

SANTA MARIA ENERGY

November 8, 2013

VIA ELECTRONIC MAIL

Santa Barbara County Board of Supervisors
105 East Anapamu Street, Room 407
Santa Barbara, California 93101

RE: Response to Appeal of County Planning Commission Decision (Sept. 25, 2013)
Santa Maria Energy Oil& Gas Drilling and Production Plan
Case Nos. 09-PPP-00000-00002 and 12DVP-00000-00008 (collectively, the "Project")

Dear Chair Carbajal and Honorable Members of the Board of Supervisors:

On November 12, 2013, your Board will hear and make a decision on the appeal of the Planning Commission's approval of the Santa Maria Energy Project. The related project, Laguna County Sanitation District pipeline, was approved but not appealed.

Notwithstanding comprehensive environmental review, exhaustive legal and technical analysis, and thorough public review, the Project's opponents continue to make erroneous claims about our Project. For example:

- **You may hear** this Project will set precedent for greenhouse gas (GHG) mitigation requirements in this county for future projects. **This is not true.** See Attachment 1.

You may hear that other projects in the county have been held to more stringent greenhouse gas mitigation obligation than was approved for this Project. **That is not true.** See Attachment 2.
- **You may hear** this Project will impact groundwater quality. **This is not true.** See Attachment 3
- **You may hear** oil produced from this Project is "dirty oil". **This is not true** See Attachment 4.
- **You may hear** that oil produced by this Project will be exported. **This is not true** See Attachment 5.
- **You may hear** that it is more environmentally responsible to consume foreign oil. **This is not true.** See Attachment 6.

- You may hear that the cost of additional GHG mitigation obligation is inconsequential to Project economics. This is not true See Attachment 7.
- You may hear that this Project will impair the development of alternative methods of energy production. This is not true See Attachment 8.
- You may hear that cyclic steaming is not regulated. This is not true. See Attachment 9.
- You may hear that producing with cyclic steam is tantamount to fracking. This is not true. See Attachment 10.
- You may hear that the Project will exacerbate global warming. This is not true. See Attachment 11.
- You may hear about the Project will encounter problems similar to those experienced in Cold Lake Alberta. This is not true. See Attachment 12.

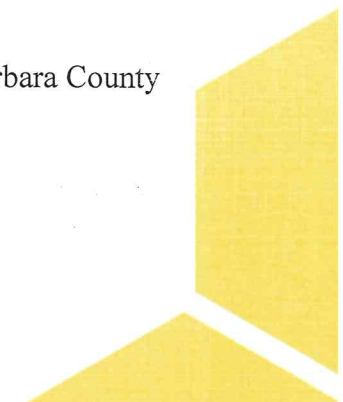
The appellants have also alleged the GHG emissions for the Project were not adequately reviewed by staff and the Planning Commission. This is not true.

All of the information in this letter has been presented and is part of the administrative record for this proceeding. The administrative record includes: the Draft EIR (September 2012), the Final EIR (April 2013), the Recirculation Document (July 2013), and the revised Final EIR (September 2013), in addition to 1,000+ pages of technical supporting documents.

The Planning Commission held three hearings on the Project in Santa Barbara. At those meetings, the Planning Commission reviewed the EIR (as originally drafted and then amended), multiple staff reports memos, in addition to Power Point presentations by staff. The Planning Commission received letters, e-mails, petitions, and public comments from many speakers. Accordingly, the appellants and others have had many opportunities to be heard at public hearings. See Attachment 13.

In the public record, you will note support for the Project from:

- Mayors and city council members of several Santa Barbara County cities;
- Several Chambers of Commerce and other local economic vitality organizations;
- Chief decision makers from several of our county's largest employers;
- A significant number of unions in our county;
- A cross section of the non-profit community; and
- Over 3,000 people from every walk of life who live and/or work in Santa Barbara County and who care enough to submit a statement of support.



The Planning Commission carefully considered all of the facts. After full deliberation of the Project impacts and benefits, the Planning Commission voted 3-2 to approve the Project subject to a GHG mitigation obligation that more than complies with both state law and the county's own reduction targets.

It is worth noting that the two dissenting Commissioners both expressed support for the Project. The Planning Commission's support for the Project was achieved, in part, due to the Project's many environmentally-beneficial features, such as:

- **long-term survival** of the endangered California Tiger Salamander by participating in Santa Barbara County's first CTS conservation bank;
- **responsible on-site protection and management** of important biological resources, such as native oak trees, Lompoc Yerba Santa, native grasses, as well as designated wetlands;
- **use of non-potable reclaimed water** thus imposing no demands upon water that might otherwise be used for human consumption;
- **construction and dedication to the County of valuable infrastructure** that helps solve troublesome wastewater dilemma;
- **protections against erosion** and flooding by improving existing streambed crossings;
- **minimal ground disturbance** by installation of multiple wells on each well pad;
- **reduced air emissions through construction of pipelines to the Project site** and reduced truck traffic;
- **beneficial reuse** of stranded natural gas produced on-site as a fuel source thereby further lowering emissions; and,
- **reduced environmental impacts in California by producing cleaner oil** than the average barrel imported daily to California at a cost exceeding \$100 million.

