



NEWPORT BEACH

City Council Staff Report

March 25, 2025
Agenda Item No. 7

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

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TITLE: Amendment to Professional Services Agreement with Sampson Oil Company for Oil Well Management Services

ABSTRACT:

The Utilities Department oversees the operation of the City of Newport Beach's 16 oil wells. A specialty service contractor is responsible for the daily maintenance, repair and operation of the oil wells and production tank facility. This includes coordinating regulatory agency inspections and compliance, purchasing materials, and managing subcontractor repairs. The Utilities Department is requesting City Council approval to amend and extend the existing agreement with Sampson Oil Company.

RECOMMENDATIONS:

- a) Determine this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) and 15060(c)(3) of the CEQA Guidelines because this action will not result in a physical change to the environment, directly or indirectly; and
- b) Approve Amendment No. Seven to the Professional Services Agreement with Sampson Oil Company for Oil Well Management Services, which extends the contract to June 30, 2026, and increases the contract amount by \$750,000, and authorize the Mayor and City Clerk to execute the Agreement.

DISCUSSION:

Sampson Oil Company (Sampson) has managed and operated the City's oil fields in West Newport since the 1980s. Its operations and services include daily maintenance, repair, operation and regulatory compliance of the City's 16 oil wells, including one injection well, a production tank facility, and pipelines. Sampson also coordinates regulatory agency inspections, prepares compliance reporting, procures materials, and manages subcontractors for as-needed repairs. With decades of experience, Sampson has the expertise and familiarity necessary for the effective management and operation of the City's oil field.

Over the last three years of the current agreement, the City and Sampson have made significant oil well repairs to increase oil production and maintain compliance with California's new idle well program requirements. During the previous and current fiscal years, expenditures were necessary for regulatory compliance with idle wells and injection wells, replacement of tubing and inner liners, casing repairs, pump and motor replacements, cementing, haul-offs, zone abandonments, rehabilitations, and investigations into underperforming wells. As a result of these efforts, oil well production significantly increased, reaching over 22,000 barrels sold during calendar year 2024; a level not seen since 2017.

In June 2024, the California Geologic Energy Management Division issued new regulatory requirements under Senate Bill No. 1137, effectively prohibiting major rehabilitation of existing oil wells, although some maintenance can still be performed. While operations can continue into the near future, without rehabilitation options, cost effectiveness may become negative. Operators, including the City, are encouraged to consider abandoning or decommissioning oil wells. Staff is considering several factors, including public opinion of oil operations, oil operations as legacy (not a core) function for the City, and the slim profit margins. Therefore, staff recommends planning for a systematic and cost-effective shutdown of oil operations.

Staff planned to issue a formal request for proposals to hire a new operator, anticipating the near-future retirement of the owner of Sampson. However, based on recent changes in State regulations and discussions with Sampson, staff is now recommending an extension of the existing agreement. Over the next several months, staff will study the best options for abandoning or decommissioning the well field, starting with idle or underperforming wells. Retaining the stability and cost effectiveness of the existing operator, Sampson, is recommended at this time. Staff will return to the City Council for further approvals on a planned shutdown program and changes to the Capital Improvement Program.

Sampson will continue the routine management and operations of the City's wells. Sampson's staff and contractors will continue to perform routine repairs, and the contract includes allowances for the purchase of materials and unforeseen repairs performed by subcontractors. Additionally, all necessary time needed by Sampson's administrative and office staff to maintain compliance with State regulations is included.

Staff recommends City Council approval of Amendment No. Seven to the Professional Services Agreement with Sampson Oil Company for Oil Well Management Services, extending the contract to June 30, 2026, and increasing the total contract amount by \$750,000.

FISCAL IMPACT:

Sufficient funding for this agreement is included in the adopted Fiscal Year 2024-25 budget and will be drawn from operating funds in the Tideland Fund (Fund 100). Additional funding has been allocated in the Capital Improvement Program.

Revenues from oil sales help offset expenditures, with net proceeds from oil operations deposited into the Tidelands Fund and the Oil Well Abandonment Fund. Despite increased oil production, profit margins remain limited. Preliminary full-year net revenues for FY 2024-25 are estimated to range between \$300,000 and \$350,000.

ENVIRONMENTAL REVIEW:

Staff recommends the City Council find this action is not subject to the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because it has no potential for resulting in physical change to the environment, directly or indirectly.

NOTICING:

The agenda item has been noticed according to the Brown Act (72 hours in advance of the meeting at which the City Council considers the item).

ATTACHMENT:

Attachment A – Amendment No. Seven to Professional Services Agreement