

MINUTE ITEM

This Calendar Item No. 31
was approved as Minute Item
31 by the State Lands
Commission by a vote of 3
to 0 at its 9/26/83
meeting.

CALENDAR ITEM

31

9/28/83
W 503.1156
Small
W 7227

APPROVAL OF
DRAFT CITY COUNCIL RESOLUTION AND
REQUEST FOR PROPOSAL FOR
OIL FIELD OPERATING CONTRACT

APPLICANT: City of Newport Beach
Utilities Department
3300 Newport Boulevard
Newport Beach, California 92663

BACKGROUND INFORMATION:

The City of Newport Beach and the State Lands Commission entered into a Joint Powers Agreement in 1980 for the purpose of commencing condemnation proceedings to secure title to the existing upland drill sites of the City's granted tidelands oil wells. The City also proceeded in a separate contract action against Armstrong Petroleum Company.

The City was successful in obtaining a judgment against Armstrong Petroleum Company in the contract case.

The trial court ruled against the City and the State Lands Commission in the condemnation case. However, the City has worked out a settlement agreement with all the defendants, including Armstrong Petroleum Company, Mobil Oil Corporation, and Beeco, Ltd.

A 70
S 31

CALENDAR PAGE	<u>268</u>
MINUTE PAGE	<u>2262</u>

CALENDAR ITEM NO. 31 (CONT'D)

These settlement agreements essentially cover all the items the City had originally proposed to the parties to settle this matter. The City will retain its upland well sites and pass-through easements and, will pay an overriding royalty for use of the upland well sites and pass-through easements. The City will also buy the well equipment from Armstrong Petroleum Company as provided in the original operating agreement.

The settlement agreements also provide for a dismissal of the condemnation case without prejudice and a release of all claims for interim damages by the defendants.

The final phase of the City of Newport Beach's tidelands oil operations will be the issuance of a two (2) year operating agreement.

Public Resources Code Section 7060(a) requires prior approval by the State Lands Commission of the City Council's resolution and request for proposal for an operating agreement proposed to be used by the City. The City of Newport Beach has submitted a draft of the proposed resolution and request for proposal for an operating agreement for approval by the Commission. (Exhibit "B").

The proposed operating agreement is essentially a contract for technical services required to operate the tideland oil and gas wells. Staff counsel has reviewed the proposed resolution and request for proposals for an operating agreement.

The City has previously rehabilitated the wells and the oil storage facility. Production is currently about 200 barrels a day and the City estimates revenue of about \$1,675,000 in the next fiscal year. This revenue will go into the City's tideland trust fund.

AB 884:

