

#7

PXP

Plains Exploration & Production Company

September 14, 2006

LATE
DIST

Vaquero Energy
5060 California Avenue, Suite 640
Bakersfield, California 93309
Attn: Ken Hunter

Re: Letter of Intent dated January 27, 2006 between Plains Exploration & Production Company ("PXP") and Vaquero Energy ("Vaquero")

Dear Mr. Hunter:

This is to inform you that since your last discussion with PXP, that several significant obstacles to going forward with the project set forth in the above referenced letter has been identified by our legal department. First, the California Gas Producers Access Agreement entered into on 12/1/95 between Torch Energy Marketing, Inc as "Producer" (PXP is now the "Producer") and Southern California Gas Company ("SoCal") as Utility ("Access Agreement") covers gas only from the "Contract Area" identified in said Agreement as the Lompoc Field and the Point Pedernales Field. Accordingly, the Contract Area of the Access Agreement would need to be amended to include your gas from the Careaga Field.

Unfortunately, we understand from discussions with our consultants that SoCal will most likely not be amenable to amending the Access Agreement, but will require a new access agreement with new terms and conditions which will create significant new costs and operating hardships for both PXP and Vaquero. — SoCal discussions without new conditions at our urging


Obviously to go forward with discussions with SoCal, PXP would first require Vaquero to indemnify it (and provide financial assurances acceptable to PXP to support such indemnification) from any and all new costs and operational hardships that may be imposed on PXP by the new contract, and to reimburse PXP for all of its costs and time in negotiating such a transaction with SoCal. While PXP is unable to quantify such costs at this time, we do believe that such costs may be substantial.

The second obstacle identified by our legal department is the potential inability of PXP to shift all cost, risk, and liability with regard to the pipelines to Vaquero, including but not limited to operational, safety, spill clean-up and abandonment issues. Accordingly, PXP would require that Vaquero provide it with appropriate performance bonds and insurance coverage to effectively insure that PXP would have no risk involved in going forward with a transfer of the pipeline to Vaquero.

In light of the foregoing issues, if Vaquero is still interested in pursuing its project, please advise. We would anticipate the need for some formal agreement to document the parties understanding concerning the above discussed matters before any discussions with SoCal take place.

If you desire to discuss further, please call me at 713-579-6214.

Sincerely,



Mark D. Kidder
VP-Operations

LEBWIN

WE CONTRACTED SOCAL GAS IN SSPT 06 AND FURNISHED THEM WITH INFO THEY REQUESTED. IT TOOK SOCAL ABOUT SIX MONTHS TO FINALLY RESPOND THEY HAD NO PROBLEM WITH OUR GAS ENTERING PXP'S PLANT. SOCAL INDICATED TO ME THAT PXP WAS IN NO HURRY AND WAS GENERALLY UNRESPONSIVE TO SOCAL.

KID

Allen de Sanchez, Suzanne

From: Anthony, Doug
Sent: Thursday, September 04, 2008 3:35 PM
To: Allen de Sanchez, Suzanne
Cc: 'Rusch, Steve'
Subject: FW: PXP LOGP CUP-- Proposed County Condition Language
Attachments: scan0017.jpg; scan0015.jpg

Suzanne,

Mr. Hunter asked me to forward this email to the Board of Supervisors for item 7 on Tuesday's agenda. Would you please distribute and post on the website? I will cc the applicant on this email.

Thanks, Doug

From: Ken Hunter [mailto:KHunter@vaqueroenergy.com]
Sent: Friday, August 29, 2008 7:52 PM
To: Anthony, Doug
Cc: Drude, Kevin; Coleman, Howard D.; Sanders, Greg
Subject: FW: PXP LOGP CUP-- Proposed County Condition Language

Doug, with regard to potentially adjusting condition Q9 language in order to clarify the procedural order of things, we have drafted some language shown below in the first paragraph shown in quotation marks to remedy the appropriate priorities. With regard to addressing the apparent side issue with the SOCAL contract (I am attaching of a copy of PXP's letter to me disclosing the existence of the contract and its terms regarding the necessity of SOCAL approving new entrants into the LOGP plant) that could frustrate the intent of the county's wishes to encourage consolidation of facilities, an explanation of our concerns with the SOCAL/PXP contract follows. If, let's say, PXP is at loggerheads with SOCAL on some issues regarding unrelated facilities say located in the LA basin (this has happened in the past), SOCAL, perhaps in order to create leverage with PXP may use its power to delay approval of a new entrant or simply not respond to requests (which was my experience for many months) if a new party wants to enter the LOGP. In any case, the SOCAL contract takes on the specter of the PXP/GOO side deal because in either case the County is not privy to the actual terms of the contracts and the actual effects on the CUP conditions. The second paragraph of our suggested condition language shown below in quotes seeks to remedy this problem.

“Prior to undertaking any environmental studies or other requirements imposed by law to implement condition Q-9, PXP and the producer requesting access to the LOGP (including pipeline rights-of-way to the LOGP), shall mutually agree upon the financial terms of such access, which terms shall be industry standard. In the event that PXP and the producer are unable to mutually agree to such financial terms for both access to the LOGP and the pipeline rights-of-way within 60 days after the producer has first proposed in writing such financial terms to PXP, then the County thereafter shall determine, within 90 days after expiration of the 60 days, such financial terms and the County's determination shall be absolute and be binding upon the producer and PXP.”

“PXP shall not in any way enter into contracts which shall impede or restrict the transmission of gas from or to the LOGP based on the origin of such gas. In addition, PXP shall use its best efforts to work with companies transmitting gas from the LOGP to permit the transmission of all gas meeting the transmission company's specifications.”

Lastly, with regard to the concerns raised in our letter to the Board requesting a continuance of the August 19th hearing, let me explain that as well. Most likely, the presumption in the LOGP CUP at the time it was approved assumed that UNOCAL would operate the LOGP as long as it was economically feasible to do so and I assume the current updated EIR was prepared under the same assumption. Then based upon what the papers have said, PXP at the 11th hour came to the table asking the County to approve the shortening of the life of the LOGP regardless of the economic circumstances existing in the year 2022 or who might be using the LOGP at the time, which in my opinion conflicts with the initial premise of the original and updated EIR's regarding the plant's operation. The proposal to delete certain words in condition A-6 as described in August 19th staff report, which purpose I surmise was to leave the door open for the continued operation of the plant beyond 2022, does not go far enough because assuming what we have read in the papers regarding the PXP/GOO side deal is true, PXP will transfer ownership of the land that the plant is located on to a nonprofit land trust in 2022. Obviously the land trust has no engineers or technical people capable of running the plant or a balance sheet to assume the risks of operating the plant, so it is all but guaranteed that the plant would shut down in 2022 in accordance with the intents of the PXP/GOO side deal regardless of the revised language the county has proposed for condition A-6. I think the likelihood of this outcome should have been covered in the EIR and the consequent effects on third parties using the plant at the time. Unfortunately since the County is not privy to the PXP/GOO side deal and as a consequence the effects of the side deal have not been addressed by the EIR, it is all but impossible to know what is really going on and the practicality of operating the plant beyond 2022, particularly by an entity that has no desire to own or operate a gas plant. We will be bringing the issue up in the upcoming hearing but in the meantime you could be thinking about some language that addresses the operations of the LOGP post 2022 if the economics support its continued operation.

Please call me should you have any questions regarding our comments.

Sincerely,

Ken Hunter , President , Vaquero Energy

PS. Please forward this to Mr. Ghizzoni as I do not have his email address.