



CHRISTOPHER J. GARNER
DIRECTOR

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DEPARTMENT

www.lbgo.org

October 4, 2011

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute the Second 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. (Districts 1 and 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 Operators, 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. Under the Agreement, OOI provides the water delivery and bears all related capital costs, including a volume-based treatment fee to be paid by OOI 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.

The Second Amendment to the Produced Water Agreement (Amendment) modifies the term of the Agreement. The term of the Amendment is for seven years with automatic renewal for successive one-year periods, unless any party elects to terminate the Amendment within 30 days of its expiration. The current Agreement with OOI will expire on August 25, 2013, with the Second Amendment extending the Agreement to August 25, 2020. OOI plans to make significant capital improvements to its pipeline that delivers its produced water to the City and desires to secure the Amendment.

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This matter was reviewed by Deputy City Attorney Richard F. Anthony on September 7, 2011 and by Budget Management Officer Victoria Bell on September 12, 2011.

TIMING CONSIDERATIONS

City Council action on this matter is not time critical.

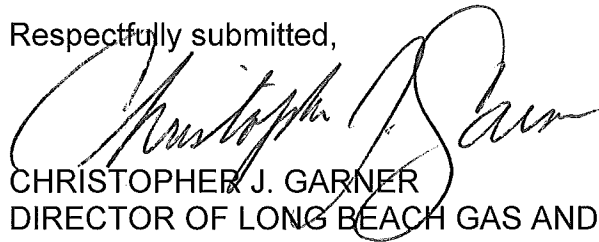
FISCAL IMPACT

The agreement provides for a payment from OOI to the Contractor for water treatment costs that result in \$300,000 in annual revenue. This amendment extends an existing contract to which no new revenues are included. The existing \$300,000 in revenue is included in the FY 12 Budget in the Tideland Oil Revenue Fund (NX 420). There is no impact to local jobs.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH GAS AND OIL

CJG:KT:lld

APPROVED:



PATRICK H. WEST
CITY MANAGER