$1,500 for each well that is idle for 20 years or more. Waivers are allowed if the producer enters an idle well management plan that eliminates a specific number of idle wells each year.
- A requirement for operators to provide a detailed inventory of idle wells to CalGEM, and conduct periodic and progressively more rigorous testing of wells starting within 24 months of when they become idle. Testing waivers are allowed for wells that are committed to be plugged and abandoned within 8 years.

The testing-related provisions are causing operators to accelerate plugging and remediating idle wells. This is because testing costs are high – especially for long-term idle wells – and if issues are identified during testing, remediation costs are even higher. Feedback we have received from the industry suggests that the testing requirements have caused operators to carefully review their inventory of idle wells. In cases where reactivation seems less than likely, the operators are putting wells into the idle well testing waiver program.

Other legislative measures strengthening idle well management include:

- AB 1057 (Limon, 2019), which authorizes CalGEM to require increased financial assurances as well as additional documentation from operators when ownership of wells or facilities changes.
- SB 551 (Jackson, 2019), which requires operators to provide CalGEM with an estimate of their future plugging obligations and their plan to financially meet those obligations, and authorizes CalGEM to require bonding for any shortfall up to \$30 million.
- SB 47 (Limon, 2021), which raises the cap on annual CalGEM spending from \$1 million to \$5 million for purposes related to hazardous or deserted wells and facilities.
- AB 896 (Bennett, 2021), which authorizes CalGEM to impose a claim and lien on the real property owned by the operator or party under specified conditions, and requires CalGEM to establish a collections unit responsible for collecting unpaid idle well fees and recovering costs from the responsible party for deserted wells or wells that need to undergo testing.

The success of AB 2729 and related idle well measures is evidenced by the *eight-fold* increase in permits issued for idle well plugging and abandonment between the first half of 2018 and the first half of 2022. So far in 2022, the state has issued 4,813 permits for plugging and abandoning, compared to just 257 for the drilling of new wells. Given the success of the State's incentive-based programs, it is unclear what additional benefit would be realized from the redundant County level efforts.

### **Assurance Requirements Unworkable for Independent Operators**

While large producers may be able to self-finance the County's proposed enhanced surety requirements, smaller independent operators will face major problems. This is because bonds and insurance products meeting the County's requirements will be prohibitively expensive or not obtainable at any price, given California's challenging political and regulatory environment. According to the CEO of Inpower Global Insurance Services, a specialty insurance brokerage and risk management firm, the required insurance coverages will be prohibitively expensive for the majority of independent oil and gas companies operating in Ventura County. Even if an insurers' underwriting department approves a bond that would satisfy the proposed zoning amendments, the operators would likely need to provide 100 percent collateral in order to satisfy the underwriting requirements. Such an amount is not feasible for the great majority of independent operators in the County.

### **Provision Requiring County Idle Well Review Poses Costs and Risks**

These costs and risks fall into three areas. First, a meaningful well review would be expensive and time-consuming, requiring extensive review of well records along with geological and engineering data. It is not clear to us how a third party would make such determinations without access to proprietary company geological and engineering data. Second, if the County were to use the results of the study to mandate plugging and abandonment of specific wells, it may face costly regulatory and legal challenges (including takings claims) in cases where operators disagree with County determinations regarding the potential for reactivation of the well. Third, such a "command and control" approach would be inconsistent with, and may even undermine, California's incentive-based policies in this area which, as noted above, are working.

### **Conclusion**

There appears to be no justification for the County to add another layer of bureaucracy to the State's efforts to reduce the inventory of idle wells. California has spent several years developing comprehensive and meaningful idle-well regulations. CalGEM has received nearly \$30 million in funding increases and authorization for 125 new positions since 2016-17, financed by fees on the industry, for enhanced oversight. The state has also authorized hundreds of millions of one-time funds to identify and plug orphan wells in the state. The idle well management and testing requirements are clearly having their intended effects, reducing environmental risk and sharply boosting the number of permits for idle-well plugging and remediation.

Adding another costly and unnecessary layer of bureaucracy on top of the state program will provide little benefit and, in fact, may undercut state incentive-based regulatory efforts. The amendments will be costly for the County to administer. They will also drive independent operators out of business and reduce oil production in the County at a time when California is already vulnerable to petroleum-based shortages and price hikes. More generally, the proposed amendments will send a chilling message to all businesses that are concerned about the costs of doing business and bureaucratic regulatory overreach in the County.

November 7, 2022

CalNRG Operating, LLC  
Attn: Jeff Katersky, Chief Financial Officer  
1746-F South Victoria Ave, Suite 245  
Ventura, CA 93003

RE: Surety Capacity for Oil and Gas Lease Operators in California

Dear Jeff,

Pursuant to our discussions, INpower has approached surety underwriters who specialize in Oil and Gas bonds, with a request to consider a Site Restoration and Oil and Gas Abandonment Bond as proposed by the County of Ventura.

Our market capabilities analysis can be summarized as follows:

- Outright declination- terms of obligation are too onerous
- Requirement for CalNRG to provide 100% collateral in the form of a full cash deposit or irrevocable Letter of Credit, plus payment of annual premium.

The challenges with this bond requirement are significant, and it is important to recognize that oil and gas surety companies are very conservative with their underwriting philosophy. Bonding obligations are backed by an agreement, whereby the surety company maintains full recourse against the lease operator, should there be a claim. This factor, coupled with the dollar amount and onerous nature of the bond language, falls outside of our energy surety markets' appetites.

In my 30 years of oil and gas bonding and insurance experience, the above-referenced bonds are not viable when set against traditional oil and gas bond underwriting thought processes.

Should you have any questions, please let us know.

Best regards,



Bart J. Le Fevre  
Chief Executive Officer & President



November 1, 2022

ABA Energy Corporation  
7612 Meany Avenue  
Bakersfield, Ca. 93308

Attn: Al Adler

RE: Bonding Capacity – Oil and Gas Bonds

Dear Al,

Per your request, we have approached all of our bond markets in order to provide you with the County of Ventura's requirements for a Site Restoration Bond (per well site) and an additional Oil and Gas Abandonment Bond (per well) over and above the State of California's Oil and Gas Well Bond.

The results have not been encouraging. First, of the eight markets that provide Energy sector Bonds, 6 have outright declined the Oil and Gas Bond requirement and 5 have declined the Site Restoration Bond. The remaining markets have all required 100% collateral for both the Oil and Gas Well Bonds and the Site Restoration Bond.

I believe that the County does not realize the current market environment for bonding of the Energy Sector, nor does it realize that Bond are not like Insurance, Bond claims are paid by the Bonding company and then the Principal is required to repay the Bonding company. Unlike Insurance where the Insured pays a premium for the coverage and any claim is paid by the Insurer with no obligation of the insured to repay the claim.

Please let me know if you have any questions concerning the above.

