

California Field Report

California continues to be the battleground for the anti-fracking movement across the country. On February 28, the Los Angeles City Council voted unanimously to ban hydraulic fracturing, acidizing, gravel packing and other well stimulation techniques until the council decides that state and federal regulations adequately protect the city's residents from the alleged risks associated with these methods. The Council's motion would affect "companies conducting hydraulic fracturing within the City or in areas providing drinking water to the City," requiring them to "mitigate the effects on climate change, protect environmental quality and natural resources, [and] promote community awareness." It would allow government access to and testing of chemicals used in well stimulation, regulate wastewater disposal, and require disclosure and testing of treated wells. When the moratorium is enacted, Los Angeles would become the largest city in the nation to ban hydraulic fracturing.

Prompted by concerns over hydraulic fracturing, the City of Carson on March 19 imposed a 45-day ban on all oil drilling activity. The emergency moratorium could be extended for up to two years. It effectively blocks plans by Occidental Petroleum to drill more than 200 wells in the community, which is south of Los Angeles and adjacent to Long Beach.

On March 17, the City of Los Angeles was woken up by a 4.1 magnitude earthquake. In another example of the craziness surrounding the anti-fracking hysteria, two Los Angeles City Council members called on city staff to investigate whether natural gas and oil drilling methods, such as fracking, helped trigger the earthquake. The motion would direct city staff members from the city to work with the California Division of Oil, Gas and Geotherman Resources (DOGGR), the U.S. Geological Survey and the South Coast Air Quality Management District in order to produce a report a report looking into whether a link may exist between fracking and the temblor. The "Shamrock Shake", so dubbed by some because it occurred at 6:25 a.m. on St. Patrick's Day, is being called the strongest to "hit directly under the Santa Monica Mountains in the 18 years since seismic record-keeping began in the area," according to some seismologists. (***You can't make this stuff up. Part I. MF***)

At the California Democratic Convention early this year, delegates approved a platform amendment calling for "an immediate moratorium on fracking, acidizing and other forms of oil/gas well stimulation." Also on the state platform, an amendment was approved for the legalization of marijuana. "I supported it [marijuana legalization] because hopefully it will stop Hispanic and black kids

from being put in jail for minute quantities of marijuana,” said the 82-year-old retired nurse. ***(You can't make this stuff up. Part II. MF)***

In what could be a groundbreaking legislation, AB 2420, authored by Assemblyman Adrin Nazarian, seeks to provide municipalities with the authority to pass and enforce ordinances prohibiting well stimulation treatments. Assemblyman Nazarian's measure seeks empowerment of local government in order to protect constituents from potential health effects; despite the fact that SB 4 is clear on its requirement to protect public safety and the environment, including an independent study and statewide EIR of well stimulation treatments to be completed by January 1, 2015. Currently, there is a strong trend for local municipalities, (as evidenced for the action of the Los Angeles City Council), to create ordinances that overrides state mandated statutes, therefore this bill bears close monitoring.

The first of what may be several hydraulic fracturing moratorium bills was introduced by Senator Holly Mitchell (D - Los Angeles), who in last year's legislative session introduced a ban of hydraulic fracturing bill that failed, has introduced a similar bill in this year's session. This bill would require the current mandated EIR to consider additional elements, including, among other things, evaluating various potential direct, indirect, and cumulative health and environmental effects of onshore and offshore well stimulation and well stimulation treatment-related activities, as specified. The bill would also prohibit all well stimulation treatments until the Secretary of the Natural Resources Agency convenes a committee to review the scientific study, as specified, the Governor issues findings that specific measures are in place to ensure that well stimulation treatments do not pose a risk to, or impairment of, the public health and welfare or to the environmental and economic sustainability of the state, and, if applicable, those findings are affirmed by judicial review, as specified. The bill would also require the division to adopt a formal process to resolve any claims with respect to vested rights, as specified.

Senator Noreen Evans (D -Santa Rosa) introduced SB 1017, a 9.5% oil Severance Tax. Senator Evans introduced a similar bill last year, which went down in defeat. Proposals for higher oil taxes have been tried in each of the last 10 years both in the legislature and on local and statewide ballots. The bill contains the following provisions: 9.5% tax on oil and 3.5% on natural gas. The senator estimates will tax will generate about \$2 billion annually at \$100 price per barrel. California currently charges a per barrel tax on all barrels that are held in the ground as reserves called the Ad Valorem property tax. Coupled with California's high corporate, personal, and sales tax, each barrel of oil produced in California is taxed at about the same level as most oil producing states.

Instead of the Ad Valorem, some states, but not all, have a severance tax that taxes each barrel of oil as it is produced rather than while it's in the ground. With a 9.5% severance tax, California would pay double what Texas charges on a per barrel basis.

The California Division of Oil, Gas and Geothermal Resources (DOGGR) has announced the appointment of the Bakersfield District Deputy position for District 4 which has been vacant since late last year. Effective February 15, 2014, Dan Wermiel, the Division's Technical Program Manager, will be laterally reassigned to the District Deputy position. Mr. Wermiel will be transferred from the Sacramento office. Dan will report to the Bakersfield office on May 1, 2014.

District 4 produces 71 percent of the state's oil and 33 percent of its natural gas.

The Environmental Protection Agency has released guidelines for the use of diesel fuel in hydraulic fracturing operations. According to the EPA, the guidance will inform how the agency writes permits aimed at protecting underground stores of drinking water under the Safe Drinking Water Act. The law requires that any driller using diesel fuel to HF a well must obtain a permit from the agency.

Occidental Petroleum Corporation (NYSE:OXY) has announced that it will separate its California operations into an independent, separately traded company. The new California company, whose name was not announced, will have 8,000 employees and contractors and will establish its headquarters in the state. Occidental said the new company will be California's largest natural gas producer and the state's largest oil and gas producer on a gross-operated barrels of oil equivalent basis. It will be the largest holder of oil and gas mineral acreage in the state, with approximately 2.3 million acres and major operations in Los Angeles, San Joaquin, Ventura and Sacramento.

There is little change in landman activity, landman jobs rates varying from \$350 to \$500 per day with in-house CPL's earning an additional \$75 to \$100 per day.

California crude oil prices for March 20, Buena Vista's average price was \$102.59 with Midway Sunset average price at \$99.60 with BV selling \$4.73 more the WTI and MS selling \$0.77 more than WTI based on the December monthly average.

California Independent Petroleum Association's (CIPA) Annual Meeting date and location has been announced. The meeting will be held on June 5 – 8 at the Resort at Squaw Creek in Olympic Valley, CA. For more information, please go to the CIPA website, www.cipa.org

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