

San Gabriel Valley Tribune

**Briefing on the city's negotiations to consider the extraction of minerals from city property**

03/12/2008

The City of Whittier has been actively researching ways in which our assets can best be utilized for the betterment of our residents. Protecting our water rights, assuring the viability of our landfill, and maximizing our economic base are all a part of this effort. We are now looking forward to see how we can continue to provide for the protection of our open space, while investigating the potential for the extraction of water, natural gas, and oil from the sub-surface formations under our hills. Recent technologies now permit the mining of these valuable assets without the damage and scarring of our property that was evident by the decades of surface abuse of our beautiful open space by the oil companies who historically operated in the Whittier Hills. This process allows for diagonal extraction of minerals through a slant drilling technology that can be accomplished by using less than half of 1% of our property to effectively mine the mineral rights the citizens of Whittier own below the surface of the hills. Over 1200 acres of minerals can be productively extracted through the use of only a few acres of facilities that can be shielded from sight and installed in a manner compatible with our sensitive Whittier ecosystems.

We have embarked on a series of discussions with Matrix Oil, the predominant exploration company currently extracting minerals in the Whittier Hills. The purpose of our negotiations has been to determine the terms and conditions that would be necessary to allow for the continued surface use of our hills for the recreational enjoyment of our residents and the protection of the abundant wildlife that now make our Whittier Hills their home, with the potential for sub-surface mineral extraction of the water, gas, and oil that lie beneath the surface.

We have instructed Matrix Oil to immediately fund a habitat study to be performed by LSA Associates to measure the current levels of animal and plant life in the hills so as to have a firm, verifiable benchmark of the health of our local ecosystem. This study will be done under the direct supervision of the Puente Hills Native Habitat Preservation Authority to assure its unbiased results. With these results in hand, it is our desire to develop an operations plan with Matrix that could then be subjected to a full Environmental Analysis by a qualified, independent expert. This expert would be hired by the City, but the costs would be fully paid by Matrix.

If, and only if, it is determined that this co-existence can be appropriately designed to meet our goals of absolute open space protection and preservation, we could then consider the minimum drilling of test facilities to evaluate the potential for the extraction of these sub-surface minerals.

As an example, the current Matrix facilities in the City of Whittier operate 20 wells on less than an acre of property. This property is screened from the neighbors and in no way resembles the oil fields that we've historically seen operated in other producing regions like Santa Fe Springs. The well facilities are underground and not visible from the street. With the industry's current technology, our minerals could be effectively mined with the same number of wells. These wells could be located in a manner so as to be undetectable to the residents of Whittier from their homes or day-to-day activities and could be compatible with the wildlife who call our hills their home.

Are we trying to sell the Whittier Hills?

No.

Have we made a deal with Matrix or any other oil company for the extraction of our mineral reserves?

No. We have actively worked with Matrix to determine what would be required to protect our hills before we are even willing to enter into a business relationship.

When you make a 'deal', how will the public know of its terms and conditions?

This is a public process and the information (environmental, feasibility test results, and financial terms) upon which a decision will be based will be disclosed to the public and the City Council for a complete review and deliberation prior to a decision.

How are the Whittier Hills benefitted from this?

Any discussions with a company about the extraction of our minerals starts with the absolute necessity for their operations to enhance not detract from the open space environment. Direct funding of additional investment in the hills and increased oversight of the hills (i.e. funding of an ecologist, ranger, or other open space management personnel to improve the hills) is a mandatory first discussion before the business of mineral extraction begins.

Why would we do this?

As everyone knows, in today's environment, all cities are challenged to provide services to their residents in a manner that doesn't require taxation above and beyond the current Prop 13 levels enacted decades ago. When the oil exploration of our hills by Chevron and Unocal was discontinued in the 1980's, they were extracting about 900 barrels of oil a day at a price of well under \$20 per barrel. They no longer believed this to be an economically viable endeavor. Now, with oil prices reaching 4 and 5 times that level, the feasibility of extracting these minerals is now possibly economically viable.

