



ATTORNEYS AT LAW

777 S. Figueroa Street
34th Floor
Los Angeles, CA 90017
T 213.612.7800
F 213.612.7801

Howard D. Coleman
D 213.612.7821
hcoleman@nossaman.com

Refer To File #: 300165-0001

VIA FACSIMILE (805) 568-2982

June 12, 2014

Michael C. Ghizzoni, Esq.
County Counsel
County of Santa Barbara
105 E. Anapamu Street, Suite 201
Santa Barbara, CA 93101

Re: Initiative To Ban Oil Production in Santa Barbara County

Dear Mr. Ghizzoni:

We represent PetroRock LLC. We are writing to inform you and the County Board of Supervisors that the Initiative to Ban "High-Intensity Petroleum Operations" in Santa Barbara County's unincorporated areas, if adopted, exposes the County to substantial liability because it effectively prohibits ongoing oil production activities in the County – even those that not using hydraulic fracturing. Such regulation would be a taking of PetroRock's property without just compensation in violation of the Fifth Amendment to the U.S. Constitution and Article I, § 19 of the California Constitution. If passed, we will be filing suit to recover damages on behalf of PetroRock.

PetroRock operates heavy oil leases in the northern area of the Cat Canyon Oil Field. They utilize cyclic steam methods to extract the 8 deg API oil. Such operations are explicitly described on Page 3 of the initiative with the statement "the existing Tunnell Facility in Santa Barbara County uses nearly six million gallons of freshwater per year for its operations".

Statements in Section 1: "Purpose and Finding" of the Initiative differ from the actual facts. Two statements in particular in the Initiative are as follows:

- “ ...these operations could contaminate Santa Barbara County's ground water - and surface water”. This is a known fact because PetroRock monitors it.
- “ ...a large amount of water is used during oil recovery operations”.

The facts are different. On the Tunnell Lease, heavy oil operations using cyclic steam extraction methods have been ongoing for the past 50 years. There has been no known evidence of contamination of the ground water during this time. Moreover, PetroRock uses only an amount of fresh water that is permitted by the County of Santa Barbara. In fact, PetroRock is building a water plant to reuse/recycle produced water. Thus fresh water usage will actually decrease.

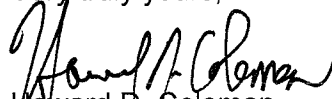
On its face, the Initiative would ban virtually all methods for extracting oil and gas in the County. The Initiative, therefore, will deprive our client and mineral rights owners in Santa Barbara County, which includes oil and gas producers and individual royalty owners, of all economically viable use of their property. This is a regulatory taking. See, e.g., Lucas v. South Carolina Coastal Council, (1992) 505 U.S. 1003, 1015-16.

The Initiative effectively prohibits all ongoing extraction activities and ensures that no future extraction would occur by banning all "Secondary and Enhanced Recovery Operation," which is defined as "any operation where the flow of hydrocarbons into a well are aided or induced with the use of injected substances..." This language would ban the use of all substances—including (but not limited to) air, steam, and even water. This will be devastating to the County's oil and gas industry. It also prohibits any operation that affects the permeability of the formation. This amounts to a virtual ban.

In conclusion, the Initiative strikes at the heart of oil operations in Santa Barbara County. Its aim is to eradicate the oil industry within the County. Such Initiative, if it passes, will expose the County to huge financial exposure resulting in even jeopardizing the financial integrity of the County itself.

For all the reasons stated above, the County should not adopt the Initiative. To do so would wreak havoc on both private and public interests, result in litigation and would subject the County to substantial liability.

Very truly yours,



Howard D. Coleman
of Nossaman LLP

HDC:jtc

cc: PetroRock LLC
Mr. David Villalobos (via E-mail)