Sincerely

A handwritten signature in blue ink, appearing to read 'Andy Naworski', with a long horizontal flourish extending to the right.

Andy Naworski  
Surety Department Manager

November 1, 2022

ABA Energy Corporation  
7612 Meany Avenue  
Bakersfield, Ca. 93308

Attn: Al Adler

RE: Oil and Gas Insurance Policy Limits.

Dear Al,

Per your request, we have approached our insurance markets regarding the policy limits requested by the County of Ventura via their proposed ordinance changes.

We have determined that a \$25 Million Excess/Umbrella policy for General Liability would not be obtainable, notwithstanding the fact that in 31 years of operating an oil and gas business, the totality of ABA's claims have been two (2), a chipped tooth and an operator passing out. Also notable is that due to the state of the California Insurance industry, ABA was only able to obtain this year its current \$10 million GL policy by amalgamating (3) tranches of GL coverage (\$1 million, \$4 Million, and \$5 Million).

Further, it is un-clear what the County desires for excess on the other policies as the verbiage is ambiguous and confusing in that they state they want "Excess (or umbrella) Liability Insurance: providing excess coverage for each of the perils insured by the preceding insurance policies with a minimum limit of \$25,000,000". The confusing issue we see is that Excess Liability is just that, excess on the GL policy only, however, the words "*each of the perils insured by the preceding insurance policies (plural)*" seems to infer that the County's ask may include \$25 Million over the top of not only the GL policy, but also Control of well Policy Environmental policy.

In any event, The limits required by the County are not obtainable for ABA.

Please let me know if you have any questions concerning the above.

Sincerely,  


Andy Naworski  
Commercial Lines Executive Vice President



November 8, 2022

Erich Kirsch  
Carbon California Operating Company, LLC  
1700 Broadway, Suite 1170  
Denver, CO 80290

RE: Ventura County, CA oil and gas reclamation bond increase considerations

Mr. Kirsch,

There is a misconception that surety bonds are underwritten like insurance in that higher limits just translate into higher premiums. While it is true that you will pay more for a larger bond paying those higher premiums does not guarantee that you will be able to get a higher bond amount. Each company and bond request are underwritten separately and not all companies will qualify for additional capacity or have terms from the surety that just include premiums of 3% or lower. Some companies will need to fully secure the surety company with up to 100% cash or letter of credit collateral.

In the case of Carbon Energy Corporation there have been extensive marketing efforts with surety companies that specialize in providing bonds in the Energy space. The latest including 6 markets and all 6 of these markets either declined or would require substantial collateral up to 100% of the request bond amount.

Please let me know if you have any questions.

Thank you,

A handwritten signature in blue ink that reads "Desiree Westmoreland". The signature is fluid and cursive, with a long, sweeping tail that extends to the right.

Desiree Westmoreland, AFSB  
Surety Department Manager





# Idle Well Management in California

## CALGEM IDLE WELL MANAGEMENT PROGRAM

The California Geologic Energy Management Division (CalGEM) within the state Department of Conservation, manages a **robust and well-funded idle well program** to protect public safety and the environment from the potential threats posed by idle wells. CalGEM's recent efforts to accelerate abandonment of idle wells and facilities, and to reduce state liability, are in line with its renewed mission and efforts to strengthen its oversight of oil and gas operations.

Beginning in late 2019, CalGEM implemented major policy and programmatic changes as directed in AB 2729 to help California achieve its climate change and clean energy goals.

AB 2729 aims to sharply reduce the number of, and the risks associated with, idle wells in California. Key provisions of the measure include new fees, increases in required financial assurances, and the imposition of rigorous new testing and remediation requirements for idle wells. Together, these measures have created a major incentive for producers to plug and abandon their idle wells.

These incentives are clearly working, as evidenced by the eight-fold increase in permits issued for idle well plugging and abandonment between the first half of 2018 and the first half of 2022.

### 2022 PERMITS ISSUED

Plugging and Abandoning: **4,813**

New Drilling: **257**



A healthy energy industry will ensure that resources are available to manage oil and gas assets. State activity to encourage plugging and abandonment of idle wells and fund orphan well remediation is significant and comprehensive. **CalGEM's program is working!**

## KEY PROVISIONS OF AB 2729 – CALGEM'S IDLE WELL MANAGEMENT PROGRAM

Imposes blanket indemnity bond requirements starting at \$200,000 for 20 to 50 wells, up to \$3 million for more than 10,000 wells.

Imposes idle well fees starting at \$150 for each well that is idle for 3 years, up to \$1,500 for each well that is idle for 20 years or more. Allows waivers if the producer submits an idle well management plan, agreeing to plug and abandon a specific number of wells each year.

Requires operators to provide a detailed inventory of idle wells to CalGEM, and to conduct progressively more rigorous testing of wells starting within 24 months of when they become idle.

Allows testing waivers for wells that are committed to be plugged and abandoned within 8 years.

What is an idle well? A well may become idle when it is no longer economical to produce oil or gas (often due to global prices and economic influences). But it may become economic in the future. No matter what its operational status, the same safety and testing standards apply, just like any other well.

 [Idle Well Program Annual Report 2021](#)

## **IDLE WELL MANAGEMENT LEGISLATION ENACTED TO FURTHER PROTECT PUBLIC SAFETY AND THE ENVIRONMENT**

### **AB 2729**

Williams  
2016

Increases idle oil and natural gas well fees and blanket indemnity bonds to provide incentives for operators to reduce their number of idle wells. It also requires operators to plug between 4-6% of their idle wells annually.

### **AB 1057**

Limón  
2019

Allows the State Oil and Gas Supervisor to require any operator in the state to post an additional security bond or alternative compliance mechanism up to \$30 million to cover the future estimated cost of remediating all that operator's wells and facilities.

### **AB 1328**

Holden  
2019

Requires an independent study commissioned by CalGEM and the California Air Resources Board (CARB) to review emissions from idle and abandoned wells.

### **SB 551**

Jackson  
2019

Requires operators to give CalGEM an estimation of the costs of their future plugging obligations as well as their plan to financially meet those future obligations. CalGEM will review and certify the operator's estimation. CalGEM then has the ability to require bonding for any shortfall, up to \$30 million. Cost analysis models and implementation is in progress.

### **SB 47**

Limón  
2021

Raises the cap on CalGEM spending for purposes related to hazardous wells, idle-deserted wells, hazardous facilities, and deserted facilities from \$1 million to \$5 million in any one fiscal year.

### **AB 896**

Bennett  
2021

Authorizes CalGEM to impose a claim and lien upon the real property in the state owned by the operator or responsible party of an oil or gas well and attendant facility under specified conditions and in specified amounts. It also requires CalGEM to establish a collections unit responsible for: (1) collection of unpaid idle well fees from an operator, (2) establishing the timelines and criteria for determining if a well has been deserted, and (3) recovering any costs from the operator or responsible party for a well that has been deserted or ordered to undergo well integrity testing or to be plugged and abandoned.

