



March 30, 2020

Secretary Wade Crowfoot
California Natural Resources Agency
1416 9th Street, Suite 1311
Sacramento, CA 95814

Dear Secretary Crowfoot,

The California Independent Petroleum Association (CIPA) has a vested interest in the outcome of the 2020-2021 State Budget. We have serious concerns about the current California Geologic Energy Management's (CalGEM) Budget Change Proposal (BCP), which requests an additional 128 staff over the next three years (an increase in staffing of over 40 percent), at a cost to oil producers of over \$24 million annually. CalGEM's BCP was problematic before the COVID-19 outbreak. Now, with a global pandemic, the economy in turmoil, and oil prices plunging due to a price war and oil glut caused by Saudi Arabia and Russia, California's independent producers are experiencing unprecedented challenges.

The same regimes that are creating this glut in crude can reverse and cause drastically higher prices or even an embargo that everyday Californians would pay for at the pump. Having a strong California based oil production industry is in the best interest of the state of California to prevent market manipulation by foreign governments. Now is not the time to increase CalGEM's size by over 40 percent. This is on top of the more than 100% increase in staff CalGEM has added in the past decade. CalGEM's budget should reflect the industry's operations during a downturn in the crude oil market that is predicted to last many years. Increasing CalGEM's staffing does not reflect the reductions in staff and activities the industry is budgeted to perform.

As an "essential" industry carved out of both federal and state shelter-in-place orders, CIPA member companies and their employees continue to work, producing the crude oil California continues to demand. CIPA's members are providing critical jobs and benefits for workers during these difficult times. With this in mind, we have turned our attention to the Budget Letter (BL) you received from the Department of Finance (DOF) on March 24, 2020, related to the administration invoking Government Code Section 13308.05, which sets in place a "workload budget."

It is clear that the current CalGEM BCP does not fit the description of a "workload budget." Since oil producers fund 100 percent of CalGEM's budget, it is important for oil producers to know how the workload budget process affects the BCP.

We would also like to offer our perspective on the CalGEM BCP. Our starting point mirrors the Legislative Analyst's (LAO), who, prior to the COVID-19 outbreak, recommended that only the 2020-2021 position requests be approved by the Legislature. Even then, the LAO recommended 50 positions of the 53 requested for 2020-2021.

Several points form the context for our detailed recommendation below. First, CalGEM has a chronic vacancy problem. Over the past five budget years, CalGEM has averaged a 17.4 percent vacancy rate, which is well above normal. To our knowledge, CalGEM has done nothing to resolve their chronic vacancy problem, which raises questions about why CalGEM is claiming a need for more staff when they have dozens of vacancies that could be used to achieve various objectives. It is very frustrating for oil producers to fund 100 percent of CalGEM's current allocation while CalGEM operates at 80 percent staffing levels. To ask for more staff without addressing their vacancy problem is unacceptable by any standard. CalGEM is putting the cart before the horse.

Additionally, many of the roles reporting to the State Oil and Gas Supervisor are currently vacant and his team has not been fully staffed. Without key positions filled, the organization cannot be effective and provide a continuity of leadership. We believe CalGEM can achieve all the work outlined in the BCP with existing staff resources. Even with a very large vacancy rate, CalGEM achieved a 77% compliance rate on required inspections and witnessing. Closing its nearly 20% vacancy rate plus implementing efficiencies like remote witnessing (particularly helpful during the current virus pandemic) can help CalGEM reach 100% compliance.

Furthermore, CalGEM has not processed a single project request by oil producers since last October, and even then, there were less than one project being processed monthly, despite over 60 projects in CalGEM's permit backlog. Keep in mind that some staff (which we fund) are dedicated to processing permits while other staff are exclusively for enforcement. There is a de facto ban on new oil projects insofar as CalGEM either cannot, or will not, allow oil producers to move forward with critical projects, which causes job losses for Californians, tax revenue losses for the state, and lost investment and revenue for oil producers. Surely, "doing nothing" for oil producers cannot continue. At some point, fees we are paying specifically to cover permitting operations that are not occurring become an illegal tax under Proposition 26.

CalGEM is requesting the following in the current budget: 128 positions, 53 positions for 2020-2021 and the balance over the next two budget cycles. The 53 positions for 20-21 are as outlined:

- Field Presence 22
- Implement Recent Legislation (mostly bonding) 16
- Regulatory Enhancement 5
- Pipelines 3
- Transparency 3
- Idle Wells 2
- Well Stimulation Treatment 2

Under the suggested changes below, we outline how 100 percent of the workload CalGEM is stating it needs to accomplish in the current BCP can be achieved without 128 new staff positions. Here are details of our position:

1. Field Presence – 22 positions: CIPA oppose these positions and instead recommends CalGEM achieve current workload by reducing vacancies that are currently funded.

2. Implement Recent Legislation – 16 positions: Oppose these positions and instead support contracting out to achieve the legislative mandates of AB 1057 and SB 551, related to bonding requirements. We are not opposing the chaptered legislation, but rather recommending this work be done differently than hiring 16 permanent staff. First, setting bonding rates is a temporary endeavor, not a permanent one. Hiring permanent staff for a temporary function is irresponsible and unnecessarily burdensome for oil producers. Second, there are no state employee classifications that can meet the advanced economic and actuarial functions necessary to arriving at accurate bonding rates. We recommend CalGEM prepare a Request for Information (RFI) and a subsequent Request for Proposal (RFP) that would allow banking institutions and accounting firms to compete to accomplish bonding requirements for oil producers. It is important to note that SB 551 places the initial burden on oil producers to provide economic information about their companies' potential liabilities commencing on July 1, 2022. Even then, that's the beginning of the process. Because of these timelines, it is not essential that CalGEM commence work on bonding during the 2020-2021 budget year.
3. Regulatory Enhancement – 5 positions: CIPA supports these positions, since finding and plugging orphaned wells is a critical function. CIPA's oil producers are not the problem. The potential concern are oil wells that are neither in an idle well management plan nor in a fee agreement. CIPA members do not have unattended orphaned wells that are potentially hazardous. The LAO describes these positions as "collecting and organizing evidence, gathering and evaluating well ownership and lease information, and identifying responsible parties to support issuance of orders." Accomplishing these goals benefits CIPA's members since whatever liability is not covered by responsible parties is instead paid by all remaining producers through the annual oil and gas assessment.
4. Pipelines – 3 positions: CIPA opposes these positions since CalGEM already has staff working on pipelines. Additionally, there is questionable legislative authority for the work outlined in the BCP. Authorizing staff to do the work as described in the BCP could lead to the implementation of an underground regulation. Further explanation by CalGEM is necessary.
5. Transparency – 3 positions: CIPA concurs with the LAO; these positions should not be granted.
6. Idle Wells – 2 positions: CIPA supports these positions to evaluate Idle Well Management Plans and Fee Payments by operators.
7. Well Stimulation Treatment – 2 positions: CIPA supports adding these positions to ensure WST permits are handled more efficiently.

As California's independent oil producers continue to work on behalf of the energy needs of every Californian in normal times and in this time of crisis, we hope you will give serious consideration to our concerns and recommendations. We also look forward to answers to the questions we posed. If you have any questions, please contact me at (916) 447-1177 or sean@cipa.org.

Sincerely,



Sean Wallentine
Vice President of Government Affairs