



FOR IMMEDIATE RELEASE:

March 2, 2012

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City Council Successfully Negotiates Settlement in Macpherson Lawsuit

Agreement Removes Financial Threat to City; Gives Voters Choices

HERMOSA BEACH, CA—A unanimous Hermosa Beach City Council announced an agreement on Friday that resolves a 14-year legal battle between the city and Macpherson Oil Co. and avoids the potential for a financially devastating verdict in an upcoming jury trial scheduled for next month.

The agreement ends the Macpherson Oil Co. lawsuit seeking \$750 million from the city for allegedly lost oil drilling profits, limits the city's maximum exposure to a cap of \$17.5 million and submits to the voters a proposal to allow an oil drilling project that could ultimately result in no expenditure of the city's tax revenues.

"The city had attempted to settle this case many times. Today, we have succeeded, and this lawsuit is over and done with," said Mayor Howard Fishman. "The City Council unanimously voted to enter into this agreement because the risk to the city's ability to provide services to our residents and businesses was just too great.

"With stakes as high as these, even a relatively strong case has to be evaluated skeptically and with the best interests of the residents and the future generations in mind. The council members all agreed that this settlement gives the city financial certainty and ends the costly appeals and litigation that would have continued, no matter how the jury trial turned out."

Macpherson Oil Co. sued the city in 1998 over the termination of its proposed oil drilling project at the city's maintenance yard. After 14 years of litigation, the case was set for jury trial in April.

Recently, Hermosa Beach Councilmember Kit Bobko, Councilmember Michael DiVirgilio and Macpherson Oil Co. began a dialogue about an innovative new settlement with a third party, another California-based energy company, E & B Natural Resources Management Corp. Negotiations proceeded with the full and continued approval of the entire City Council.

After extensive negotiations, Macpherson Oil Co. agreed to end its lawsuit against the city and assign all rights it has secured to an oil project in Hermosa Beach to E & B Natural Resources Management Corp. E & B Natural Resources Management Corp. will pay Macpherson Oil Co. \$30 million for those rights, including Macpherson Oil Co.'s existing Conditional Use Permit and lease. E & B Natural Resources Management Corp. also will secure payment from the city up to \$17.5 million based on the results of a future election.

At that election, Hermosa Beach voters will review a ballot measure and decide if they wish to repeal the existing ban on oil drilling in the city limits and enter into a development agreement for E & B

Natural Resources Management Corp. to complete what it describes as a “state-of-the-art” oil drilling project at the city’s maintenance yard.

“E&B is pleased to enter into this agreement with the City of Hermosa Beach,” said Steve Layton, E & B Natural Resources Management Corp. president. “We believe E&B to be the perfect partner for the city in looking at this possibility, based upon our company’s strong commitment to health, safety and environmental excellence in the development of oil reserves. We look forward to the citizens of Hermosa Beach getting better acquainted with us in the coming year and have great hope that we can earn their support for this mutually beneficial relationship.”

If the voters reject the ballot measure, the city would owe E & B Natural Resources Management Corp. \$17.5 million. However, if the voters approve the ballot measure and E & B Natural Resources Management Corp. secures all the necessary permits to drill, the city would owe the company substantially less—\$3.5 million. If the project produces oil, the \$3.5 million would be paid from the city’s revenues from the project, eliminating the need for the city to expend any tax revenues for the settlement.

The city’s voters adopted an initiative in 1995 banning drilling in the city limits, which prevented Macpherson Oil Co. from going forward with its project. As part of this new settlement, E & B Natural Resources Management Corp. wants a chance to ask the voters if they want to keep that ban or allow the project. The Council agreed to put that question to the voters but only after a full environmental review.

“This settlement gives E & B Natural Resources an opportunity to make its case to the public and explain the royalties that the school district and the city could receive,” said Mayor Fishman. “City voters will have a chance to interview, ask questions, and learn more to best evaluate the proposed project so an informed decision can be made.”

Should the electorate decide to allow the project to go forward, the city would collect royalty payments on the gross sales of the oil produced by the project and would use a portion of its royalties to pay the \$3.5 million it would owe E & B Natural Resources Management Corp. under the agreement. The Hermosa Beach City School District would also collect additional revenues for the schools from the project.

The project will not go forward if it is not found to be safe. It must meet all applicable environmental standards to receive the permits it needs to operate. The City Council will conduct an environmental review of the project under the California Environmental Quality Act (CEQA), and the project must comply with CEQA before being placed on the ballot.

If the voters approve the project, it would then undergo extensive environmental and safety reviews from four different state and regional agencies, including the Coastal Commission and the State Lands Commission. Only after E & B Natural Resources Management Corp. has proven its operation is safe and meets all environmental standards would it receive its final permit from the city to drill.

“E & B’s financial assistance and willingness to place the future of that investment in the hands of Hermosa Beach voters is unprecedented and greatly appreciated,” said Mayor Fishman.

For more details, please see the “Macpherson Settlement Fact Sheet.”

About Hermosa Beach

Founded in 1907, Hermosa Beach is known as “The Best Little Beach City.” Named “Southern California’s Greenest City” for its work to protect the environment, it is a thriving community of some 20,000 residents located on the southern end of Santa Monica Bay in Los Angeles County, and its beaches have been ranked among the best in the world. To learn more, please visit www.hermosabch.org.

About E&B Natural Resources

E&B Natural Resources is a California based independent oil and gas company with a strong commitment to health, safety and environmental excellence in California and throughout the United States. The company is committed to the employment of state-of-the-art technology, with sound and proven methods to support the protection of the environment and ensure the health and safety of its employees and the communities in which it operates. More information about E&B Natural Resources and its standards can be found at www.ebresources.com.