The Planning Commission approval is supported by state law, including the California Environmental Quality Act (CEQA) and Assembly Bill 32 (AB32), the California Air Resource Board (CARB) regulations, as well as recent appellant court decisions.

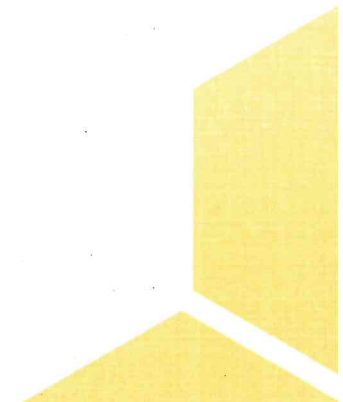
Of course, the Project is consistent with county policies and Land Use Development Code

We respectfully ask you to deny the appeal and approve our Project

Respectfully yours



Laurie Tamura, Permitting & Development Manager
SANTA MARIA ENERGY, LLC



Attachment 1

The Board's approval of this Project will not set County precedent for GHG mitigation requirements for future projects.

In both their staff report and in their presentation, County staff makes clear that until a formal threshold of significance is adopted, whether pursuant to the Energy and Climate Action Plan (ECAP) or otherwise, each project must be reviewed and analyzed on a case-by-case basis.

CEQA expressly allows lead agencies to select project-specific CEQA significance thresholds.¹ In fact, the appellate court has expressly affirmed this County's case-by-case selection of a significance threshold in Save Cuyama Valley v. County of Santa Barbara, (213 Cal. App. 4th 1059, 1068 [2013]). The application of a project-specific threshold means the use of a threshold for one project does not set precedent for other projects.

Similarly, with regard to mitigation, CEQA does not mandate the same level of mitigation be used for similar projects approved by an agency. See Del Mar Terrace Conservancy, Inc. v. City Council (1992) 10 Cal.App.4th 712, 741 (*adherence to alleged "historic ratios" for mitigation of impacts on wetlands is not required by CEQA, which does not mandate similar mitigation for all similar projects*); San Franciscans for Reasonable Growth v. City & County of San Francisco (1989) 209 Cal.App.3d 1502, 1526 (*two-tiered approach to housing mitigation embodied in ordinance grandfathering certain projects into mitigation requirements of interim guidelines that preceded ordinance does not conflict with CEQA's mitigation requirements*).

¹ See 14 C.C.R. § 15064.4; see also *Citizens for Responsible Equitable Environmental Development v. City of Chula Vista* (2011) 197 Cal.App.4th 327, 336 (affirming that a lead agency has the discretion to decide what GHG threshold of significance it will apply to a project, so long as the lead agency's decision is supported by substantial evidence).

Attachment 2

The Project's GHG analysis and mitigation approach is consistent with all other projects in the County.

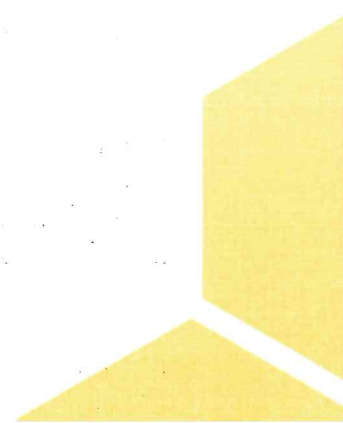
Consistent with AB32 regulations, CEQA also requires analysis and mitigation of significant climate change impacts, to the extent feasible. To determine the level of environmental review, jurisdictions can establish "threshold of significance" whereby if a project results in impacts exceeding these levels, additional environmental review is required. In most cases, exceeding an applicable threshold of significance will require an Environmental Impact Report (EIR).

The County has used 10,000 MTCO₂e/yr as an interim screening-level significance threshold to determine whether a project's GHG emissions are subject to CEQA review. The County identified this level because it has been used as an "interim" significance threshold by the Bay Area Air Quality Management District and the South Coast Air Quality Management District. The County has applied a 10,000 MTCO₂e/yr threshold to at least two other projects as a CEQA "screening" threshold to determine whether GHG impacts could be potentially significant (the Southern California Gas La Goleta Storage Field Enhancement Project and the North Garey Oil and Gas Production Plan). These projects each had emissions less than 10,000 MTCO₂e/yr, and therefore the County did not require GHG mitigation for these projects.

As discussed above, the County has the discretion to determine how to measure the significance of GHG impacts for each individual project. Similarly, the County has discretion regarding how to "screen out" projects with smaller GHG emission levels that do not require more detailed CEQA analysis

The SME Project's GHG analysis is consistent with the County's use of 10,000 MTCO₂e/yr as a screening threshold; because the Project's emissions exceed 10,000 MTCO₂e/yr, the GHG analysis for the Project goes on to fully evaluate the Project under CEQA using 29% below BAU as a performance standard. This performance standard is based upon conformance with the California Air Resources Board's statewide plan for the reduction of GHG emissions (see 14 C.C.R. § 15064.4[a][2] & [b][3]). This performance standard has been expressly affirmed by the appellate courts in *Friends of Oroville v. City of Oroville* [2013] 219 Cal.App.4th 832 and *Citizens for Responsible Equitable Environmental Development v. City of Chula Vista* [2011] 197 Cal.App.4th.

