



Legislation Text

File #: 19-0914, **Version:** 1

Recommendation to authorize City Manager, or designee, to execute all documents necessary for an Amended and Restated Oil and Gas Lease between the City of Long Beach and Beach Oil, LLC, for the continued operation and reworking of wells at an existing City-owned lease site in Recreation Park; and

Accept Categorical Exemption CE-19-214. (District 3)

Beach Oil, LLC (Beach Oil), is the current lessee under an oil and gas lease dated September 6, 1962, covering minerals below Recreation Park (as amended, the Existing Lease). The Existing Lease established a drilling site in Recreation Park where seven wells have been drilled along with associated processing facilities. The seventh and last well drilled at the location was in 1979. Since then, the well production has declined due to minimal investment and enhancement to the wells.

Under the current Existing Lease, the City is a partial royalty owner and working interest owner. As a partial working interest owner, the City shares responsibility with Beach Oil for investment and operating costs. This includes a share of future abandonment costs of the drill site once the wells are no longer economical. As a royalty owner, the City is entitled to its share of revenues derived from production. Net revenues derived from these operations are deposited into the Uplands Oil Fund and made available for General Fund purposes. Over the last ten years, total estimated net revenues to the Uplands Oil Fund has been around \$4,000,000. However, due to declined well production, projected revenues under the Existing Lease are anticipated to decrease to \$900,000 over the next ten years.

The proposed amendment will remove the City's position as a working interest owner. In turn, the City will no longer be responsible for any portion of the operating and investment expenses related to the operations, which includes future abandonment and remediation costs required at the end of field life. Beach Oil has conducted seismic surveys of the surrounding oil fields that suggest there is an opportunity for enhancement of production but may require increased investments and enhancement to the wells. Under the proposed amendment, Beach Oil will be responsible for the costs to rework the wells.

Under the proposed amendment, the City will receive a royalty increase of 3 percent from existing wells that have yet to be reworked or enhanced. This will result in a total 18 percent royalty from these types of wells. Once each well is reworked by Beach Oil, the City's royalty on those wells will decrease from the 18 percent to 10 percent. Although the proposed royalty percentage will decrease, it is anticipated the City will experience additional revenues in comparison to if the wells

remained at their current state with no enhancements and continued production declines. The proposed amendment also includes a new option to rework a well to an area outside the Existing Lease, which would provide the City a 1.75 percent royalty.

The reworking of the wells qualifies for a categorical exemption under California Environmental Quality Act Sections 15301 (existing facilities), 15302 (replacement) and 15273 (rates and charges). The Lease prohibits the use of hydraulic fracturing.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on August 21, 2019 and by Revenue Management Officer Geraldine Alejo on August 29, 2019.

City Council action is requested on September 17, 2019, to allow for the execution of the Amended and Restated Oil and Gas Lease.

If the proposed amendment is approved, the City is estimated to receive an additional \$4,000,000 to \$8,000,000 in net revenues to the Uplands Oil Fund over the next ten years. This estimate anticipates the well investments will result in increased production. In addition, the estimate also anticipates the current oil price at or around \$55 per barrel. The tentative start date to rework the wells is in the first quarter of calendar year 2020. Staff will monitor to assess and update revenue projections following completion. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.

Approve recommendation.

ROBERT DOWELL
DIRECTOR OF LONG BEACH ENERGY RESOURCES

APPROVED:

PATRICK H. WEST
CITY MANAGER