



January 6, 2017

Don Grady  
County of Santa Barbara - Real Property Division  
1105 Santa Barbara Street  
Santa Barbara, CA 93101

**Subject: Application for New Private Pipeline Franchise Agreement**

To Mr. Grady:

ERG Operating Company, LLC hereby requests the approval of a Private Franchise Agreement which would allow for the operation and maintenance of a network of private pipelines which are used for the transportation of hydrocarbon substances within certain public streets in the unincorporated area of the County of Santa Barbara as shown in Attachments B and C. ERG has provided a requested form for the Private Franchise Agreement and associated Resolution in Attachment F.

**APPLICANT'S NAME AND ADDRESS:**

ERG Operating Company, LLC  
Attn: Alan White, CEO  
6085 Cat Canyon Road  
Santa Maria, CA 93454

**NATURE OF APPLICANT'S BUSINESS:**

Production and distribution of petroleum and petroleum related products.

**TYPE OF APPLICATION APPLIED FOR:**


Private Pipeline Franchise Agreement (Franchise)

**OFFER OF FRANCHISE FEE AND METHOD OF CALCULATION:**

Annual Franchise fees shall be calculated based on the total lineal feet of County right-of-way occupied by Grantee's facilities or appurtenances maintained pursuant to this Franchise at a rate of three dollars (\$3.00) per lineal foot, except the idle produced water pipeline that was the subject of the original franchise granted to Texaco, Inc., in 1970, as Ordinance 2071. County recognizes that the pipeline has been sealed in appropriate locations to render it safe until it is returned to service or permanently abandoned pursuant to express authorization by the Board of Supervisors. Until such time as that produced water pipeline has been returned to service or abandoned pursuant to such authorization, Grantee shall pay annual franchise fees in the amount of TWO THOUSAND EIGHT HUNDRED NINETY-NINE DOLLARS AND THIRTY-SEVEN CENTS (\$2,899.37) for that idle produced water pipeline. In the event the produced water line is returned to service, Grantee shall pay the same rate for that pipeline as is applied to all other active lines. In the event the produced water line is abandoned or removed pursuant to express authorization by the Board of Supervisors, no annual fees shall apply to that line after confirmation by the County Planning and Development Department that the line has been abandoned or removed in accordance with any and all required permits. The annual Franchise fees shall be adjusted every five years according to the Consumer Price Index.

ERG OPERATING COMPANY, INC.

By: \_\_\_\_\_

  
Ben Oakley, EH&S/Government Affairs Manager

**Attachments:**

- Attachment A- History and Status of ERG Facilities
- Attachment B- Map of Existing Pipeline Network
- Attachment C- As-built Engineering for Existing Pipelines
- Attachment D- Operator's Statement of Qualifications & Financial Status
- Attachment E- Operator's Financial Statement
- Attachment F- Resolution and Private Franchise Agreement

**Attachment A**  
**History and Status of ERG Facilities**

## **History and Status of ERG Facilities**

### ***Facility Acquisition***

ERG Operating Company (ERG) acquired a majority of its landholdings in Santa Barbara County from Chevron in March of 2010. This primary acquisition involved approximately 7,000 acres of minerals and fee interest in the state designated Cat Canyon Oilfield. All facilities located on the former Chevron properties were idle at the time of acquisition. Subsequently ERG has accumulated additional facilities throughout Cat Canyon and the Casmalia oilfields distributed across approximately 20,000 acres of State Designated Oil Fields.

### ***Facility Reactivation***

Since the first acquisition in 2010, ERG has reactivated and restored several facilities throughout the Cat Canyon and Casmalia oilfields. Prior to resuming the use of any idle facility all tanks, pipelines, vessels, etc. were tested, repaired, and/or replaced in accordance with the regulations set forth by the Division of Oil, Gas, and Geothermal Resources regulations, Santa Barbara County Petroleum Ordinance, and American Petroleum Institute Standards (including API 570 and 1104). Once facility restoration and reactivation was completed, ERG commenced oil production and exportation activities. In the period spanning April 2010- July 2016 ERG has successfully produced approximately 3.9 million barrels of oil (an average of approximately 1,700 barrels per day).

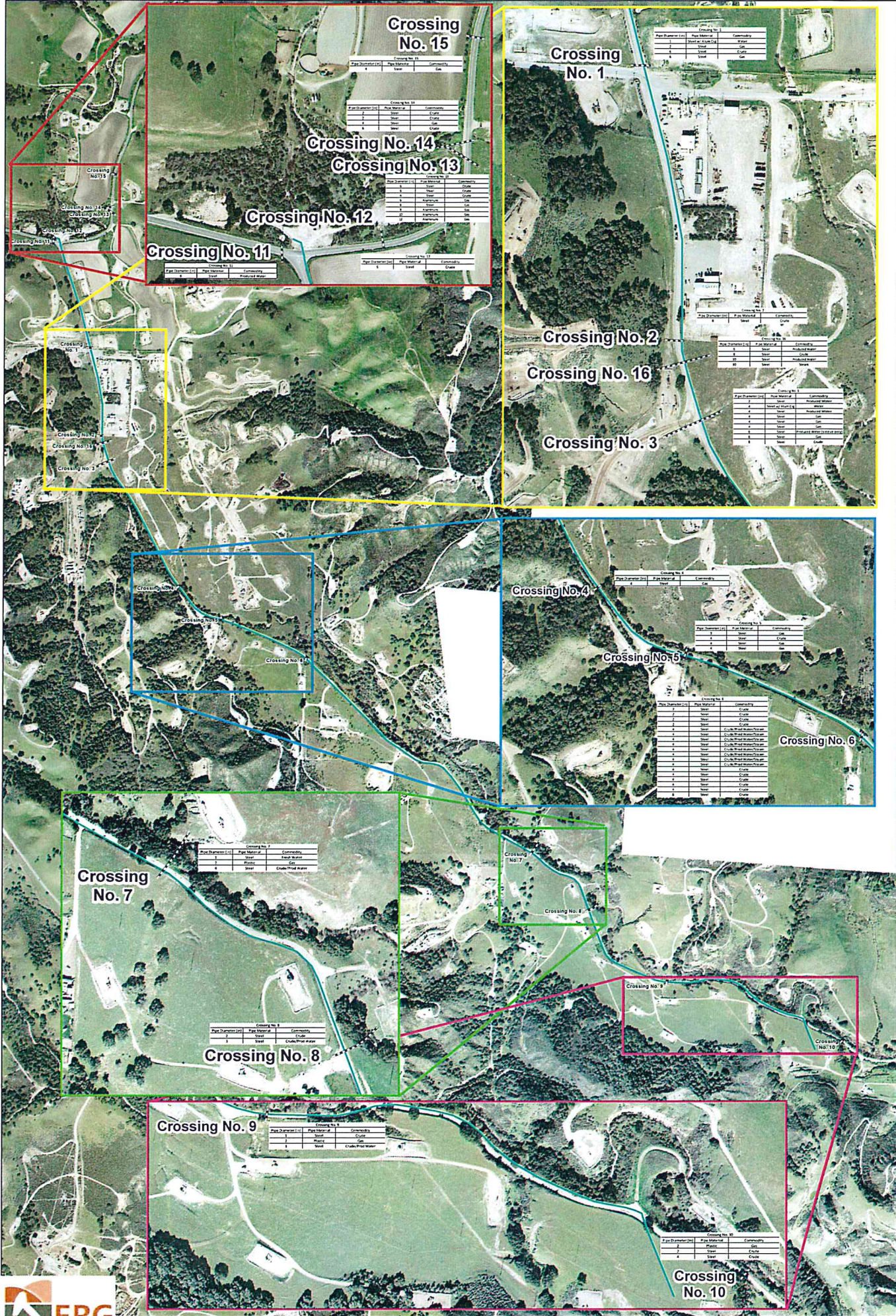
### ***Prior Franchise Agreement***

At the time of the initial ERG acquisition of Chevron facilities, the County and Chevron had one existing Private Franchise Agreement in place regarding an existing, idle wastewater pipeline which ran roughly parallel to Cat Canyon Road for a distance of 15,396 linear feet. The Franchise Agreement was set to expire in 2011. At that time, ERG applied for both a renewal and transfer of ownership for the existing Franchise Agreement. At its public hearing on November 1, 2011, the Board of Supervisors (Board) heard the request for the Franchise Agreement renewal and transfer of ownership. The Board rendered a decision to continue the item indefinitely and requested that ERG and County staff return with more detailed documentation regarding the extent and condition of pipelines located in the County right-of-way.

### ***Status of Facilities***

Subsequent to the Board hearing in 2011, ERG has field verified the location and condition of existing pipelines which are located within the County right-of-way (including the idle, wastewater pipeline which was associated with the previous Franchise Agreement). In accordance with the documentation provided in Attachments B and C of this memorandum, ERG currently operates sixty-seven (67) private pipelines which are in-part located within the County's right-of-way. These pipelines carry various fluids including emulsions, wastewater, crude oil, field gas, etc. All such pipelines are regularly inspected and maintained in accordance with all applicable regulations set forth by the Division of Oil, Gas, and Geothermal Resources regulations, Santa Barbara County Petroleum Ordinance, and American Petroleum Institute Standards (including API 570 and 1104). Specifically, ERG and its contractors also verified the location of the idle, wastewater pipeline. This historic pipeline was inspected, all remaining fluids were evacuated from the line, and it was sealed in appropriate locations to render the pipeline safe until such time as the pipeline is returned-to-service or permanently abandoned. These pipeline inspection activities were performed under the guidance and approval of the County's Petroleum Division personnel. All active pipelines have been included in the attached as-built engineering documentation. The County's Petroleum Division and Public Works staff have reviewed the as-built engineering documents and approved their inclusion in the Franchise Agreement application. Any field improvements requested by County staff, such as the placement of pipeline markers, have already been completed.

**Attachment B**  
**Map of Existing Pipeline Network**



**Crossing No. 15**

Pipe Diameter (in)	Pipe Material	Comments
4	Steel	Over

**Crossing No. 14**  
**Crossing No. 13**

Pipe Diameter (in)	Pipe Material	Comments
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over

**Crossing No. 12**

Pipe Diameter (in)	Pipe Material	Comments
4	Steel	Over

**Crossing No. 11**

Pipe Diameter (in)	Pipe Material	Comments
4	Steel	Over

**Crossing No. 1**

Pipe Diameter (in)	Pipe Material	Comments
1	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over

**Crossing No. 2**

Pipe Diameter (in)	Pipe Material	Comments
4	Steel	Over

**Crossing No. 16**

Pipe Diameter (in)	Pipe Material	Comments
4	Steel	Over

**Crossing No. 3**

Pipe Diameter (in)	Pipe Material	Comments
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over

**Crossing No. 4**

Pipe Diameter (in)	Pipe Material	Comments
4	Steel	Over

**Crossing No. 5**

Pipe Diameter (in)	Pipe Material	Comments
4	Steel	Over

**Crossing No. 6**

Pipe Diameter (in)	Pipe Material	Comments
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over

**Crossing No. 7**

Pipe Diameter (in)	Pipe Material	Comments
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over

**Crossing No. 8**

Pipe Diameter (in)	Pipe Material	Comments
4	Steel	Over

**Crossing No. 9**

Pipe Diameter (in)	Pipe Material	Comments
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over

**Crossing No. 10**

Pipe Diameter (in)	Pipe Material	Comments
4	Steel	Over
4	Steel	Over
4	Steel	Over
4	Steel	Over



----- Road Crossing      — Waste Water Line

ERG Intra-Facility Pipelines

**Attachment C**  
**As-built Engineering for Existing Pipelines**

# WASTE WATER LINE - ASBUILT PLAN - CAT CANYON ROAD PORTION OF SEC. 24 & 25, T.9N., R.33W. AND SEC. 30-32, T.9N., R.32W., S.B.M., SANTA BARBARA COUNTY, CALIFORNIA

## SCOPE OF WORK

LOCATION OF EXISTING WASTEWATER PIPELINE ALONG CAT CANYON ROAD, WITHIN COUNTY RIGHT-OF-WAY.  
SITE ADDRESS: CAT CANYON ROAD, SANTA BARBARA, CA

## BENCHMARK

THE TOP OF THE 1" QUARTER INCH CAP MARKED "SANTA BARBARA CO. SURVEY MARK" AT THE INTERSECTION OF STATE ROAD AND PALMER ROAD DESIGNATED AS STATION NO. 1132 ON RECORD OF SURVEY, BOOK 174, PAGES 27-31, THE BENCH IN THE SURVEY MARK NOTCH.  
ELEVATION = 824.97 (DMS) NGD

## BASIS OF BEARINGS

THE GRID BEARING OF 89°42'31" WESTERLY SANTA BARBARA COUNTY SURVEY MONUMENT STATION NO. 1131 AND 1132 AS SHOWN ON RECORD OF SURVEY, BOOK 174, PAGES 27-31, WAS USED AS THE BASIS OF BEARINGS HEREIN. ALL COORDINATE BEARING HEREIN ARE BASED ON CALIFORNIA COORDINATE SYSTEM OF 1983 (CCS83) ZONE 8 AS DETERMINED BY GPS OBSERVATIONS.  
ALL DIMENSIONS AND DIMENSIONS SHOWN HEREIN ARE IN FEET AND DECIMALS THEREOF.