It is also critical to remember that this Project is subject to cap-and-trade and is, thus, being required to comply with two programs.



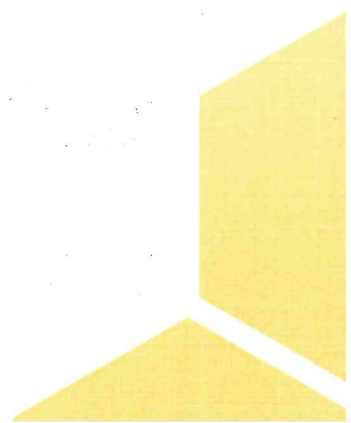
Attachment 3

The Project will not cause any impacts to groundwater

As specifically analyzed in the EIR, there is groundwater located under the Project site. The Orcutt Oil Field, the 110-year-old oilfield where the Project is located, lies along the northern edge of the San Antonio Water Basin.

Wells to be drilled as part of the Project will not penetrate any viable groundwater resources. Furthermore, the California Division of Oil, Gas and Geothermal Resources (DOGGR) regulates the drilling and as part of its review ensures that each well is designed and constructed in a manner that specifically protects groundwater resources. (See FEIR, Appendix 12.2.H)

Once the wells are in production, the operational performance of each well is monitored by (i) a SCADA (Supervisory Control And Data Acquisition) system that is integrated with automated sensors at key points in the production facilities; and, (ii) by around-the-clock, on-site employee surveillance to ensure fluids are safely contained in the piping and tanks.



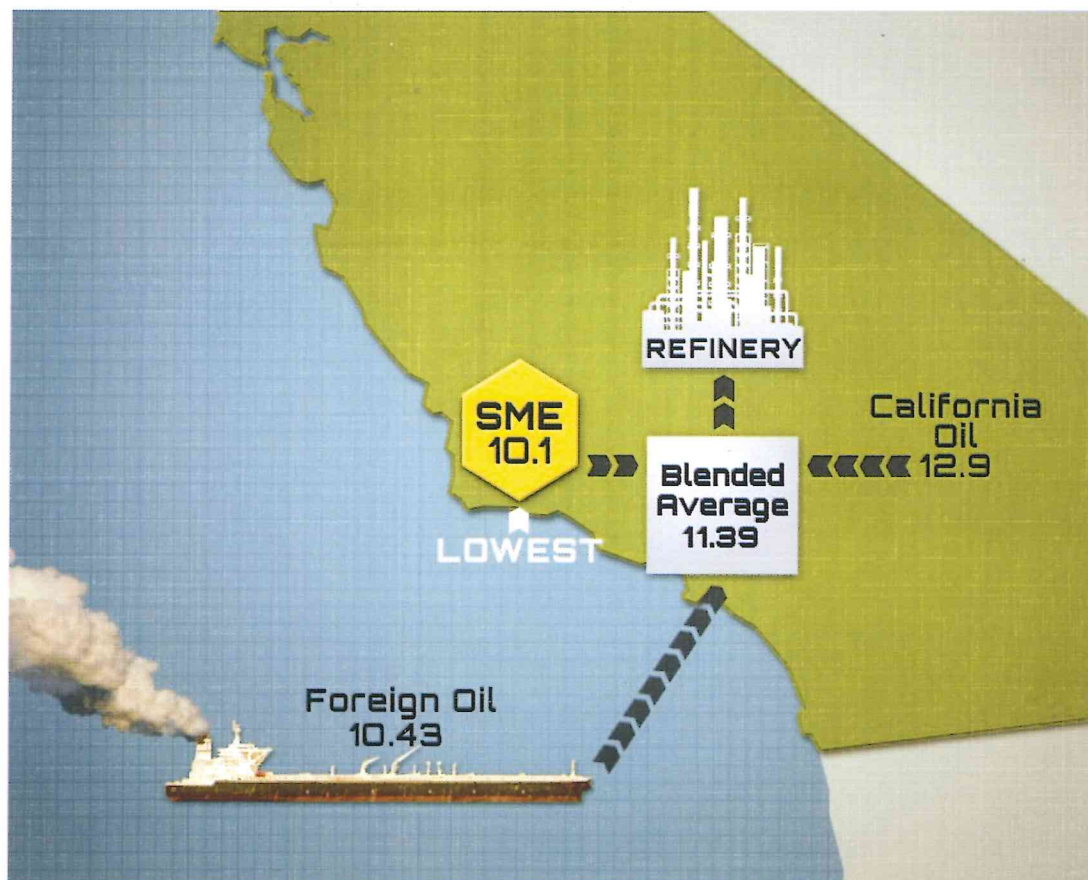
Attachment 4

The carbon intensity of the Project's oil will be lower than California average

Carbon intensity is a measure used by some to determine whether oil is “dirty”, i.e., of higher the carbon intensity. According to the California Air Resources Board (CARB), oil produced in California accounts for approximately 39% of the 1,800,000 barrels of oil used daily in California. The average carbon intensity for that oil is 12.9 grams of carbon dioxide equivalent per megajoule (gCO₂e/MJ)..

