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May 1, 2019

VIA ELECTRONIC MAIL & U.S. MAIL

Craig A. Steele
Richards Watson Gershon
355 South Grand Avenue
40th Floor
Los Angeles, CA 90071

Re: City of Seal Beach - California Resources Corporation

Dear Mr. Steele:

This letter is in response to your letter to me, dated April 19, 2019. I appreciate finally hearing from you in your capacity as Seal Beach's City Attorney regarding this matter.

First, please do not ascribe my decision here to correct only certain statements or positions that you have made in your April 19th correspondence as my acquiescence in, or agreement with, any other portion of your letter not specifically addressed herein.

The State Exemption Clearly Applies to CRC's Wells Extracting from PRC 186

Seal Beach Municipal Code Section 5.55.050 states, in relevant part:

...Nor shall the provisions of this chapter [the business license tax] apply to drilling and production of oil where **wells** are located and bottomed on state owned tide and submerged lands."

[Emphasis added.] The Ordinance at Section 5.55.010 defines the term, "Oil Well," as:

Any well or hole already drilled, being drilled, or to be drilled from the surface into the earth, which well or hole is used or intended to be used in connection with the drilling for, prospecting for, or production of oil, natural gas, or other hydrocarbon substances.

It should be noted that other sections of the ordinance specifically make reference to the situation where the "**well head** is not located in the city." *See e.g.*, Seal Beach Municipal Code Section 5.55.015(B) [emphasis added]. By using the different and varying terms, "well" and "well head," it can and should be assumed that the two terms have different meanings. Indeed, courts

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have held that the use of “two different terms in two sentences of otherwise parallel construction in one subdivision signals that different meanings were intended.” *Jones v. Sorenson* (2018) 25 Cal.App.5th 933, 944-45.

In other words, the actual wells – and all of their producing intervals – are located on state owned tidelands. This is an undisputable fact, which rightfully the City’s Municipal Code supports in its definition of “Oil Well.” Additionally, California State Oil and Gas Lease PRC 186, under which my client is operating is entirely within state-owned tide and submerged lands.

In addition, Section 5.55.015 (License Tax) divides the applicable tax into “In-City Production” and “Out-City Production”. For “In-City Production” “A well is located in the city if the surface location of the well, the surface of the well itself, or if any portion of the wellhead is located in the city...” As you outlined in your last letter, the wells extracting oil from PRC 186 do not have a surface location or wellhead in the city.

Turning to the “Out-City Production” tax, it applies to “any well or wells where such well, or any portion of such well passes through or is bottomed **under any real property** in the city and where portions of such well are located in one or more other jurisdictions and where such well head is not located in the city.” As you know, the wells extracting oil from PRC 186 do not pass through and are not bottomed “**under any real property** in the city.”

If the City wanted the tax to apply to the wells extracting oil from PRC 186 they would not have drafted the clear state exemption and in the License Tax section they would have simply required such wells to “pass through or be bottomed within city limits” not “under any real property in the city.”

Therefore, the language of the Ordinance by its very terms does not apply to CRC’s wells in PRC 186.

Even if the State Exemption Did Not Apply, The Math is Extraordinarily Incorrect

Moreover, even if the clearly worded state exemption did not apply due to some tortured reading of the language, the math supporting Mr. Kirste’s claim bears no relation to the actual \$0.01 per quarter per barrel tax outlined in Section 5.55.015(B) (Out-City Production), instead applying a fee of \$0.7269 per barrel tax plus a similar penalty, all with no explanation as to why the tax clearly outlined in the City’s code is just ignored.

Finally, the relevant statute of limitations would preclude the City from going back more than four years to collect any business licenses taxes, if any were, *arguendo*, owed under these circumstances. *See* Cal. Code Civ. Proc. § 321; Cal. Gov’t Code § 37101(a). The location of

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CRC's wells, their wellheads, and their production data are all matters of public record and can be accessed by anyone online at the California Department of Conservation, Division of Oil, Gas & Geothermal Resources' website. Mr. Kirste had a prior consulting agreement with the City of Seal Beach when all of this information was publicly available online.

I look forward to continuing to work with you to amicably resolve this matter.

Very truly yours,



Michael N. Mills

cc: Adam Smith, Esq. (CRC)