How much does it cost the residents to do this?

None of the costs of the environmental assessment of the site will be paid for by the citizens of Whittier. If, and only if, we can be assured that the process is environmentally viable, we can move towards a testing and exploration phase which will also be paid entirely by the chosen mineral extraction company. Should those phases both prove viable, the mineral extraction company will have total financial responsibility for the cost of extraction.

Can we really make money on this?

It's really premature to speculate on the magnitude of revenue that could be generated from the extraction of these minerals. No environmental assessment has been done, no testing has been done, and no agreement has been reached with a company for the extraction of these minerals. However, it is possible that even a modestly successful extraction program could generate revenues equal to multiple car dealers or big box retailers.

## Officials consider drilling for oil in Whittier Hills

By Mike Sprague, Staff Writer

San Gabriel Valley Tribune

Article Launched: 03/12/2008 11:14:04 PM PDT



### • Photo GalleryMatrix Oil Corp.'s facility

WHITTIER - With the price of oil nearing \$110 per barrel, the city has visions of striking it rich in black gold. City officials said Wednesday they are looking into the possibility of drilling for oil on city-owned land in the Whittier Hills. That land was purchased in 1995 with Los Angeles County Proposition A funds designed to preserve open space.

If - and officials emphasize that word - drilling would not harm the hills, Whittier could receive additional money, ranging from hundreds of thousands to millions of dollars every year. "We have a very promising thing for our community," Councilman Joe Vinatieri said. "We have the opportunity to cement our revenue stream, depending on how things pan out, for a couple of generations to come."

Officials are working with Matrix Oil Corp., which already has 20 oil wells on Honolulu Terrace Drive.

Santa Barbara-based Matrix will pay for a study of existing animal life and other habitat and then do a full environmental impact report, city officials said. The two environmental studies are expected to take about a year to complete. "If and only if it is determined that co-existence can be appropriately designed to meet our goals of absolute open space protection and preservation, we could then consider the minimum drilling of test facilities to evaluate the potential," City Manager Steve Helvey said. The company to be chosen - most likely Matrix - would drill some test wells to see if oil can be produced. If that was successful, actual drilling of wells would begin, Helvey said. While it is too early to say how much money could be made, there are some assumptions, he said.

If the company gets \$80 per barrel and pumps 100 barrels per day, and the city's share is about one-fifth of that, Whittier would receive nearly \$600,000 annually, Helvey said. Assistant City Manager Nancy Mendez said one-fifth, or 20 percent, is considered an

industry standard, but the exact proportion the city could receive is in negotiation. The \$600,000 annually is the equivalent to the sales tax generated by two Board Ford dealerships or one Costco store, Helvey said.

However, the level of oil pumping could be higher. And the city might make even more money by selling the water and natural gas that comes up with the oil. Water could be sold for irrigation purposes at nearby golf courses or other nearby businesses, Helvey said. The money from the oil drilling could last for three, four or five decades, he said. The oil most likely would be pumped via a line to Sycamore Canyon, where oil already is pumped.

City officials released the information about their talks with Matrix after getting questions about closed-session items listing Matrix Oil Corp.

Resident Amelia Vogel was one of those who raised questions. On Wednesday, Vogel said she opposes the idea of drilling for oil in the hills. "We bought the property for recreation, not drilling," she said. Also opposed was John Young, a resident on Honolulu Terrace Drive, where Matrix now pumps oil. "We've just got a big problem with wells in general and the way they've ruined our neighborhood," Young said. "We had really gotten the impression the city was sensitive to this now and I'm very disappointed."

But Councilman Bob Henderson, who has been involved in the negotiations, said drilling only will be done if it's environmentally safe. "We're not selling out the environmental community," Henderson said. "The reason we're doing all this due diligence ... is to make sure it can be done without hurting the environment and recreation users." New technology makes drilling possible on small sites and in places where it can be screened from view, so much that it would be undetectable to the public, he said.

