



Contra Costa County
Flood Control
& Water Conservation District

Julia R. Bueren,
ex officio Chief Engineer
Steve Kowalewski,
Deputy Chief Engineer

February 5, 2015

Mr. Juan Pablo Galvan
Save Mount Diablo
1901 Olympic Boulevard #320
Walnut Creek, CA 94596

RE: Response to Comments
Our File: Upper Sand Creek Basin Subsurface Oil and Gas Lease

Dear Mr. Galvan:

This responds to Save Mount Diablo's three comment letters dated December 2, 2014; December 19, 2014; and January 27, 2014. Your letters express concerns with the proposed subsurface oil and gas lease between the Contra Costa County Flood Control and Water Conservation District (the "District") and Sunset Exploration, Inc. ("Sunset").

The action scheduled to go before the Board of Supervisors is the proposed lease agreement between Sunset and the District for the Flood Control District's Upper Sand Creek Basin property. This property is approximately 36 acres of land located in the City of Antioch. This property is located within a larger area commonly known as the Brentwood Oil Field. Sunset has informed District staff that it already possesses rights to tap into the Brentwood Oil Field at various locations through several other lease agreements with surrounding land owners and through previously issued permits that allow drilling.

The rights granted to Sunset under the proposed lease are stated in Section 1 and Section 3 of the lease. Under Section 1, the District leases to Sunset the right to extract oil and gas and their constituent products from beneath the District's property. The rights granted under the lease are subsurface rights only. Under Section 3, Sunset may only drill and take oil and gas from any geological zone that is at least 500 feet below the surface of the land. Sunset may not use any portion of the leased land that is less than 500 feet below the surface of the land. As stated in the lease recital, Sunset will extract oil and gas through a well that is not located on District property. Because the lease only authorizes limited subsurface directional drilling rights at least 500 feet below the surface, and it is not a permit to actually conduct drilling, County staff has concluded that the lease is exempt from CEQA under CEQA Guidelines Section

15061(b)(3). Staff has concluded that it can be seen with certainty that there is no possibility that the lease may have a significant effect on the environment.

Your letters express concern about various lease provisions and suggest that these provisions require an analysis of potential impacts. However, the sections referenced in your letters do not authorize any activity beyond the rights granted to Sunset in Section 1 and Section 3 of the lease.

Your first concern is with Section 3 of the lease and its reference to a pipeline. Under Section 3, if Sunset has installed a pipeline, or will install a pipeline, then Sunset must provide a drawing of the pipeline to the District. However, Section 3 does not authorize any pipeline above the ground. Since the lease is a limited subsurface directional drilling lease and does not provide any authorization to drill, there will be no pipeline that would have surface impacts as a result of the lease.

Your next concern is with Section 14 of the lease, which refers to "pooling." In general, pooling is the combination of all or portions of multiple oil and gas leases to form a unit for the drilling of a single well. Section 14 specifies how royalty payments to the District will be calculated if a pooled unit is created under other leases Sunset already holds. Additional payment provisions are contained in Section 6 and Section 7 of the lease.

Your next concern is with Section 21(b) of the lease, which requires Sunset to remove any hazardous materials if they are released during drilling and to pay for all costs associated with their removal. This section specifies Sunset's responsibilities in the event of a release of hazardous materials, and is intended to protect the District in case something goes wrong if subsurface drilling actually occurs under the lease.

Your next concern is with Section 23(b) of the lease, which authorizes the District to temporarily suspend production under a variety of circumstances. This is another lease provision that is intended to protect the District in the event of various remote circumstances.

Your next concern is with Section 25(a), which requires Sunset to restore the land to the condition it was at the beginning of the lease, including any remediation required to

avoid or eliminate subsidence. This is a provision that is intended to protect the District when the lease ends.

Your final concern is with Section 30 of the lease, which requires Sunset to minimize any noise levels associated with its operations on any drill site used to develop the pooled unit. This must be read in conjunction with Section 32 of the lease, which requires Sunset to comply with all applicable laws, regulations, and ordinances. These laws, regulations, and ordinances would be those of the agency that has jurisdiction over Sunset's surface operations.

In short, the lease is a real estate transaction that only authorizes limited subsurface directional drilling rights 500 feet or more below the surface and is not an authorization to actually drill. Because the lease provides no land use authorizations, no physical impacts will occur as a result of the lease.

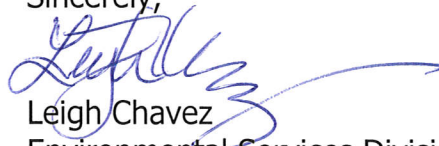
Your December 19, 2014 letter also expressed concern that approval of the lease could be "piecemealing" of a larger project. "Piecemealing" occurs when an agency splits a larger project into two or more segments. The lease is not part of a larger District project. As noted above, the District's property is located within a larger area commonly known as the Brentwood Oil Field. Sunset has informed District staff that it already possesses rights to tap into the Brentwood Oil Field at various locations, through several other lease agreements with surrounding land owners and through previously issued permits that allow drilling. The lease is the only transaction proposed between the District and Sunset. It only authorizes directional drilling rights 500 feet or more below the surface. It does not authorize Sunset to drill any wells on any District property. Any products extracted from beneath the surface under this lease would be from a well not located on District property. A well that is not located on District property is not within the jurisdiction of the District to regulate. Section 19 of the lease requires Sunset to obtain any permits required in connection with its use of the District's subsurface property, and to pay the cost of any CEQA review that may be required in connection with those permits.

Finally, you requested a summary of existing permits and CEQA review that has been completed. Attached are materials associated with a City of Antioch approval from

2013. These materials include Use Permit No. 13-01 issued by the City, a City staff report, a City Zoning Administrator resolution, and a Mitigated Negative Declaration.

If you have any questions, please call me at (925) 313-2366 or email me at lchav@pw.cccounty.us. Thank you!

Sincerely,

A handwritten signature in blue ink, appearing to read "Leigh Chavez", with a long horizontal flourish extending to the right.

Leigh Chavez
Environmental Services Division Manager

LC:tr

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c: J. Kopchik, DCD
J. Bueren, Administration
S. Kowalewski, Administration
D. Kramer, Real Estate