## RIGHT-OF-WAY NOTE

THE RECORD SETS FOR A PORTION OF CAT CANYON ROAD AND A PORTION OF PALMER ROAD WERE FILED IN THE PUBLIC RECORDS OFFICE FOR SAID PURPOSES AND WAS ACCEPTED BY THE COUNTY OF SANTA BARBARA. THE COUNTY OF SANTA BARBARA CURRENTLY MAINTAINS CAT CANYON ROAD AND PALMER ROAD. THE EXACT LOCATION OF THIS RIGHT-OF-WAY IS NOT DETERMINABLE FROM THE RECORD DESCRIPTIONS. THE CENTERLINE OF CAT CANYON ROAD AND PALMER ROAD AS IT EXISTED AS OF 10/31/13 ARE SHOWN IN THE CONTINUAL OF SAID 90' FOOT RIGHT-OF-WAY AND SAID 90'-EASEL SURVEY IS SHOWN HEREIN.

## UNDERGROUND UTILITY STATEMENT

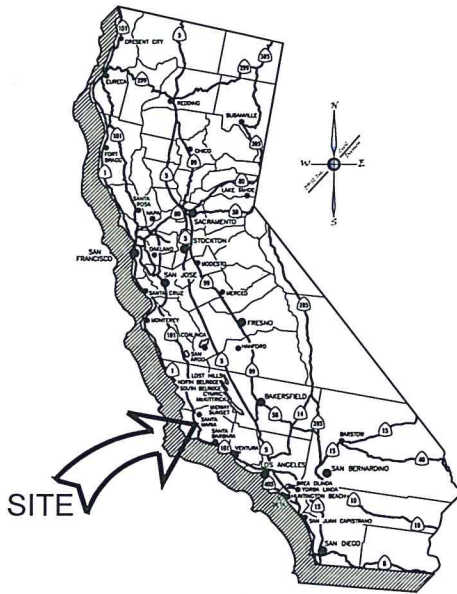
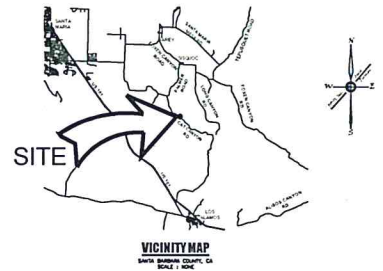
THE EXISTENCE AND LOCATION OF ANY UNDERGROUND UTILITY PIPES OR STRUCTURES SHOWN ON THESE PLANS ARE BASED ON A SEARCH OF THE AVAILABLE RECORDS. TO THE BEST OF OUR KNOWLEDGE THERE ARE NO EXISTING UTILITIES EXCEPT AS SHOWN ON THIS PLAN.  
THE CONTRACTOR IS REQUIRED TO TAKE THE PRECAUTIONARY MEASURES TO PROTECT THE EXISTING UTILITIES SHOWN AND ANY OTHER UTILITIES NOT OF RECORD OR NOT SHOWN ON THIS DRAWING.

CONTRACTOR SHALL NOT BE RESPONSIBLE FOR THE ACCURACY OF COMPLETENESS OF THIS SUCH INFORMATION OR DATA.

UNDERGROUND SERVICES SHALL BE LOCATED THROUGH SHOWN BEFORE CONSTRUCTION BY CALLING 811.

## SITE INFORMATION

LOCATION: JUNE - SEE SHEET 2  
DATE DRAWN: 11/14/2013  
DESIGNED BY: OVERSEER PROJECT SERVICES INTERNATIONAL  
345 MIDLAND STREET  
SANTA BARBARA, CA 93101  
(805) 250-2891  
LAND SURVEYOR: OVERSEER PROJECT SERVICES INTERNATIONAL  
345 MIDLAND STREET  
SANTA BARBARA, CA 93101  
(805) 250-2891



CALIFORNIA AREA MAP  
SCALE = 1:250K

SHEET INDEX		DESCRIPTION
SHEET NO.	REV.	
1	3	TITLE SHEET & SHEET INDEX
2	3	KEY MAP & SHEET INDEX
3	3	PLAN & PROFILE - (STA. 1000+00 - 1029+00)
4	3	PLAN & PROFILE - (STA. 1029+00 - 1061+00)
5	3	PLAN & PROFILE - (STA. 1061+00 - 1093+00)
6	3	PLAN & PROFILE - (STA. 1093+00 - 1135+00)
7	3	PLAN & PROFILE - (STA. 1135+00 - 1156+00)
8	3	PLAN - (STA. 1156+00 - 1167+89) & PALMER ROAD
9	3	CROSSING DETAILS - (CROSSING NO. 1 - 3) CAT CANYON RD.
10	3	CROSSING DETAILS - (CROSSING NO. 4 - 6) CAT CANYON RD.
11	3	CROSSING DETAILS - (CROSSING NO. 7 - 10) CAT CANYON RD.
12	3	CROSSING DETAILS - (CROSSING NO. 11 - 13) PALMER RD.
13	3	CROSSING DETAILS - (CROSSING NO. 14 - 15) PALMER RD.
14	3	CROSSING DETAILS - (CROSSING NO. 16) CAT CANYON RD.

## DECLARATION OF RESPONSIBLE CHARGE

I HEREBY DECLARE THAT I AM THE DESIGNER OF RECORD FOR THIS PROJECT AND I HAVE CHECKED AND APPROVED THE PLAN AND PROFILE SHEETS IN ACCORDANCE WITH THE REQUIREMENTS OF THE CALIFORNIA PROFESSIONAL LAND SURVEYING ACT AND THE CALIFORNIA PROFESSIONAL LAND SURVEYING BOARD. I AM NOT PROVIDING ANY GUARANTEE OR WARRANTY FOR THE ACCURACY OF THE INFORMATION PROVIDED ON THESE PLANS AND PROFILES TO THE BEST OF MY KNOWLEDGE.  
ANY ERRORS, OMISSIONS, OR OTHER VIOLATIONS OF THESE DOCUMENTS, WHETHER OF HUMAN ORIGIN, ENCOUNTERED DURING CONSTRUCTION SHALL BE CORRECTED BY THE CONTRACTOR AT HIS OWN EXPENSE. THE CONTRACTOR SHALL BE RESPONSIBLE FOR ANY SUCH CORRECTIONS REQUIRED ON CORRECTED PLANS SUBMITTED TO THE COUNTY OF SANTA BARBARA.

L. ALBERTO LOPEZ, R.E.E. 8782 DATE \_\_\_\_\_



## SURVEYOR'S STATEMENT

I HEREBY STATE THAT THIS PLAN COMPLETELY REPRESENTS A SURVEY MADE BY ME OR UNDER MY SUPERVISION UNDER THE PROVISIONS OF SECTION 2600 OF THE PROFESSIONAL LAND SURVEYING ACT AS THE RECORD OF THE OVERSEER PROJECT SERVICES INTERNATIONAL.

ALL E. WILKIN, L.S. 8423 DATE \_\_\_\_\_



CS-10083	CS-10083-CAT CANYON AERIAL MAP
C12083PPO	PLAN AND PROFILES
G12083BNO	CAT CANYON ROAD BASIC MAP
REFERENCE DRAWINGS	



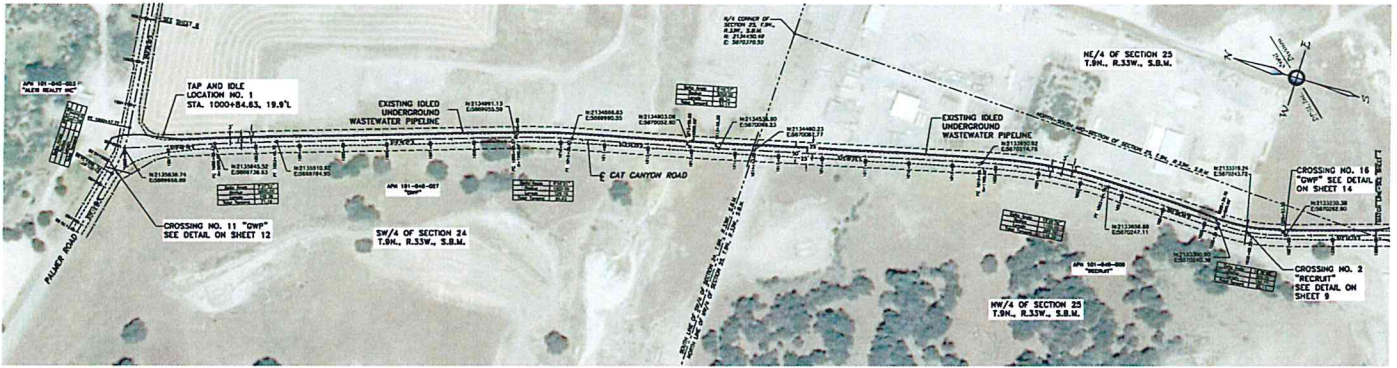
OVERSEER PROJECT SERVICES INTERNATIONAL  
San Luis Obispo, CA  
(805) 250-2891  
PROJECT: G12083B

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0	11.26.13	PRELIMINARY/WORK-IN PROGRESS DWS	GC	AL	AL
1	11.30.13	SENT TO S&D OFFICE FOR REVIEW	GC	AL	AL
2	11.21.13	ERR CORRECTED FOR REVIEW	OS	AL	AL
3	10.29.13	ASBUILT - ADDED CROSSING 8 & ADDED CROSSING 18	FGH	AL	AL
4	10.31.13	ASBUILT - ADDED SOLED WASTE WATER NOTE	AW	AL	AL

SOLED WASTE WATER LINE - ASBUILT PLAN - CAT CANYON ROAD		ERG RESOURCES, L.L.C.	
PORTION OF SECTIONS 24 & 25, T.9N., R.33W. AND SECTIONS 30-32, T.9N., R.32W., S.B.M., SANTA BARBARA COUNTY, CALIFORNIA		NO. 1 OF 14	
ENGINEER:	ALBERTO LOPEZ	(DATE):	11/14/2013
SURVEYOR:	DALE H. WILKIN	ORIGINAL DWG NO.:	
PROJECT:	ALBERTO LOPEZ	DATE:	
COMPILED BY:	CLEEN CANTERBERRY	NO.:	1 OF 14
DOCUMENT TYPE:	TOPO SURVEY	DWG FILE NO.:	G12083BNO
		REV.:	4

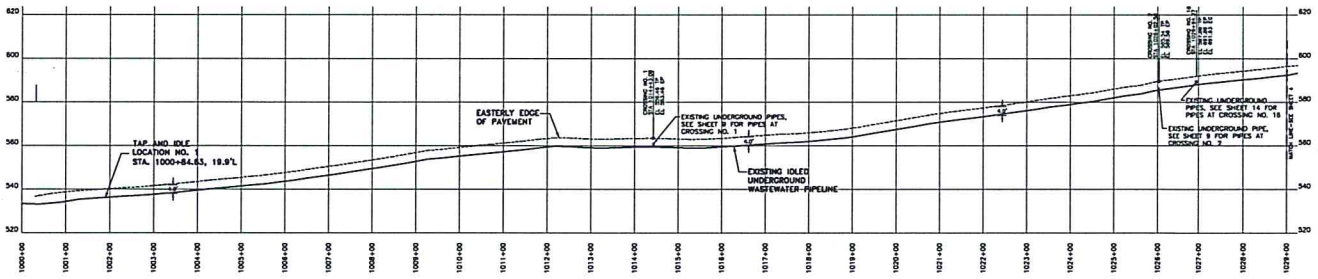






**PLAN VIEW - WASTEWATER LINE**

EVA 1000+00 - 1029+00  
HORIZONTAL SCALE: 1" = 100'



**PROFILE - WASTEWATER LINE**

EVA 1000+00 - 1029+00  
VERTICAL SCALE: 1" = 20'

**NOTES**

ALL DIMENSIONS AND DIMENSIONS FROM HEREON ARE IN FEET AND DECIMAL FRACTIONS.  
ALL DIMENSIONS SHOWN HEREON IS AS MEASURED ALONG THE CENTERLINE OF CAT CANYON ROAD AND CENTERLINE OF PALMER ROAD.



