



City of Culver City

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Staff Report

File #: 19-1174, **Version:** 1

Item #: C-5.

CC - (1) Approval of an Agreement with Baker & O'Brien for the Preparation of an Amortization Study Relating to the Inglewood Oil Field in an Amount Not-to-Exceed \$363,000 (\$330,000 Base Amount Plus \$33,000 Contingency); (2) Authorization to the City Manager to Approve Amendment(s) to the Agreement for Optional Add-On Technical Support Services, as Needed, in an Additional Amount Not-to-Exceed \$32,000; and (3) FOUR-FIFTHS VOTE REQUIREMENT: Approval of a Related Budget Amendment.

Meeting Date: May 28, 2019

Contact Person/Dept: Heather Baker/Assistant City Attorney
Melanie Doran Traxler/Contract Project Manager

Phone Number: (310) 253-5660

Fiscal Impact: Yes ☒ No ☐

General Fund: Yes ☒ No ☐

Public Hearing: ☐ **Action Item:** ☐ **Attachments:** ☐

Commission Action Required: Yes ☐ No ☒ **Date:**

Public Notification: (E-Mail) Meetings and Agendas - City Council; Notify Me - Culver City News and Events; Stay Informed - Inglewood Oil Field and Sustainability and Environmental Issues; and Sentinel Peak Resources (05/20/19 and 05/22/19).

Department Approval: Sol Blumenfeld (05/16/19) and Carol Schwab (05/20/19)

RECOMMENDATION

Staff recommends the City Council (1) approve a professional services agreement with Baker & O'Brien for the preparation of an amortization study for the Inglewood Oil Field in an amount not-to-exceed \$363,000 (\$330,000 base amount plus a \$33,000 contingency); (2) authorize the City Manager to approve amendment(s) to the agreement optional add-on technical support services, as needed, in an additional amount not-to-exceed \$32,000; and (3) approve a related budget amendment (**requires a four-fifths vote**).

BACKGROUND

On September 15, 2017, a Draft of the Inglewood Oil Field (IOF) Specific Plan (including revised draft

drilling regulations) and the Draft Environmental Impact Report (EIR) were released to the public for review and comment. The range of public input received both prior to and after the release of the Draft EIR was broad with varied and diverse preferences as to the level of oil activity, its potential regulation, and alternative uses of the land. The proposed project set forth in the Draft IOF Specific Plan outlined a scenario for which existing oil activity would be allowed to continue as a non-conforming use, with limited new drilling activity (i.e., up to 30 wells) accommodated as an interim use. Under the Draft IOF Specific Plan, no time limit was established to cease the non-conforming activity.

The City Council held a Special Community Meeting on June 20, 2018 to receive an update and review the status of the IOF Specific Plan Project and the related EIR. After receiving public comment and discussing the status and options for moving forward with the Project, the City Council directed that the 2017 IOF Specific Plan and EIR be placed on hold. Considering public opinion, the objectives of the City Council, and in order to allow for a more comprehensive review of the full range of potential project options, the City Council determined that an amortization or similar type study would be helpful and informative, and would ensure that future considerations concerning the long-term uses within the IOF are factually supported. Accordingly, City Council requested staff to identify qualified expert(s) and obtain a proposal to prepare an informational study that could outline options for addressing the potential amortization of oil-related activities and end-of-field life considerations within the IOF.

DISCUSSION

Staff inquiry into qualified consultants revealed that a limited number of firms possess the specialized expertise required for the type of amortization study contemplated by Culver City. In that context, it is a relatively small industry that can provide this type of expertise and service. From an initial list of seven firms, City staff conducted a preliminary review of qualifications and experience and narrowed that list to identify three candidate firms. City staff further evaluated the qualifications of those three firms and vetted each firm for potential conflicts of interest. Ultimately, Baker & O'Brien stood out as the firm uniquely and best qualified to prepare an amortization study and assist the City with evaluation of potential amortization options for non-conforming, oil-related activities and end-of-field life considerations within the City portion of the IOF.