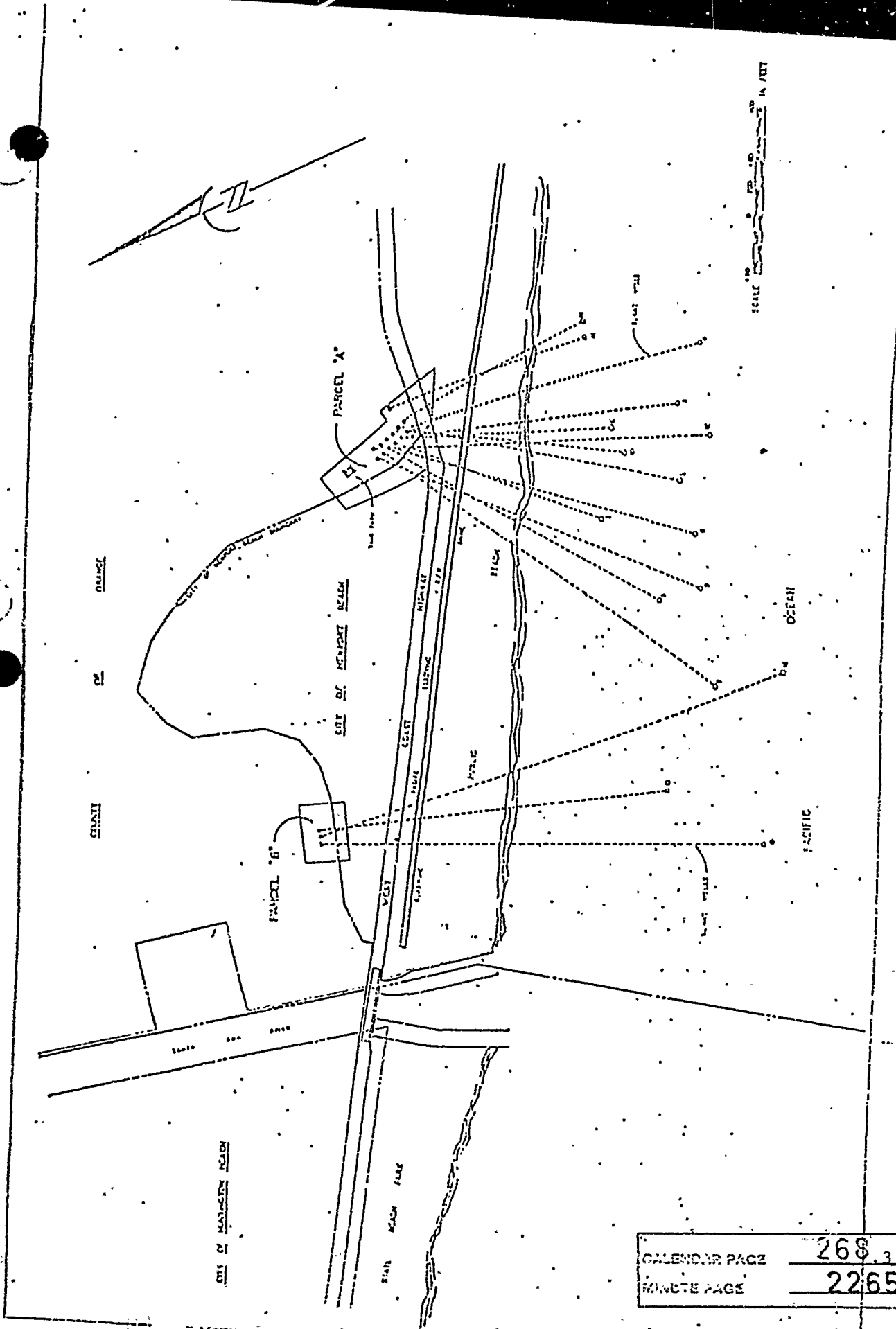
N/A.

CALENDAR ITEM NO. 31 (CONTD)

- EXHIBITS:
- A. Detail Map.
 - B. Proposed City Council Resolution and Request for Proposals for an Oil Field Operating Agreement.
 - C. Site Map.

IT IS RECOMMENDED THAT THE COMMISSION:

1. DETERMINE THAT NO ENVIRONMENTAL DOCUMENT HAS BEEN PREPARED FOR THIS ACTIVITY AS SUCH DOCUMENT IS NOT REQUIRED UNDER THE PROVISIONS OF P.R.C. SECTION 21065, 14 CAL. ADM. CODE, SECTION 15378.
2. APPROVE THE PROPOSED RESOLUTION AND REQUEST FOR PROPOSALS FOR AN OPERATING AGREEMENT AS TO FORM.



CALENDAR PAGE	268.3
MINUTE PAGE	2265

EXHIBIT A

EXHIBIT B

RESOLUTION NO. _____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
NEWPORT BEACH EXPRESSING ITS INTENTION TO
ENTER INTO AN OIL OPERATING AGREEMENT AND
INVITING BIDS THEREON

WHEREAS, the City of Newport Beach is presently engaged
in producing oil from a field located beneath tidelands; and

WHEREAS, the City Council and the Technical Oil
Advisory Committee (TOAC) believe that it is in the best
interests of the City of Newport Beach to retain a qualified oil
field operator to maintain and operate the 16 City-owned oil
wells, and related oil production and storage facilities in the
west Newport area; and

WHEREAS, litigation with respect to the City-owned
wells and production facilities has been resolved and no longer
constituted an impediment to the approval of an agreement with an
oil field operator; and

WHEREAS, the City has petitioned the State Lands
Commission for approval of this resolution, and attachments and
the State Lands Commission has approved same; and

WHEREAS, the provisions of Section 7058 et seq of the
Public Resources Code require the City of Newport Beach to
express, by resolution, its intention to enter into an operating
agreement, requires that the resolution contain certain
information, and requires that the City follow certain procedures
prior to executing such an agreement; and

WHEREAS, this resolution fully complies with the
provisions of the Public Resources Code referenced above, and
expresses the intention of the City not only to enter into an oil
operating agreement, but to strictly follow the State statutes
with regard to the execution and performance of such agreement.