GS-1003	GS-1003-CAT CANYON AERIAL TRACE
G12002PFP	PLAN AND PROFILES
G12002BND	CAT CANYON ROAD BASE MAP
REFERENCE DRAWINGS	

REV	DATE	DESCRIPTION	BY	CHKD	APPR
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1	11.30.13	SENT TO SLD OFFICE FOR REVIEW	GC	AL	AL
2	11.15.13	ISS ISSUED FOR REVIEW	OF	AL	AL
3	10.29.13	ASBURY - REVISED CROSSING 8 & ADDED CROSSING 18	FGR	AL	AL
4	10.31.13	ASBURY - ADDED IDLE WASTE WATER NOTE	AM	AL	AL

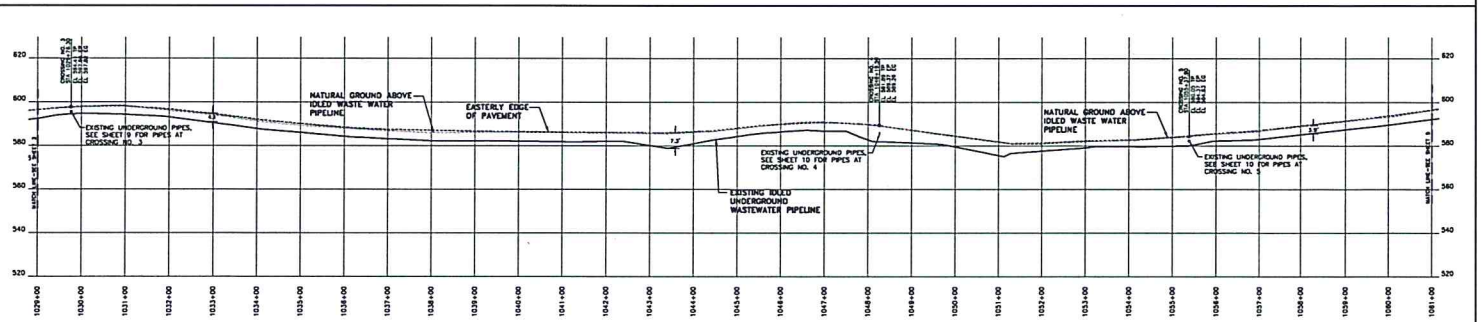
IDLE WASTE WATER LINE - ASBURY PLAN - CAT CANYON ROAD		DATE: 11/19/2013	
ERG RESOURCES, L.L.C.		ORIGINAL DRG NO.	
PORTION OF SECTIONS 24 & 25, T.5N., R.33W., S.8M. AND SECTIONS 30-32, T.5N., R.33W., S.8M., SANTA BARBARA COUNTY, CALIFORNIA		NO. 3 OF 14	
ENGINEER: ALBERTO LOPEZ	DATE: 11/19/2013	SCALE: 1" = 100'	REV. 4
SURVEYOR: DALE H. WELSH	ORIGINAL DRG NO.		
FIELD SUPERVISOR: ALBERTO LOPEZ			
COMPILED BY: GLEN CANTERBERRY			
DOCUMENT TYPE: TOPO SURVEY			

DATE PLOTTED: 11/19/2013 10:58 AM



**PLAN VIEW - WASTEWATER LINE**

DNM 1029+00 = 101+00  
 HORIZONTAL SCALE: 1" = 100'



**PROFILE - WASTEWATER LINE**

DNM 1029+00 = 101+00  
 HORIZONTAL SCALE: 1" = 100'



**NOTES**  
 ALL DIMENSIONS AND DIMENSION SHOWN HEREON ARE IN FEET AND DECIMALS THEREOF.  
 ALL DIMENSIONS SHOWN HEREON IS AS MEASURED ALONG THE CENTERLINE OF CAT CANYON ROAD.



CS-14003	CS-14003-CAT CANYON SERIAL MAKE
C12003P00	PLAN AND PROFILES
C12002B00	CAT CANYON ROAD BASE MAP
REFERENCE DRAWINGS	

UNCLASSIFIED PROJECT SERVICES INTERNATIONAL  
 San Luis Obispo, CA  
 (805) 250-2881  
 www.upisinc.com  
 PROJECT: G12002B

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2	11.21.13	DATE ISSUED FOR REVIEW	DS	AL	AL
3	10.29.13	ASBUILT - REVISED CROSSING 8 & ADDED CROSSING 18	JGH	AL	AL
4	10.31.13	ASBUILT - ADDED IDLED WASTE WATER NOTE	AW	AL	AL

IDLED WASTE WATER LINE - ASBUILT PLAN - CAT CANYON ROAD  
 ERG RESOURCES, L.L.C.  
 PORTION OF SECTIONS 24 & 25, T.9N., R.33W., S.83M. AND SECTIONS 30-32, T.9N., R.32W., S.83M., SANTA BARBARA COUNTY, CALIFORNIA  
 ENGINEER: ALBERTO LOPEZ (DATE: 11/14/2013) (SCALE: 1" = 100')  
 SURVEYOR: DALE H. WILHELM (ORIGINAL DWG NO.)  
 PUNCH MARK: ALBERTO LOPEZ  
 COMPILED BY: GLEN CANTERBERRY  
 DOCUMENT TYPE: TOPO SURVEY  
 NO. 4 OF 14  
 CAD FILE NO. G12002B00  
 REV. 4









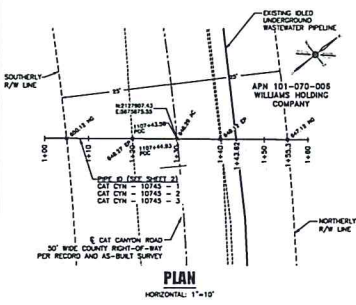




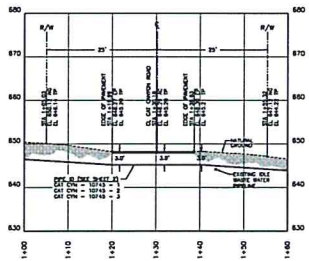


### CROSSING No. 7

APN 101-070-006  
"WILLIAMS HOLDING COMPANY"  
9" STL CASING VISIBLE



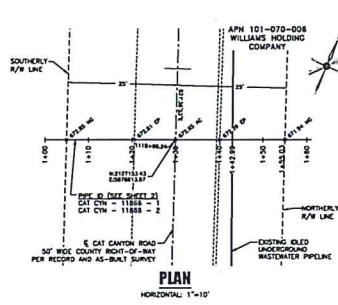
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HORIZONTAL 1"=10'



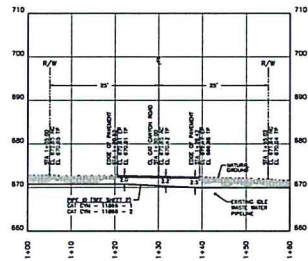
PROFILE  
VERTICAL 1"=10'  
HORIZONTAL 1"=10'

### CROSSING No. 8

APN 101-070-006  
"WILLIAMS HOLDING COMPANY"  
CASING VISIBLE



PLAN  
HORIZONTAL 1"=10'



PROFILE  
VERTICAL 1"=10'  
HORIZONTAL 1"=10'

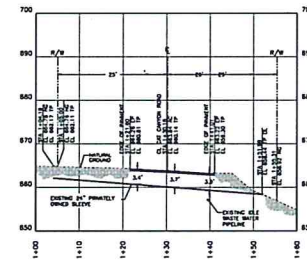


### CROSSING No. 9

APN 101-070-006  
"WILLIAMS HOLDING COMPANY"  
24" CMP PRIVATELY OWNED SLEEVE



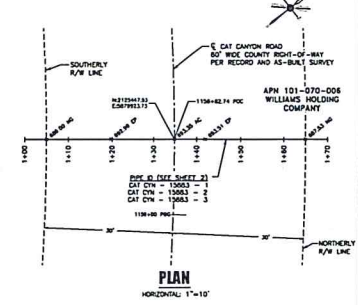
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HORIZONTAL 1"=10'



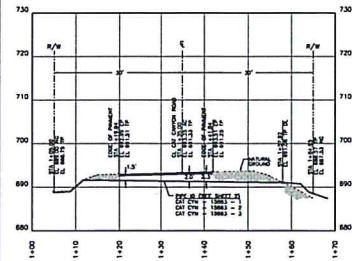
PROFILE  
VERTICAL 1"=10'  
HORIZONTAL 1"=10'

### CROSSING No. 10

APN 101-070-006  
"WILLIAMS HOLDING COMPANY"  
CASING VISIBLE



PLAN  
HORIZONTAL 1"=10'



PROFILE  
VERTICAL 1"=10'  
HORIZONTAL 1"=10'

05-INAD03	05-INAD03-CAT CANYON AERIAL MACK
01002000	PLAN AND PROFILES
01002000	CAT CANYON ROAD BASE MAP
REFERENCE DRAWINGS	



**DIVERSIFIED PROJECT SERVICES INTERNATIONAL**  
San Luis Obispo, CA  
(805) 750-2801  
www.dpsinc.com  
PROJECT: G120828

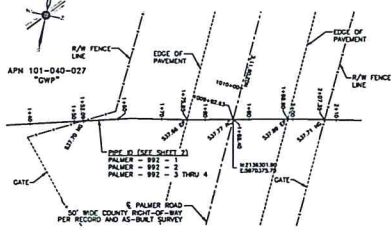
REV	DATE	DESCRIPTION	BY	CHK	APPV
0	11-26-11	PRELIMINARY/WORK-IN PROGRESS DINGS	CC	AL	AL
1	11-30-12	SENT TO SDG OFFICE FOR REVIEW	CC	AL	AL
2	1-15-13	ISSUE ISSUED FOR REVIEW	DS	AL	AL
3	12-28-13	ISSUANCE - REVISED CROSSING 9 & ADDED CROSSING 18	FSH	AL	AL
4	10-31-15	ASBUILT - ADDED OLEO WASTE WATER NOTE	AW	AL	AL

OLEO WASTE WATER LINE - ASBUILT PLAN - CAT CANYON ROAD		ERG RESOURCES, L.L.C.	
PORTION OF SECTIONS 24 & 25, T.8N., R.23W., AND SECTIONS 30-32, T.9N., R.23W., S.B.M., SANTA BARBARA COUNTY, CALIFORNIA		DATE: 11/12/2013 SCALE: 1" = 100'	
ENGINEER:	ALBERTO LOPEZ	ORIGINAL DWG NO.:	
SURVEYOR:	DALE H. WILHELM	NO.:	11 OF 14
PROJECT MGR.:	ALBERTO LOPEZ	DWG FILE NO.:	0120828D
COMPILED BY:	GLEN CANTERBERRY	REV.:	4
DOCUMENT TYPE:	TOPG SURVEY		



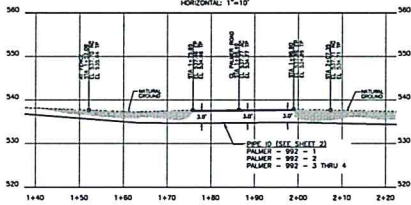
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APN 101-040-027 "GWP"  
PROBABLE CASIED VERBAL FROM ERG



#### PLAN

HORIZONTAL: 1"=10'

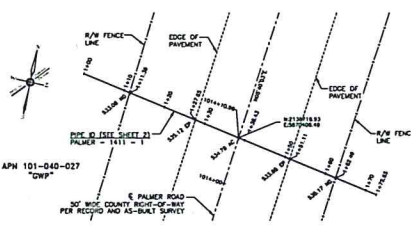


#### PROFILE

VERTICAL: 1"=10'  
HORIZONTAL: 1"=10'

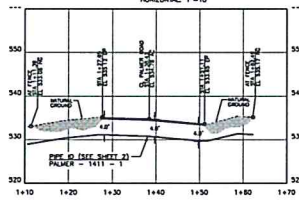
### CROSSING No. 15

APN 101-040-027 "GWP"  
NO CASING VISIBLE



#### PLAN

HORIZONTAL: 1"=10'



#### PROFILE

VERTICAL: 1"=10'  
HORIZONTAL: 1"=10'



05-14083	05-14083-CAL CANYON AERIAL BASE
0120828P0	PLAN AND PROFILES
0120828S0	CAT CANYON ROAD BASE MAP
REFERENCE DRAWINGS	

REV	DATE	DESCRIPTION	BY	CHK	APPR
0	11.28.12	PRELIMINARY/WORK-IN PROGRESS DWGS	GC	AL	AL
1	11.30.12	SENT TO SLO OFFICE FOR REVIEW	GC	AL	AL
2	11.25.13	ERE ISSUED FOR REVIEW	GC	AL	AL
3	10.29.13	ASBUILT - REVISED CROSSING 8 & ADDED CROSSING 18	EGM	AL	AL
4	10.31.13	ASBUILT - ADDED IDED WASTE WATER NOTE	AW	AL	AL

IDED WASTE WATER LINE - ASBUILT PLAN - CAT CANYON ROAD		ERG RESOURCES, LLC	
PORTION OF SECTIONS 24 & 25, T.9N., R.33E., AND SECTIONS 30-32, T.9N., R.33E., S.B.M., SANTA BARBARA COUNTY, CALIFORNIA.		DATE: 11/14/2013 SCALE: 1" = 100'	
ENGINEER:	ALEJOS LOPEZ	ORIGINAL DWG NO.:	
SUPERVISOR:	DALE H. WELSHLM	NO.:	13 OF 14
PROJECT MGR.:	ALEJOS LOPEZ	REV.:	4
COMPILED BY:	GLEN CANTERBURY	DWG FILE NO.:	0120828P0
DOCUMENT TYPE:	TOPO SURVEY		



**Attachment D**  
**Operator's Statement of Qualifications and Financial Background**



September 23, 2016

Don Grady  
County of Santa Barbara - Real Property Div.  
1105 Santa Barbara Street  
Santa Barbara, CA 93101

**Subject: Statement of Qualifications & Financial Background**

To Mr. Grady:

ERG Operating Company, LLC (ERG) hereby provides its Statement of Qualifications and Financial Background. This is intended to verify that ERG is both an experienced and well-funded operator and thus can responsibly maintain and operate pipelines which are located within the County's Right-of-Way.

