



City of Culver City

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Staff Report

File #: 23-400, **Version:** 1

Item #: A-3.

CC - ACTION ITEM: (1) Report on Discussions Between the City and Sentinel Peak Resources Related to the Oil Termination Ordinance, Status of the Tolling Agreement and Implementation of the Ordinance; and (2) Approval of a Proposed Settlement Framework with Sentinel Peak Resources Related to the City's Oil Termination Ordinance.

Contact Person/Dept: Heather Baker, City Attorney;
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Fiscal Impact: Yes No

General Fund: Yes No

Attachments: Yes No

Commission Action Required: Yes No

Public Notification: (E-Mail) Meetings and Agendas - City Council (11/09/2022); Culver City News and Events (11/04/2022), Stay Informed - Inglewood Oil Field (11/04/2022); Stay Informed - Sustainability and Environmental Issues (11/04/2022), Sentinel Peak Resources (11/04/2022); and (Mail) Inglewood Oil Field Property Owners (11/09/2022).

Department Approval: Heather Baker, City Attorney (11/09/2022)

RECOMMENDATION

Staff recommends the City Council (1) receive a report on discussions between the City and Sentinel Peak Resources ("Sentinel") related to the Oil Termination Ordinance ("Ordinance"), status of the tolling agreement and implementation of the Ordinance; and (2) approve a proposed settlement framework with Sentinel related to the Ordinance.

BACKGROUND

On October 25, 2021, the City Council adopted the Ordinance, by a 3-1 vote with one abstention, which effective as of November 24, 2021, prohibits the drilling of any new or redrilling of any existing oil wells and further requires the phasing out, plugging and abandonment of all existing oil and gas

wells and restoration of affected areas by no later than November 24, 2026. The Ordinance applies city-wide, including within the Culver City portion of the Inglewood Oil Field (the “City IOF”).

In late November 2021, following adoption of the Ordinance, the City entered into an initial 90-day tolling agreement and accompanying confidentiality agreement with the operator of the City IOF, Sentinel, to enable City decision-makers and Sentinel to engage in a dialogue to explore options with respect to the Ordinance that are mutually agreeable to both parties in an effort to avoid litigation. The tolling agreement tolls (i.e., extends) the deadline that Sentinel has to file legal claims against the City in return for allowing a reasonable time period to accommodate discussions between the parties as to settlement of potential claims. As discussions between the City and Sentinel were considered productive, the tolling agreement has been periodically extended, currently through November 15, 2022.

Details of discussions between the City and Sentinel remain confidential per the terms of a confidentiality agreement that was established in conjunction with the tolling agreement. However, in light of substantial progress made between the parties during the tolling period, the Oil Drilling Subcommittee (Mayor Lee and Council Member Fisch) and City staff are authorized to bring forward to the full City Council and the public a report on the progress of discussions and a proposed framework for a potential negotiated settlement (see Discussion below).

As of November 9, 2022, a total of 40 active or potentially active wells are reported by the California Department of Conservation Geologic Energy Management Division (“CalGEM”), the California agency with oversight over oil and gas operations, to be located within the City IOF. This total number of wells reflects that one well was plugged and abandoned during 2021. In its 2022 Annual Drilling, Re-drilling, Well Abandonment, and Well Pad Restoration Plan for the Inglewood Oil Field, Sentinel announced that two additional wells within the City IOF would be plugged and abandoned during 2022. However, the 2022 well closures have not occurred as of this date and thus the current count is confirmed at 40 wells remaining.

DISCUSSION

Discussions Between the City and Sentinel

Following discussions between the City and Sentinel that have been ongoing since late Fall 2021, both parties believe that a framework for a potential negotiated settlement has been defined. The purpose of this update is to report on that progress and seek concurrence from the City Council that the framework aligns with the City’s overall objective to terminate all nonconforming oil and gas activities as expeditiously as possible.