CALENDAR PAGE	268.4
MINUTE PAGE	2266

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Newport Beach that:

1. The City Council of the City of Newport Beach hereby expresses its intention to enter into an agreement to operate the sixteen (16) oil wells, and related oil production and storage facilities owned by the City of Newport Beach and located in the area commonly known as "West Newport", northerly of Pacific Coast Highway and westerly of 52nd Street. if extended and more fully described on Exhibit "A" to the request for proposal which is attached to this resolution;
2. The term of the agreement will be two years. The agreement will relate only to oil field operations, and the agreement will convey no rights to the operator other than compensation for work performed. Other terms and conditions of the operating agreement will be as set forth in the request for proposal which is attached to this resolution, together with such additional terms and conditions as may be deemed necessary or appropriate by the City Council to fully protect the interests of the City of Newport Beach, the State of California and the State Lands Commission.
3. The operating agreement shall specify:
 - A. The monthly service fee to be paid to the operator for the duties required to be performed pursuant to the agreement; and
 - B. The compensation, expressed on the basis of an hourly rate, for extra engineering work required of the operator by City; and
 - C. The compensation, expressed on the basis of an hourly rate, for extra administrative and office work requested of operator by the City.

CALENDAR PAGE	268.5
MINUTE PAGE	2267

4. The award of the operating agreement will be made to the lowest responsible bidder, as determined by the City Council of the City of Newport Beach, on the basis of bids for the fees and services described in Section 3 of this resolution. Bids are to be submitted on the proposal form which is attached to this resolution. Prospective bidders may obtain one copy of the proposed form and other relevant documents, at no cost, at the office of the Utilities Department, 949 W. 16th St., Newport Beach, Ca. 92663. The Utilities Director is authorized to transmit bid documents to persons known to be qualified oil field operators. The operating agreement will be awarded during the regularly scheduled meeting of the City Council to be held on _____. The City Clerk is hereby directed to publish this resolution, in the official newspaper, at least once a week, for four successive weeks, prior to the date and time fixed for the award of the operating agreement, and the publication of this resolution shall constitute notice to all prospective bidders. Bids must be submitted to the City Clerk and received at least ____ days prior to the date and time scheduled for the award of the agreement. All bids shall be sealed and are to remain sealed until opened, examined and recorded by the City Council at the time the agreement is to be awarded.

ADOPTED this ____ day of _____, 1983.

Mayor

ATTEST:

City Clerk

RSP/oil

3

CALENDAR PAGE	268.6
MINUTE PAGE	2268

DRAFT

REQUEST FOR PROPOSAL

The City of Newport Beach is inviting proposals from qualified oil field operators with oil field engineering experience to operate and maintain 16 City owned tideland oil wells and related oil production facilities in the West Newport area. (See attached Exhibit "A".)

All proposals must be sealed and must be received by the City Clerk on or before 10:00 A.M., August 1, 1983.

To assist in determining the qualifications of the Operator all proposals must include a resume of the Operator's oil field experience and a statement of financial condition.

I. SCOPE OF WORK

A. Duties of the Operator included in the Monthly Service Fee.

1. Perform all work necessary to manage, operate, produce, protect and maintain the City owned tideland wells, tank farm, pipelines and related oil production facilities in accordance with good oil field practice.
2. Respond to all emergencies and provide for personnel to safely and continuously operate the oil facilities 24 hours a day, 7 days a week.
3. Provide a full time qualified pump operator with field truck and pay all costs, direct and indirect, relating to the employment of the pumper and use of the truck.
4. Provide the City with detailed recommendations, cost estimates and technical advice to improve production, maintenance and security of the oil facilities.
5. Keep accurate daily records of all production, treatment of oil, cut and temperature of oil, deliveries and field testing on forms provided by the City.
6. Recommend, schedule, coordinate and inspect the work of all oil field service contractors.

7

CALENDAR PAGE	268.7
MINUTE PAGE	2269

7. Schedule, supervise and coordinate the transfer of all oil and gas sold and shall gauge and measure promptly the quantity of oil and gas produced, saved and shipped.
8. Keep a detailed record and submit signed invoices for all material, equipment, and services to be reimbursed by the City.
9. Perform individual well tests at least every 6 months, indicating rate of production, the quantity of oil, water and sand produced.
10. Furnish small hand tools required in the normal operation.
11. Pay all State and Federal income taxes on Operators compensation and all transportation, administrative and overhead costs.