**Statement of Qualifications**

ERG is a successor institution which began as Cedar Point Oil Company in 1995 via the purchase of the Chevron assets located in Galveston Bay, Chambers County, Texas. The Energy Reserves Group, L.L.C. was formed in October of 1999 by merging the Cedar Point assets, then after several acquisitions and divestitures, additional oil and gas properties were consolidated into ERG Resources, L.L.C. in 2006. ERG Resources is now the parent company which owns the Cat Canyon operations in Santa Barbara County.

Since its inception in 1995, ERG and its affiliates have conducted numerous safe and successful oil operations throughout the United States, including but not limited to:

- Its affiliate, Galveston Bay Energy, owned and operated 169 wells in the inland waters of Galveston Bay, Chambers County, Texas. These operations have since been sold to another operator.
- ERG purchased the Orcutt Oilfield in Santa Barbara County from Nuevo Energy Company in 2003 and operated the field until its subsequent sale to Breitburn Energy Company (now known as Pacific Coast Energy Company).
- ERG purchased former Marathon assets in the Illinois Basin, from Plains Exploration and Production Company in 2004. During that time, ERG was the largest oil producer in Illinois with 2000 wells and 70 employees. These operations have since been divested to another operator.
- ERG Operating Company has owned and operated a significant portion of the Cat Canyon Oilfield in Santa Barbara County since 2010. Currently, ERG has approximately 139 active oil wells and sixteen (16) active facilities. ERG is

currently producing 1,600 – 1,800 barrels per day of oil, which ranks as the third largest onshore oil producer in Santa Barbara County (based on 2015 production).

- As part of its current activities, ERG maintains and operates over 900 pipelines of various sizes and type. All such pipelines which are greater than one inch in diameter are regulated by the Division of Oil, Gas, and Geothermal Resources (DOGGR). In accordance with State law, these pipelines are mapped, recorded in a Pipeline Management Plan, and inspected on a routine basis.

### **Financial Background**

ERG has leased or acquired approximately 20,000 acres of mineral interests in Santa Barbara County. As part of this investment, ERG has also acquired or constructed numerous wells and facilities which have a total of asset value exceeding \$400 million. As previously mentioned, ERG produces over 1,600 barrels per day of oil. Even at current market prices of \$35 per barrel, ERG's annual revenue exceeds \$20 million per year.

On April 30, 2015, ERG found it necessary to file for Chapter 11 bankruptcy protection after suffering a significant decline in revenue due to the sudden drop in the US crude oil market. Since that time, ERG developed a plan of reorganization which was confirmed by the US Bankruptcy Court in late 2015, and has been operating pursuant to that reorganization plan to date (i.e., ERG has emerged from bankruptcy). The reorganization has allowed the company to streamline its operations, improve its capital position, and continue to pursue its energy development goals in harmony with its commitment to environmental protection and safety.



**Attachment E**  
**Operator's Financial Statement**

# ERG PLAN TRUST

Audit of Consolidated Financial Statements

December 31, 2015

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### **Supplementary Information**

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LaPorte, APAC  
5100 Village Walk | Suite 500  
Covington, LA 70433  
985.892.5850 | Fax 985.892.5956  
LaPorte.com

## Independent Auditor's Report

To the Trustee of  
ERG Plan Trust  
Houston, Texas

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ERG Plan Trust (the Trust) which comprise the consolidated statement of assets, liabilities, and trust equity (deficit) - income tax basis, and the related consolidated statements of income and expenses - income tax basis, trust equity (deficit) - income tax basis and cash flows - income tax basis, for the period from inception (November 12, 2015) to December 31, 2015 and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the income tax basis of accounting as described in Note 1; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

LOUISIANA • TEXAS

An Independent Member of the McGladrey Alliance

McGladrey Alliance is a member of the network of independent member organizations that comprise the McGladrey Alliance. Each member firm is a separate legal entity and is responsible for its own operations. The McGladrey Alliance is not a separate legal entity and does not provide financial or other services.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ERG Plan Trust as of December 31, 2015 and the results of its operations and its cash flows for the period from inception (November 12, 2015) to December 31, 2015 in conformity with the basis of accounting described in Note 1.

**Basis of Accounting**

We draw attention to Note 1 of the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared on the basis of accounting used for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.



A Professional Accounting Corporation

Covington, LA  
March 30, 2016

**ERG PLAN TRUST**  
**Consolidated Statement of Assets, Liabilities, and**  
**Trust Equity (Deficit) - Income Tax Basis**  
**December 31, 2015**

<b>Assets</b>	
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 2,260,841
Accounts Receivable	2,783,599
Prepaid Expenses and Other Current Assets	187,162
Casing and Product Inventory	<u>940,450</u>
<b>Total Current Assets</b>	<u>6,172,052</u>
<b>Property and Equipment</b>	
Oil and Gas Properties	417,326,211
Other Property and Equipment	<u>1,827,292</u>
	419,153,503
Accumulated Depletion, Depreciation, and Amortization	<u>(1,782,460)</u>
<b>Property and Equipment, Net</b>	<u>417,371,043</u>
<b>Other Assets</b>	
Investment	24,237
Emission Credits, Net	9,240,580
Escrow Funds	<u>5,194,766</u>
<b>Total Other Assets</b>	<u>14,459,583</u>
<b>Total Assets</b>	<u><u>\$ 438,002,678</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**ERG PLAN TRUST**  
**Consolidated Statement of Assets, Liabilities, and**  
**Trust Equity (Deficit) - Income Tax Basis (Continued)**  
**December 31, 2015**

---

**Liabilities and Trust Equity (Deficit)**

**Current Liabilities**

Accounts Payable and Accrued Liabilities	\$	3,265,547
Accrued Interest Payable		7,541,548
Commodity Derivative Instruments, Current Portion		<u>271,363</u>

**Total Current Liabilities** 11,078,458

**Non-Current Liabilities**

Long-Term Debt, Net of Current Maturities		438,275,371
Commodity Derivative Instruments, Net of Current Portion		<u>233,321</u>

**Total Non-Current Liabilities** 438,508,692

**Total Liabilities** 449,587,150

**Trust Equity (Deficit)** (11,584,472)

**Total Liabilities and Trust Equity (Deficit)** \$ 438,002,678

The accompanying notes are an integral part of these consolidated financial statements.

**ERG PLAN TRUST**  
**Consolidated Statement of Income and Expenses - Income Tax Basis**  
**For the Period from Inception (November 12, 2015) to December 31, 2015**

<b>Revenues</b>	
Oil and Gas Revenues	\$ 2,171,875
Settled Portion of Liability for Commodity Derivative Instruments	41,660
<b>Total Revenues</b>	<u>2,213,535</u>
<b>Costs and Expenses</b>	
Lease Operating Expenses	3,052,595
Workover Expenses	216,242
Intangible Drilling Costs	92,698
Depletion, Depreciation, and Amortization	1,736,432
Severance Tax	22,085
General and Administrative	1,081,885
<b>Total Costs and Expenses</b>	<u>6,201,937</u>
<b>Operating Loss</b>	<u>(3,988,402)</u>
<b>Other Income (Expense)</b>	
Interest Income	227
Other Income	1,300
Interest Expense	(7,597,597)
<b>Total Other Expense, Net</b>	<u>(7,596,070)</u>
<b>Net Loss before Income Taxes</b>	(11,584,472)
<b>Income Tax Benefit</b>	<u>-</u>
<b>Net Loss</b>	(11,584,472)
<b>Tax Return Adjustment for Additional Income Reported for Income Tax, Not Book Purposes:</b>	
Premiums on Settled Commodity Derivative Instruments in Excess of Liability Amortization	1,012,932
<b>Taxable Loss Reported</b>	<u>\$ (10,571,540)</u>

The accompanying notes are an integral part of these consolidated financial statements.



**ERG PLAN TRUST**  
**Consolidated Statement of Trust Equity (Deficit) - Income Tax Basis**  
**For the Period from Inception (November 12, 2015) to December 31, 2015**

	<b>Trust Equity (Deficit)</b>
<b>Balance at November 12, 2015</b>	<b>\$ -</b>
<b>Net Loss</b>	<b><u>(11,584,472)</u></b>
<b>Balance at December 31, 2015</b>	<b><u>\$ (11,584,472)</u></b>

The accompanying notes are an integral part of these consolidated financial statements.

**ERG PLAN TRUST**  
**Consolidated Statement of Cash Flows - Income Tax Basis**  
**For the Period from Inception (November 12, 2015) to December 31, 2015**

<b>Cash Flows from Operating Activities</b>	
Net Loss	\$ (11,584,472)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities	
Depletion, Depreciation, and Amortization	1,736,432
Settled Portion of Liability for Commodity Derivative Instruments	(41,660)
Decrease in Accounts Receivable	430,578
Decrease in Prepaid Expenses and Other Current Assets	81,698
Decrease in Casing and Product Inventory	59,144
Decrease in Accounts Payable and Accrued Liabilities	(3,504,144)
Increase in Accrued Interest Payable	7,541,548
	<u>7,541,548</u>
<b>Net Cash Used in Operating Activities</b>	<u>(5,280,876)</u>
<b>Cash Flows from Investing Activities</b>	
Capital Expenditures for Oil and Gas Properties	(6,878)
Escrow Funds Paid	(157)
	<u>(7,035)</u>
<b>Net Cash Used in Investing Activities</b>	<u>(7,035)</u>
<b>Cash Flows from Financing Activities</b>	
Proceeds from Long-Term Debt	<u>4,000,000</u>
<b>Net Cash Provided by Financing Activities</b>	<u>4,000,000</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(1,287,911)
<b>Cash and Cash Equivalents, Beginning of Period</b>	<u>3,548,752</u>
<b>Cash and Cash Equivalents, End of Period</b>	<u>\$ 2,260,841</u>
<b>Supplemental Disclosure of Cash Flow Information</b>	
Interest Paid	\$ 286

The accompanying notes are an integral part of these consolidated financial statements.

## ERG PLAN TRUST

### Notes to Consolidated Financial Statements

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#### Note 1. Summary of Significant Accounting Policies

##### **Organization and Nature of Operations**

The ERG Plan Trust (the Trust) was established by the U.S. Bankruptcy Court for the Northern District of Texas (jointly administered Case No. 15-31858-hdh-11) pursuant to section 7.5 a Plan of Reorganization (the Plan), effective as of November 12, 2015 (the Effective Time), to succeed 100% of new membership interests in ERG Intermediate Holding's, LLC (Holdings). The purpose of the Trust is to oversee an orderly liquidation of the former bankruptcy estate assets indirectly held by Holdings in anticipation of a sale to an independent third party within a three- to five-year period. Beneficiaries of the Trust (after payment of administrative expenses and allowance for a reasonable wind-up reserve) are the former Exit Facility and Prepetition Facility Claimants, with remaining residuals (if any) payable to prior equity holders. Holdings is the sole owner of 100% of the membership interests of: ERG Resources, LLC (Resources), ERG Operating Company, LLC (Operating), West Cat Canyon, LLC (West Cat Canyon) and ERG Interests, LLC (Interests). Each of these entities was a co-petitioner in the bankruptcy proceeding. Collectively, each of the Trust, Holdings, Resources, Operating, West Cat Canyon, and Interests are referred to as the Company.

