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August 7, 2024

Honorable Karen Bass
Mayor, City of Los Angeles
Room 303, City Hall
Attn: Legislative Coordinator

Honorable Members of the City Council
City of Los Angeles
City Hall, Room 395
Attn. City Clerk

[BFC 24-067] – RESTRUCTURING OF BOND AMOUNTS AND FEES FOR THE FIRE PREVENTION BUREAU OIL WELL INSPECTION UNIT

At its meeting of August 6, 2024, the Board of Fire Commissioners approved the report and its recommendations. The report is hereby transmitted to the Mayor for consideration and approval.

Should you need additional information, please contact the Board of Fire Commissioners' office at 213-978-3838.

Sincerely,

Leticia Gomez
Commission Executive Assistant II

Attachment

cc: Fire Chief Kristin M. Crowley (via email)

LOS ANGELES FIRE DEPARTMENT



KRISTIN M. CROWLEY
FIRE CHIEF

APPROVED: 8/6/24
BOARD OF FIRE COMMISSIONERS
BY: [Signature]
COMMISSION EXECUTIVE ASSISTANT

July 15, 2024

BOARD OF FIRE COMMISSIONERS
FILE NO. 24-067

TO: Board of Fire Commissioners

FROM: Kristin M. Crowley, Fire Chief [Signature]

SUBJECT: RESTRUCTURING OF BOND AMOUNTS AND FEES FOR THE FIRE PREVENTION BUREAU OIL WELL INSPECTION UNIT

FINAL ACTION:	<input checked="" type="checkbox"/> Approved	<input type="checkbox"/> Approved w/Corrections	<input type="checkbox"/> Withdrawn
	<input type="checkbox"/> Denied	<input type="checkbox"/> Received & Filed	<input type="checkbox"/> Other

SUMMARY

The Fire Prevention Bureau's Oil Well Inspection Unit (Unit) is responsible for the enforcement of oil well compliance as mandated by Los Angeles Municipal Code Sections 57.105.6.26, *Oil Well*, and 57.5706.3.16, *Abandonment of Oil Wells*. The Unit's goal is to expedite the abandonment process outlined in City Ordinance No. 187709 and keep operators liable for wells in their possession. Based on a fee study performed by the Department in response to Council File 21-0065, fee modifications to surety bond requirements and violations are being proposed in Tables 1 and 2 below.

RECOMMENDATIONS

1. That the Board:
 - a. Approve the attached fee study and proposed amendments, and
 - b. Transmit this report to the Mayor and City Council for considerations and approval.
2. That the City Council, subject to the approval of the Mayor:
 - a. Authorize the Fire Department to request the Office of Finance to adjust bond requirements for oil wells; and,
 - b. Request the City Attorney to draft an ordinance for the Oil Wells Unit to start collecting penalties for violations committed by oil well operators not in compliance with the City's policy and procedures. The fees approved by the Mayor and Council shall become effective, excluding fees that are recommended by the Mayor and Council which shall be amended.

DISCUSSION

Bond Requirements

The Department proposes to adjust bond requirement levels for oil well operators based on the cost of special services included in the Unit's fee study. The analysis showed that prices have drastically changed in the last 40 years from when the bond requirement was last adjusted for oil well operators.

In the fee study, the Unit received quotes from oil service companies contracted for abandonments. An abandonment consists of properly plugging and capping a well in accordance with California laws. Once the well has been filled with cement and securely covered with a plate weld, the site could be prepared for site restoration. These services are handled by companies that begin their work by first researching the well file and gathering permits for abandonment. They then contract a team of engineers and supervisors who will operate the rig and excavator. The average cost to perform a basic abandonment is approximately \$200,000. If the abandonment involves surface reclamation, which is the process of returning the surface to native soil and to environmentally safe conditions, another company needs to be contracted. This may increase the abandonment cost by \$100,000, for a revised total of \$300,000. The Unit also found that complex abandonments require additional time and resources, which increases abandonment costs up to \$1,000,000 per well.

As shown in the table below, the Department recommends that the new surety bond price reflects the average cost of an abandonment. Based on the analysis completed, the minimum bond requirement should be \$200,000 per well, rather than the current bond of \$10,000 per well.

Table 1. Proposed Bond Requirements		
	Current Bond Requirements	LAFD Proposal
One Well	\$10,000	\$200,000
Five Wells and more (Blanket Bond)	\$50,000	N/A

The proposed amount of \$200,000 per well will cover the actual cost of a basic abandonment and hold oil well owners liable if they attempt to declare bankruptcy and desert their wells. This amount will also cover any complications that may arise in the abandonment process. The LAFD proposes to only offer surety bonds per individual well and remove the option of a blanket bond.

Penalties for Violations

The Oil Well annual inspections are used to check the compliance of each operating site and their wells based on the City of Los Angeles Fire Code which considers general and hazmat conditions, as well as proper permitting. If a violation is identified, oil well owners receive a notice and can make corrections without a penalty. They are only charged a fee after the second re-inspection or if the matter is referred to the City Attorney. The Department proposes charging a penalty per notice in addition to current fees and charges incurred by the City Attorney.

The Fire Code states that an Oil Wells Inspector must be present to witness any

abandonment of a well, specifically the last 100 feet of cement filling and the welding of the plate head. The Department proposes to charge a fine for any abandonment that is not overseen by the Unit. Both fines outlined in the table below are based on current inspection rates with the addition of a 50% penalty.

Table 2. Proposed Fines for Violations	
Fine Category	Proposal
Violations	\$ 542 (One-time flat fee per notice)
Improper Notice of Abandonment to LAFD	\$ 5,400 (One-time flat fee)

The violation penalty will be based on one inspection hour and improper notice to the Department to witness an abandonment will be based the current cost of an Abandonment Permit (\$3,610 as of October 10, 2023).

These penalties will both ensure operators keep their wells in compliance in initial inspections, as well as generate revenue for the Department. If the Department is approved for collecting violations, these rates will be adjusted automatically with the Annual Cost of Special Services and be deposited into the Department's Fund 100, until the Department assigns them a new revenue code. The Unit's Management Analyst will aid in the tracking of any fines and violations, as oil wells are a huge concern to the media and public.

FISCAL IMPACT

Based on discussions with the Office of Finance, the custodians of oil well surety bonds, there should be no fiscal impact on the increase of bond prices. The process will remain the same and the increase in price will only affect the oil well operators. The increase will also provide cost savings by providing proper insurance for the City until operators abandon their wells. The fiscal impact of the Department collecting penalties will be determined after discussions with the City Attorney.

CONCLUSION

The Oil Well Inspection Unit is committed to the enforcement of the Fire Code for the protection of the City of Los Angeles and its residents. The approval of the requested recommendations will aid current enforcement regulations and indicate to the public that the Fire Department is in accordance with the proposed ordinance to discontinue the operation of oil wells.

Board report prepared by Lawrence Salas, Captain I, Oil Well Inspection Unit.