It is expected that two sites of about three acres each would be needed, Henderson said. With new technology, as many as 11 wells could be drilled in that area to pump oil from the Whittier city property, Helvey said.

Oil and the Whittier Hills have a long history.

Oil was discovered in the Whittier and Puente hills in 1884, according to "Black Gold in the Golden State: The Role of Oil in the Development of the Puente Hills," written by Michael T. Keating for the Puente Hills Landfill Native Habitat Authority. By 1900, the oil fields produced 50,000 barrels of oil per month, according to Keating.

However by the 1980s and '90s, oil companies were beginning to shut down wells because at the prices of about \$12 to \$14 per barrel, they were not economical to operate. The Puente Hills Landfill Native Habitat Authority manages 3,860 acres in the hills; Whittier owns 1,280 of that total, which it purchased in 1995 from Chevron Oil and Unocal with county Prop. A funds. As part of the purchase, the city acquired the mineral rights to ensure that the companies didn't come back and begin drilling again, Henderson said.

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# Proposal raises 'natural' concerns

By Fred Ortega, Staff Writer Whittier Daily News

03/12/2008

Los Angeles County officials reacted with caution Wednesday to Whittier's proposal to drill for oil in the open space of the Whittier Hills.

There is no protocol to deal with plans for drilling on land purchased with county money for conservation purposes, said Ilona Volkmann, administrator of the Los Angeles County Regional Park and Open Space District.

"We have never been in this situation before," said Volkmann, whose agency provided more than \$10 million in taxpayer money through Proposition A to help put aside thousands of acres of Whittier hillsides for open space in the early 1990s.

The city is examining the possibility of tapping into oil reservoirs beneath about 1,280 of those acres, which Whittier purchased in 1995 with Prop. A funds.

Whittier City Councilman Bob Henderson said the city had assumed the land's previous owners, Chevron and Unocal, had closed their wells in 1992 because of lack of production, but it was actually for economic reasons. When production there ended, about 900 barrels of oil per day were being pumped from the wells.

City officials believe using new techniques such as slant drilling will allow the extraction of petroleum yielding hundreds of thousands to millions of dollars in revenue each year.

Officials say such techniques would allow removal of the oil using only about six acres of the land, without damaging the surrounding ecosystem.

"These wells could be located in a manner so as to be undetectable to the residents of Whittier from their homes or day-to-day activities and could be compatible with the wildlife who call our hills their home," the city said in a statement.

The city is having Santa Barbara-based Matrix Oil Corp. conduct an environmental study of the land prior to developing any drilling plans. That study would then be analyzed by an independent expert, with all study costs covered by Matrix.

While it is too early in the process to take a position on the city's proposal, Volkmann said her agency would not support any plans that violate its mission to safeguard open space.

"We funded the acquisition of that open space to preserve some of the last remaining chaparral, native oak woodlands and coastal sage scrub ecosystems in eastern L.A. County," said Volkmann, adding that the land was already damaged by previous oil drilling in the area. "We want to make sure there is no further damage to the land and species that call that area home."

David Sommers, a spokesman for county Supervisor Don Knabe, said that it was clear from that

start that Prop. A money was to be used to preserve open space and that the supervisor would be closely observing Matrix's environmental studies.

"The supervisor recognizes there are very few open-space areas left, particularly in that part of the county," Sommers said. "Taxpayer dollars were used to purchase that land, and we want to make sure the taxpayers get something in return."

Luz Torres, staff biologist for the San Gabriel Rivers and Mountains Conservancy, said it was also too early to tell exactly what effect additional drilling in the Whittier Hills would have on the environment.

"But there are sure to be some impacts to the ecosystem," she added.

Chuck Hanson, vice president of the Friends of the Whittier Hills conservation group, said the 20 slant drilling wells Matrix operates down the street from his Honolulu Terrace home used to cause problems for the neighborhood.

"They did an excellent job after a lot of static was raised about keeping the noise down, and they put landscaping in front of the property," Hanson said.