### **SB 84**

Hurtado  
2021

Requires CalGEM to clarify the process used by the state to determine that the current operator of a deserted well does not have the financial resources to fully cover the cost of plugging and abandoning the well or the decommissioning of deserted production facilities. It also requires CalGEM to report the location of hazardous wells, idle-deserted wells, deserted facilities, and hazardous facilities remaining, including the county in which they are located, to the Legislature.

### **SB 1295**

Limón  
2021

Requires operators to give CalGEM an estimation of the costs of their future plugging obligations as well as their plan to financially meet those future obligations. CalGEM will review and certify the operator's estimation. CalGEM then has the ability to require bonding for any shortfall, up to \$30 million. Cost analysis models and implementation is in progress.



# IDLE AND ORPHAN WELL PROGRAM FUNDING

## FEDERAL FUNDING

The Federal Bipartisan Infrastructure Law allocated a total of **\$4.7 billion** to create a new federal program to address orphaned wells.

California is eligible for:

**\$61 million**

in the first phase of federal funding to plug orphaned oil and gas wells.

**\$165 million**

more will be made available in the next couple of years to plug wells in California.

[California To Get Federal Funds To Seal Thousands Of Orphaned Oil Wells](#)

## STATE FUNDING (PROPOSED)

**\$100 million**

to plug and abandon orphaned oil and gas wells and decommission attendant facilities that could pose a danger to life, health, water quality, wildlife, or natural resources.

As of August 2022, the State has over **\$28 million** in two special accounts paid by California oil companies that fund the plugging of orphan wells, which are wells with no known owner. The state, not any county or city, is responsible for remediating these wells with funds from industry.

**\$354 Million of Total State and Federal Funding**

## CALGEM'S BUDGET AND SIZE

**CalGEM Total Budget: \$99.2 million in 22-23**

All paid for by the industry by a per barrel assessment

CalGEM has increased significantly in size and budget over the last three years:

**40%** staff increase

**125** new positions created

**\$23 million** per year ongoing

## CALGEM APPROVED BY THE LEGISLATURE BUDGET REQUESTS

### Data Integrity and Accessibility

- **16** positions requested

Appropriation increase from the Oil, Gas and Geothermal Administrative Fund (3046) to increase functionality of WellSTAR and strengthen data integrity, accessibility, reliability and consistency for internal and external use.

- **\$3,261,000** in FY 2022-23

- **\$3,046,000** ongoing appropriation

### AB 2729 Implementation, Idle Well Testing

- **15** positions requested

**\$2.5 million** ongoing to support testing, inspections, data collection, idle well management plan review, compliance monitoring, enforcement, and reporting to the Legislature.

### Mission Transformation and Oversight

- **51** positions requested

The Department of Conservation requests fifty-one (51.0) permanent positions phased in over three years (17.0 in 2022-23, 34.0 in 2023-24, and 51.0 in 2024-25) and an appropriation increase of **\$5,056,000** in 2022-23, **\$7,561,000** in 2023-24, **\$10,842,000** in 2024-25 and **\$10,617,000** ongoing from the Oil, Gas and Geothermal Administrative Fund (3046) to

strengthen enforcement of existing laws and regulations, limit the state's financial liability, improve public transparency, and implement chaptered legislation.

### Oil Well Abandonment & Remediation (Proposed), funding only

General Fund funding request to plug and abandon orphaned oil and gas wells and decommission attendant facilities that could pose a danger to life, health, water quality, wildlife, or natural resources. This funding will help mitigate the State's potential liability, and further the Geologic Energy Management Division's focus on public health, safety, and environmental protection.

- **\$100 million** in FY 2022-23

(General Fund)

- **\$100 million** in FY 2023-24

(General Fund)

### Plugging and Abandoning Hazardous and Idle-Deserted Wells and Production Facilities (SB 47)

- **6** positions requested

To implement the provisions of SB 47, the Department of Conservation requests annual expenditure authority to plug deserted wells and decommission deserted facilities funded at **\$5 million**.

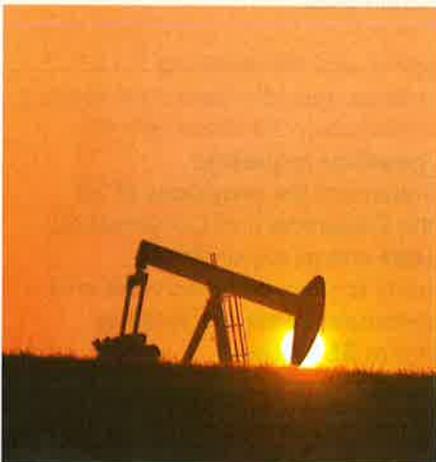


# Insurance Bonding for Oil and Gas Sites

## CALGEM'S ROLE AND AB 1057

The California Geological Energy Management Division (CalGEM,) within the California Department of Conservation, regulates bonding requirements for oil and gas operators in plugging, decommissioning, and remediating oil and gas sites.

In 2018, AB 1057 was signed into law and provides CalGEM the authority to impose new idle oil and natural gas well fees, raises indemnity bonds, and imposes rigorous testing requirements to provide a disincentive for operators to maintain idle wells. Allows waivers for wells that are committed to be plugged and abandoned.



In addition to AB 1057, oil and gas operators are subject to myriad statewide regulations:

**SB 551**

### ABANDONMENT AND DECOMMISSIONING: REPORTING AND INSPECTIONS

Requires operators to give CalGEM an estimation of their future plugging obligations as well as their plan to financially meet those future obligations. CalGEM will review and certify the operator's estimation, can require bonding for any shortfall, up to \$30 million. [FULL BILL TEXT](#)

**AB 2729**

### IDLE WELL PROGRAM

This bill increases idle oil and natural gas well fees and blanket indemnity bonds to provide a disincentive for operators to maintain large numbers of idle wells. It also requires operators to plug between 4-6% of their idle wells annually. [FULL BILL TEXT](#)

**SB 1295**

### HAZARDOUS OR DESERTED WELLS AND FACILITIES: LABOR STANDARDS—PENDING LEGISLATION

Significantly increases the Oil, Gas, and Geothermal Administrative Fund expenditures (funded by operator assessment fees) to address plugging and abandoning hazardous or idle-deserted wells, decommissioning hazardous or deserted facilities, or otherwise remediating well sites of hazardous or idle-deserted wells. [FULL BILL TEXT](#)

**AB 1328**

### NOTICE OF INTENTION TO ABANDON WELLS

This bill requires an independent study commissioned by CalGEM and the California Air Resources Board (CARB) to review emissions from idle and abandoned wells. [FULL BILL TEXT](#)

**SB 84**

### ENHANCED LEGISLATIVE REPORTING REQUIREMENTS OF IDLE WELL PROGRAM

Requires CalGEM's Supervisor to provide the Legislature a report detailing the process used by the state to determine that the current operator of a deserted well does not have the financial resources to fully cover the cost of plugging and abandoning the well or the decommissioning of deserted production facilities. [FULL BILL TEXT](#)

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These extensive statewide regulations ensure that there are sufficient funds and resources available to plug, decommission, and remediate oil and gas sites without government or taxpayers paying the bill.