B. Duties of the City.

1. Pay the Operator each month the monthly service fee stipulated in the Proposal Form.
2. Pay for all major repair and improvement work done on the oil wells and related production facilities by oil field service constructors and vendors.
3. Unless otherwise specified, pay for all utilities, chemicals, materials and supplies required to operate and maintain the oil wells and related production facilities.
4. Be responsible for the marketing of the oil and gas produced.
5. Obtain all operating permits.
6. Pay all property taxes and all taxes on the production and mining of oil and gas.

11. SPECIAL PROVISIONS

A. Assignment.

No agreement or portion thereof may be assigned without the consent of the City.

B. Authority of City.

The City shall have the final authority in all matters affecting the work.

CALENDAR PAGE	268.8
MINUTE PAGE	2270

C. Term.

The term of the operating agreement shall be for a period of 2 years.

D. Cancellation.

The operating agreement may be cancelled at anytime by the City without liability for damages, when in the City's opinion the Operator is not complying in good faith.

E. Inspection.

All work and operations shall at all times be subject to inspection and approval by the City. All material and work shall be of highest quality and shall be in accordance with good oil field and construction practices.

F. Protection of Environment.

The Oil production facilities are located in and near environmentally sensitive wet-land habitats. The Operator shall exercise every reasonable precaution to protect the wet-land, channels and bodies of water from pollution of any kind.

G. Safety.

The highest possible priority is to be placed on conducting a safe operation. The Operator shall comply with the Safety Orders of the State Division of Industrial Safety and all other applicable laws, ordinances and regulations relating to safety.

H. Cooperation with Others.

The Operator shall cooperate and take direction from the City and its authorized representatives. The City has a "non-exclusive" property right to operate and maintain its oil production facilities. Other oil companies and utilities have operating rights over the same area. The Operator will be required to fully cooperate with others and to schedule and coordinate work so as not to interfere with the rights of others.

I. Use of City Personnel.

It is the policy of the City not to use City personnel in connection with the normal operation of the oil field. Every effort shall be made by the Operator to accomplish the required work by using outside contractors and labor.

J. Labor.

The Operator shall comply with all applicable Federal, State and Local labor laws.

K. Liability Insurance.

The Operator shall furnish the City a policy or certificate of liability insurance in which the City is named as the insured or as an additional insured.

The coverage shall provide the following minimum limits:

Bodily Injury	\$250,000 each person
	\$500,000 each occurrence
	\$500,000 aggregate products completed operations
Property Damage	\$100,000 each occurrence
	\$250,000 aggregate

A combined single limit policy with aggregate limits in the amount of \$1,000,000 will be considered equivalent to the required minimum limits.

Insurance companies shall be assigned Policyholders' Rating B (or better) by the latest edition of Best's Key Rating Guide: Property-Casualty.

The Operator shall save, keep and hold harmless the City, its officers and agents from all damages, costs or expenses in law or equity that may at any time arise or be set up because of damages to property, or of personal injury received by reason of or in the course of performing work, which may be caused by any willful or negligent act or omission by the Operator, any of the Operator's employees, or any subcontractor.

All liability insurance policies shall bear an endorsement or shall have attached a rider whereby it is provided that, in the event of expiration or proposed cancellation of such policies for any reason whatsoever, the City shall be notified by registered mail, return receipt requested, giving a sufficient time before the date thereof to comply with any applicable law or statute, but in no event less than 30 days before expiration or cancellation is effective.

The cost of this insurance shall be included in the Operator's monthly service fee.

L. Worker's Compensation Insurance.

The Operator shall comply with Section 3800 of the Labor Code by securing, paying for, and maintaining in full force and effect for the duration of the contract, complete Workmen's Compensation Insurance, and shall furnish a Certificate of Insurance to the City. The City, its officers, or employees, will not be responsible for any claims in law or equity occasioned by failure of the Operator to comply with this paragraph.

//

ONLY ONE PAGE	268.11
	2273

All compensation insurance policies shall bear an endorsement or shall have attached a rider whereby it is provided that, in the event of expiration or proposed cancellation of such policies for any reason whatsoever, the City shall be notified by registered mail not less than 30 days before expiration or cancellation is effective.

The cost of this insurance shall be included in the Operator's monthly service fee.

M. Extra Work.

When the City determines that required work is not covered by the monthly service fee it shall be classified as "extra work". If the price for extra work is not covered in the Proposal Form and cannot be agreed upon, the City will pay for the extra work based on the accumulation of costs of labor, materials and tools and equipment, plus a 15 percent markup for all overhead and profit. Vendor's invoices shall be submitted with the request for payment. The Operator shall not proceed with any "extra work" unless a cost estimate has been prepared and authorized by the City.