The remaining 61% of the oil used in California is imported. According to CARB, the average carbon intensity of imported oil is 10.43 gCO₂e/MJ. The weighted average carbon intensity of the oil used daily in California is 11.39 gCO₂e/MJ.

Taking into account the effect of AB32, the carbon intensity of the oil to be produced from the Project is 10.1 gCO₂e/MJ. The carbon intensity will fall below 8.9 gCO₂e/MJ under the BAU less 29% mitigation requirement adopted by the Planning Commission. The oil to be produced from the Santa Maria Energy project will actually improve the overall average carbon intensity of the barrels refined in California. It is not “dirty oil”.

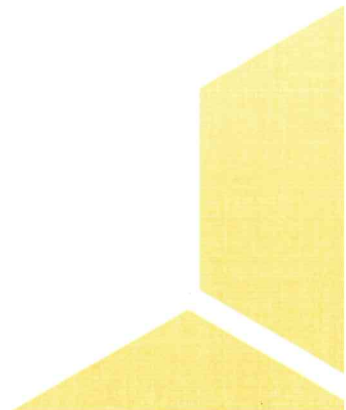


Attachment 5

The oil produced by the Project will not be exported, and export is prohibited.

U.S. crude oil exports are generally prohibited by federal law. The Energy Policy and Conservation Act of 1975 directs the President to restrict the export of crude oil except under very limited conditions or on a case-by-case review. For example, here in California, total crude oil exports are limited to 25,000 barrels per day and a special license is required. To put this amount in perspective, Californians currently refine and consume almost 1,800,000 barrels of oil per day, with over 60% of this oil being imported via tankers into our ports each and every day over the ocean.

The oil from the Project is sold to the Phillips 66 Santa Maria Refinery. The oil is then refined by Phillips 66 is used for transportation fuels, including CARB-grade gasoline that meets all government-mandated oxygenate requirements.



Attachment 6

Is it not more environmentally responsible to consume foreign oil

To understand the environmental effects of consuming imported oil, it requires the evaluation of several factors. These factors include the carbon intensity of one barrel versus another. That was discussed previously in Attachment 6.

In addition to carbon intensity, the entirety of the relative regulatory regimes pursuant to which each barrel is produced must also be considered. There are no universally accepted standards of comparison by which the regulations for environmental protections in one jurisdiction can be easily compared to another. This is particularly true given the wide array of various potential impacts that are required to be analyzed under CEQA, AB32, the state and federal endangered species acts or other laws. However, it is unlikely that anyone would claim any other U.S. state or foreign country has environmental regulations that are more rigorous overall than those imposed by California, including those foreign countries such as Angola, Columbia, Iraq, Oman, Russia, Saudi Arabia or Venezuela, or other countries from which California currently imports.

Additionally, it cannot be disputed that transporting oil over long distances in sea-going vessels presents spillage risk that would be greatly reduced by increasing in-state onshore production.

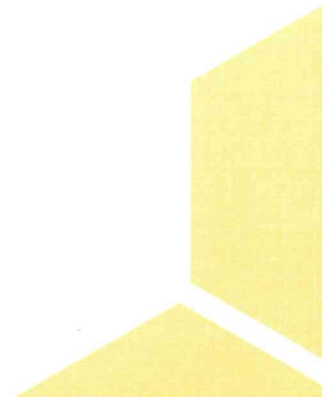
Very large crude carriers (VLCC) also emit large amounts of greenhouse gases because they burn some of the most carbon-intensive fuels, commonly referred to as "bunker fuels". According to statistics cited in a letter to the editor written by Ms. Katie Davis of 350.org, published in the Santa Barbara News Press on September 16, one tanker carrying oil from Saudi Arabia emits 3,027 tons of CO₂ during the 26 day trip. Since California imports approximately 1.3 million barrels every single day, it is necessary to multiply the 3,027 tons by 365. As cited by Ms. Davis, it takes 26 days to transport one day's oil import, that means 26 tankers would need to be underway at all times in order to ensure uninterrupted delivery of the oil we use daily. This equals 28,726,230 tons of GHG emitted annually during transport alone (3,027 x 365 x 26). This is the equivalent of 5,632,594 cars on California roads. By producing oil in California, these very large emissions can be reduced.



In addition to the compelling environmental reasons, there are also economic reasons to use oil produced in-state. Each barrel produced in-state is a barrel that is not purchased abroad. At present, California must pay over \$100 million each day for imported oil. In addition to keeping at home some of the money that is currently being used to purchase oil elsewhere, there are other benefits. The benefits have been identified and quantified in an Economic Impact Study done by the UCSB Economic Forecast Project. In short, for each barrel produced in Santa Barbara County, \$142 of direct, indirect and induced economic benefits are generated.

