

CHRISTOPHER J. GARNER
DIRECTOR

November 9, 2004

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Update of Natural Gas Prices for 2004/2005 (Citywide)

DISCUSSION

Currently, market prices for natural gas are about \$0.72 per therm, compared with \$0.42 per therm for the same period last year. The gas futures market is projecting that natural gas prices will increase even higher throughout the upcoming winter months. While these forecasted prices are higher than normal, they are well below the peak price during the energy crisis of 2000/01 in which the peak cost of gas for Long Beach Energy (LBE) customers was \$1.644 per therm.

The higher natural gas prices have resulted in increased natural gas bills for all natural gas consumers nationwide. The forecasted average LBE residential bill for January 2005 is \$91.08, an increase of about \$31.43 (52.7%) compared to January 2004. Despite this increase, the average residential bill for LBE customers is still lower than the average residential bill of all of other gas utilities in Southern California.

LBE's ability to maintain gas costs competitive with other Southern California gas utilities is due to a strong supply portfolio of natural gas, composed of locally produced gas purchased from private local producers, combined with out-of-state gas purchased under a long-term agreement with Coral Energy. These supply contracts will remain in place through this upcoming winter and beyond, ensuring that LBE's customers continue to benefit from comparably lower gas bills. Importantly, the Coral Energy agreement also provides a unique price protection for LBE customers as it contains a winter price ceiling of \$1.00 per therm, a price protection mechanism that was not in place during the crisis of 2000/01 when prices far exceeded that level. LBE also has a full storage inventory of lower-priced gas purchased in the summer that will be blended this winter with the higher priced gas to bring down the price to LBE's customers.

The major factors driving this increase in nationwide natural gas prices include:

- The winter weather forecast is a colder than normal winter nationwide, which would increase customer heating demand.

- Damage from Hurricane Ivan has caused a significant shut-in of natural gas production in the southeastern United States, primarily in the Gulf of Mexico.
- Historically high oil prices have caused an increase in natural gas demand as large industrial customers switch to natural gas to avoid the high oil prices.

To minimize the impact of higher natural gas prices, LBE continues to urge its customers to conserve as much energy as possible. Energy savings ideas can be found on the Long Beach Energy website at: www.lbenergy.org. This information has been placed into the WAVE utility bill insert, as well as phone numbers to contact Commercial Services to receive information on Level Pay Plans and Low-Income Discount programs.

This matter was reviewed by Deputy City Attorney Richard F. Anthony and Budget Management Officer David Wodynski on November 4, 2004.

TIMING CONSIDERATIONS

None.

FISCAL IMPACT

There is no net fiscal impact upon LBE as the cost of gas is passed through to its customers. As a result, higher natural gas prices will directly impact customers' natural gas bills. Based upon the actual increase in the price of gas, there will be an associated increase in Utility Users Tax and Pipeline Franchise Fee revenues in the General Fund (GF).

Funds associated with natural gas supply are included in the annual budget of the Long Beach Energy Department (EN) in the Gas Fund (EF 301).

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Receive and file this update.

Respectfully submitted,

Alan Winter
for

CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH ENERGY AND OIL PROPERTIES

APPROVED:

Gerald R. Miller

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CITY MANAGER