ERG Intermediate Holdings, LLC was incorporated on November 7, 2012 as a Texas Limited liability company, to effect estate planning of the previous owner. 100% of the new member interests in ERG Intermediate Holdings, LLC were conveyed to the ERG Plan Trust effective as of November 12, 2015.

Resources was incorporated on October 13, 1999, as a Texas limited liability company and is an independent oil and gas company engaged in the acquisition, operation and development of oil and gas properties in California.

Operating was incorporated on November 23, 2009, as a Texas limited liability company and is the operator of certain oil and gas properties in California.

West Cat Canyon was incorporated on March 29, 2012, as a Texas limited liability company. West Cat Canyon was formed to operate and maintain certain oil and gas properties.

Interests was incorporated on January 15, 2013, as a Texas limited liability company, and has no current activity.

##### **Basis of Accounting**

The Company maintains its accounting records and prepares its consolidated financial statements on the basis used for United States federal income tax purposes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Accounting principles used herein are in accordance with the Internal Revenue Code of 1986, as amended (the "Code") and applicable Treasury Regulations and authority as in effect on December 31, 2015. The Company is reporting activity for an initial short-period beginning on the Effective Time of the Plan (November 12, 2015), and ending on December 31, 2015.

## ERG PLAN TRUST

### Notes to Consolidated Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### **Basis of Accounting (Continued)**

The primary differences between generally accepted accounting principles and the income tax basis of accounting relate to intangible development costs on producing wells that are expensed when incurred, depreciation and depletion of property and equipment, impairment of assets, asset retirement obligations, accounting for certain investments, and accounting for commodity derivative instruments.

##### **Basis of Consolidation**

The consolidated financial statements include the financial statements of the aforementioned companies. Each member company (but for the Trust) is treated as a Disregarded Entity ("DRE") under the Code and applicable U.S. Treasury regulations. As such, each member company is treated as a division of the Trust, and not a separate legal entity for U.S. federal income tax purposes. All intercompany balances and transactions between the entities are eliminated.

##### **Cash and Cash Equivalents**

For the purposes of the consolidated statement of cash flows, the Company considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

##### **Accounts Receivable**

Accounts receivable consist of uncollateralized oil and gas sales revenues due under normal trade terms, joint interest billings, and receivables from individuals and other third parties. Bad debt expense is recognized when management determines amounts to be uncollectible and is charged-off in the year of the determination. There was no bad debt expense incurred during the period from inception (November 12, 2015) to December 31, 2015.

##### **Casing and Product Inventory**

The Company carries casing and product inventory. Diluent and light crude oil inventory are stated at historical cost determined under the first-in, first-out (FIFO) method.

Casing, although not inventory for tax purposes, is either used in the betterment of the properties, or expensed as part of operations.

##### **Oil and Gas Properties**

All costs of leasehold acquisition are capitalized as incurred, and recovered through the greater of a cost depletion method (a unit-of-production method based on estimated proved reserves with equivalent physical units of six MCF natural gas to each barrel of crude oil), or a percentage depletion method (where depletion is determined based upon 15% of gross production from the properties subject to both property-level and entity-level limitations) pursuant to Code Sections 612, 613, and 613A, as applicable. These two methods are compared annually for determination of the most favorable method to the Company for the period.

## ERG PLAN TRUST

### Notes to Consolidated Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### Oil and Gas Properties (Continued)

Costs directly associated with the acquisition and evaluation of unproved properties are excluded from the depletion computation until it is determined that proved reserves can be assigned to specific, productive properties. As a result, the costs associated with the unproved properties are capitalized to that property until either adequate reserves are discovered and the property is reclassified as proven property, or the lease is abandoned. Abandoned leasehold cost is expensed in the period of abandonment.

The treatment of exploration costs varies depending on the type of cost incurred. Non-drilling costs, such as geological and geophysical costs, carrying costs of undeveloped properties, dry hole and bottom hole contribution expense are capitalized as incurred. Geological and geophysical costs are amortized ratably over a 24-month period pursuant to Code Section 167(h).

Intangible drilling costs, whether exploratory or developmental, have been expensed in accordance with an election under Code Section 263(c). The Company will annually consider a secondary election under Code Section 59(e) to capitalize some or all of the deductible intangible drilling costs per property, per amount, per year. Management evaluates the tax position of the Company annually in consideration of the merits of this election.

The costs associated with tangible well equipment and facilities are capitalized and recovered through depreciation expense consistent with the modified accelerated cost recovery system (MACRS) under Code Section 168.

Sales of oil and gas assets result in current period gain or loss being recognized by the Company unless transactions qualify for deferral under the "like-kind exchange" rules of Code Section 1031. Properties sold at gains are subject to recapture rules to treat all or a portion of the gain as ordinary income. Gain attributable to tangible lease and well equipment and other fixed assets is subject to depreciation recapture, and gain attributable to the oil and gas properties is generally treated as ordinary income to the extent of previously deducted intangible drilling costs and depletion to the extent these deductions reduced the adjusted basis of the properties sold.

The Company has applied this guidance to its consolidated financial statements for the period from inception (November 12, 2015) to December 31, 2015.

Depletion, depreciation and amortization (DD&A) expense for the Company's oil and gas properties totaled \$1,628,094 for the period from inception (November 12, 2015) to December 31, 2015.

## ERG PLAN TRUST

### Notes to Consolidated Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### **Other Property and Equipment**

Other property and equipment are carried at cost, less previously claimed depreciation and amortization. Property and equipment are depreciated using MACRS, which is based on specified class lives and recovery periods; generally consisting of a 200% declining balance method used with recovery periods between 5 and 7 years. At the time of a retirement or sale, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded in income. Maintenance and repairs are charged to expense as incurred. Renewals, betterments and expenditures which increase the value of the property or extend its useful life, are capitalized. Depreciation expense for the Company's other property and equipment totaled \$61,668 for the period from inception (November 12, 2015) to December 31, 2015.

##### **Investment**

Investments are carried at cost and gain or loss is recognized upon settlement. The income tax character of the gain or loss (i.e. ordinary vs. capital) is relevant to the Company's tax position and is dependent upon the nature of the investment and its holding period.

##### **Emission Credits**

Emission credits are earned when air emissions are reduced below what is allowed by regulators. These credits have a market value and can be bought and sold. The credits do not expire but are surrendered upon use. The Company has purchased emission credits (including credits purchased in the initial acquisition of properties from the bankruptcy estate: see Note 7) for use in offsetting excess future emissions. These credits are consumed as part of the permitting process during the installation of emission generating equipment.

Emission Credits are intangible assets under code Section 197 that are amortized straight line over a 15-yr period, beginning once the equipment has been placed into service. Amortization expense related to emission credits totaled \$46,670 for the period from inception (November 12, 2015) to December 31, 2015.

##### **Long-Lived Assets**

The Company is not required to evaluate the recoverability of its long-lived assets under the income tax basis of accounting. If the Company were to apply accounting principals generally accepted in the United States of America, the Company would record an impairment loss based on the difference between the fair value of its oil and gas properties, which was calculated using the discounted future cash flows of the related properties, and the net book value of those properties. The discounted future cash flows are derived from reserve estimates of independent petroleum engineers. See Note 10. Had the Company been on the US GAAP basis of accounting, an impairment loss of approximately \$328 million would have been recognized. No such tax loss is currently allowable under Code Section 165.

## ERG PLAN TRUST

### Notes to Consolidated Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### **Commodity Derivative Instruments**

The Company manages the potential impact of changes in the price of oil and natural gas by entering into commodity derivative instruments (hedges), but does not use them for speculative purposes. These transactions are an integral part of the Company's business used to manage risk in the ordinary course of business.

The Company accounts for hedging agreements in accordance with applicable U.S. Federal income tax code and regulations. Pursuant to Code Section 1256(e)(1), derivative gains and losses generate ordinary income and loss and are not subject to the loss deferral rules and the "mark-to-market" provisions that are applicable to speculative transactions.

Pursuant to Code Section 1221(a)(7), a capital asset does not include a hedging transaction which is clearly identified as such before the close of the day on which it was acquired, originated, or entered into; as the hedge has been contemporaneously identified for U.S. income tax purposes under Treasury Regulation Section 1.1221-2(f)(2)(ii). As such, any gain or loss attributable to the hedging transaction is considered ordinary in character. As such, the Company physically designates each applicable hedge as a "tax hedge" to achieve ordinary treatment for both gains and losses.

##### **Asset Retirement Obligations**

The Company is engaged in the oil and gas production business and may become subject to certain liabilities as they relate to environmental clean up of well sites or other environmental restoration procedures as they relate to the oil and gas operations. In the Company's acquisition of existing wells, the Company may not be aware of what environmental safeguards were taken at the time the wells were drilled or during such time the wells were operated. Should it be determined that a liability exists with respect to any environmental clean up or restoration, the liability to cure such a violation could fall upon the Company. The Company has insurance and/or bonds in place to provide for costs required by various regulatory authorities. Asset retirement obligations are not recorded on the Company's statement of assets, liabilities, and trust equity (deficit) as these liabilities are not deemed to be "fixed and determinable" under U.S. federal income tax principles until settled. However if the Company were to record this amount in accordance with U.S. GAAP, a liability totaling approximately \$4.3 million would be recorded as of December 31, 2015.

##### **Revenue Recognition**

The Company recognizes oil and gas revenue from its interests in producing wells as the oil and gas is sold. Revenue from the purchase, transportation, and sale of natural gas is recognized upon completion of the sale and when transported volumes are delivered.

## ERG PLAN TRUST

### Notes to Consolidated Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### **Income Taxes**

Pursuant to the Plan, the Company is taxed as a Disputed Ownership Fund as described in Code Section 468B and Treasury Regulation Section 1.468B-9. As such, it is taxed as a C corporation under the Code.

The Company is not subject to Accounting Standards Codification Topic 740, *Income Taxes*, due to use of the income tax basis of accounting. As such, it does not record the tax effect of book-tax differences in assets and liabilities, or income or expenses (since there are none), nor does it measure, recognize and evaluate the collectability of its tax attribute carryforwards, including Net Operating Losses (NOLs). Because the period from inception (November 12, 2015) to December 31, 2015 represents the initial reporting period for the Company, there is no NOL carryback potential available that would result in a refund of previously paid income taxes. After adjusting the current period's reported loss for non-deductible items (such as certain meals and entertainment expenses or charitable contributions in a loss year), the Company's NOL carryforward to 2016 (expected to be a full twelve-month tax year) is approximately \$10.6 million. This NOL carryforward expires in 2035, if unused.

The Company has no "Uncertain Tax Positions" (as defined by Treasury regulations) to report in the current period. The Company is not subject to current examination by any taxing agency. It is the Internal Revenue Service's litigation position that an NOL carryover may be examined for the year of usage based upon the statute of limitations for that year where the NOL offsets cash income tax payments.

##### **Use of Estimates in the Preparation of Consolidated Financial Statements**

The preparation of the Company's consolidated financial statements in conformity with the income tax basis of accounting requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of depreciation, depletion and amortization.

#### Note 2. Significant Concentrations and Off-Balance Sheet Risk

During the period from inception (November 12, 2015) to December 31, 2015 the majority of the Company's revenues were from one customer that purchased approximately 100% of the Company's oil production. Also as of December 31, 2015 approximately 100% of the accounts receivable was from one customer and one other party. The Company does not require collateral on accounts receivable.

The Company maintains cash deposits in bank accounts, which may at times exceed amounts insured by the U.S. Federal Deposit Insurance Corporation. The Company has not experienced any losses in such accounts and does not believe that significant credit risk exists as a result of this practice.



## ERG PLAN TRUST

### Notes to Consolidated Financial Statements

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#### Note 3. Property and Equipment

Property and equipment consists of the following at December 31<sup>st</sup>:

Oil and Gas Leasehold Costs	\$	341,136,989
Tangible Lease and Well Equipment		76,189,222
Land and Buildings		1,385,594
Vehicles		264,582
Furniture, Fixtures and Equipment		177,116
		<u>419,153,503</u>
Accumulated Depreciation, Depletion and Amortization		<u>(1,782,460)</u>
<b>Total</b>	<b>\$</b>	<b><u>417,371,043</u></b>

#### Note 4. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at December 31, 2015, consist of the following:

Accounts Payable - Trade	\$	3,102,509
Revenue Payable		163,038
<b>Total</b>	<b>\$</b>	<b><u>3,265,547</u></b>

#### Note 5. Employee Retirement Plan

The Company has a salary deferral 401(k) (the "Plan"), which covers all full time employees. The employees become eligible to participate in the Plan after they meet the eligibility requirements. The Plan provides for employee deferral contributions and the Company's discretionary matching contributions. Total matching contributions made during the period from inception (November 12, 2015) to December 31, 2015 were \$18,858, and are considered ordinary deductions on the Company's income tax return.