In summary:

1. Each barrel produced by Santa Maria Energy will be subjected to some of the highest regulatory standards in the world
2. Each barrel produced by Santa Maria Energy prevents money from leaving our state to purchase that barrel elsewhere
3. Each barrel produced by Santa Maria Energy eliminates the need to transport that barrel from elsewhere and thus eliminates emissions and risks associated with sea-borne conveyance.
4. Each barrel we say no to produce here onshore is a barrel we say yes to import.



Attachment 7

The cost of GHG mitigations impact local economic benefits

A form e-mail sent to the Planning Commission included the following statement: "County staff has estimated this would cost around \$1/barrel of oil, which is a tiny amount considering current oil prices of over \$100/barrel." Based on this premise, it was argued that additional GHG mitigation was inconsequential.

What was stated as that \$100 is the gross revenue per barrel. Obviously, \$1.00 is 1% of \$100. But, it takes significant expenses to produce that barrel sold for \$100.

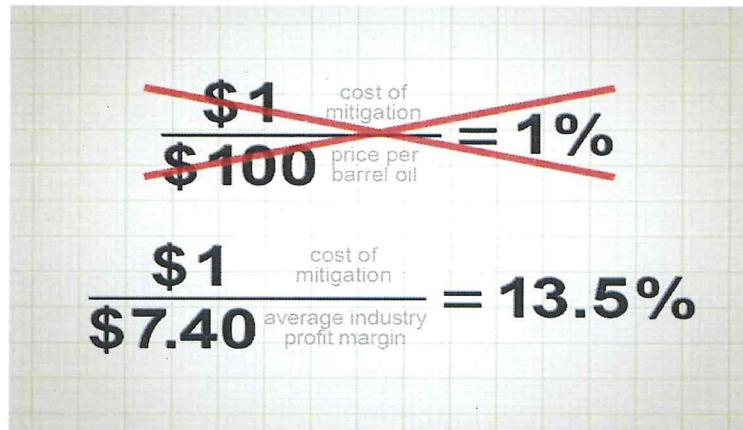
This fact was acknowledged by Ken Hough, Executive Director of SBCAN, one of the appellants, in an opinion piece published last August in the Santa Maria Times. Mr. Hough cited a credible source which estimated oil and gas industry profit margins at 7.2%.



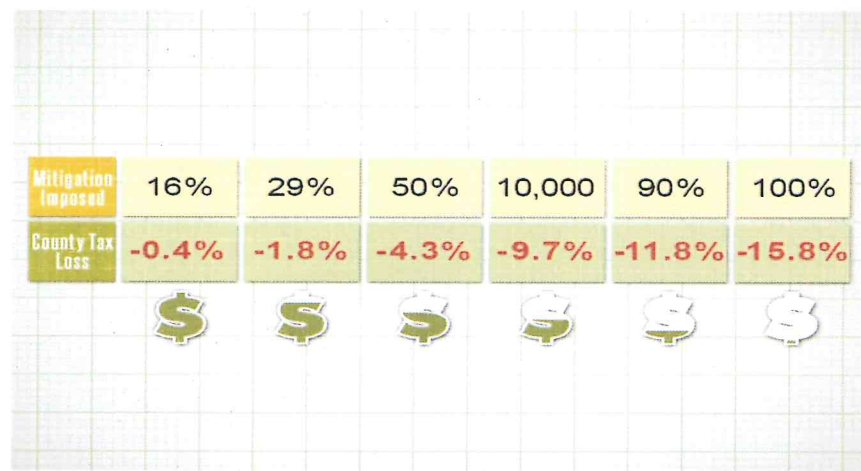
Mr. Hough's source can be corroborated by a survey of sources, which, if averaged, estimate average profits margins in the oil and gas industry at 7.4%.



In other words, \$92.60 of costs are incurred to produce a barrel of oil that sells for \$100. Mitigation costs of \$1 per barrel, which appellants characterize as "tiny" actually represent a very significant 13.5% of the profit margin.



If applied to the Project, this mitigation cost has a direct effect upon Santa Maria Energy. But it is important to note that it also affects Santa Barbara County and its citizens. There will be a direct relationship between the Project profitability and the property taxes derived from the Project. This is because taxes are levied against the estimated fair market value of an oil and gas property. There is a direct relationship between fair market value and profitability. If costs are increased, profitability declines. In turn, the fair market value declines. As a result, property tax revenues decline. The greater the mitigation obligation imposed upon the Project, the lower will be property tax collections from the Project.



The loss of tax revenues is exacerbated by the fact that additional mitigation obligations will, in all likelihood, be met by paying to eliminate emissions outside of Santa Barbara County.

