

# California Industry Sails On Despite Stiff Headwinds

By Dan Larson  
Special Correspondent

SACRAMENTO, CA.—At a time in which many policy makers seem downright eager to erase their industry from the state, California's oil and natural gas producers remain united and optimistic, report leaders of the California Independent Petroleum Association.

"CIPA has been doing this for 40 years and we are more engaged now than ever," assesses Chief Executive Officer Rock Zierman. "We are more focused, have added staff expertise and we are seeing results where it matters."

Moreover, assures CIPA Chairman Steve Layton, president of E&B Natural Resources in Bakersfield, Ca., members are doing their part. "The powerful voices of our diverse and united workforce are being heard in the Capitol and in our local communities," he reports.

California's growing political opposition and the increasing complexity of its regulatory environment will be important topics as CIPA gathers for its annual convention, scheduled for June 6-9 at the Resort at Squaw Creek, near Lake Tahoe, Ca. Discussions at this year's meeting will consider the many legislative and regulatory attacks against the industry, as well as the production that is steadily declining across the state's long-established oil fields.

## Low Carbon EOR

California's oil and gas industry boasts a proud history that dates back to the industry's early days, but the constant buffering of opposition and steady grinding of regulations and enforcement takes a toll, Zierman admits. One recent media report has declared that, between broad activist opposition, regulatory pressure and market isolation, California's oil and gas industry faces an "existential threat."

"I would not go that far," Zierman corrects. "We are facing headwinds, but I do not see an industry collapse. This year, the opposition has introduced 25 bills that affect our business. If all were to pass, we could be in trouble, but I don't expect that to happen."

Carrying the fight to the Capitol is CIPA's primary function, he affirms. "We already have eliminated some of those bills and we are working hard on the others," he reports. "There is still a lot of work to do, but this what we do; this is our day job."

Legislative issues garnering CIPA's interest in this year's session include a bill that seeks to expand the state's low-carbon fuel credits to oil production. The association is supporting AB 1195, which amends the California Global Warming Solutions Act of 2006 to add a low carbon fuel tax credit for enhanced oil recovery projects that use an innovative method to produce or transport crude oil. Such methods include firing EOR steam generators with methane produced from biogas originating at facilities such as wastewater treatment, dairy farms or landfills.

"California's greenhouse gas reduction program is unique," Zierman explains. "The intent is to reduce the footprint of all fuels by using lower carbon fuels to power production from upstream on down. With everything from EOR, to refining gasoline and diesel, to making plastics, if the process fuel emits less carbon, it reduces our fuels' overall footprint."

"Scare tactics and rhetoric from anti-oil activists are no match for the innovative new technologies our members are adopting to lower carbon intensity as well as operating costs," Layton emphasizes. "The world's largest solar project is in an oil field in Kern County—and it is not only larger companies that are making the investment to bridge new and traditional energy sources for production. Producers of all sizes are actively seeking market-based solutions that make sense environmentally and economically."

AB 1195 seeks to allow EOR producers to source methane from common carriers rather than obtaining the actual molecules produced at a landfill or similar facility, Zierman notes. "To burn biogas molecules in some EOR fields would require dedicated pipelines 300 miles long," he relates. "That is simply not feasible."

In an example scenario Zierman offers under AB 1195, an operator may contract

with a landfill for 1 million cubic feet of biogas and then obtain 1 MMcf from the local utility. He points out that capital costs and operating expenses add 5-20% to the price of most biogas, however, AB 1195 would allow the EOR operator to receive a tax credit for the biogas purchase.

"The biogas offsets methane that a well otherwise would produce," he illustrates. "These biogas projects will not get built if the operator does not have a market for the gas. We support the amendments because the low carbon fuel credits cover the biogas producer's costs and offers incentives for its use."

Zierman expresses optimism for the bill's passage this year. It has been approved on a 7-2 vote in the Assembly Natural Resources Committee, he notes.

## Setback Bill

In the session's opening weeks, AB 345 was introduced to bar new wells, workovers and re-opened wells within 2,500 feet of "sensitive receptors" such as schools or residences. Citing what the association deems the proposal's utter lack of scientific justification, Zierman reports that CIPA is a strong opponent. If AB 345 becomes law, he warns, it will expose the state to massive legal action under takings law by withdrawing the operating permits for thousands of producing wells. Research CIPA cites suggests that under AB 345, at least two-thirds of existing Los Angeles oil wells will be shut down, which will kill 6,000 jobs and drain \$131 million from state and local tax revenue.

In a letter to its sponsor, Assemblyman Al Muratsuchi, D-Torrance, CIPA Vice President of Government Affairs P. Anthony Thomas cautions that setbacks cut both ways. In addition to prohibiting new wells within 2,500 feet of an occupied structure, AB 345 also will bring into question a local government's ability to permit the "construction of schools, hospitals and residences around existing oil and gas facilities. In other words, the setback would handcuff local governments from siting new development."