## ERG PLAN TRUST

### Notes to Consolidated Financial Statements

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#### Note 6. Long-Term Debt

Notes payable at December 31, 2015 consisted of the following:

A \$150 million revolving credit facility to a finance company maturing November, 2018; monthly interest at prime (minimum 3%) plus applicable 3.5% margin (7.00% at December 31); monthly interest can be considered additional borrowings on note; collateralized by capital stock and assets of the Company. \$ 20,787,279

A note payable to a finance company, maturing November, 2018; monthly interest at prime (minimum 3%) plus 9.75% margin (13.25% at December 31); any unpaid interest will continue to accrue; collateralized by capital stock and assets of the Company. 417,488,092

**Total** 438,275,371

**Less: Current Maturities** -

**Long-Term Debt, Net of Current Maturities** \$ 438,275,371

The maturities of the loans are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	<u>\$ 438,275,371</u>
<b>Total</b>	<u><u>\$ 438,275,371</u></u>

The credit facilities include customary restrictions with respect to liens, indebtedness, loans and investments, material changes in the Company's business, asset sales or leases or transfers of assets, restricted payments, mergers or consolidations.

## ERG PLAN TRUST

### Notes to Consolidated Financial Statements

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#### Note 7. Trust Acquisition Accounting

Pursuant to Treasury Regulation Section 1.468B-9(c)(ii), the Company is deemed to purchase the member interests of Holdings from the bankruptcy estate at an amount equal to the liabilities assumed from the estate, and allocate this purchase price at their fair market value. Inasmuch as Holdings was classified as a tax partnership immediately prior to the Effective Time of the Plan, the conveyance of the Holdings member interests to the Trust is treated as a purchase of 100% of all outstanding partnership interests of an operating partnership as described in Revenue Ruling 99-6, situation 2. This guidance treats the purchase as an Applicable Asset Acquisition pursuant to Code Section 1060, since each of Holdings subsidiaries were DREs (thus their independent existence ignored for income tax purposes), and these assets constitute an ongoing business. The purchase price of these assets was equal to the amount of the creditors' claims reinstated by the Plan and additional liabilities of the bankruptcy estate assumed by the Trust as required by the Plan. The purchase price was allocated to acquired assets in accordance with Treas. Reg. Sec. 1.1060-1(c), as follows:

<b>Assets Acquired</b>	
Cash and Cash Equivalents	\$ 3,548,752
Accounts Receivable	3,214,177
Prepaid Expenses and Other Current Assets	268,860
Casing and Product Inventory	999,594
Oil and Gas Properties	417,226,634
Other Property and Equipment	1,827,293
Investment	24,237
Emission Credits	9,287,250
Escrow Funds	5,194,609
<b>Total Assets Acquired</b>	<b>\$ 441,591,406</b>
<b>Liabilities Assumed</b>	
Accounts Payable and Accrued Liabilities	6,825,386
Commodity Derivative Instruments	546,343
Long-Term Debt	434,219,677
<b>Total Liabilities Assumed</b>	<b>\$ 441,591,406</b>

#### Note 8. Commodity Derivative Instruments

During 2015, the Company assumed (via a novation pursuant to The Plan) a hedging contract to enable the Company to reduce the impact of changes in the prices of oil and natural gas. The Company's hedge is specifically referenced to the Sullom Voe, UK index prices received for its designated production.

ERG PLAN TRUST

Notes to Consolidated Financial Statements

**Note 8. Commodity Derivative Instruments (Continued)**

The fair market value of the contract required to negate these calls as of the Effective Time was \$546,344. The Company is entitled to no additional future cash proceeds from this contract, but may be required to recognize up to \$13,830,392 in future taxable income if the calls expire unexercised.

The amount of earned premium from monthly call expiration related to the initial amount of assumed liability recorded is reflected in revenue. The balance of the earned premium treated as settled from the expiration of monthly calls is reflected in taxable income via a schedule M-1 adjustment on the tax return.

During the period from inception (November 12, 2015) to December 31, 2015, the Company recognized net realized derivative gains of \$1,054,592, with \$41,660 reflected in revenue on the accompanying consolidated statement of income and expenses – income tax basis, and \$1,012,932 being reflected in taxable income as a schedule M-1 adjustment.

As of December 31, 2015, the Company had the following oil and gas derivative contracts still in place:

Trade Date	Production Period	Instrument Type	Volume	Strike Price	Settlement Price
3/28/2014	2016	Brent Cal Mo Swap	642,000 Bbls	\$90.00	Brent Daily Avg.
3/28/2014	2017	Brent Cal Mo Swap	552,000 Bbls	\$90.00	Brent Daily Avg.

At December 31, 2015, the Company has a remaining commodity derivative instrument liability of \$504,684 recorded on the consolidated statement of asset, liabilities and trust equity (deficit) – income tax basis, which, based upon current commodity pricing, will be recorded in income over the next two years.

Additionally, over the next two years, the Company could record additional taxable income of \$12,271,116 related to premiums earned from call expiration via schedule M-1 as follows:

Year	Taxable Income From			Total
	Commodity Derivative Liability Reversal	Schedule M-1 Inclusion		
2016	\$ 271,363	\$ 6,598,037	\$	6,869,400
2017	233,321	5,673,079		5,906,400
	\$ 504,684	\$ 12,271,116	\$	12,775,800

## ERG PLAN TRUST

### Notes to Consolidated Financial Statements

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#### Note 9. Operating Leases

The Company leases office space under non-cancelable operating leases. Minimum future lease payments (not including operating expenses) are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2016	\$ 146,726
2017	<u>151,312</u>
<b>Total</b>	<b><u>\$ 298,038</u></b>

Rent expense for the period from inception (November 12, 2015) to December 31, 2015 totaled \$165,667.

#### Note 10. Oil and Gas Reserves (Unaudited)

The following supplemental disclosure is offered to provide readers with reserve information in a customary U.S. GAAP format but is generally not relevant to the Company's U.S. federal income tax position. Proved oil and gas reserves were estimated by independent and internal petroleum engineers. Proved oil and gas reserves are those quantities of oil and gas which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible - from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations - prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The reserves were based on the following assumptions:

- Future revenues were based on ICE Brent oil and gas prices at December 31, 2015, as adjusted. Future price changes were included only to the extent provided by existing contractual agreements
- Production and development costs were computed using year-end costs assuming no change in present economic conditions
- Future net cash flows were discounted at an annual rate of 10%

Uncertainties are inherent in estimating quantities of proved reserves, including many factors beyond the Company's control. Reserve engineering is a process of estimating subsurface accumulations of oil and gas that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and its interpretation. As a result, estimates by different engineers often vary, sometimes significantly. In addition to the physical factors such as the results of drilling, testing, and production subsequent to the date of an estimate, economic factors such as changes in product prices or development and production expenses, may require revision of such estimates. Accordingly, oil and gas quantities ultimately recovered will vary from reserve estimates. These estimates do not include probable or possible reserves. The information provided does not represent management's estimate of its expected future cash flows or value of proved oil and gas reserves.

## ERG PLAN TRUST

### Notes to Consolidated Financial Statements

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#### Note 10. Oil and Gas Reserves (Unaudited) (Continued)

All of the Company's reserves are located in the United States. At December 31, 2015, the date of the most recent external reserve report, the approximate reserves, and undiscounted and discounted (using a discount rate of 10%) future net cash flows before income taxes related to the Company's proved oil and gas reserves were as follows:

<u>Proved Reserves</u>		Net Present Value
Oil and Condensate (BBL)	Future Net Income (\$M)	Discounted at 10% (\$M)
153,683,700	\$ 1,439,386,400	\$ 89,384,100

#### Note 11. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, March 30, 2016, and determined that no events occurred that require disclosure. No other subsequent events occurring after the date above have been evaluated for inclusion in these financial statements.



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## Independent Auditor's Report on Supplementary Information

To the Trustee of  
ERG Plan Trust  
Houston, Texas

We have audited the consolidated financial statements of ERG Plan Trust as of December 31, 2015, and for the period from inception (November 12, 2015) to December 31, 2015, and our report thereon dated March 30, 2016, which contained an unmodified opinion on those consolidated financial statements, appears on page 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to March 30, 2016.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A Professional Accounting Corporation

Covington, Louisiana  
March 30, 2016

**ERG PLAN TRUST**  
**Consolidating Statement of Assets, Liabilities, and Trust Equity (Deficit) - Income Tax Basis**  
**December 31, 2015**

	ERG Plan Trust	ERG Resources, LLC	ERG Interests, LLC	West Cat Canyon, LLC	ERG Operating Company, LLC	Eliminating	Total
<b>Assets</b>							
<b>Current Assets</b>							
Cash and Cash Equivalents	\$ -	\$ 2,523,800	\$ -	\$ -	\$ (262,959)	\$ -	\$ 2,260,841
Accounts Receivable	-	26,070	-	-	2,757,529	-	2,783,599
Due from Affiliates	-	196,673,860	12,200,296	-	325,104	(209,199,260)	-
Prepaid Expenses and Other Current Assets	-	132,235	-	-	54,927	-	187,162
Casing and Product Inventory	-	844,567	-	-	95,863	-	940,450
<b>Total Current Assets</b>	-	200,200,532	12,200,296	-	2,970,484	(209,199,260)	6,172,052
<b>Property and Equipment</b>							
Oil and Gas Properties	-	194,880,262	-	6,387,480	216,058,469	-	417,326,211
Other Property and Equipment	-	1,399,917	-	-	427,375	-	1,827,292
Accumulated Depletion, Depreciation and Amortization	-	196,280,179	-	6,387,480	216,485,844	-	419,153,503
	-	(747,750)	-	-	(1,034,710)	-	(1,782,460)
<b>Property and Equipment, Net</b>	-	195,532,429	-	6,387,480	215,451,134	-	417,371,043
<b>Other Assets</b>							
Investments in Closely Held Corporations	-	1,312,677	-	-	-	(1,288,440)	24,237
Emission Credits, Net	-	-	-	-	9,240,580	-	9,240,580
Escrow Funds	-	4,973,165	-	-	221,601	-	5,194,766
<b>Total Other Assets</b>	-	6,285,842	-	-	9,462,181	(1,288,440)	14,459,583
<b>Total Assets</b>	\$ -	\$ 402,018,803	\$ 12,200,296	\$ 6,387,480	\$ 227,883,799	\$ (210,487,700)	\$ 438,002,678

See independent auditor's report on supplementary information.



**ERG PLAN TRUST**  
**Consolidating Statement of Assets, Liabilities, and Trust Equity (Deficit) - Income Tax Basis (Continued)**  
**December 31, 2015**

	ERG Plan Trust	ERG Resources, LLC	ERG Interests, LLC	West Cat Canyon, LLC	ERG Operating Company, LLC	Eliminating	Total
<b>Liabilities and Trust Equity</b>							
<b>Current Liabilities</b>							
Accounts Payable and Accrued Liabilities	\$ -	\$ 95,868	\$ -	\$ -	\$ 3,169,679	\$ -	\$ 3,265,547
Accrued Interest Payable	-	7,541,548	-	-	-	-	7,541,548
Due to Affiliates	77,303	284,147	-	6,656,373	202,181,437	(209,199,260)	-
Commodity Derivative Instruments, Current Portion	-	271,363	-	-	-	-	271,363
<b>Total Current Liabilities</b>	77,303	8,192,926	-	6,656,373	205,351,116	(209,199,260)	11,078,458
<b>Non-Current Liabilities</b>							
Long-Term Debt, Net of Current Maturities	-	438,275,371	-	-	-	-	438,275,371
Commodity Derivative Instruments, Net of Current Portion	-	233,321	-	-	-	-	233,321
<b>Total Non-Current Liabilities</b>	-	438,508,692	-	-	-	-	438,508,692
<b>Total Liabilities</b>	77,303	446,701,618	-	6,656,373	205,351,116	(209,199,260)	449,587,150
<b>Trust Equity</b>	(77,303)	(44,682,815)	12,200,296	(268,893)	22,532,683	(1,288,440)	(11,584,472)
<b>Total Liabilities and Trust Equity</b>	\$ -	\$ 402,018,803	\$ 12,200,296	\$ 6,387,480	\$ 227,883,799	\$ (210,487,700)	\$ 438,002,678

See independent auditor's report on supplementary information.