(All figures and graphics were presented by Santa Maria Energy to the Planning Commission at their September 25, 2013 meeting)

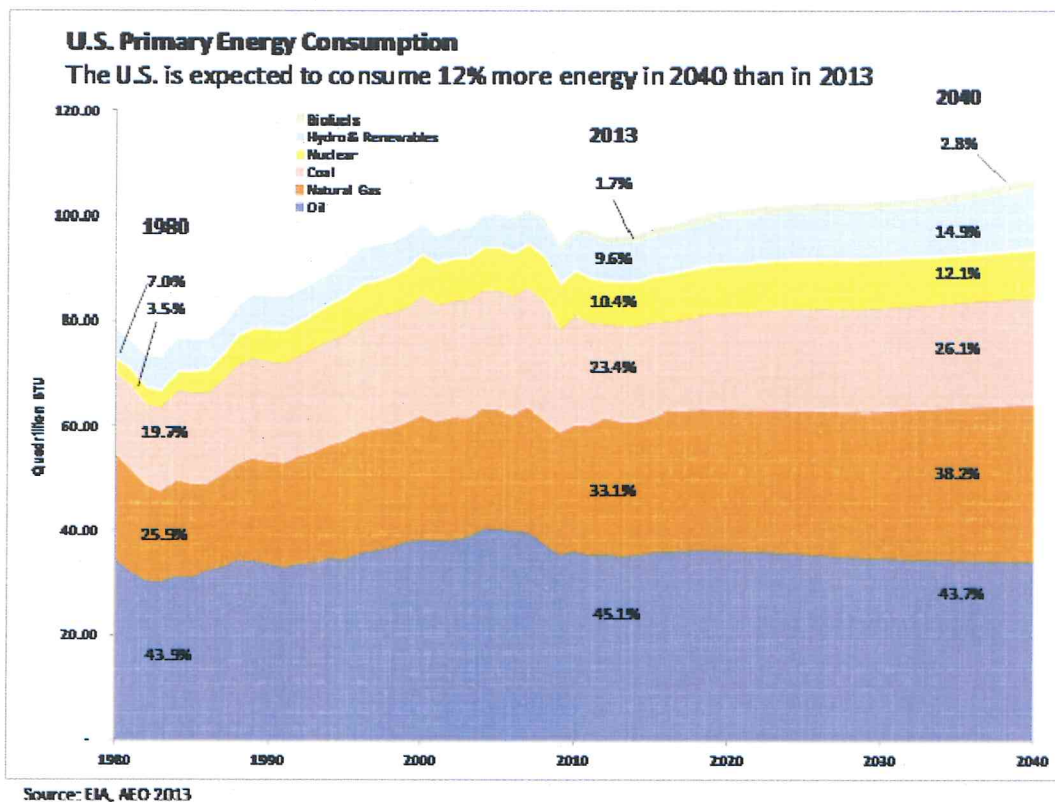
Attachment 8

The Project will not impede alternative energy development

The Project will not, in any way, impair, impede, or otherwise hamper future proposals to produce energy from alternative sources, whether those sources are, solar, wave, wind, biomass or others. Santa Maria Energy wholeheartedly agrees with President Obama's approach to United States energy independence; we need "all of the above" which includes both domestic oil production and alternative energy development.

The "all of the above" approach recognizes the need for increasing domestic oil production. Approximately 94% of all transportation needs in this country are met with oil. This includes airplanes, automobiles, boats, buses, tractors, trains, and trucks. Additionally, there are literally thousands of types of petroleum based products that are integral to our daily lives, including clothing, cosmetics, food safety products, medical devices, and pharmaceuticals.

According to the U.S. Energy Information Administration, a part of the U.S. Energy Department, the U.S. will use more oil in 2035 than it uses today, *even with the continued development of alternative energy resources.*



Attachment 9

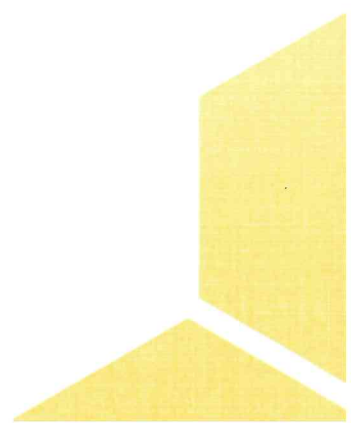
Cyclic steaming is extensively regulated

Although commonly known, it is worth repeating, all oil development and production activities in California are extensively regulated. The Division of Oil, Gas and Geothermal Resources (DOGGR) oversees all aspects of oil production activities that occur below the surface. This makes DOGGR one of the key regulatory agencies overseeing cyclic steam operations.

DOGGR places limits on the pressure at which steam can be introduced to diatomite. The lower pressure used in cyclic steam operations is one of many differences that distinguish it entirely from hydraulic fracturing. The specific pressure limitations vary from location to location because resource characteristics vary from location to location.

DOGGR also closely regulates the design and construction of all wells in the state, including those in cyclic steam operations. A well is constructed of multiple layers of steel and cement designed to ensure mechanical integrity, safety, and reliability.