Consultant Qualifications

Baker & O'Brien is familiar with interests in the upstream and downstream oil and gas industry. In addition to having wide-ranging experience with varied asset valuations and due diligence studies for transactions, they have specific experience preparing evaluations in correlation to land use considerations, including amortization studies. Baker & O'Brien offers a range of technical expertise for factors related to understanding the exploration, development, forecasting, production, processing and marketing of oil and gas, and the financial expertise necessary to appraise and characterize income and valuations tied to facilities and rights related to oil and gas assets.

Scope of Work and Costs

In coordination with input from City staff, Baker & O'Brien prepared a preliminary scope of work and cost estimate for preparation of an amortization study. Staff reviewed the proposal and worked with Baker & O'Brien to refine tasks and develop a final scope of work to reflect the specific needs and range of flexibility for study of IOF facilities tied to Culver City.

Baker & O'Brien proposes to conduct an amortization study that includes:

- Determination of an appropriate amortization period for facilities within the Culver City portion of the IOF using an income model that incorporates the return of investment and a market return on investment to the operator.
- Development of an income analysis, including evaluation of data for IOF wells that are publicly available from the California Division of Oil and Gas (DOGGR) and market values for crude oil and natural gas to determine projected income from the facilities.
- To the extent available, consideration of information provided by the IOF Operator regarding the original investment, operating expenses, sustaining capital expenditures, and abandonment/plugging costs for wells for representative conditions in the IOF. Where specific information is not available from the Operator, Baker & O'Brien will utilize publicly available information that is consistent with conditions of the IOF.
- Determination of an appropriate market rate of return for investment in oil and gas production assets and application of the rate of return to discount the net income compared to present value. Based on the result, a timeframe can be identified for which the IOF facilities would be amortized based on recovered costs relative to net investment.
- As appropriate or needed, evaluation of potential sensitivity cases, as directed by the City, which consider how alternate assumptions or scenarios may affect the study conclusions.
- Once data collection is complete and validated, conducting the income model runs and sensitivity analysis (as needed) can be completed relatively quickly. Availability of a final report is expected approximately five to six months from authorization to proceed, or between two to three months following completion of data gathering efforts.
- The proposed budget to complete these efforts is \$330,000, and staff recommends an additional \$33,000 contingency (based on 10% of the base cost) to provide flexibility for needed adjustments that may arise (see below).

Optional Technical Support

Collecting data and supporting documentation involves many unknowns, such as the ability to guarantee the completeness of information or predicting the ease of access to supporting documentation. Potential unknowns in the process for completing the study include uncertainty about the role of specific technical experts for assisting with the evaluation, analysis and interpretation of technical data and/or with the development of appropriate assumptions in the absence of reliable site-specific data. In this regard, Baker & O'Brien has identified potential technical support that may be added, should the need arise. To cover these optional services, staff recommends the City Council authorize the City Manager to amend the agreement in an additional amount not-to-exceed \$32,000, if needed.

Consultant Selection Process

Pursuant to Culver City Municipal Code Section 3.07.065.A, these services are exempt from formal

competitive bid procedures, provided the agreement is based upon competitive quotations, whenever practical, as determined by the City Manager. In this case, given the small universe of candidates that have the experience and qualifications to conduct an amortization study for this type of facility (the IOF), as well as the need to ensure the firm does not have a conflict of interest, which further narrowed available consultants, the City Manager determined it was not practical to obtain competitive quotations for this project.

FISCAL ANALYSIS

Funding for the amortization study will require a budget amendment of \$395,000 from General Fund Reserves to Account No. 10113100611300. **A budget amendment requires a four-fifths vote.**

ATTACHMENTS

None.

MOTION

That the City Council:

1. Approve a professional services agreement with Baker & O'Brien for the preparation of an amortization study for the Inglewood Oil Field in an amount not-to-exceed \$363,000 (\$330,000 base amount plus a \$33,000 contingency);
2. Authorize the City Manager to approve amendment(s) to the agreement for optional add-on technical support services, as needed, in an additional amount not-to-exceed \$32,000;
3. Approve a related budget amendment (**requires a four-fifths vote**);
4. Authorize the City Attorney to review/prepare the necessary documents; and
5. Authorize the City Manager to execute such documents on behalf of the City.