# WHY VENTURA COUNTY'S PROPOSED SUPPLEMENTAL BONDING REQUIREMENTS ARE NOT NECESSARY:



## PRE-EMPTION

Local legislation is “duplicative” when it is coextensive of state law. The proposed ordinance creates a duplicative program that is unnecessary and could open the County up to potential legal liabilities.

The state, through AB 2729, created several new bonding and fee payment provisions to address the State’s liability to properly plug and abandon wells that are orphaned by operator bankruptcy or failure to act.

Ventura County would be establishing an entirely separate, new program that would require additional County funding and management and would provide minimal public benefit.



## BOND PRODUCTS NOT AVAILABLE

The proposed insurance bonds are not available to producers due to the challenging political and regulatory environment in California. It is extremely difficult to find carriers willing to issue bonds and insurance products for oil development activities. As a result, there is unprecedented pricing increases and diminished supply.



## CALGEM BONDING AND FINANCIAL SECURITY PROGRAM

In response to concerns related to orphan wells and liabilities for plugging, decommissioning, and remediation of oil and gas sites, Public Resources Code (PRC) section 3205.3, codified in 2018 by AB 1057, provides CalGEM the authority to require an operator subject to CalGEM’s indemnity bond requirements, to provide an additional security, acceptable to CalGEM, based on CalGEM’s evaluation of the risk that the operator will desert its wells and the potential threats the operator’s wells pose to life, health, property, and natural resources.



## ADDITIONAL LAYER OF BUREAUCRACY THAT IS NOT NECESSARY

It is audacious and shortsighted of the County to add another layer of bureaucracy to the State’s effective idle well management program. The State has spent years developing comprehensive and meaningful regulations that have begun to accelerate plugging and abandoning of wells. In addition, significant funds have been directed by the State and Federal Government to further accelerate this process. The State’s idle well management program is working. Oil and gas operators are incentivized to plug and abandon wells. Adding another costly and unnecessary layer of bureaucracy will provide little benefit, and only increase the chance of operators going out of business.

### Subject matter expert weighs in:

“Based on my experience in procuring surety bonds and insurance policies for oil and gas companies throughout California, including in Ventura County, the required surety and insurance coverages will be prohibitively expensive for the majority of independent oil and gas companies currently operating in Ventura County.

Even if an insurers’ underwriting department approves a bond that would satisfy the proposed zoning amendments, the operator would likely need to provide 100% collateral in order to satisfy the underwriting requirements. This amount of collateral is not feasible for most operators in the County, especially independent operators.

The proposed amendments also do not specify whether a surety bond can be cancellable. When a surety bond is not cancellable, underwriters are extremely reluctant to issue a bond.”

**Bart LeFerve, CEO of INpower Global Insurance Services, a specialty insurance brokerage & risk management firm**



# CLIMATE CHANGE

California has a unique opportunity to build upon the state's history of innovation, economic growth, and science-based policymaking to lead global efforts to adapt to and mitigate climate change. The state is positioned to simultaneously confront the climate crisis and build a more resilient, just, and equitable future for all communities.

Integrating climate solutions with equity and economic opportunity can transform every aspect of how Californians live in their communities. The Budget reflects the need for urgent and comprehensive action across government. Record-breaking heat waves, a vanishing Sierra snowpack and life-threatening historic wildfires demonstrate that climate emergencies are growing with frequency and intensity in California. A record-breaking lack of precipitation from January through mid-April pushed California into a third consecutive year of drought. Climate change also continues to cause unprecedented stress on California's energy system—driving high demand and constraining supply—compounded by geopolitical and supply chain issues.

Building on the state's climate leadership and the historic \$15 billion climate resilience investments in the 2021 Budget Act, the Budget includes \$38.8 billion over five years, for a total \$53.9 billion under a climate and opportunity agenda to deliver community resilience, affordable housing, and expanded access to health care and education while advancing equity and expanding the number of Californians that share in the state's economic growth.

## CLIMATE ON THE MOVE

Responsible for more than half of the state's climate emissions, the transportation sector generates air pollution, with a disproportionate impact in low-income and underrepresented communities. The Budget's climate investments will deliver opportunities for affected communities, accelerating job-creating clean technologies, advancing environmental justice, and reducing emissions from the transportation system.

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### ZERO-EMISSION VEHICLES (ZEV) ACCELERATION

The 2021 Budget Act committed \$3.9 billion towards ZEV acceleration through 2023-24. It included market-changing investments—ranging from cleaning up short-haul trucks, transit, and school buses to accelerating equitable electrification of passenger vehicles, e-bikes and rail—coupled with infrastructure and incentives for in-state manufacturing.

The Budget includes an additional \$6.1 billion (\$3.5 billion General Fund, \$1.5 billion Proposition 98, \$676 million Greenhouse Gas Reduction Fund, and \$383 million Federal Funds) one-time over five years to accelerate the state's transition to ZEVs, which includes \$3.5 billion that will be allocated in the summer after additional discussions with the Legislature. The Budget focuses on communities that are most impacted by air pollution impacts, to decarbonize California's most polluting sector and improve public health.

#### SIGNIFICANT INVESTMENTS INCLUDE:

- **Heavy-Duty Zero-Emission Vehicles**—\$1.5 billion one-time Proposition 98 General Fund to advance electric school buses in a coordinated effort between educational, air pollution, and energy agencies; and \$600 million one-time Greenhouse Gas Reduction Fund to support zero-emission trucks, buses & off-road equipment.
- **Low-Income Zero-Emission Vehicles**—\$76 million one-time Greenhouse Gas Reduction Fund to support low-income consumer purchases through Clean Cars 4 All and other equity programs.
- **Zero-Emission Vehicle Infrastructure**—\$383 million one-time federal funds to implement ZEV charging infrastructure programs pursuant to the federal Infrastructure Investments and Jobs Act.

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## TRANSPORTATION

Alongside the investments in ZEVs and infrastructure, the Budget includes \$13.8 billion one-time General Fund and bond funds over two years for transportation programs and projects that align with climate goals, advance public health and equity, and improve access to opportunity. Further, the state will be competitively positioned to pursue significant federal investments from the Infrastructure Investment and Jobs Act. These investments will create thousands of jobs, accelerate new investments to modernize existing transportation options, and support clean transportation projects that address climate change and equity.

