



NEWPORT BEACH

City Council Staff Report

July 23, 2024
Agenda Item No. 13

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 City's 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. Six to the Professional Services Agreement with Sampson Oil Company for Oil Well Management Services, which extends the contract to March 31, 2025, 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 been managing and operating 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 needed for the effective management and operations of the City's oil field.

Over the last 12 months of the current agreement, the City and Sampson have made significant oil well repairs to increase oil production and maintain compliance with the State of 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. Sampson also completed several repairs funded through the Capital Improvement Program. As a result of these efforts, oil well production significantly increased, reaching over 21,000 barrels last year; a number not seen since 2017.

Recently, on June 28, 2024, the California Geologic Energy Management Division issued new regulatory requirements for all oil operators to comply with Senate Bill 1137. These regulations effectively prohibit the rehabilitation of existing oil wells, although minor maintenance can still be performed. Consequently, typical repairs and rehabilitation needed for the City's aging system are no longer an option. Although operations can continue into the near future, without rehabilitation options, cost effectiveness may become negative. Operators, including the City, are encouraged to abandon or decommission oil wells. Staff is considering several factors, including public disapproval of oil well operations, the fact that oil operations are a 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 has been pursuing a 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 wells. Sampson's staff and contractors will continue to perform minor 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. Six to the Professional Services Agreement with Sampson Oil Company for Oil Well Management Services, extending the contract to March 31, 2025, and increasing the total contract amount by \$750,000.

FISCAL IMPACT:

Sufficient funding for this agreement is included in the adopted budget for Fiscal Year 2024-25, which will be funded from operating funds in the Tidelands Fund (Fund 100). Funding has also been set aside in the Capital Improvement Program. Revenues from oil sales offset expenditures and net proceeds from oil operations are placed in the Tidelands Fund and Oil Well Abandonment Fund. Even with increased oil production, revenues (profit) continue to be slim. The preliminary full-year net revenues for FY 2023-24 are estimated at \$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. Six to Professional Services Agreement