

CHRISTOPHER J. GARNER
DIRECTOR

March 1, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Adopt the attached resolution authorizing the City Manager to execute the forms of Amendments to Natural Gas Purchase Agreements, Attached as Exhibits A and B, the Amended and Restated Natural Gas Purchase Agreements, Attached as Exhibit C, and the Assignment Consent Agreements, Attached as Exhibit D, Each as Necessary. (Citywide)

DISCUSSION

The City of Long Beach, Long Beach Energy Department (LBE) had an Agreement (THUMS Agreement) with THUMS Long Beach Company (THUMS) to deliver natural gas from THUMS' gas processing plant. LBE terminated the THUMS Agreement effective January 31, 2005, based on non-compliance with gas quality specifications.

A portion of the City's local natural gas supply comes from the smaller local producers (Local Producers) listed below. The Local Producer Agreements for the delivery of natural gas between the respective Local Producers and the City each have pricing structures that are based upon the price paid by the City for gas under the THUMS Agreement. Because the THUMS Agreement has been terminated, the pricing structures under the Local Producer Agreements need to be amended. The Forms of Amendment to the Natural Gas Purchase Agreements, attached as Exhibits A and B to the attached Resolution, stipulate that the Local Producers will be paid pursuant to Southern California Gas Company's (SoCalGas) published core procurement price and will eliminate all gas pricing tiers. By eliminating all gas pricing tiers, all local gas producers will be paid 100 percent of the SoCalGas published core procurement price.

Existing Local Producer Agreements have various expiration dates. Three (3) of the Agreements have in fact expired. For consistency, the Forms of Amendment to the Natural Gas Purchase Agreements will stipulate all Local Producer Agreements to expire on December 31, 2005.

Expired Agreements

Breitburn Energy Company
Sampson Oil Company
Termo Company

Existing Agreements

Elmcott LLC
Long Beach Unified School District
Signal Hill Petroleum
TOPKO
THUMS (Royalties & Townlots)

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Additionally, each of the Local Producer Agreements will be amended and restated in order to incorporate updated gas quality requirements and to eliminate inconsistencies between the various Local Producer Agreements. The form of Amended and Restated Gas Purchase Agreements is attached as Exhibit C to the attached Resolution.

Historically, the Local Producers have asked the City to execute Assignment Consent Agreements to evidence the City's consent to the transfer of a Local Producer's rights and obligations under its Local Producer Agreement to a successor. A form of Assignment Consent Agreement is attached as Exhibit D to the attached Resolution.

This matter was reviewed by Deputy City Attorney Richard Anthony and Budget Management Officer David Wodynski on February 10, 2005.

TIMING CONSIDERATIONS

City Council action on this item is requested on March 1, 2005, to extend the term of three (3) agreements with local producers and to amend the Natural Gas Purchase Agreements of all sellers of locally produced natural gas to reflect the proposed price structure change.

FISCAL IMPACT

The City will realize cost savings because the proposed pricing structure will eliminate one-half the value of the SoCalGas intrastate pipeline transportation charge. The City, however, is hesitant to provide a dollar value to this savings, as the percentage paid to the local gas suppliers varies each month and is dependent upon the quantity of gas delivered.

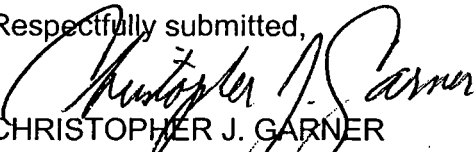
Neither the Amended and Restated Agreements, extension to the term of the Agreements nor the form of Assignment Consent Agreement will have a fiscal impact.

Local gas supply purchases are budgeted in the Gas Fund (EF301) in the Long Beach Energy Department (EN).

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,


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

CJG:JC:lld

C:\CCL 03-01-05 AMENDMENT TO LOCALLY PRODUCED GAS AGREEMENTS

Attachment

APPROVED:


GERALD R. MILLER
CITY MANAGER