The specific number of redundant protective layers and the specification of materials used depend upon many factors, including but not limited to the area geology, the depth of the well, and project operating parameters. Both the County and DOGGR have carefully analyzed these parameters in connection with the Project's development plan, ensuring the safety and integrity of the Project's cyclic steam process



Attachment 10

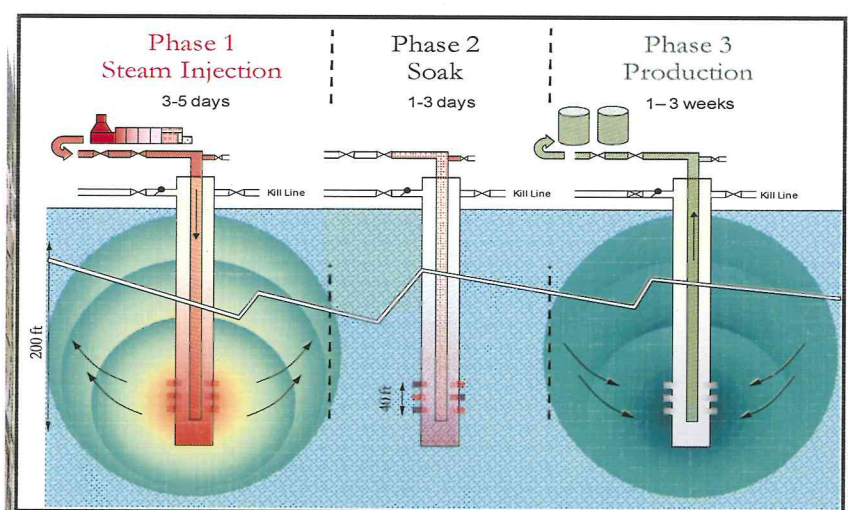
Cyclic Steaming is not "fracking"

Cyclic steaming and hydraulic fracturing ("fracking") are completely different processes. One is a production process (cyclic steam) while the other is a well completion technique (hydraulic fracturing). A key distinction between the two is injection pressure. Higher pressures than what Santa Maria Energy is injecting at are required to fracture rock. In fact, DOGGR places limits on the pressures at which steam can be introduced to diatomite.

The cyclic steam production process Santa Maria Energy employs to produce oil from the diatomite rock formation involves the carefully controlled injection of steam at specific pressures and temperatures which cause the oil to flow, resulting in oil being displaced into the well. It has nothing in common with the hydraulic fracturing well completion technique.

The cyclic steaming process used in the Project is a carefully controlled and closely monitored three-step process: inject, soak and produce. Steam is introduced into and oil is produced from the same well in repetitive fashion, hence the name: cyclic steaming. See diagram below.

Our cyclic steam production process, along with all other field operational aspects are all carefully controlled and managed 24/7 by both trained personnel in the field and with state-of-the-art, best available control technologies, including a SCADA (Supervisory Control And Data Acquisition) continuous real-time computer monitoring system currently in use, and which will be used for the Project.



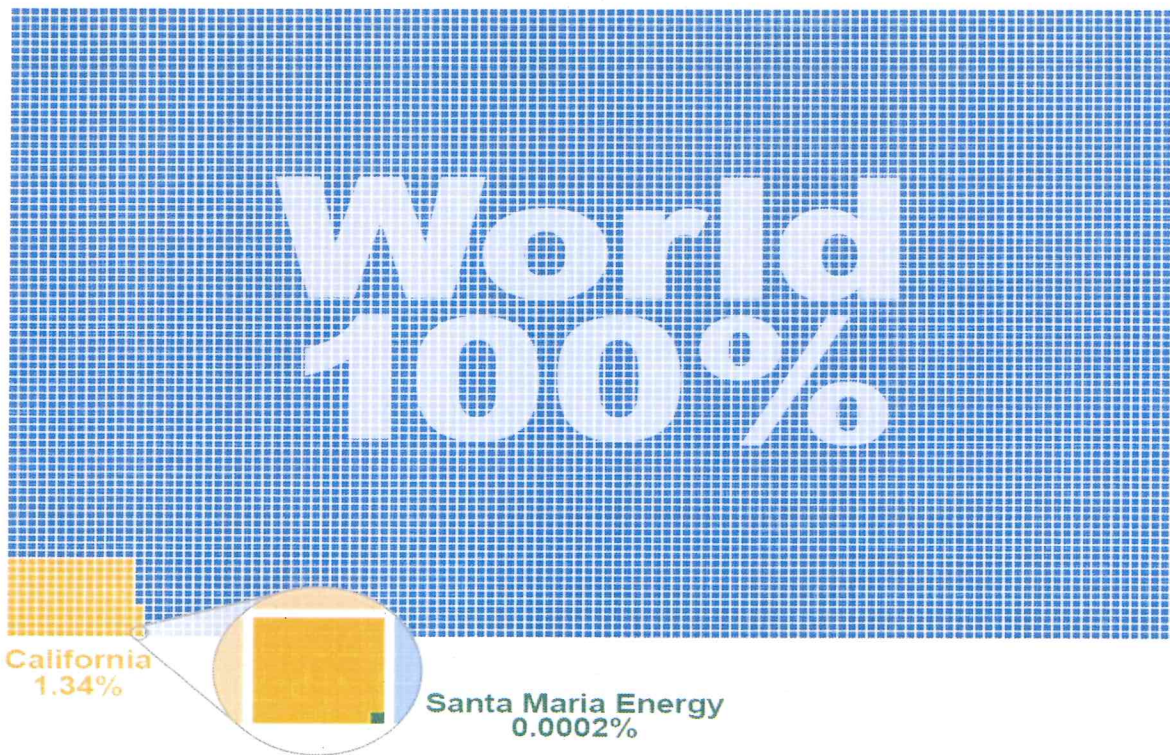
Attachment 11

The Project is part of California's comprehensive statewide solution to global warming.