**ERG PLAN TRUST**  
**Consolidating Statement of Income and Expenses - Income Tax Basis**  
**For the Year Ended December 31, 2015**

	ERG Plan Trust	ERG Resources, LLC	ERG Interests, LLC	West Cat Canyon, LLC	ERG Operating Company, LLC	Eliminating	Total
<b>Revenues</b>							
Oil and Gas Revenues	\$ -	\$ 2,171,875	\$ -	\$ -	\$ -	\$ -	\$ 2,171,875
Settled Portion of Liability for Commodity Derivative Instruments	-	41,660	-	-	-	-	41,660
<b>Total Revenues</b>	-	2,213,535	-	-	-	-	2,213,535
<b>Costs and Expenses</b>							
Lease Operating Expenses	-	3,041,746	(248)	11,097	-	-	3,052,595
Workover Expenses	-	216,244	-	-	(2)	-	216,242
Intangible Drilling Costs	-	92,698	-	-	-	-	92,698
Depletion, Depreciation and Amortization	-	655,052	-	-	1,081,380	-	1,736,432
Severance Tax	-	22,085	-	-	-	-	22,085
General and Administrative	77,303	528,487	-	-	476,095	-	1,081,885
<b>Total Costs and Expenses</b>	77,303	4,556,312	(248)	11,097	1,557,473	-	6,201,937
<b>Operating Income (Loss)</b>	(77,303)	(2,342,777)	248	(11,097)	(1,557,473)	-	(3,988,402)
<b>Other Income (Expense)</b>							
Interest Income	-	227	-	-	-	-	227
Other Income	-	1,300	-	-	-	-	1,300
Interest Expense	-	(7,597,311)	-	-	(286)	-	(7,597,597)
<b>Total Other Expense, Net</b>	-	(7,595,784)	-	-	(286)	-	(7,596,070)
<b>Net Income (Loss) Before Income Taxes</b>	(77,303)	(9,938,561)	248	(11,097)	(1,557,759)	-	(11,584,472)
<b>Income Tax Benefit</b>	-	-	-	-	-	-	-
<b>Net Income (Loss)</b>	\$ (77,303)	\$ (9,938,561)	\$ 248	\$ (11,097)	\$ (1,557,759)	\$ -	\$ (11,584,472)

See independent auditor's report on supplementary information.

**Attachment F**  
**Resolution and Private Franchise Agreement**

**BOARD OF SUPERVISORS OF THE  
COUNTY OF SANTA BARBARA, STATE OF CALIFORNIA**

**Resolution No. \_\_\_\_\_**

In The Matter Of the Proposed Grant of	)	<b>RESOLUTION GRANTING A</b>
a Private Franchise to ERG OPERATING,	)	<b>PRIVATE PIPELINE FRANCHISE</b>
COMPANY, LLC, for the Purpose of	)	<b>CALIFORNIA GOVERNMENT CODE</b>
Operating and Maintaining an Existing	)	<b>SECTION 26001 ET. SEQ. and</b>
Pipeline System Within Certain Public	)	<b>SANTA BARBARA COUNTY</b>
Rights-of-Way In Unincorporated	)	<b>CODE SECTION 2-82.1</b>
Santa Barbara County	)	

**WHEREAS**, on March 23, 1970, the Santa Barbara County Board of Supervisors adopted Ordinance 2071, granting to TEXACO, INC., a franchise for the purpose of installing pipelines within certain public rights-of-way in unincorporated portions of the County of Santa Barbara (hereinafter "County"); and

**WHEREAS**, ERG OPERATING COMPANY, LLC, (hereinafter "ERG"), a Texas Limited Liability Company, presently holds title to the pipeline system installed pursuant to Ordinance 2071 and depicted on Exhibit "A", attached hereto and incorporated herein; and

**WHEREAS**, ERG operates its pipeline system under a permit with the County's Energy Division of Planning and Development and various Road Encroachment Permits issued by the County's Public Works Department; and

**WHEREAS**, Ordinance 2071 expired on March 23, 2010, and ERG has been holding over under the terms and conditions of that Ordinance, including paying the required franchise fees and operating the pipeline system pursuant to all required permits and applicable rules and regulations; and

**WHEREAS**, ERG has filed with the County an application for a new private franchise for the purpose of operating and maintaining its existing private pipeline system to be used for their private use to transport oil, gas, petroleum, produced water, and other substances transportable by pipelines between ERG facilities on opposite sides of Cat Canyon Road and Palmer Road; and

**WHEREAS**, the private franchise granted by this Resolution, and attached hereto, grants ERG OPERATING COMPANY, LLC, its successors and assigns, the right to operate and maintain the existing pipeline system, as shown on Exhibit A of the private franchise; and

**WHEREAS**, the Director of the County's Public Works Department, in his capacity as road commissioner, has evaluated ERG's application for a private franchise and determined that occupancy or use of ERG's existing pipeline system in Cat Canyon Road and Palmer Road in the unincorporated County will neither unduly impair the condition of such public places nor unreasonably and unnecessarily obstruct or inconvenience the traveling public; and

**WHEREAS**, County Counsel has notified the Board that the requirements prescribed by County Code § 2-82.1 have been met; and

**WHEREAS**, the Board of Supervisors has determined that it is in the best interest of the public to grant to ERG for a period of twenty (20) years a private franchise for the continued use of its existing pipeline system.

**NOW, THEREFORE, BE IT RESOLVED**, the Santa Barbara County Board of Supervisors does hereby find, determine and order as follows:

1. The above recitals are true and correct and incorporated herein; and
2. ERG is hereby granted a private franchise for a term of twenty (20) years according and subject to the terms and conditions of the Private Franchise Agreement attached hereto and incorporated herein.

Passed and adopted by the Board of Supervisors of the County of Santa Barbara, State of California, this \_\_\_\_ day of \_\_\_\_\_ 2017, by the following vote:

**AYES:**

**NOES:**

**ABSENT:**

**ABSTAINED:**

COUNTY OF SANTA BARBARA

ATTEST:  
MONA MIYASATO  
CLERK OF THE BOARD

\_\_\_\_\_  
JOAN HARTMANN, CHAIR  
BOARD OF SUPERVISORS

By: \_\_\_\_\_  
Deputy

APPROVED AS TO FORM:  
MICHAEL C. GHIZZONI  
COUNTY COUNSEL

APPROVED AS TO ACCOUNTING:  
THEODORE A. FALLATI, C.P.A.  
AUDITOR-CONTROLLER

By: \_\_\_\_\_  
Deputy County Counsel

By: \_\_\_\_\_  
Deputy

**PRIVATE PIPELINE FRANCHISE AGREEMENT  
ERG OPERATING COMPANY, LLC  
COUNTY CODE SECTION 2-82.1**

**PRIVATE FRANCHISE**

This Private Franchise (hereinafter "Franchise") is granted by the Board of Supervisors of the County of Santa Barbara (hereinafter "County") pursuant to Chapter 2, Article XI, Section 2-82.1 of the Santa Barbara County Code.

**PREAMBLE**

A Franchise is hereby granted to ERG OPERATING COMPANY, LLC, its successors and assigns, (hereinafter "Grantee"), for a period of twenty (20) years from and after the effective date of this Franchise, for the purposes described below; over, under or upon those certain public streets, ways, alleys or places in the unincorporated areas of the County of Santa Barbara:

(1) Purpose: The purpose of the Franchise is to operate and maintain certain in-place pipelines for the transportation of oil, gas, gasoline, petroleum, wet gas, hydrocarbon substances, water, produced water, steam and other substances transportable by pipelines within County right-of-way in the unincorporated area of the County of Santa Barbara shown on Exhibit "A", attached hereto and incorporated herein by reference. Grantee shall operate and maintain its pipelines subject to all requirements of any permits required by County, or any government entity with jurisdiction. This Franchise is granted only for the purposes set forth in this Franchise. Any modification or expansion of the purpose of the Franchise shall be subject to separate County approval and reevaluation of the terms of this Franchise, by and through the County's Board of Supervisors.

(2) Franchise Area: The Franchise Area shall consist of the public right-of-way within the unincorporated areas of the County of Santa Barbara depicted in Exhibit A. In the event Grantee desires to add, expand or alter the alignment of the facilities described in this Franchise, Grantee shall submit plans and specifications to County at the address shown in Section 18 of this Franchise, detailing any such addition, expansion or alteration. The County's Board of Supervisors shall have the sole and absolute discretion, following a public hearing, to approve or deny any addition, expansion or alteration of the facilities described in this Franchise which exceeds a ten percent increase in the total lineal footage or volume of the pipeline system within the Franchise Area, or which involves any addition or expansion beyond the Franchise Area.

The terms and conditions of the Franchise are as follows:

**SECTION 1. SCOPE OF FRANCHISE.** This Franchise shall only apply to the Franchise Area depicted on Exhibit A, and shall be limited to the facilities identified therein, as may be amended by the County's Board of Supervisors. The facilities to be operated under this Franchise shall be maintained in a good and workmanlike manner and of good material, as set forth in Section 4 of this Franchise. The work of operating and maintaining the pipeline system shall at all times during the term of this Franchise, in all respects comply with present and future rules, regulations and ordinances of such Federal, State and County authorities as may have jurisdiction over the system, including the permit requirements set forth in Section 3, below. The County reserves all regulatory power by law allowed to it over and with reference

to the franchise rights granted and the exercise of rights, powers, or privileges under the same by the Grantee, its successors or assigns.

Grantee shall, immediately upon disturbing or altering any public right-of-way, shall at its own cost and expense place all public roads disturbed or altered in as good order and condition as the road was in prior to being disturbed or excavated for the purpose of using or maintaining any pipelines or appurtenances, including communication circuits.

Grantee shall relocate, without expense to County, any pipelines or appurtenances, including communication circuits, maintained or used under this Franchise, if and when made necessary by any lawful change of grade, alignment or width of any public roads by County.

Grantee shall not permit any facilities authorized herein to be used by any third parties for the benefit of such third party, without the prior written consent of County. For purposes of this Franchise, "third party" shall be any person or organization of any type, which does not have a bona fide business relationship with Grantee apart from the rights which are the subject of this Franchise.

This Franchise shall be non-exclusive.

**SECTION 2. ACCEPTANCE.** This Franchise is accepted as binding on the parties when the Franchise is awarded by the County's Board of Supervisors and accepted by the Grantee.

Grantee shall within thirty (30) days after the passage of the Resolution granting the Franchise, file with the Clerk of the Board written acceptance of the terms and conditions of this Franchise. Should Grantee fail to file written acceptance within thirty (30) days, any Franchise rights or privileges shall automatically terminate.

**SECTION 3. PERMIT.** The Grantee may, subject to such regulations as are now or hereafter may be in force, make excavations in and place obstructions upon County roads within the area covered by this Franchise for the purpose of maintaining, operating, and removing any Franchise facility or property. Except in the event of an emergency, no excavation in or obstruction of any County road may be made unless and until a Road Encroachment Permit therefor is obtained from the County, in accordance with, and if required by, the provisions of Chapter 28 of the Santa Barbara County Code, and any amendments and successors thereto. In the event of an emergency, the Grantee shall promptly notify the County of the incident and file an application for a Road Encroachment Permit within one (1) business day of such notification. In addition, Grantee shall at all times comply with all applicable Federal, State and local rules, restrictions and procedures related to construction, safety and environmental issues as may be in effect upon the granting of the Franchise, or which may become effective during the term of the Franchise, including any amendments or replacements thereof.

**SECTION 4. MAINTENANCE OF PIPELINES AND APPURTENANCES.** For purposes of this Franchise, maintenance shall be defined as those acts deemed appropriate to ensure the continued integrity of the facilities, including repair and replacement of existing pipelines and appurtenances, or any authorized addition, alteration, or expansion thereof, and shall not include any expansion of the Franchise Area set forth in Exhibit A without the express approval of the County's Board of Supervisors. Grantee represents and warrants that, prior to the granting of this Franchise, Grantee has inspected, repaired and replaced all pipelines and appurtenances to the extent required to ensure compliance with all Federal, State and County requirements applicable thereto. All facilities covered by this Franchise shall be maintained in good working order in such a manner as to ensure the continued integrity of the pipeline facilities.

**SECTION 5. ASSIGNMENT.** The Grantee shall not transfer or assign this Franchise, or any of the rights or privileges granted by this Franchise, except with the written consent of the County's Board of

Supervisors. A mere change of name or of the nature of the Grantee entity without more than fifty percent (50%) change in ownership of Grantee shall not require such consent, but a merger with another entity, or a change of ownership of Grantee or its stock in excess of fifty percent (50%) shall require such consent of the County's Board of Supervisors. Before the County's Board of Supervisors will consider consenting to such transfer or assignment, the proposed assignee shall submit a financial statement of its assets and liabilities and a statement of experience and qualifications. No consent shall be effective until the proposed assignee files with the County's Board of Supervisors its bond of the type and in the amount required by this Franchise, if such bond is required.

