



June 20, 2006

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

**RECOMMENDATION:**

Authorize the City Manager to execute the First Amendment to the Produced Water Agreement between the City of Long Beach, Tidelands Oil Production Company, and Oil Operators, Inc., for a seven-year term, with automatic renewal for successive one-year periods unless any party elects to terminate the Agreement within 30 days of its expiration; and authorize the City Manager to execute any subsequent amendments to the Produced Water Agreement. (Districts 1 and 2)

**DISCUSSION**

In 2001, the City of Long Beach (acting in its capacity as Unit Operator for Unit Segments I and II under the Unit Agreements for Fault Block Units II, III, IV, and V Ranger Zone, as operator of certain un-unitized formations, and as operator of certain general facilities in the Wilmington Oil Field) and the Tidelands Oil Production Company (Contractor), the City's oil field contractor, entered into a Produced Water Agreement (Agreement) with Oil Operators, Inc. (OOI), a private company operating in Long Beach. The Agreement covered the terms of delivery of water produced by OOI as a normal by-product of its oil production operations in Signal Hill and Long Beach oil production operations. The City uses the water in its west Wilmington area oil operations, which has an ongoing need for additional injection water. Under the Agreement, OOI provides the water delivery and bears all related capital costs, including a volume-based treatment fee to be paid by them to the Contractor. The Agreement estimates the delivery volume as approximately 30,000 barrels per day and is in the fifth year of a seven-year term, automatically renewable for successive one-year periods, unless any party elects to terminate the Amendment within 30 days of its expiration.

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The First Amendment to the Produced Water Agreement (Amendment) modifies the term of the Agreement. The term of the Amendment is for seven years, automatically renewable for successive one-year periods, unless any party elects to terminate the Amendment within 30 days of its expiration. The Contractor implements all operational and administrative aspects of this Amendment, with City oversight.

OOI plans to make significant capital improvements to its pipeline that delivers its produced water to the City and desires to secure the Amendment for an extended term of seven years from now with the option for automatic annual renewals thereafter.

This item was reviewed by Deputy City Attorney J. Charles Parkin on May 30, 2006 and by Budget Management Officer David Wodynski on June 9, 2006.

TIMING CONSIDERATIONS

City Council action on this matter is requested on June 20, 2006, to allow OOI to begin capital improvements to its pipeline as soon as possible.

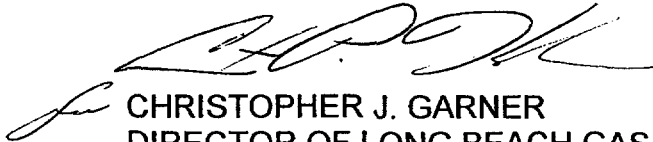
FISCAL IMPACT

The Agreement provides for a \$0.027/Barrel payment from OOI to the Contractor for water treatment costs and supplies the Contractor with an additional source of water. This will result in a \$295,650 revenue stream to the Tideland Oil Revenue Fund (NX 420).

SUGGESTED ACTION:

Approve recommendation.

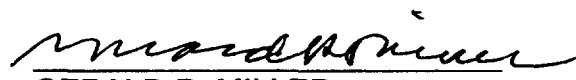
Respectfully submitted,

  
CHRISTOPHER J. GARNER  
DIRECTOR OF LONG BEACH GAS AND OIL

CJG:scs

APPROVED:

LEG 638.000

  
GERALD R. MILLER  
CITY MANAGER