Much has been and likely will be said regarding global warming during the Board's review of the Project. It is critical to note that the Project will be specifically subject to, and therefore required to comply with, AB32 the California Global Warming Solutions Act of 2006, California's landmark law crafted specifically to ensure California as a state is doing its fair share to address the issue.

Since the Project is covered by, and compliant with, the stringent GHG cap and trade program implemented under AB 32, the Project is part of California's solution to global warming.

The chart below gives some context to the Project's emissions compared against California's statewide emissions, and those of the world as a whole. (The graphic below was presented by Santa Maria Energy to the Planning Commission at their September 25, 2013 meeting.)



Attachment 12

Oil production incidents in faraway places are not relevant to the Project given differences in the resources, extraction methods, and regulatory standards.

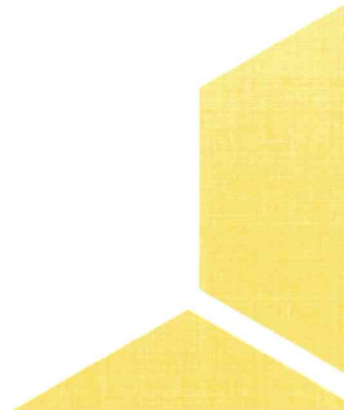
Unquestionably, it is important to learn from others. However, it would not be appropriate to make general negative assertions about how California grapes are grown based upon bad news about the cultivation practices in Argentina, Australia, South Africa or some other grape growing country.

Similarly, it is not appropriate to cite bad news about oil extraction experiences in other areas and draw conclusions about California oil extraction methods. Such comparisons assume that all oil bearing resources are identical, all production methods are generic, and all legal and regulatory standards are the same. They are not.

For example, the regulations to which the Project is subject would have most likely prevented the Cold Lake Alberta experience from happening here. If not prevented, real time continuous monitoring would have detected the leak from the moment it started and, in response, steam would have been shut down in the area of the well. Furthermore, the groundwater contamination at Cold Lake could not occur at the Project site because there is no groundwater sources at the site, as discussed at length in the EIR. The Project does not sit atop an aquifer. Furthermore, the sporadic water sands that been encountered and tested have all been confirmed perched and non-potable.

The SCADA (Supervisory Control And Data Acquisition) system that is currently used and will continue to be used with the Project is entirely different from the controls used at the Cold Lake well(s). The operation at Cold Lake did not use real time monitoring that would have allowed them to detect a leak in the system. Consequently, there was a time lag between the start of the Cold Lake leak and its discovery.

The Cold Lake Alberta experience is relevant only insofar as it confirms the superior regulatory standards to which the Project is subject and the more advanced operational practices that the Project will implement.



Attachment 13

The arguments made by Appellant and other commenters have been raised many times before in this proceeding, and have been addressed.

EDC has been an active participant in the County's review of the Santa Maria Energy project. The concerns raised in the appeal letter were raised two years ago in their original letter on the Notice of Preparation.

The Draft EIR was released in September 2012 for public review. The County held a public workshop to accept comments on the Draft EIR. Although there were over 60 people in the audience, no public comments were made at that workshop. EDC's letter of November 13, 2012 consisted of 17 pages and included comments about the GHG mitigation for this project. There were a total of 12 letters and 3 emails commenting on the Draft EIR.

During the first two Planning Commission hearings on April 25, 2013 and May 1, 2013 in Santa Barbara, representatives from EDC, Community Environmental Council (CEC), and Santa Barbara County Action Network (SBCAN) provided verbal comments regarding their concerns about the Project's GHG emissions. It is important to note none of these representatives asked that the Project be denied. They only wanted higher levels of GHG mitigation.

At the May 1, 2013 hearing, the Planning Commission directed staff to recirculate the GHG analysis section of the EIR. The Planning Commission requested more information on the various potential levels of GHG mitigation. This recirculated GHG analysis was presented at a public hearing and EDC and CEC again requested higher mitigation levels. They also provided written comments. EDC's August 15, 2013 letter consisted of 7 pages with attachments, and the CEC letter of August 15, 2013 consisted of 3 pages. County staff thoroughly responded to these comments in the September 2013 Final EIR.

Finally, the EDC, CEC, SBCAN, and other groups spoke at the September 25, 2013 Planning Commission hearing and again requested additional GHG mitigation. Again, it is important to note that they were not asking the County to deny the Project.

EDC and their associates have made the same comments throughout this process. County staff, County Counsel and APCD staff have all recommended that mitigation based on achieving reductions of 29 percent below business-as-usual is the reasonable fair share means of addressing cumulative GHG emissions.