The Grantee shall, within thirty (30) days after any sale, transfer, assignment or lease of the Franchise or any part thereof, or of any of the rights or privileges granted thereby, provide the County with written evidence of such transaction.

**SECTION 6. FRANCHISE FEES.** Grantee and its successors and assigns, shall during the term of this Franchise, and for so long as Grantee has facilities, equipment or appurtenances occupying County right-of-way, pay to the County of Santa Barbara, in lawful money of the United States, Franchise fees as follows:

Annual Franchise fees shall be calculated based on the total lineal feet of County right-of-way occupied by Grantee's facilities or appurtenances maintained pursuant to this Franchise at a rate of three dollars (\$3.00) per lineal foot, except the idle produced water pipeline that was the subject of the original franchise granted to Texaco, Inc., in 1970, pursuant to Ordinance 2071. County recognizes that the idle produced water pipeline has been sealed in appropriate locations to render it safe until it is returned to service, removed or permanently abandoned pursuant to express authorization by the Board of Supervisors. Until such time as that idle produced water pipeline has been returned to service, removed or abandoned pursuant to such authorization, Grantee shall pay annual Franchise fees in the amount of TWO THOUSAND EIGHT HUNDRED NINETY-NINE DOLLARS AND THIRTY-SEVEN CENTS (\$2,899.37) for that idle produced water pipeline. In the event the idle produced water pipeline is returned to service, Grantee shall pay the same rate for that pipeline as is applied to all other active pipelines. In the event that the idle produced water pipeline is removed or abandoned pursuant to express authorization by the Board of Supervisors, no annual Franchise fees shall apply to that pipeline after the County Planning and Development Department confirms that the pipeline has been removed or abandoned in accordance with any and all required permits.

Concurrently with the annual payment of Franchise fees, Grantee shall file a statement with the County at the address set forth in Section 18, verified by oath of the manager or other responsible officer of Grantee, showing the actual lineal footage of any and all of Grantee's facilities then occupying County right-of-way within the Franchise Area.

The annual Franchise fees shall be adjusted every five (5) years according to the Consumer Price Index as follows:

(a) The applicable base rate shall be multiplied by the proportional increase in the United States Department of Labor's Consumer Price Index for All Urban Consumers (CPI-U) for the selected local area of Los Angeles-Riverside-Orange County, CA, from September of the year five (5) years prior to September of the current year. Under no circumstances shall the multiplying factor be less than one.

(b) If the United States Department of Labor, Office of Information discontinues the preparation or publication of a Consumer Price Index for the area, and if no translation table prepared by the Department of Labor is available so as to make those statistics which



are then available applicable to the index of June 30, 1989, the municipality shall prescribe a rate of payment which shall, in its judgment, vary from the rates specified in this section in approximate proportion as commodity consumer prices then current vary from commodity consumer prices current in December 1988. On this point, the determination by the County shall be final and conclusive.

The Franchise fees shall be paid in advance on or before the effective date of this Franchise, as determined according to Section 13, EFFECTIVE DATE OF FRANCHISE, and, thereafter, annually, in advance, on or before each anniversary of the effective date of this Franchise during the term of this Franchise, or for so long as Grantee has facilities, equipment or appurtenances occupying County right-of-way. Franchise fees shall be paid for all facilities or appurtenances not removed or abandoned in place in accordance with Section 16 hereof. If such payment is not received by the County at the address set forth in Section 18 hereof within fifteen days of the date on which payment is due, the Grantee shall pay, without any requirement of notice by County, a one-time late charge equal to 10% of such overdue amount.

The County's Board of Supervisors hereby reserves the right to review the measure or amount of Franchise fees required herein at the end of each five-year period of the Franchise, and also separately reserves the right to change the Franchise fees required herein to conform to a uniform fee schedule for all private franchises, should such schedule hereafter be adopted. If the Board of Supervisors desires to change the measure or amount of Franchise fees, a hearing shall be provided, and Grantee shall be given a ten-day notice of the hearing and shall be provided with a copy of the proposed change in fees. In the event that such increases should occur, County shall provide Grantee with ninety (90) days written notice of any increase prior to its application to this Franchise.

Upon commencement of this Franchise, the annual Franchise fees are THIRTEEN THOUSAND THREE HUNDRED SEVENTY-FIVE DOLLARS AND THIRTY-FOUR CENTS (\$13,375.34).

#### SECTION 7. VERIFIED STATEMENT.

Concurrently with the annual payment of Franchise fees, Grantee shall file a statement with the County, verified by oath of the manager or other responsible officer of Grantee, showing the actual lineal footage of any and all of Grantee's facilities occupying County right-of-way. A current statement is attached hereto and incorporated herein as Exhibit "B".

Notwithstanding the above, any neglect, omission or refusal by Grantee to file such verified statement or to pay Franchise fees at the times or in the manner herein provided shall be adequate grounds upon which the County Board of Supervisors may, by resolution, declare this Franchise and all rights of the Grantee hereunder terminated.

SECTION 8. BOND. The grant of this Franchise is effective only upon the further condition that the Grantee shall file within five business days of the Grantee's filing its written acceptance of the Franchise, and at all times during the life of the Franchise, keep on file with the County, a bond running to the County of Santa Barbara and to any successor to any of the rights of the County of Santa Barbara under the terms of this Franchise in a penal sum of FIVE HUNDRED THOUSAND AND 00/100 DOLLARS (\$500,000.00), with sureties to be approved by the County. The Bond shall be conditioned upon the Grantee well and truly observing, fulfilling and performing each and every term and condition of the Franchise, including Section 16 herein. In case of any failure by the Grantee to perform any term or condition of the Franchise, or in case of any breach of any term or condition of the Franchise by the Grantee, the entire bond shall be recoverable, and the principal and surety shall be jointly and severally liable for such performance or for any damage, expense, loss or injury directly or indirectly suffered

therefrom by the County of Santa Barbara. This bond shall not be deemed to be the bond required by Sec. 28-7 of the Santa Barbara County Code.

No bond shall be deemed adequate unless it is valid for the entire term of the Franchise plus one year, and specifically applies to Grantee's obligation to remove all pipelines and appurtenances from the Franchise Area in accordance with Section 16 hereof. For purposes of this Section and Section 6, the term of the Franchise shall not expire until Grantee has removed all pipelines and appurtenances from County right-of-way in accordance with Section 16. All bonds shall contain provisions that the bond shall remain valid until at least thirty days after written notification by the surety to the County that the bond is about to be cancelled, expire or not be renewed.

Nothing herein shall insulate Grantee from liability in excess of the amount of the bond or shall be construed as a waiver by the County of any legal remedy against the Grantee for any breach of the terms and conditions of this Franchise, or for any damage, loss or injury suffered by the County of Santa Barbara in Grantee's exercise of this Franchise.

**SECTION 9. FORFEITURE.** Any failure or refusal of the Grantee to comply with any term or condition of this Franchise or of the bond shall be adequate ground for a termination hereof and the County Board of Supervisors may thereupon declare by resolution an automatic forfeiture of this franchise and may exclude the Grantee from further occupancy or use of all County property authorized under this Franchise. A termination shall not of itself operate to release the bond required in Section 8 herein. Upon declaring the Franchise terminated, the County may elect to take and accept the bond as liquidated damages therefor or to pursue any other legal remedy for any damage, loss or injury.

After forfeiture of the Franchise, the bond shall remain in full force and effect for a period of one year unless exonerated by the County. No bond shall be exonerated unless a release is obtained from the County Public Works Director, or designee, from the County Auditor-Controller, or designee, and by approval of the County Board of Supervisors. The release shall state whether all excavations have been backfilled, all obstructions removed, and whether the substratum or surface of County roads occupied or used have been placed in a good and serviceable condition. The release shall not constitute a waiver of any right or remedy which the County may have against the Grantee or any other person for any damage, loss or injury suffered by the County as a result of any work or activity performed by the Grantee in the exercise of this Franchise.

**SECTION 10. PAYMENT OF TAXES.** If, at any time during the life of this Franchise, the holder becomes delinquent in the payment of any taxes or fees to the County of Santa Barbara or to any special district operating within the County, this Franchise may be forfeited by resolution of the County's Board of Supervisors. Taxes shall not be deemed delinquent hereunder, even though unpaid when due, if Grantee has notified County that it contests the validity or legality of all or part of such taxes and Grantee thereafter diligently pursues a determination of such validity or legality.

**SECTION 11. TITLE TO PROPERTY.** Title to all real or personal property placed above, on, imbedded in or buried under the substratum or surface of County property by the Grantee in exercise of this Franchise shall remain in the Grantee.

**SECTION 12. RIGHT LIMITED TO PUBLIC EASEMENTS.** This Franchise shall confer upon the Grantee only the right or privilege to enter upon the public easement or fee interest in County roads and shall not be construed to authorize any invasion of property rights of abutting owners.

SECTION 13. EFFECTIVE DATE OF FRANCHISE. This Franchise shall commence and become effective upon satisfaction of all of the following: passage of the resolution granting this Franchise by the County Board of Supervisors, Grantee's filing of written acceptance of the terms and conditions of this Franchise with the Clerk of the Board in accordance with Section 2 herein, submission of the bond required by Section 8 herein, and Grantee's submission of proof of the insurance requirements referenced in Section 17 herein.

SECTION 14. CHANGE IN STATUS OF PUBLIC AREA. If any of the area covered by this Franchise is included in an incorporated city, the city shall as to that area succeed to all rights of the County under this Franchise.

SECTION 15. RELOCATION OF FRANCHISE FACILITIES. If and when made necessary by any lawful change of grade, alignment, or width of any public street, way, alley, or place by the County, Grantee shall remove or relocate any facilities installed, used, and maintained under this Franchise, without expense to the County.

SECTION 16. REMOVAL OF FACILITIES. Prior to termination or expiration of this Franchise and, provided the Grantee has not filed an application with the County to renew or replace such Franchise, the County Board of Supervisors may require the Grantee to remove, without expense to the County, all pipelines and appurtenances maintained in County roads pursuant to the term of this Franchise. If such removal is not completed prior to expiration or termination of this Franchise or any additional period granted by the County Board of Supervisors, then the County Board of Supervisors may provide for the removal or any part thereof and Grantee agrees to pay for the costs of such removal. County may use the proceeds of the Bond required by Section 8 for any costs incurred by County for the removal of the facilities.

Notwithstanding anything contained herein, the County Board of Supervisors may by resolution authorize the Grantee to abandon in place any line, pole or other facility, which Grantee has installed and maintained in exercise of its rights under the terms of this Franchise. The request of the Grantee to abandon in place any facility shall be deemed an offer of transfer of such facilities to the County and by resolution authorizing Grantee to abandon any facility in place the County shall succeed to all right, title and interest of Grantee to the facilities.

SECTION 17. INDEMNIFICATION and INSURANCE. Grantee hereby agrees to the indemnification provisions set forth in Exhibit "C", attached hereto and incorporated herein by reference, and shall procure and maintain insurance in an amount and type approved by the County's Risk Manager. This insurance requirement shall be subject to periodic review by County and may be revised from time to time to include additional types of coverage and limits.

Upon the granting of this Franchise, grantee shall comply with the insurance requirements set forth in Exhibit C.

SECTION 18. NOTICES. All notices, demands, approvals, consents, or other communications required or desired to be given under this Ordinance shall be mailed, delivered or transmitted to the party involved at the address indicated below:

Grantee:           ERG Operating Company, LLC  
                      Attn: Environmental Safety and Regulatory Technician  
                      6085 Cat Canyon Road

Santa Maria CA 93454  
Phone: (805) 361-7110  
Fax: (805) 937-7217

County: County of Santa Barbara  
General Services Department  
Real Property Division  
1105 Santa Barbara Street  
Santa Barbara, CA 93101  
Phone: (805) 568-3070  
Fax: (805) 568-3249

Each such notice, demand, approval, consent, or other communication shall be deemed effective and given (i) upon receipt, if personally delivered, (ii) upon being transmitted, if sent by telegram, telex or telecopy, if a copy of the notice is also sent by United states Certified Mail and provided receipt is confirmed by a transmission report or otherwise, (iii) two (2) business days after deposit in the United States mail in Los Angeles or Santa Barbara Counties, certified and postage prepaid, properly addressed to the party to be served or (iv) upon receipt if sent in any other way. Any party hereto may from time to time, by written notice to the other, designate a different address than that set forth above for the purposes of notice, provided, however, that no notice of a change of address shall be effective until actual receipt of the notice.

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