### SIGNIFICANT INVESTMENTS INCLUDE:

- **Active Transportation**—\$1.2 billion General Fund for projects to transform the state's active transportation networks, improve equity, and support carbon-free transportation options, including funding for: Active Transportation Program projects, the Reconnecting Communities: Highways to Boulevards Pilot Program, and bicycle and pedestrian safety projects.
- **High-Speed Rail and Transit**—\$4.2 billion Proposition 1A bond funds for High-Speed Rail, \$8 billion General Fund over four years for statewide, regional and local transit and rail projects, including \$350 million General Fund for high-priority rail safety improvements.
- **Climate Adaptation**—\$400 million (\$200 million General Fund and \$200 million federal funds) for climate adaptation projects that support climate resiliency and reduce infrastructure risk.

See the Transportation Chapter for additional detail.

## CLIMATE RESILIENCE

Building on the over \$15 billion in multi-year climate resilience investments in the 2021 Budget, the Budget advances programs to protect communities from the imminent climate threats of wildfire and drought, while implementing budget priorities on extreme heat, nature-based solutions, sea-level rise, and community resilience.

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## DROUGHT RESILIENCE AND RESPONSE

Climate change is spurring warmer conditions in California and creating larger gaps between significant precipitation events that are vital to water supply. This year, water project operators will make only minimal deliveries to farms and cities, and wildlife managers are taking extraordinary action to relocate salmon to streams with cooler water than can be made available below major reservoirs.

Lessons learned in the 2012-to-2016 drought inform the current state response, which has also benefitted from significant investments, new data tools, and policy shifts over the last several years. This includes new laws related to safe drinking water, drought planning, water conservation, and local management of groundwater.

The historic three-year, \$5.2 billion investment in California water systems enacted in 2021-22 has helped to minimize immediate economic and environmental damage from the drought and enabled hundreds of projects by local water suppliers to prepare for and be more resilient to future droughts.

The Budget includes an additional \$2.8 billion one-time General Fund over multiple years to support drought resilience and response, which includes \$1.5 billion that will be allocated in the summer after additional discussions with the Legislature. The Budget focuses on drought relief, promoting water conservation, and response designed to help communities and fish and wildlife avoid immediate negative impacts as a result of extreme drought while continuing to advance projects and programs that prepare the state to be more resilient to future droughts.

### SIGNIFICANT INVESTMENTS INCLUDE:

- **Immediate Drought Support**—\$431.5 million to provide grants to urban water districts and smaller community water suppliers for drought relief projects; support public education campaigns; support local technical assistance and emergency drinking water response, including the purchase and pre-positioning of water storage tanks; and enhance water rights enforcement.
- **Drinking Water, Water Supply and Reliability, Flood**—\$500 million to advance drinking water and clean water projects that leverage significant federal infrastructure funds, support dam safety, and flood management.
- **Water Conservation/Agriculture**—\$280 million to support agricultural water conservation practices, provide on-farm technical assistance, provide direct relief to small farm operators, and support additional water conservation projects.

- **Fish and Wildlife Protection**—\$88.3 million to address fish and wildlife impacts associated with drought and climate change, and tribal co-management activities.

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## WILDFIRE AND FOREST RESILIENCE

The ongoing impact of climate change on California's wildlands continue to drive critically dry fuel conditions and longer, more severe fire seasons. In 2021, the state experienced 5 of the 20 largest wildfires in its history, and California communities continue to rebuild from successive climate change-driven catastrophic wildfire seasons.

The 2021 early action package and 2021 Budget Act included a combined \$1.5 billion one-time investment in restoring the state's wildfire resilience by increasing the pace and scale of forest and fuel management practices.

The Budget includes an additional \$1.2 billion over two years to support wildfire and forest resilience which includes \$530 billion that will be allocated in the summer after additional discussions with the Legislature. This funding supports a comprehensive wildfire and forest resilience strategy to continue to reduce the risk of catastrophic wildfires.

### SIGNIFICANT INVESTMENTS INCLUDE:

- **Resilient Forests and Landscapes**—\$400 million to enhance wildfire resilience across California's diverse landscapes by thinning forests, replanting trees, expanding grazing, utilizing prescribed fire, and supporting reforestation, which will also improve biodiversity, watershed health, carbon sequestration, air quality, and recreation.
- **Wildfire Fuel Breaks**—\$265 million to support strategic fuel breaks projects that will enable local communities to develop their own fire safety projects.
- **Community Hardening**—\$5 million to expand defensible space inspections.

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## NATURE BASED SOLUTIONS, EXTREME HEAT, AND OTHER CLIMATE RESILIENCE ACTIVITIES

The 2021 Budget included \$3.7 billion one-time General Fund over three years for investments that support multi-benefit and nature-based solutions, address impacts of extreme heat, build ocean and coastal resilience, advance environmental justice, and deliver community resilience and capacity where resources are most needed. The

Budget includes approximately \$2.1 billion General Fund in 2022-23, associated with the second year of investments.

The Budget includes \$4.2 billion General Fund that will be allocated in the summer after additional discussions with the Legislature across various climate activities including: \$768 million General Fund over two years for nature based solutions; \$300 million over two years for extreme heat; and \$3.1 billion over four years to support various other investments that support climate and energy activities, including climate-related grants to companies headquartered in California.

## ENERGY

Climate change is causing unprecedented stress on California's energy system—driving high demand and constraining supply. Extreme weather events from climate change—including heat waves, wildfires, and the impact of drought on hydropower capacity, combined with other factors such as supply-chain disruptions—are jeopardizing California's ability to build out the electric infrastructure in the time frame and at the scale needed.

The Budget includes a total of \$8.1 billion one-time General Fund over five years to support energy reliability, relief, and clean energy investments, which includes \$3.8 billion that will be allocated in the summer pending additional discussions with the Legislature.

### SIGNIFICANT INVESTMENTS OF THE REMAINING \$4.3 BILLION INCLUDE:

- **Strategic Electricity Reliability**—\$2.2 billion one-time General Fund to support strategic energy reserve resources that will be available when the grid is stressed. This will increase the state's ability to withstand extreme and coincident climate events, but will not take the place of the longstanding obligations of all load serving entities to procure sufficient resources to maintain reliability.
- **California Arrearages Payment Program**—\$1.2 billion one-time General Fund to relieve California households by addressing energy utility arrearages, which builds upon the \$1 billion in federal American Rescue Plan Act funds included in the 2021 Budget that supported over 1.5 million residential and commercial accounts.
- **Distributed Electricity Backup Assets**—\$550 million one-time General Fund to provide incentives to deploy new zero or low emission technologies, including fuel cells, at

existing or new facilities, and as replacements or to substantially improve the environmental performance of existing backup generators.

- **Demand Side Grid Support**—\$200 million one-time General Fund to support the development of demand-side grid support initiatives. These efforts will help reduce energy demand on the grid during peak energy times.
- **Long Duration Storage Incentives**—\$140 million one-time General Fund to invest in long duration storage projects throughout the state to support grid reliability. This investment will help with resilience in the face of emergencies, including wildfires, and provide a decarbonized complement to intermittent renewables, which will provide the state with additional energy storage options during periods of low renewable power availability.

