



December 9, 2008

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to (A) execute a Natural Gas Delivery and Purchase Agreement for Unit Gas between Thums Long Beach Company and the City; (B) terminate existing Natural Gas Delivery Agreement for Locally Produced Gas between Thums Long Beach Company and the City; (C) execute a Natural Gas Supply Agreement for Power Plant between Thums Long Beach Company and the City; (D) terminate existing Natural Gas Transportation/Service Agreement between Thums Long Beach Company and the City; (E) execute a NAESB (North American Energy Standards Board) Contract between Merrill Lynch Commodities, Inc. and the City on such terms and enter into such transactions under the NAESB as the City Manager may deem appropriate; (F) execute an amendment to the Prepaid Natural Gas Purchase and Sale Agreement between Merrill Lynch Commodities, Inc. and the Long Beach Bond Finance Authority; and (G) execute an amendment to the Natural Gas Supply Agreement between the Long Beach Bond Finance Authority and the City, for the remarketing and purchase of Local Natural Gas produced in the City of Long Beach and the supply of Natural Gas for the electrical Power Plant for Oil Operations (Citywide).

DISCUSSION

The Long Beach Gas and Oil Department (LBGO) maintains Agreements with Thums Long Beach Company (Thums), as well as four other local oil producers (Locals) to purchase locally produced gas (Local Gas), which is a standard by-product of oil production. This Local Gas is purchased as a supplement to LBGO's current major natural gas supply from Merrill Lynch Commodities, Inc. (MLCI). Currently, the Locals supply approximately 10 to 20 percent (dependent on season) of the total natural gas requirements of LBGO customers and are currently paid a price equivalent to the MLCI prepay price. These Agreements have been mutually beneficial to LBGO and the Locals. LBGO has benefited from a reasonably priced supply of natural gas, and the Locals are able to allay themselves of their natural gas reserves.

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Thums oversees the production and delivery of an additional source of Local Gas, which has not entered LBGO's natural gas pipeline system for nearly four years, due to a substandard gas quality issue. With the construction of an Amine Plant, this additional source of Local Gas will be cleansed of the impurities, and pipeline quality natural gas will be available for acceptance by LBGO. The Amine Plant is expected to be fully operational by January 1, 2009.

In addition, Thums operates an electrical power plant that provides electricity to the offshore oil and gas production. The power plant is fueled by natural gas, which will be supplied by LBGO.

The Natural Gas Delivery and Purchase Agreement and Natural Gas Transportation/Service Agreement between THUMS and LBGO and the NAESB between Merrill Lynch and the City will ensure consistent flow of all Local Gas through LBGO's natural gas pipeline system; enable the remarketing of natural gas to MLCI for a market price; and to supply gas to fuel the power plant. The amendments to the Long Beach Bond Finance Authority agreements are necessary to maintain the integrity of the Prepay Gas delivery.

This matter was reviewed by Deputy City Attorney Richard Anthony on November 20, 2008 and Budget Management Officer Victoria Bell on December 24, 2008.

TIMING CONSIDERATIONS

City Council action is requested on December 9, 2008, in order to execute and terminate the appropriate agreements to enable the flow of the additional Local Gas effective January 1, 2009.

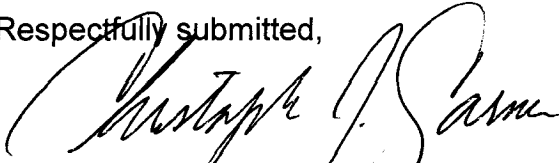
FISCAL IMPACT

The revenues generated under the terms and conditions of the proposed agreements will have a positive fiscal impact to the Gas Fund (EF 301) and the Department of Long Beach Gas and Oil (EN), but the extent of the impact is unknown as it is dependent upon many factors including market prices for natural gas, actual production volumes, and utilization of the power plant.

SUGGESTED ACTION:

Approve recommendation.

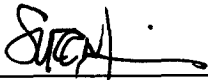
Respectfully submitted,



CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH GAS & OIL

CJG:LHT:djb

APPROVED:



PATRICK H. WEST
CITY MANAGER