



CITY OF

NEWPORT BEACH

City Council Staff Report

June 23, 2020
Agenda Item No. 8

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

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TITLE: Amendment No. One to Professional Services Agreement with
Sampson Oil Company for Oil Well Management Services

ABSTRACT:

The City's oil wells are managed and operated by a specialty service contractor. The services include daily maintenance, repair and operation of the City's oil wells and production tank facility; coordination of regulatory agency inspections and compliance; purchasing of materials; and managing subcontractor repairs. The current contract expires July 11, 2020, and the Utilities Department is requesting City Council approval to amend the existing Agreement with Sampson Oil Company.

RECOMMENDATION:

- 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. One to the Professional Services Agreement with Sampson Oil Company for Oil Well Management Services, which extends the contract for two additional years to July 31, 2022 and increase the total not-to-exceed contract amount by \$1,578,768; and authorize the Mayor and City Clerk to execute the Agreement.

FUNDING REQUIREMENTS:

The proposed FY 2020-21 budget includes sufficient funding for this Agreement. The management services are expensed from Oil and Gas Tidelands Fund account 10090907-811008 Services Professional. The Maintenance and Repairs expenses are expensed from the Oil and Gas Tidelands Fund account 10090907-851037 Maintenance and Repairs. The enhanced maintenance and repairs funded by Capital Improvement Project 20M14 will be appropriated from Tidelands Maintenance Fund 10001. Oil Production remains a profitable operation and over the last five years has provided over \$2 million in net revenue to the Tidelands Fund.

DISCUSSION:

Sampson Oil Company (Sampson) has managed and operated the City's oil fields in West Newport since 1984. The operations and services include daily maintenance, repair and operation of the City's fifteen oil wells, one injection well, a production tank facility and pipelines. Sampson also coordinates regulatory agency inspections and compliance reporting, purchases materials; and manages subcontractors that perform as-needed repairs.

The most current Agreement with Sampson, which was approved in 2017, expires July 11, 2020. The Utilities Department is seeking a contract extension and amendment to the existing Agreement. With instability in the current oil market and procurement challenges created by the COVID-19 pandemic, staff recommends extending the agreement with the current service provider. Sampson has 33 years of experience with the City and has the best expertise and familiarity with the management and operations of the City's oil fields. During the recent downturn in oil prices, staff directed Sampson to shut down oil production and instead perform maintenance and repairs of the facilities. With oil prices increasing and the recent maintenance completed, the wells are being returned to service production.

For the Amendment, Sampson's proposal to continue the routine management and operations of the City wells is essentially unchanged except for an increase allocated for higher insurance premiums. For the next two years, the annual cost for the professional services portion of the contract will be \$114,384. This includes all necessary time needed by Sampson's administrative, maintenance, and office staff to maintain and operate the system annually. Sampson's staff will perform minor repairs and larger repairs will be done by subcontractors and approved by City staff prior to commencement of work.

The amendment also includes an annual \$300,000 not-to-exceed allowance for the purchase of materials and for unforeseen repairs performed by subcontractors. These materials and services are also managed and overseen by Sampson. The management of as-needed maintenance and repairs through Sampson has contributed to a more efficient and effectively run oil well operations over the years.

Additionally, the Utilities Department is requesting Council approval for a one-time allowance of \$750,000 (over the course of the Agreement extension) to cover the costs associated with enhanced maintenance and repairs. Capital Improvement Project 20M14 provides one-time capital funds to perform enhanced maintenance repairs and investigations to maintain oil productivity. This will be performed as needed over the next two years under the contract extension period.

Utilities staff recommends City Council approve Amendment No. One to the Professional Services Agreement with Sampson Oil Company for Oil Well Management Services, which extends the contract for two additional years to July 31, 2022 and increase the total not-to-exceed contract amount by \$1,578,768.

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).

ATTACHMENTS:

Attachment A – Amendment No. One to Professional Services Agreement with
Sampson Oil Company for Oil Well Management Services