

C-2

March 17, 2020

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager, or designee, to execute all documents necessary to amend Contract No. 32869 between the City of Long Beach, Tidelands Oil Production Company, and Oil Operators, Inc., for the delivery and receipt of produced water, to extend the term for six years, maintain the provision to allow for automatic renewal for successive one-year periods, unless any party elects to terminate the contract within 30 days of its expiration, and adjust the produced water price. (Districts 1, 2)

DISCUSSION

In 2001, the City of Long Beach (City), acting in its capacity as Unit Operator for Unit Agreements for Fault Block Units II, III, IV, and V Ranger Zone, as operator of certain non-unitized formations 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 Operations, Inc. (OOI), a private company operating in Long Beach and Signal Hill. The Agreement covered the terms of delivery of water produced by OOI as a normal by-product of its oil production operations. The City uses the water in its West Wilmington oil operations, which has an ongoing need for additional injection water.

City Council authorization is requested to execute the Third Amendment (Amendment) to the Agreement, Contract No. 32869, to extend the term for six years, and maintain the provision for automatic renewal for successive one-year periods, unless any party elects to terminate the Agreement within 30 days of its expiration. OOI plans to make significant capital improvements to its pipeline that delivers approximately 17,000 barrels of produced water per day to the City. The investment by OOI will increase the volumes of produced water delivered. In return, the City and its Contractor have agreed to collect revenue only on the first 17,000 barrels of water delivered per day at a rate of \$0.027 per barrel. The rate charged will no longer be adjusted for inflation for the remaining term of the agreement. The additional produced water delivered will decrease the operating costs for the City and its Contractor.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on February 27, 2020, Purchasing Agent Tara Yeats on March 2, 2020, and by Revenue Management Officer Geraldine Alejo on March 2, 2020.

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TIMING CONSIDERATIONS

City Council action on this matter is not time critical. City Council authority to amend Contract No. 32869 was initially requested and approved on February 11, 2020. The recommendation is being resubmitted for approval on March 17, 2020, to provide the City Council with additional details on the terms of the contract.

FISCAL IMPACT

The Third Amendment includes the continuation of a payment from OOI to the City for water treatment costs. Annual revenue to the City is estimated at \$167,000. The estimated revenue is based on 17,000 barrels per day and maintains the current rate of \$0.027 per barrel of water. The revenue is included as part of the FY 20 budget in the Tideland Oil Revenue Fund in the Energy Resources Department. This recommendation has no staffing impact beyond the normal scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



ROBERT DOWELL
DIRECTOR OF ENERGY RESOURCES

APPROVED:



THOMAS B. MODICA
ACTING CITY MANAGER