N. Authority of Other Agencies.

1. The well heads and production facilities are located in the County of Orange and the operation at all times will be subject to the rules and regulations of the County of Orange Environmental Management Agency.
2. The oil reservoir is located in Tidelands under the Pacific Ocean and the operation at all times will be subject to the authority of the State Lands Commission of the State of California.

2.

CALENDAR PAGE	268.12
MINUTE PAGE	2274

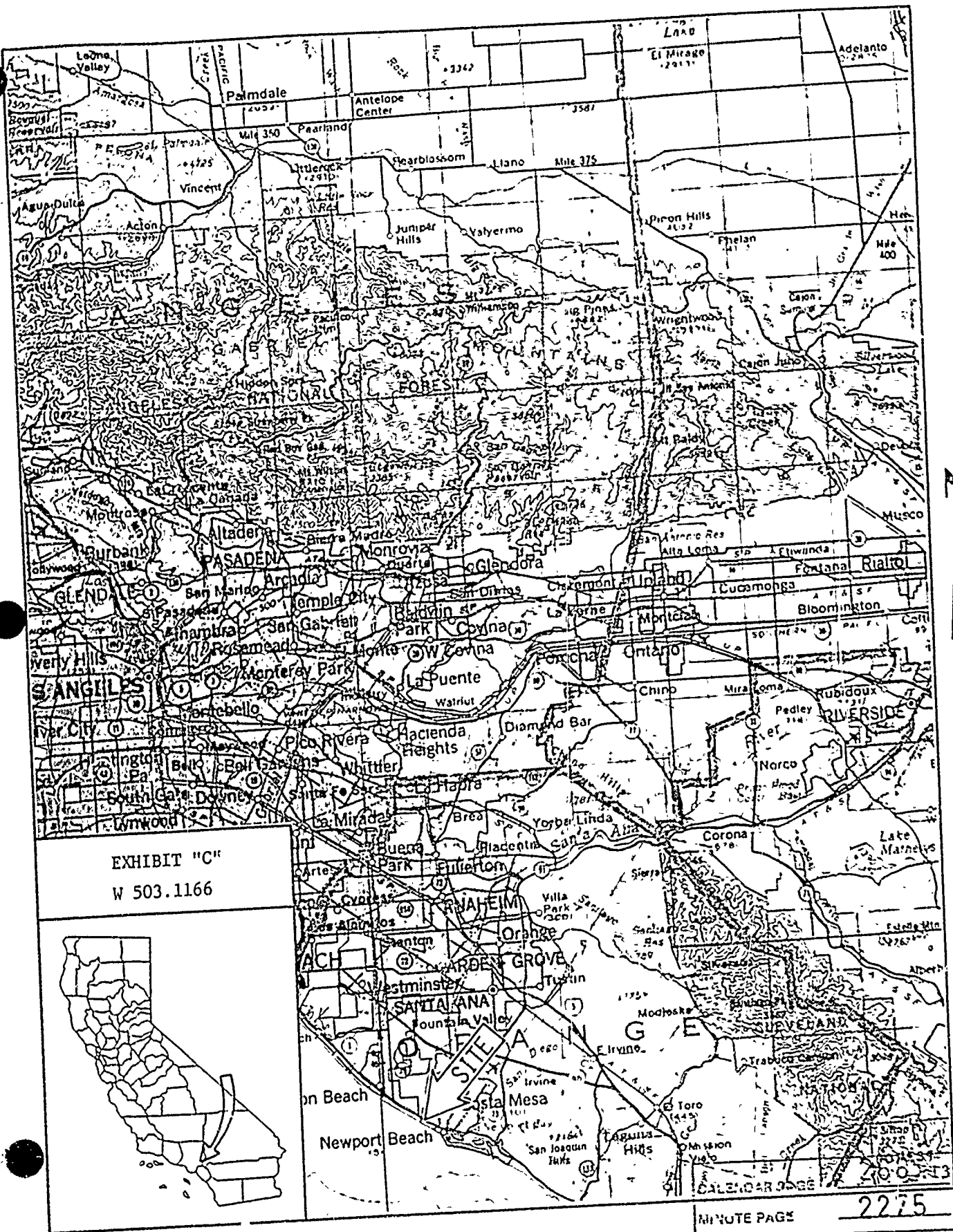


EXHIBIT "C"
W 503.1166