The bill was passed out of the Assembly



**CIPA Annual Meeting – Squaw Valley, Ca.****Thursday, June 6**

9 a.m. Registration, Resort at Squaw Creek  
 9 a.m.-Noon Executive Committee Meeting  
 Noon-3 p.m. CIPA Board of Directors Meeting  
 3-4 p.m. CNGPA Board Meeting  
 5-6:30 p.m. Welcome Reception  
 Dinner on your own  
 9:15-10:45 p.m. Guided Star Tour  
 Optional Activity, Additional Fee to Participate

**Friday, June 7**

8 a.m. Registration and Silent Auction, Resort at Squaw Creek  
 9-10:30 a.m. Yoga & Essential Oils Class  
 Optional Activity, Additional Fee to Participate  
 10 a.m.-4 p.m. Golf Tournament  
 Optional Activity, Additional Fee to Participate  
 12:30 p.m. Climbing & Zipping  
 Optional Activity, Additional Fee to Participate  
 6:30-9:30 p.m. Evening at High Camp

**Saturday, June 8**

7:30 a.m. Registration and Silent Auction, Resort at Squaw Creek  
 7:30 a.m.-3:30 p.m. Tabletop Trade Show  
 7:30 a.m. Continental Breakfast  
 8:30 a.m.-12:20 p.m. Morning General Session  
 11 a.m.-1 p.m. Wild Water Colors  
 Optional Activity, Additional Fee to Participate  
 11:15 a.m.-2:45 p.m. Catamaran Cruise  
 Optional Activity, Additional Fee to Participate  
 12:30-2:30 p.m. Membership Luncheon/Afternoon Session  
 5:30-7 p.m. Chairman's Reception & Silent Auction Conclusion  
 6-11 p.m. CIPA Kids Camp  
 Optional Activity, Additional Fee to Participate  
 7 p.m.-Midnight Gala Dinner, Awards and Dancing

**Sunday, June 9**

8 a.m.-Noon Silent Auction Check-Out, Resort at Squaw Creek  
 8 a.m.-9:30 a.m. Send-Off Breakfast

Natural Resources Committee, as expected Thomas reports. CIPA has thrown its support behind a special "call to action" day at the Capitol organized by the Western States Petroleum Association to demonstrate united industry opposition to AB 345. This follows on the heels of a CIPA/WSPA worker call-up day, in which more than 70 workers met with legislators, their staffs and Lieutenant Governor Eleni Kounalakis, recounts CIPA Vice President of Communications Sabrina Lockart.

"Veterans, single parents, second chancers and union members all make up our diverse workforce and they have powerful stories to share," Layton describes. "These hardworking men and women have been effective in sharing our industry's message about responsible production. They live in the same communities they work in so they're equally invested in clean air and water for their families."

Moreover, Thomas notes, opposition also has been forming among the state's landowners, real estate developers and building trades.

According to Zierman, AB 345 goes far beyond what local governments already have done regarding setbacks. An ordinance approved last year by the city council in Arvin, Ca. prohibits new development in areas zoned for residential, commercial and mixed uses. Elsewhere,

new oil and gas sites cannot be located within 300 feet of sensitive use areas, and new operating facilities must be at least 600 feet from sensitive areas unless the operator complies with noise, odor, air monitoring and neighborhood alert conditions. The Arvin setback ordinance does not affect producing wells unless they are re-worked, a published report states.

In summer 2018, Arvin Mayor Jose Gurrola and three elected officials from the Central Valley joined 150 other state officials in a letter to then-Governor Jerry Brown that advocated 2,500-foot setbacks as a means of preventing oil and gas development across the state. Brown took no action on the matter before he left office in January, but press accounts say much of the language in AB 345 is believed to have originated with the setback letter.

**Local Control**

Other issues CIPA is following this year include a revision to the state's idle well regulations, efforts to raise the severance tax to 10 percent of the price of a barrel of oil or cubic foot of gas, and a proposal to overhaul the mission of the industry's main state regulator in ways that would yield considerable authority over downhole operations to local governments.

Those local governments are not equipped to take on well permitting and oversight, Zierman emphasizes. "They have land use authority now, but there is not a single person in these municipalities with experience in downhole regulations," he observes. "Local governments are responsible for surface land use decisions. Courts have declared that downhole operations are the exclusive purview of the state and federal governments."

Moreover, he muses, California operators already must work with as many as 20 state and federal agencies that claim some sort of authority over oil and gas activity.

Nevertheless, Zierman notes, oil and gas tend to attract resilient people who do not give up easily and evidence suggests that remains true. "Even with the economic and regulatory realities operators face, they still are pursuing new development here," he considers.