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## LITHIUM VALLEY DEVELOPMENT

Lithium is becoming an increasingly critical resource as the state—and the world—moves toward a clean energy future to tackle the climate crisis. This metal is a crucial component of batteries needed to power electric vehicles, enable a 100-percent clean electric grid, and move the state's homes and industries away from fossil fuels.

California has abundant untapped lithium reserves, including in geothermal brine more than a mile underground near the Salton Sea. Building out a world-class battery manufacturing ecosystem in tandem with lithium production and processing would also increase economic opportunity in the Salton Sea region, delivering quality jobs and community benefits.

The Budget includes a statutory framework for local governments, residents, and disadvantaged communities to benefit from the development and extraction of lithium in the Imperial Valley and will also contribute to the maintenance, operations, and restoration of the Salton Sea.

The Budget includes a volume-based tax on lithium extraction that will take effect on January 1, 2023, with 80 percent of proceeds going to local governments and 20 percent towards Salton Sea restoration efforts and community-benefit projects in the region. The tax rate will be as follows: \$400 per ton for the first 20,000 tons of lithium carbonate equivalent that a firm extracts, \$600 per ton for the next 10,000 tons, and \$800 per ton for all lithium carbonate equivalent extracted over 30,000 tons. These rates

will be indexed to the California Consumer Price Index and will be adjusted annually starting on January 1, 2025.

The Budget also includes \$5 million designated for Imperial County, to be used for a county programmatic environmental impact report and a health impact assessment, and to support community outreach related to lithium development.

## CAP-AND-TRADE EXPENDITURE PLAN

The Budget includes \$1.3 billion Greenhouse Gas Reduction Fund to support various programs that advance the state's greenhouse gas reduction and climate goals, while advancing equity and environmental justice.

### SIGNIFICANT INVESTMENTS INCLUDE:

- **Zero-Emission Vehicle Investments**—\$676 million Greenhouse Gas Reduction Fund to support low-income consumer purchases and zero-emission trucks, buses and off-road equipment.
- **AB 617 Community Air Protection Program**—\$300 million (\$260 million Greenhouse Gas Reduction Fund and \$40 million General Fund) in 2022-23 and \$300 million General Fund in 2023-24 on a one-time basis for the Community Air Protection Program, which reduces emissions in communities with disproportionate exposure to air pollution through targeted air monitoring and community emissions reduction programs.
- **Organic Waste Infrastructure**—\$180 million one-time Greenhouse Gas Reduction Fund to advance organic waste infrastructure and support a circular economy that recognizes waste as a resource, shifting the state's focus to a more resilient and renewable economy in California.
- **Sea Level Rise**—\$120 million (\$80 million Greenhouse Gas Reduction Fund and \$40 million General Fund) in 2022-23 and \$300 million General Fund in 2023-24 for the Climate Ready Program for purposes of funding nature-based projects to address sea level rise.
- **Methane Satellites**—\$100 million Greenhouse Gas Reduction Fund on a one-time basis to expand the number of satellites launched for methane observations, which would provide weekly measurement of large methane emissions in the state and enhance enforcement capabilities. This data will allow California to identify the source of these emissions, work with programs to hold emitters accountable for

violations, and further reduce the amount of short-lived climate pollutants in the atmosphere.

## SUSTAINABLE COMMUNITIES

The state is committed to building sustainable and equitable communities by creating and preserving housing in areas that are closer to neighborhood-serving amenities. Building housing in these locations supports the reduction of climate emissions and helps reduce the exposure of low-income Californians to the impacts of the climate crisis. To that end, the Budget invests \$925 million General Fund in housing development that also furthers the state's climate goals.

### THESE INVESTMENTS INCLUDE:

- **Infill Infrastructure Grant Program**—\$425 million General Fund over two years to prioritize housing production on prime infill parcels in downtown-oriented areas, including brownfields.
- **Adaptive Reuse**—\$400 million General Fund over two years for adaptive reuse incentive grants. These grants will help remove cost impediments to adaptive reuse (e.g., structural improvements, plumbing/electrical design, exiting) and help accelerate residential conversions, with a priority on projects located in downtown-oriented areas.
- **State Excess Sites Development**—\$100 million General Fund over two years to expand affordable housing development and adaptive reuse opportunities on state excess land sites.

See the Housing and Homelessness Chapter for additional detail.

## CLIMATE HEALTH

Climate change affects the health of every Californian, but some communities experience disproportionate public health impacts from climate change more than others. The Budget includes key investments to integrate and elevate health and equity into California's climate agenda.

**SIGNIFICANT INVESTMENTS INCLUDE:**

- **Climate and Health Resilience Planning**—\$25 million one-time General Fund for a grant program to bolster the actions of local health jurisdictions and develop regional Climate and Health Resilience Plans.
- **Climate, Health and Disease Monitoring**—\$10 million ongoing General Fund to establish a monitoring program to track emerging or intensified climate-sensitive health impacts and diseases.
- **Community Health Workers**—\$281.4 million one-time General Fund over three years to recruit, train, and certify 25,000 new community health workers by 2025, in areas such as climate health, homelessness, and dementia.

See the Health and Human Services Chapter and the Labor and Workforce Development Chapter for additional detail.

## **CLIMATE SCHOOLS AND RESEARCH**

California's K-12 and higher education systems are critical in meeting the state's ambitious climate goals. The Budget includes significant investments in research that will support the next generation of innovations to address climate change, and serve as catalysts for expanded opportunity for all Californians. Additionally, the Budget includes infrastructure investments in K-12 and higher education that decarbonize these systems, reducing emissions, improving health of students, and lowering costs over the long term.

The Budget includes \$185 million one-time General Fund for research and initiatives to address climate change at the University of California, including:

- \$100 million for climate action research seed and matching grants, and grants for projects at UC Innovation and Entrepreneurship Centers to incentivize and expand climate innovation and entrepreneurship.
- \$47 million to support climate initiatives at the Riverside campus.
- \$20 million to support climate initiatives at the Santa Cruz campus.
- \$18 million to support climate initiatives at the Merced campus.

The Budget includes climate resilient infrastructure for K-12 schools and universities:

- \$1.5 billion one-time Proposition 98 to support greening K-12 school transportation, including electric school buses, as part of the broader acceleration of ZEVs.
- \$249 million over a three-year period (\$83 million each year, beginning in 2022-23) for the UC Berkeley Clean Energy Campus project.
- \$83 million one-time General Fund to support construction of the California State University (CSU) Bakersfield Energy Innovation Center.
- \$75 million one-time General Fund to support equipment and facilities upgrades at the CSU University Farms, which provide hands-on experience for career preparation in climate resilience, regenerative agriculture, animal welfare, food processing, and water and natural resources management.
- \$30 million one-time and \$3 million ongoing General Fund to continue supporting and expanding the Farm to School Program's investments to improve the health and well-being of California school children through integrated nutrition education and healthy food access.
- \$20 million one-time General Fund for a grant to Carnegie Science to support the Pasadena Climate Research Hub facility, which will house approximately 200 researchers focused on climate resilience.