But he is worried that without constant neighborhood vigilance, any facilities built farther into the hillsides will operate unhindered, generating excessive noise, blighting the landscape and impacting the area's sensitive flora and fauna.

"The city has plenty of other areas they can use for drilling and I am totally against it," said Hanson, raising the same concerns of other critics of slant drilling that the technique could also release dangerous gases into the area.

"About a year ago there was methane gas escaping from one of the wells and we had a well fire and they had to bring out firefighters from the refinery district in Carson to put it out," he said.

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# Matrix likely to assist in oil drilling

By Airan Scruby and Mike Sprague, Staff Writers

03/12/2008

WHITTIER - City officials are looking to capitalize on oil resources in the Whittier Hills, but they cannot do so without the help of an oil company.

That company is likely to be Matrix Oil Corp., a small firm with holdings in California, Texas and Kansas that has operated wells in Whittier since 2001.

"The city knows us personally and trusts us as a reliable company to do business with," Matrix Vice President Mike McCaskey said. "If it's mutually beneficial, we could advise them."

The Santa Barbara-based company, which makes about \$1 million a year, was founded in 1999 and is privately owned and operated by its two vice presidents and its president, Johnny Jordan.

Matrix already operates 20 wells in Whittier on less than one acre of property, from which it pumps about 400 barrels of oil per day. Its facilities employ "cellar operations," in which most equipment is housed underground, with just small buildings and holding tanks above the surface.

One Matrix site, located at 12515 Honolulu Terrace Drive in Whittier, has been the subject of controversy since it was founded by another company in 1974.

Residents opposed the arrival of the oil wells, but could not prevent it. Matrix bought the property in October 2001 from Venoco.

In 2005, an explosion at the Honolulu Terrace site killed one worker, injured another and started a fire that burned for more than a day until a special crew was brought in from Texas to extinguish it. Workers there were employed by Pool Well Service of Houston, an oil well repair and maintenance company.

The incident was investigated by the California Division of Occupational Safety and Health (Cal-OSHA), but no criminal negligence was discovered.

The explosion stirred outrage from neighbors who worried that the site was a hazard. They also complained of the smell of oil and noise from drilling and transport.

According to Donna Hollander, who lives four houses down from the facility, she and others from her neighborhood tried to compromise with Matrix by asking that the company keep noise down and do something about smell and safety.

She said some improvements were made, but the facility is still hard to live with. She said Matrix also operates the well on weekends and after hours against policy and still poses a threat to safety.

"They're just going to turn whatever neighborhood they're next to, it's going to be hell for the people who live there," Hollander said. "If I can keep this from going somewhere else, I will."

According to McCaskey, the new project would not be a nuisance to the community because any drilling sites would be far removed from homes.

"I certainly sympathize with the neighbors," McCaskey said. "We've tried to work with the city and all of the rules and regulations to work with the people there."

Matrix has invested money in the community through charities, giving about \$5,000 to organizations including Soroptimists International of Whittier and Whittier High School.

McCaskey said the corporation has never given money to any City Council campaign nor has it donated to any city-sponsored charity. The city did receive \$28,000 in royalties from the company in 2007 for its share in the profits where Matrix now drills. Whittier also received about \$10,000 in city fees from Matrix, McCaskey said.

The idea to drill in the hills came from Matrix officials, who had given some advice to Whittier about abandoning oil wells in the landfill, City Councilman Bob Henderson said.

Henderson said the city had assumed the wells had been closed in 1992 because of lack of production, but it was actually for economic reasons. When production there ended, about 900 barrels of oil per day were being pumped from the wells.

