CITY OF LONG BEACH
Gas & Oil
DEPARTMENT

C-6

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May 16, 2006

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Approve agreement between the Long Beach Gas and Oil Department and Clean Energy, Inc., for the operation and maintenance of three compressed natural gas fueling stations located in the City of Long Beach. (Citywide)

DISCUSSION

The Long Beach Gas and Oil Department (LBGO) currently operates and maintains three compressed natural gas (CNG) vehicle fueling stations that are utilized by both City and private customers. The cost to maintain these stations has risen significantly for both personnel time and equipment costs. Much of the equipment needs to be replaced or upgraded at a fairly significant cost.

In order to continue offering CNG fueling services to Fleet vehicles, private companies and owners of alternative fuel vehicles, LBGO is proposing that Clean Energy, Inc. (Clean Energy) take over the operations and maintenance of these fueling stations. In addition to upgrading current CNG equipment, Clean Energy plans to add a liquefied natural gas (LNG) fueling station at the Southeast Resource Recovery Facility. Clean Energy was selected after a request for qualifications was mailed out to four possible vendors who would be able to perform the necessary functions. Clean Energy was the only respondent and provided a comprehensive plan for running and maintaining all three Long Beach CNG stations.

The agreement with Clean Energy includes replacing all existing fueling card readers, updating compression equipment, maintaining all stations, providing electrical power to run compressors, and providing customer billing and marketing services for the Long Beach alternative fueling stations. Clean Energy will sell the City's CNG fleet fuel at a mark-up of $0.50 per gallon equivalent but will have a price ceiling on the market price for the natural gas. Additionally, the company will market the City's fueling stations in an attempt to increase volume sales. LBGO will receive a five-cent royalty for each gasoline gallon equivalent (gge) of CNG and a three-cent royalty for each gge of LNG sold to third party customers by Clean Energy at our stations.

This matter was reviewed by Deputy City Attorney Richard Anthony and Budget Management Officer David Wodynski on April 19, 2006.

TIMING CONSIDERATIONS

City Council action is requested on May 16, 2006 in order to implement the contract.

FISCAL IMPACT

There will be significant cost avoidance savings to the City as Clean Energy assumes the responsibility for future maintenance and equipment costs associated with the aging fueling station equipment. In addition, the LBGO Gas Field Service Representative (GFSR) currently assigned to maintaining these stations will be reassigned to fill a vacant GFSR position, resulting in additional cost avoidance savings of approximately $125,000 per year in salary, equipment, and vehicle costs. Moreover, an estimated $27,000 in sale royalties will be paid by Clean Energy for third party sales.

The fiscal impact of this action will be dependent upon actual sales volume. LBGO will continue to deliver the natural gas to the CNG stations. The rate charged to Clean Energy by LBGO for this gas delivery will be the uncompressed transmission rate under LBGO's CNG rates. This is a lower rate than the compressed transmission rate currently collected by LBGO on its direct sales to CNG customers as LBGO will no longer incur the cost of compressing the natural gas as those costs will be borne by Clean Energy under this Agreement. Accordingly, it is anticipated that LBGO's revenues will decrease to roughly the same extent its compression expenditures decrease.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

Christopher J. Garner

CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH GAS AND OIL

CJG:GLS:gls
CCL 5-02-06 CNG STATION AGREEMENT.DOC

APPROVED:

Gerald R. Miller

GERALD R. MILLER
CITY MANAGER