For additional information on these investments, please see the K-12 Education Chapter and the Higher Education Chapter.

## CLIMATE JOBS AND OPPORTUNITY

In addition to the significant investments outlined above, the Budget expands workforce training opportunities in climate-related fields so more Californians can participate in the state's economic growth. These investments will reduce harmful emissions in California's communities, and will support workers transitioning to new climate jobs and opportunities. The Budget includes \$315 million one-time General Fund over three years to continue expanding workforce strategies to reach its climate goals:

- **Oil and Gas Well Capping**—\$100 million one-time General Fund over two years to plug orphan or idle wells, decommission attendant facilities, and complete associated environmental remediation.

- **Well-Capping Workforce Pilot for Displaced Oil and Gas Workers**—\$20 million one-time General Fund to support a workforce training pilot to train displaced oil and gas workers in remediating legacy oil infrastructure, as the state aims to establish California as the leader in both well remediation activity and workforce training.
- **Displaced Oil and Gas Worker Pilot Fund**—\$40 million one-time General Fund for a pilot support fund to address the needs of oil and gas workers facing displacement.
- **Goods Movement Workforce Training Facility**—\$110 million General Fund over three years for a Goods Movement Training Center in Southern California.
- **Low Carbon Economy Workforce**—\$45 million General Fund in total over three years to restart the California Workforce Development Board's Low Carbon Economy Workforce grant program.

See the Labor and Workforce Development Chapter for additional detail.

## The 2022-23 Budget:

# Oil Well Abandonment and Remediation

JANUARY 2022

**Summary.** The Governor's budget proposes \$200 million General Fund over two years for the California Geologic Energy Management Division (CalGEM) within the Department of Conservation (DOC) to plug deserted wells and decommission associated facilities. Although addressing deserted wells could have environmental, health, and safety benefits, this proposal represents a significant expansion of current well remediation activities. In addition, federal funding for well remediation activities will soon be available. Furthermore, it may be appropriate for the current oil and gas operators to bear at least some of the cost of remediating the environmental damages from these wells—rather than the general taxpayer through the state General Fund. We recommend the Legislature consider reducing the amount of state funding proposed, consider using alternative sources of funding to support well remediation, and require reporting on key program outcomes to inform future funding decisions.

## Background

**California Has Over 5,000 Deserted Oil and Gas Wells.** Oil and gas production in California has decreased over the past several decades. As a result, an increasing number of wells are no longer used for extraction of oil and gas. When a well reaches the end of its productive life, operators are required to plug the well and decommission associated production facilities (also known as remediation). However, there are over 5,000 deserted wells with no responsible solvent operator to appropriately remediate the well and the associated production facilities.

**Deserted Wells Have Environmental, Health, and Safety Impacts.** Deserted wells without proper remediation can result in negative environmental, health, and safety impacts.

For example, deserted wells can leak oil and other injected fluids used for oil and gas extraction, which can contaminate nearby sources of water. In addition, deserted wells can release benzene and methane, among other air pollutants, degrading local air quality. These environmental impacts can pose health hazards, such as harm to respiratory health, to residents in nearby communities. Deserted wells can also present physical safety concerns, potentially endangering unsuspecting people and wildlife.

### **State Remediate About 11 Wells Annually.**

CalGEM is responsible for the oversight of the oil, natural gas, and geothermal industries. In the last five years, CalGEM has expended, on average, \$2 million annually from the Oil, Gas, and Geothermal Administrative Fund and the Hazardous and Idle-Deserted Well Abatement Fund to remediate roughly 11 deserted wells per year. The division identifies deserted wells to remediate by prioritizing wells that pose the highest relative risk to public health, safety, and the environment. State staff issue permits and oversee the plugging and decommissioning activities, but the division uses external contractors to implement the remediation projects.

## Governor's Proposal

**Provides \$200 Million Over Two Years for Well Remediation.** The Governor's budget proposes \$100 million from the General Fund in 2022-23 and \$100 million in 2023-24—total of \$200 million over two years—for CalGEM to plug wells and decommission facilities. The cost to plug a deserted well varies widely, but CalGEM's most recent analysis found the average cost to be about \$111,000 per well. Based on this average cost, the division would be able to remediate roughly 1,800 deserted wells with the proposed funding.

**Uses Contractors to Manage Projects, Investigate, and Implement Projects.**

CalGEM would use the total proposed funding to hire three types of external contractors: (1) \$10 million for a construction management contractor to manage the remediation projects, (2) \$20 million for a contractor to conduct financial obligations and land ownership research, and (3) \$160 million for contractors to plug wells and decommission facilities. In addition, the division will use \$10 million for department administrative costs. Existing CalGEM staff would provide oversight by issuing permits, witnessing different stages of the project, and managing contracts.

**Assessment**

**Addressing Deserted Wells Has Merit.**

As discussed above, deserted wells have significant negative environmental, health, and safety impacts. Well remediation projects could provide important water and air quality improvements, as well as health and safety benefits. In particular, communities near these deserted wells would benefit from these projects. Because deserted wells are concentrated in specific parts of the state, such as Los Angeles, Santa Barbara, and Ventura Counties, benefits would likely be concentrated in these geographic regions.

**Request Represents a Significant Expansion of Current Well Remediation Activities Without Additional State Staff.** The proposed funding is 20 times greater than the existing annual funding dedicated to well remediation and does not include additional positions for CalGEM. Furthermore, as discussed in more detail below, the state is expecting to receive a significant amount of funding from the federal government for well remediation activities. The proposal includes \$10 million for department administrative costs, but no additional positions. It is unclear how these funds will be spent and whether the funds will adequately support administration of the additional funding.

**Federal Funds Available for Well Remediation, but Details Are Unclear.**

The federal Infrastructure Investment and Jobs Act (IIJA) includes \$4.7 billion nationwide over a five-year period for well plugging, remediation, and restoration. At the time of this analysis, the federal

government had not yet issued detailed guidance about how this funding can be used. However, based on our initial understanding, the funding would go to three types of grants:

- **Initial Grants.** Initial grants provide states up to \$25 million to accelerate well remediation work. This funding has not yet been allocated, but the federal government will accept applications later this spring.
- **Formula Grants.** Formula grants provide a larger amount of funding, to be allocated on a formula basis, based on the number of job losses in the state’s oil and gas industry, the number of documented deserted wells, and the projected cost to remediate these wells. This funding is intended for well remediation projects. It is unclear how much funding will be available nationwide through the formula grants. Although CalGEM submitted a notice of intent for the formula grant in December 2021, the federal government has not yet provided an estimate of how much the state is expected to be eligible for. Depending on the number of states that apply for this funding, California could receive up to hundreds of millions of dollars over the next several years.
- **Performance Grants.** Performance grants include two types of funding categories. First, it includes regulatory improvement grants of up to \$20 million, which are intended to help support states in taking steps to strengthen their regulation and oversight of deserted wells. Second, it includes grants of up to \$30 million for states that can provide matching funds for remediation activities. Both performance grant types have not yet been allocated and it is unclear when the federal government will accept applications.

