



September 11, 2007

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

**RECOMMENDATION:**

Authorize the City Manager to enter into and execute various Natural Gas Delivery Agreements with sellers of locally-produced natural gas, in an estimated annual amount of \$6 million, for a term of five years. (Citywide)

**DISCUSSION**

The Long Beach Gas and Oil Department (LBGO) maintains Agreements with five local oil producers (Locals) to purchase natural gas. This natural gas is purchased as a supplement to LBGO's current major natural gas supply from Coral Energy. 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 per therm cost equivalent to the Southern California Gas Company's core procurement 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.

Nevertheless, with the City Council's approval on August 21, 2007, of a 30-year natural gas prepay bond transaction, it is no longer financially viable for LBGO to continue operating under the provisions of the current Agreements with the Locals. As such, LBGO has invoked its right to terminate the current Local Agreements with a 60-day advance written notice. Therefore, the Agreements with Tidelands Oil Production Company, BreitBurn Energy Company, Sampson Oil Company, THUMS, and Signal Hill Petroleum are scheduled to expire on October 1, 2007.

As the City intends to enter into a long-term natural gas commodity prepay agreement whereby the City will purchase its base load natural gas supply at a fixed price discounted below the market price, LBGO is proposing to enter into a new and revised five-year Agreement with the Locals to pay a lower price, similar to the base load price to the Locals. The new Agreements will be effective October 1, 2007 through September 30, 2012.

HONORABLE MAYOR AND CITY COUNCIL  
September 11, 2007  
Page 2

This matter was reviewed by Deputy City Attorney Richard Anthony and Budget and Performance Management Manager David Wodynski on August 30, 2007.

TIMING CONSIDERATIONS

City Council action is requested on September 11, 2007, as the existing Agreements expire on October 1, 2007. To ensure the continuation of natural gas purchases from the Locals, new agreements must be executed prior to September 30, 2007.

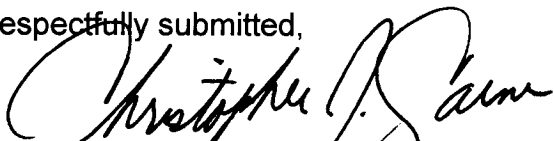
FISCAL IMPACT

Total estimated costs for the requested delivery agreements are based on an average of \$6 million per year over the five-year term of the Agreements. The costs associated with Local gas purchases are budgeted in the Gas Fund (EF 301) and the Department of Long Beach Gas and Oil (EN).

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



CHRISTOPHER J. GARNER  
DIRECTOR OF LONG BEACH GAS AND OIL

CJG:JC:ld

APPROVED:

  
for ANTHONY W. BATTS  
CITY MANAGER