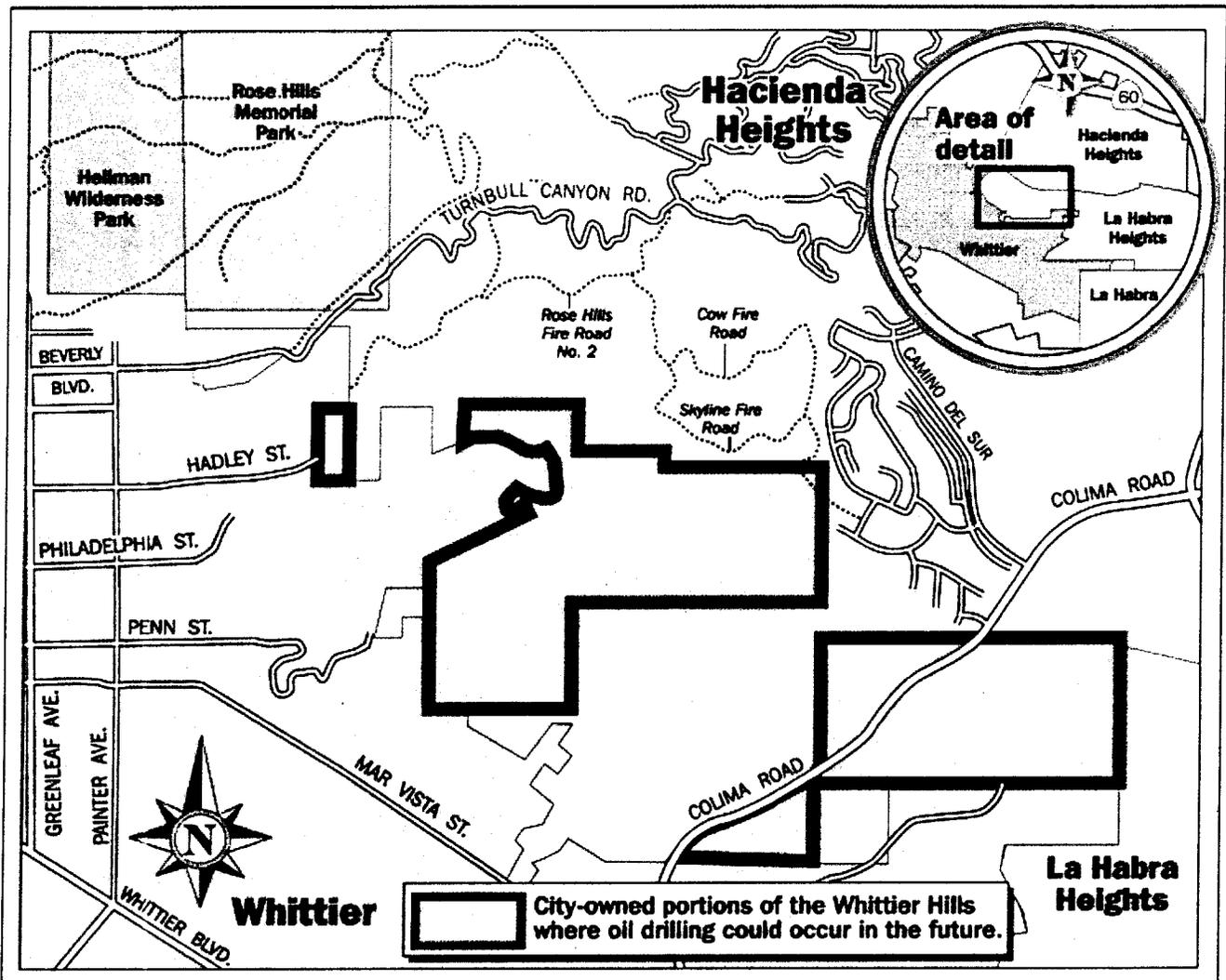
Matrix explained it was interested in drilling for oil on city property, Henderson said. The city would then collect royalties from the company after it sold the crude product to refineries in Long Beach.

The city would like to see Matrix win the Whittier Hills contract, Henderson said, and would not have to put it out for bid because it's not selling an asset or building a project.

"It depends on whether we can get the right deal," Henderson said. "If we don't, we'll go out and contact other businesses."

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SOURCES: Information was derived from the Los Angeles County Assessor's parcel map numbers as listed on Feb. 26 Whittier City Council agenda.

Staff graphic by MANUEL AMAYA