Under a potential settlement framework, Sentinel would agree to, and the City would accept, the following:

- ***Drilling of new wells or re-drilling or deepening of existing wells is prohibited, effective from and after the effective date of the Ordinance, November, 24, 2021.*** Consistent with the Ordinance and the tolling agreement, no new or expanded oil and gas activity, such as the drilling of new wells, re-drilling or deepening of existing wells, or the erection or installation of

any derrick, structure, facilities or equipment related to oil and gas production, excepting those existing oil and gas activities as expressly described in Section D.4 of the Ordinance or as required to facilitate termination of the nonconforming oil uses, is allowed.

- **Initial plug and abandonment of a minimum of 15 wells by December 31, 2027, at a rate of a minimum of three wells per year over the five-year period between 2023-2027.** Sentinel will plug and abandon a minimum of three wells per year between 2023 and 2027, for a minimum of 15 wells to be closed by December 31, 2027.
- **Plug and abandon all remaining wells and the closure of the City IOF by December 31, 2029.** Following the closure of a minimum of 15 wells during the first five years, Sentinel will plug and abandon any and all remaining wells within the City IOF over the next two-year period, by no later than December 31, 2029.
- **Extension may be authorized under special circumstances.** The City may extend the December 31, 2029 deadline, only in cases of specific special circumstances beyond Sentinel's control, that are unforeseen and unavoidable, and directly impact the plugging and abandonment of the remaining wells or complete restoration, but in no event shall an extension be approved beyond December 31, 2032. Such extension shall only be authorized after Sentinel's timely closure of a minimum of 15 wells by December 31, 2027.
- **General support for the transition of the overall Inglewood Oil Field to other uses.**

Further, it is anticipated that, if the Subcommittee and City staff are directed to continue the City's dialogue with Sentinel consistent with the framework outlined above, the following issues would also be carefully reviewed and incorporated into the framework of a potential settlement agreement:

- Provisions relating to restoration of well sites and the City IOF.
- Provisions for insurance and bonding requirements for the duration of the City IOF closure.
- Provisions for reimbursement of City costs to implement the City IOF closure.
- Provisions for a schedule and periodic reporting on progress and schedule.

Pending City Council approval of the proposed framework for a potential settlement agreement, as outlined above, the parties will work diligently toward completion of a tentative settlement agreement by approximately December 31, 2022.

Status of the Tolling Agreement

The tolling agreement stays the enforcement of the Ordinance in order to create an opportunity for the City and Sentinel to engage in a dialogue to explore options with respect to the Ordinance and avoid litigation. The tolling agreement has been periodically extended, currently through November 15, 2022. Pending City Council direction to proceed with discussions under the framework outlined above, it is anticipated that the tolling agreement would be further extended to approximately mid-January 2023 to allow adequate time for the parties to prepare a tentative settlement agreement. However, if it is determined that discussions deteriorate such that expectations of a final, executed settlement agreement are not imminent, the tolling agreement would be terminated, and the City

would move forward with implementing the Ordinance as adopted.

Relationship Between the Ordinance and a Potential Settlement Agreement

The Ordinance continues to be valid and applicable to all active or potentially active wells, including injection wells, throughout the City and prohibits Sentinel from drilling new wells or re-drilling or deepening existing wells. During the period that the tolling agreement remains in place, Sentinel is not obligated to submit a Termination Program and Schedule by November 24, 2022, as required by Section 17.610.010.D.2 of the Ordinance. Pending its execution, any potential settlement agreement would apply only to the City IOF.

FISCAL ANALYSIS

Continued discussion and preparation of documents related to a potential settlement agreement will require time by City staff and outside legal counsel, which has already been accounted for in the budget.

ATTACHMENTS

None.

MOTIONS

That the City Council:

1. Receive a report on discussions between the City and Sentinel Peak Resources related to the Oil Termination Ordinance, status of the tolling agreement and implementation of the Ordinance;
2. Approve the proposed settlement framework with Sentinel Peak Resources related to the City's Oil Termination Ordinance;
3. Authorize continued discussions with Sentinel Peak Resources toward completion of a tentative settlement agreement;
4. Authorize the City Attorney to review/prepare the necessary documents; and
5. Authorize the City Manager to execute such documents on behalf of the City.