**Other Ways to Pay Remediation Costs May Be More Appropriate.** Under the polluter pays principle, private parties who produce pollution (such as environmental damage associated with oil and gas wells) should bear the costs of managing it to prevent damage to human health or the environment. Deserted wells have no responsible solvent operator that can pay for mitigating the environmental damages. However, it may be

appropriate for the current oil and gas operators to bear at least some of the cost of remediating the environmental damages from these wells—rather than the general taxpayer through the state General Fund. In fact, as mentioned earlier, current well remediation work done by CalGEM is funded by the Oil, Gas, and Geothermal Administrative Fund and the Hazardous Idle Well Abatement Fund. The main source of revenue for both funds is fees on oil and gas operators.

## Recommendations

### ***Consider Proposal in Context of Additional Guidance on Federal Funds.***

Additional information regarding available federal funds is expected to be available shortly. Specifically, further federal guidance regarding the amount of formula grants that the state is eligible for is expected to be available in the coming weeks. A better understanding of the total available federal funding for well remediation activities would help the Legislature determine the degree to which additional state funding for these activities (such as proposed by the Governor) is a priority.

***Consider Reducing Amount of Proposed Funding.*** The Governor's proposal would significantly increase the current well remediation activities overseen by CalGEM. It is unclear whether the division has the capacity to administer such a large increase in state and federal funding within existing resources, given their numerous other responsibilities for the oversight of the oil and gas industries. In addition, a significant amount of federal funding for many of these activities is expected to be available over the next few years. As a result, the Legislature might want to consider reducing the amount of funding proposed by the Governor and targeting funds instead to:

- ***Well and Facility Research.*** Many deserted wells still need to be researched to verify well location, assess facilities, and seek ownership documentation. The Legislature could consider focusing funding exclusively on these research activities to have a better idea of the identification, scope, and cost of well remediation projects. Under this proposal, the administration requests about \$10 million annually for such research.

- ***Matching Funds for Federal Funding.***

Some of the federal funds are expected to require a state match. Specifically, under the current federal guidelines, states must provide matching funds to secure up to \$30 million in performance grants. The Legislature could reduce the proposed funding to only the amount necessary to secure these available federal funds. This approach could reduce near-term state fiscal costs, allow the state to maximize available federal funding, and give the Legislature an opportunity to better evaluate the benefits and costs of the remediation activities before allocating additional state funding.

- ***Consider Alternative Sources of Funding.***

Instead of funding these activities through the General Fund as proposed, the Legislature might want to consider raising fees on operators and use special funds, such as the Oil, Gas, and Geothermal Administrative Fund and the Hazardous Idle Well Abatement Fund, that are currently funding similar work. If state matching funds for federal funding is needed faster than can be generated through fee revenues, the Legislature can consider providing a General Fund loan, to be repaid by these special funds over a period of time. This would allow the state to maximize available federal funding for well remediation activities, but also ensure the polluting industry bears the cost of remediating deserted wells.

***Require Reporting on Key Program Outcomes.*** If funding is approved, we recommend the Legislature adopt budget bill language requiring DOC to report annually (until the funds have been fully expended) on expenditures, contracts awarded, number of wells identified and remediated, and quantifiable benefits of remediation activities (such as greenhouse gas reductions, water quality improvements, and health outcomes), as well as federal funds awarded. Additional information on costs and benefits of well remediation work done by CalGEM would be helpful to the Legislature in determining whether any additional funding for these activities is warranted in the future.

## **LAO PUBLICATIONS**

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This post was prepared by Eunice Roh, and reviewed by Ross Brown and Anthony Simbol. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.



## 2022-23 STATE BUDGET

[Budget Overview](#)[Budget Summary](#)[Budget Detail](#)[Statewide Information](#)[Fund Conditions](#)[Budget References](#)

3480 Department of Conservation

# Program Descriptions

## 2425 - GEOLOGIC ENERGY MANAGEMENT DIVISION

This program regulates the drilling, operation, and abandonment of oil, natural gas, and geothermal wells to prevent, as much as possible, damage to life, health, property, and natural resources. The program seeks to protect public health and safety and environmental quality, including reduction and mitigation of greenhouse gas emissions associated with the development of hydrocarbon and geothermal resources in a manner that meets the energy needs of the state. The state is fully reimbursed for program expenditures by annual assessments and fees on the respective industries.



# California's Efforts to Address Orphan Wells

April 27, 2022  
10:00am



# Background: California Oil Industry

- ▶ California's first oil operations began in the mid-19th century.
- ▶ After more than a century of operations, production peaked in 1985 and has been declining ever since.
- ▶ With the decline in oil production, California has been adopting increasingly ambitious climate change legislation and emission reduction targets.
- ▶ The natural decline in production, coupled with action on climate change leads to more orphaned and deserted wells.



**California's first offshore oil wells, Summerland Field, c.1900**

## Scope of the Orphan Well Challenge

- **5,356** known orphaned, deserted, and potentially deserted wells.
- Estimate another approx. 18,000 undocumented orphan wells
- Estimated cost to plug and permanently seal the 5356 known wells is **\$974 million.**
- It would take California's Geologic Energy Management Division (CalGEM), at current funding levels, decades to address the known inventory of wells, not including unknown wells.
- The federal orphan well program is an unprecedented investment in the state abandonment program.

# Federal Orphan Wells Program

- ▶ Infrastructure Investment and Jobs Act created the Energy Communities Revitalization Program.
- ▶ Provides \$4.7 billion for the Federal government, States, and Tribes to address orphaned oil and gas wells.
- ▶ California is eligible to receive \$165 million dollars in grant funding, and potentially more in additional grant funds to be announced at a later date.
- ▶ State grants fall into three categories:
  - ▶ Initial - \$25 million
  - ▶ Formula - \$140 million
  - ▶ Performance - TBD

## California's Commitment to Address Orphan Wells

- **Funding:** Bolster anticipated \$165+ million federal investment with potentially \$200 million state investment in the Governor's Proposed Budget.
- **Emission Reduction:** Adopt new methane monitoring protocols for all state plug and abandonment operations.
- **Groundwater Monitoring:** Utilize Groundwater Protection Council module to monitor for water contamination.
- **Prioritize Disadvantaged Communities:** Developing a Screening and Prioritization methodology that accounts for impacts on disadvantaged communities, utilizing California's CalEnviroScreen mapping tool.
- **Just Transition:** Two pilots (\$65 million) in the Governor's Proposed Budget to support displaced oil and gas worker training.