In mid-April, Zierman details, companies had 70 projects on record representing more than 2,000 wells that could be drilled if permits were issued immediately. "The good news is that last week we got our first permit in four months; we are pretty happy with that," he reports. "I hope that the processes in place between the Water Quality Control Board and the Division of Oil, Gas and Geothermal Resources will mean an increase in permits."

**Output Down, Imports Up**

According to the Energy Information Administration, crude oil output slipped in only two of the country's top-10 producing states: Alaska's production fell 16,000 barrels a day, while California production dropped 13,000 bbl/d, which constituted the Golden State's fourth consecutive annual decrease. For the year, California dropped to seventh place, with annual oil production at 14,384 million barrels.

Although cutting-edge technological innovation and a surge in unconventional plays have given many of the country's longtime producing provinces a new lease on life, California's production decline and energy-hungry economy have forced the state to ramp up its imports. Furthermore, very few of all those imports come from within the United States. According to EIA, California imported 369 million barrels of foreign oil in 2018. Meanwhile, according to the California Energy Commission, the state's average gasoline price was \$0.75 higher than the national average in March.



"California's reliance on foreign oil has doubled in less than two decades, while the amount of oil the state uses has remained about the same," Layton observes. "The cry to 'keep it in the ground' actually undermines the state's environmental goals because the less oil we produce in California under the strictest standards on the planet, the more we rely on foreign oil imports shipped here by supertanker. In addition, California isn't benefitting from the nation's energy renaissance because there are no interstate pipelines to affordably send domestically produced oil here."

Moreover, EIA indicates, California is also the country's largest importer of electricity.

"No industry is better equipped than ours with the technology and determination to help the state meet the daunting energy challenges it faces in the coming decades—providing reliable and affordable energy to its citizens in an environmentally and socially responsible manner that is second to nowhere else in the world," Layton reflects.

Moreover, exploration is continuing. An annual industry report by consulting geologist Ronald Bain highlights a pair of promising California discoveries: An oil rediscovery by Temporary Energy in the abandoned Brentwood Field in Contra Costa County, and Royale Energy's natural gas find in the Rio Vista Field.

"California has some of the most prolific fields in the world," Zierman comments. "There are still a lot of oil resources in the LA Basin and Kern County."

### Marketing Service

CIPA approaches its annual meeting on firm ground with 400 members, including oil and gas producers, service and supply companies, and royalty owners, Lockhart details. Its members represent approximately 70% of California's total oil production and 90% of California's natural gas production, she notes.

As the traditional representative of smaller independent operators, CIPA says it works to see those operators succeed. One such demonstration of that support occurred last year when it formed a crude marketing service to pick up where a century-old marketing entity left off. Les Clark retired as executive vice president of the Independent Oil Producers Agency in 2017 after the agency closed its doors after 113 years of helping small producers market their oil. CIPA stepped up and formed the Independent Producers Exchange, Zierman says.

"We wanted to fill the void for our smaller producers," Zierman relates, explaining that the Independent Producers Exchange operates under the CIPA um-

brella and holds contracts with refiners in California while aggregating production to realize a more favorable price.

"It is potentially a very valuable service for our members," he says.

Zierman notes California's changing regulatory climate has prompted CIPA to expand into a role that provides a connection between its members and various regulators. "We have so many agencies with fingers on our industry now that it is difficult for an operator to keep up," he muses.

Zierman cites the example of a new permit checklist posted by the state Water Quality Control Board for underground injection control permits. The agency updated the checklist six times and posted each to its website, but failed to notify permit applicants of the changes. As a result, many applications were held up, while those submitting them had no idea why.

CIPA now has a process for monitoring regulatory actions and informing members of changes. "No longer can the association merely serve as an industry lobbyist," Zierman reflects. "The agency that regulates our members has doubled in size during the past seven years and much of that has been for new inspectors and enforcement staff. We have to get more sophisticated to keep up."

Therefore, CIPA notes it has added staff and consulting expertise, including a vice president of strategic development and a regional staff representative in Los Angeles who will cover issues in the LA Basin and coastal areas. To cover the increase in member services, CIPA's board approved a related dues increase last year.

"This industry operated in California for 100 years and minded its business," Zierman said. "That changed 10 years ago with activist hysteria not based on any science or facts. We had to deal with it." □

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for the regulated community and the general public while BLM completes its rule-making process (AOCR, May 2018, pg. 34)." California, New Mexico and the environmental groups appealed that ruling to the 10th Circuit.

The 10th Circuit's decision to uphold Judge Skavdahl's stay, IPAA explains, preserves venue in the Wyoming District Court should the case based on the merits have a negative outcome in the Northern District of California.

"The Western Alliance and IPAA have led the charge in the repeal and replacement of the rule since its introduction," the association points out. □